PALOS VERDES RESIDENTIAL PROPERTIES

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Rockyfield Newsletter

US Economy & Housing Market

Japan seems to be finally getting out of the vicious circle of deflationary recessions, marginal and zero growths. The Black Monday in 1987 was the turning point of ever growing Japanese economy; the initial recession, which started in '88, was followed by the US recession in the early 90's. Since then Japan has been in the deflationary trap for over 20 years. They tried large fiscal spending, lower flatter taxes and deregulations: Nothing worked. They needed a totally unconventional economic policy. Finally, with the LDP back in power, so called "Abenomics" has created so much optimism. It is unique in a sense that the monetary policy target has been set to raise the inflation rate to 2.0%, while interest rates will be kept almost zero, meaning the real interest rate will be negative; no one wants to keep cash. As the main cause of Japan's long doldrums is frozen consumption, it may work. The additional (or main?) effect of the Abenomics is lower YEN. Historically, exports were a springboard for economic recoveries. But, also historically, Japan's long-term growth has been associated with higher YEN as most raw materials and resources are imported. Domestic prices are rigid despite lower import prices; larger domestic profit support exports. In essence, the Abenomics may work for a short term, but it is a risky policy. The priority should be given to many structural and cultural issues as described later.

Facing the gigantic deficit, the ousted DPJ passed a bill to double the consumption tax rate from 5% to 10%. While the Abe cabinet is worried about the negative impact on the economy, fiscal hawks are pushing. This is totally crazy. They forgot what happened when the consumption tax was raised from 3% to 5% in 1997 which pressed down the recovering economy to another recession. In fact, Nikkei DM forecasts "zero" growth for 2014 due to the proposed consumption tax hike.

Consumption taxes directly and instantly hit consumption. Japanese people tend to save more in a tough time. It is estimated that Japan's individual net assets is over $4 trillion which is, unlike the US, spread over all income levels, rich and poor alike. Visitors to Japan may wonder if this country is really in recession. I call this condition as Asset Based Economy. Hypothetically ignoring foreign investments, a 1% increase in interest rate would put $40 billion into consumer's pocket with multiplier effect. Meanwhile, corporate return on assets should be much higher than their borrowing rates, and corporations should be able to live with a small increase in their borrowing cost if consumption increases. With the zero interest rate, banks are encouraged to prefer speculative investments to lending to productive businesses.

Japan's strength in exports used to be based on relative uniformity in income and domestic demand, especially up to the mid 70's, which enabled higher quality and price competitiveness. In recent years through the long economic slump, the income disparity is widening due to tax cuts. The current Japanese tax system has become very flat and the higher consumption tax rate will make it even flatter. Due to the lack of attractive investments, rich people's money has been invested in foreign markets, not in domestic productive purposes. A flat tax system is not appropriate for a depressed economy.

I have been advocating the following three drastic economic measures to break the 20 year old vicious cycle:

1. Increase short-term interest rates.
2. Three year moratorium of consumption tax (zero tax).
3. Create two higher marginal rate tax brackets.

These measures will catapult the Japanese economy with immediate effect.

It is not well-known outside the country that Japanese corporations have two-classes of employees: clerical and elite. They are separated at the time of employment and there is no chance to move across the line. Companies are also allowed to advertise employment opportunities with age restrictions. These practices must be banned to revitalize private businesses and ensure labor mobility.

Summer Special Edition

Palos Verdes Housing Market

Waves of new listings began pushing up the market inventory of single family homes in Palos Verdes in late May. Despite consistent good sales, when the inventory exceeded 150 and 160, our concern also grew for the softening demand and supply condition. New listings calmed finally for a couple of weeks while sales were still strong; then last week, it was completely reversed. Unimaginable 30 new listings came on the market during last week while sales dipped after 27 sales were made during the previous week. The number of in-escrow listings has been moving within a small band. Given less sales for low-end properties, market prices rose three weeks in a row. Stabilized mortgage rates are also helping. But you cannot cerebrate yet. A combination of softening demand-supply condition and higher prices is a little scary. Interestingly, we have noticed that there are many very aggressive priced listings in RPV while prices in PV Estates are rather modest.

We are updating graphs for prices and the supply-demand condition every Sunday on our website.

July closed sales were 70 (wow!), the largest this year. Jan-July closed sales were 421 which is far greater than 350 for the same period a year ago. Both average and median prices have continued increasing every month this year. The median price in July was 23% higher than one year ago.

Although the demand is so high, we are cautious about September. Every year, the market becomes quiet in mid September, and prices tumble in late September. It is quite possible that sales will remain strong through this fall UNLESS the political fights over the debt ceiling or government shutdown destroy this fragile recovery.

Environmental Hazards - Lead

Children under 6 are particularly at risk as they typically are exposed to lead through the normal hand-to-mouth behavior. Lead poisoning, often unrecognized, can result in irreversible health effects, including brain damage and mental retardation. Lead poisoning can also cause reproductive problems in both men and women, high blood pressure, kidney disease and so forth. Remodeling can also cause exposure to lead. The only way to know if a person is lead poisoned is testing the level of lead in the blood. It is a simple test and must be covered by health insurance plans under California Law.

If your home was built before 1978, you should assume it has lead paint. Lead-based paint that is peeling, chalking, or cracking is a hazard. Dry-scraping, sanding or heating lead paint during repainting or remodeling also creates large amounts of lead dust. Soil may be contaminated with lead.

To protect you and your children, washing hands often, clean floors, window frames and other horizontal surfaces are important. Have children play in grassy or landscaped areas instead of bare soil. However, these measures, including repainting, are only temporary; to permanently remove lead hazards, you should hire a lead abatement contractor.

There are test kits available at hardware stores but they are not accurate and you need to hire a CDHS certified inspector to test if your home has lead hazards.

Lead water pipes are generally found only in homes built before 1930. But the use of lead-based solder in plumbing was banned in 1988. It is recommended that you regularly flush each tap for about 15 seconds before consuming water. Because lead is more soluble in hot water, you should not drink or prepare foods with hot water from the tap.

CDHS: www.dhs.ca.gov

Landlords and sellers must disclose known information on lead-paint hazards. For details, a free booklet is available.

Free Notary Service

We offer free notary public service to the readers on our mailing list. Customers who buy or sell their homes with Rockyfield will have free notary service for 5 years.
(Direct service only, excl. loan documents; additional charge for a trip to your place.)
Please make an appointment with Catarina at 310-544-0857 ext. 2#

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Apology

One of our readers alerted us that some prices indicated in the July issue were wrong. We confirmed that there had been indeed wrong prices.

As it takes too much time to type the listing information for different areas, we have created our own program a few years ago. Our system requires 5-step process from the MLS to this newsletter with numerous sorting and editing. The program errors were found at the form before transferring the data to this newsletter in which the formulas had been replaced by real numbers for unknown reason. We have set up a procedure to make sure that the entire program is correct each month.

We sincerely apologize for our oversight and lack of attention to the accuracy.

SELECTED LISTINGS

Contact Rockyfield

A: Active S: Sold B: Backup P: Pending
Prices in '000s. Source: MLS (as of 08/13/13)