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Rockyfield Newsletter

US Economy & Housing Market

We have recently seen the phrase "Reflation Trade." Due to the new economic policy: a trillion dollar infrastructure investments and largest ever tax cuts, the financial market expects inflation and increased corporate profit, causing massive immigration from bonds to stocks. This is called "Reflation Trade." As pointed out, we have almost full employment and the new stimulus policy will create labor shortage and growing wages, leading to traditional inflation. Large spending increase and tax cuts could bring about huge deficit. However, whether the US economy will get overheated is another question.

Increased US Treasury yields will push up general interest rates and pour cold water on the economy. "Border taxes" (tariff on imports) in the Trump's tax reform plan will deter international trades, decreased imports from China, Mexico and others will boost the many consumer prices. Consumption would doubly suffer from both higher prices and interest rates. Certainty is extremely essential in corporate planning for investments. Given the confused launch of the new Administration, corporations may wait and see, and business investments may halt.

The housing market will suffer from rising rates. The FRB's rate hike this month will be pre-emptive measures on possible inflation. The overnight FF rate will stay historically low, we do not expect large impact on the economy. Given the prevailing fear of inflation, the rate hike will quench such fear and the 10 year Treasury note yield to which 30 year fixed mortgage rate is linked can be minimum, though it may temporarily go up.

It is expected that reflation trade from bonds to high-dividend shares with rather stable price (low beta) will continue. And real estate, especially residential, will become even more attractive investment; however, so-called flipping (remodeling a fixer and selling high) will be difficult with higher interest rates.

For now, which, either inflation or recession, would come is uncertain. Greek fi-

Buyers Swarm To Good Properties

Chinese Money Stops?

Nothing new about Chinese money is buying out US properties. As the Chinese economic growth slows, money is flowing out of the country, disturbing the government efforts to shore up the economy by increasing the money supply. Since two years ago, foreign exchanges for individuals have been restricted to send their money overseas. So-called underground banks popped up, and the slow down of Chinese investments in our housing markets was temporary.

Chinese money is important in our PV housing market; however, Arcadia, San Marino, South Pasadena and other high-end markets with large Chinese speaking population are going insane: upon listing, it is common to receive a storm of offers. Many buyers from China are renting an apartment, trying to snatch a desirable house as soon as it comes on the market. It is not uncommon to receive "blind offers" (without seeing the house). When accepted, they fly over to see the house.

Chinese police busted more than 380 underground banks last year. On Dec. 31, new strictest foreign exchange guide lines were issued: people now must pledge not to invest in foreign property and provide a detailed account of how foreign funds will be used. They also prohibited customers from taking foreign currency out for someone else.

Today's Chinese buyers also take loans because of the forex restrictions. Luxurious property sales already seem to have started slowing down.

nancial crisis seems to be boiling up; Chinese economy is slowing; Japan continues stagnating. Under such negative prospects in international economic environment, the US economy has no choice but to continue depending on the FRB. We hope the current team at the FRB will stay.

Palos Verdes Housing Market

Although mortgage rates are modestly inching up, they are still below 4.50%. It seems that small rate increases are not deterring buyers. New listings have so far been much small in number than we expected. Many buyers swarm to new attractive listings. Multiple offers are not uncommon. Especially the price range just below \$1.5 million is active. So far this year, the PV housing market has been lagging behind Torrance, but it seems that our market is now getting hot. We are busy with buyers this year.

Last year, houses in good condition were preferred, especially by Asian buyers. We have started seeing fixers attracting buyers, of course depending on their prices. We feel prices are up and such trend appears to be showing in statistics, though sharp price increases are unlikely due to the rising interest rates. While the inflation fear is looming, the US dollar stays strong, crude oil prices are weak due to the large US inventory. We do not expect actual inflation and significant interest rate increases in the coming months. This spring housing market can be better than last year.

We expect increased replacement purchases thanks to improved employment. The headache to everyone in simultaneous buying and selling is how to manage the financial risk. Investors can charm such seller who is also buying by offering a generous rent back option: seller can get the money and look for an up-leg house without pressure.

It is worth noting that Torrance has serious supply shortage of townhomes. Our town and condo markets are also in very tight supply condition.

Tax Deduction for Second House

Many homeowners in Palos Verdes have a second house and know the nitty-gritty of taxes on the second house for which mortgage loan interest and property tax are deductible. Some people may be thinking to buy a second house for a variety of reasons, including for a temporary housing during remodeling the current house, and for their child or family member to live in. Because the house price is likely to increase after a year or two, except for 2008-2009, it could be cheaper than renting after taxes. If the second house price goes up more than 8% a year, selling after one year may bring a capital gain at a lower 15% (Fed) rate. So it could be a profitable choice.

If the remodel needs 2 years to be ready for moving in, it may be possible to get the capital gain exclusion if you change the primary residence to the second home for more than 2 years and sell it. Consideration of taxes is always imperative in real estate. You may want to convert the second house into a rental property after going back to the main house. Besides, you always feel more comfortable with your own home, even if it small, than a rented residence.

Although interest and property taxes are deductible for the second house; you need to pay attention to the IRS rules.

The combined limitation for mortgage interest on your primary and secondary residences is \$1,000,000 for acquisition indebtedness and \$100,000 for home equity loan.

Deductible real property taxes don't include taxes charged for local benefits and improvements that increase the value of the property, such as assessments for sidewalks, water mains, sewer lines, parking lots, and similar improvements.

The cost of college student housing (dorm or apartment) is skyrocketing. It may be a great idea to buy a one-bedroom condo for your college kid, claiming it as a second house. Because it is not a rental property, HOA fees are not deductible, and the total cost may be cheaper to rent; however, it is likely to have a capital gain in four years.

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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Need a handyman?

If you are looking for a house cleaner, handyman, painter, plumber, roofer, electrician, gardener, bathtub repairman, rain gutter installer or contractor, we should be able to introduce a quality one. Contact: Catarina

Free weekly market information

We can provide a free weekly update of the housing market in your area, including graphs. Please contact us via e-mail with your property address. The list below does not include many listings.

Our free fair market value analysis

If you just remodeled your house, you ought to be interested in how much your home is worth now. Or you may be simply curious. We will be happy to provide a fair market value estimate. No strings attached.



SELECTED LISTINGS

Please see
Attached Sheet

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 03/14/17)