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# Rockyfield Newsletter

## US Economy & Housing Market

The major tax reform is now in effect. The impact on the economy, interest rates and real estate, specially Palos Verdes housing market, could be significant.

**Inflation:** We have questioned in the past the timing of large tax cuts when the economy is growing over 3% at full employment and wages have started rising. The conventional wisdom should fear inflation. The expected \$1.5 trillion deficit over 10 years is small in percentage of the GDP; however, it is large enough to add inflationary pressure, especially given the gigantic money stock (\$3.7 trillion) injected by the FRB after the great recession. Now, the world economies are recovering, and oil prices are going over \$60; the higher oil prices will push up production and transportation costs across the board. The good news is: The FRB has lots of effective means to tame inflation; so, the inflation should stay moderate while interest rates are likely to go up.

**Economic growth:** While the monetary policy by the FRB has a short-term impact on the economy, it is questionable how much a government can boost the economy, except for massive fiscal spending to cope with a severe recession. However, tax policy would determine the long-term direction of the economy. The new tax laws will not directly boost consumption by the middle class. Corporations will have additional cash, which will be spent on business investments only if they foresee future expansion. Large corporations with little growth prospects would choose to pay more dividends or to shop for M&A's. Therefore, it is difficult to say the economy will continue growing fast in 2018. A strong middle class leads to strong economic prosperity; unfortunately, the new tax laws have little support for the middle class. The stock market is expected to continue moving up; higher stock prices in turn help consumption and the housing market. However, there is a risk of another financial bubble and possibly crisis given excess liquidity in the financial market.

## Happy New Year

### Rockyfield in New Office

Rockyfield has officially started our operation in the new office.

Our new office is located at:

727 Silver Spur Rd. Suite 205  
Rolling Hills Estates, CA 90274  
Phone: 310-544-0857 (same)

It is very easy to find. From Hawthorne Blvd., go down Silver Spur, and it is the third building on the right after passing the library. Our office is on the second floor of an orange and red color building. You can park in the large parking lot behind the building.

A Ring Door Bell is installed just right of the entrance door. Please press the button when you visit us.

The office space is 3 times larger than the previous one, providing our own meeting area. We have spent some money to make the interior look nice.

Our old office building will be soon converted into a care facility. As our lease contract expired at the end of last year, we decided to move, and luckily, we found this new place. The timing was perfect because December is typically a quiet month for the real estate business.

2018 conforming loan limits for the Los Angeles area is now \$679,650. The standard limit is increased to \$453,100.

**Interest rates:** Interest rates are already creeping up. Given the gathering inflationary pressure, the FRB wants to raise rates while they try to avoid hurting the economy. We predict interest rates will gradually go up as sharp rate rises are unlikely. With the new limitation on mortgage interest deduction, even a slightly higher rate will hurt leveraged buyers' purchasing power. We think properties up to \$1.25 million will be more severely affected because a part of buyers' mortgage interest is not deductible with a 20% down payment.

### Palos Verdes Housing Market

We started the New Year under the less favorable housing market condition in PV with more inventory and less in-escrow listings than a year ago. The closed sales record for 2017 also shows a 0.9% decrease; the average price was down 3.6%; the median price down 4%. Contrary to many realtors, saying: "The market is strong, selling well and prices are going up!" the year 2017 was a disappointment as we pointed out the slow market condition since last July.

As many potential sellers have been waiting to list their houses, how this spring market will fare is everyone's strong interest. While the new tax laws, higher interest rates, international trade disputes and geopolitical tensions are definite concerns, there is no change in the strong demand for housing in California. We believe this spring market will be very active again; however, prices may not rise as much as sellers hope for because, in addition to higher rates, the supply will grow faster than the demand. Many new as well as returning listings will push up the market inventory sharply in January and February, and continue growing through summer.

To correctly assess the market condition, it is important to follow how fast the number of properties in escrow is moving. Given the expected dilution of buyers' financial ability, we may not be able to see robust price increases this year. Please see: <http://rockyfield.com/documents/Trend.pdf>

## Mortgage Loan Interest Deduction

You must be most interested to know how the new tax law will affect your mortgage loan. In fact, taxes always play a major role in real estate transactions. How much you can deduct from your loan costs affects your wallet. The limit on interest deductions on your mortgage loan(s) for your home is now reduced to \$750,000 from \$1,000,000. In addition, it is important to know, though not well reported, that interest deductions on home equity loans are no longer allowed. It used to be deductible up to a principal amount \$100,000. And you could deduct interest on a mortgage loan up to \$1,100,000, including the home equity loan. In short, the reduction is effectively \$350,000. This would increase your taxes by \$5,000 to \$6,000, depending on the interest rate and your marginal tax rate. Remember, a lower tax rate by the new tax law means a smaller tax saving. This is a double punch!

Existing loans are not subject to this limit on the loan interest deduction; however, when you consider refinancing a large mortgage loan, you will need to carefully assess if it would produce benefit after tax. Judging from the general economic environment for the foreseeable future, we expect interest rates to be on the upward trend, or little possibility of enough lower rates to justify refinancing.

The 2018 conforming loan limit for the Los Angeles area has been increased to \$679,650 (standard is \$453,100). Above this amount means a jumbo loan with a higher rate. If you borrow within this limit, it is also within the tax deduction limit, and you will be better off.

*We are not a tax expert and the accuracy of this content is not guaranteed. Please always consult with your tax expert or CPA for details and accuracy for your tax decision making.*

## 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#



## Rockyfield contacts

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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 contact Rockyfield

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 11/05/18)