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Rockyfield Newsletter

US Economy & Housing Market

This year's corporate tax cuts have been boosting share buy-backs and M&A's, but yet to see a significant increase in investments. And strangely, share buy-backs are not boosting stock prices. Despite the current strong economy, stock and financial markets do not seem to be confident about the economy's direction.

Business costs basically consist of variable (with sales volume) and fixed costs. Apart from direct cost of each product or service, variable and fixed expenses can be estimated by a linear regression: $y = ax + b$ ("a" is variable cost %; b is fixed cost). To understand easily, let's consider extreme cases. If a company has fixed cost only, the breakeven point is where sales volume reaches the fixed cost, and additional sales made from thereon will be all profit. If a company has variable cost only, then the company can make profit from the first unit it sells. Profit of a company with large fixed cost will accelerate after passing the breakeven point. (In real management, gross margins and a multiple linear regression model for each product line or division are used to set prices, manage expenses and budgeting).

Capital investments form fixed cost; such added fixed cost pushes the breakeven point further up. Unless the company is confident to sell more, it makes no sense to make capital investments. Business investments may increase productivity, or reduce the unit cost, which means a larger gross margin. Though its profit increases at the same sales volume, it is unlikely to bring down the breakeven point due to the increased fixed cost.

Small businesses are hungry for cash. However, they tend to be unprofitable during the fast growth phase of the corporate life cycle; lowering tax rate does not provide cash in absence of profit.

Tax cuts are used to stimulate the economy in recession; however, its lead time is long and its cause and effect relationship is unclear. While tax cuts for individuals may help the economy, corporate tax cuts are less effective in recession when their profits are low or even negative.

Sales Lose Momentum Prices down

Flooring

Carpets are out of fashion, especially shunned by young people. While there are many new flooring materials, today's main stream is wood floors, which vary from cheap laminate (below \$1) to luxury solid hardwood (over \$20). We have recently noticed less solid hardwood floors for newly remodeled houses, and wide engineered hardwood planks with non-traditional greyish ambience seem to be gaining popularity even for expensive houses.

Engineering hardwood floors also offer a wide range of prices from less than \$3. Such cheap ones have a very thin layer of real hardwood on the surface, being susceptible to scratches. Mid \$4 to \$5 are desirable, and the cost with installation is typically a little over \$8.

Luxury vinyl planks offer a wide variety of textures and colors. They are hard, resistant against scratches and water. They cost similar to engineered hardwood; cheap ones are not recommended.

People do not like laminate floors in Palos Verdes. Even though they appear almost identical to hardwood in a showroom, you can tell by its resonance and feeling by walking on them. Laminate planks have made great improvements over years with respect to their appearance, textures and moisture susceptibility. Laminate flooring is cheap both in materials and labor; and more importantly it is strong against scratches. Some landlords prefer laminate flooring for their rental properties.

The Wall Street seems to be concerned about the "flat" bond yield curve which historically indicates a future recession. As the economy is still strong and there are signs of inflation, the FRB should accelerate reducing its bond holding to raise long-term interest rates.

Palos Verdes Housing Market

The numbers of contracts for single family homes in PV from March to June are as good as the record in 2017. However, we feel differently in every day's business. Its reason seems to be inconsistency in the market trend: so many contracts in one week and just a few in the following week, for example. Price movements are often skewed in an unpredictable manner by areas and/or by price ranges.

The median escrow price soared in late May to early June. In West RPV, listings below \$1 million disappeared except those fixers or with other special reasons, and a small house of 1500sf cost over \$1,100,00. Sales were still going strong for the price range a little above \$1 million (mostly in Silver Spur area). And many new listings kept coming with elevated prices. Now the supply-demand condition is eased. The Eastview area along Western Ave traditionally leads the number of sales thanks to the area's low prices. As the majority of listings are priced above \$900,000, sales in Eastview seem to be slowing.

In general, the market segments up to \$1.5 million are doing fine. We are puzzled by the slump of those in the \$2 millions: too many listings with few sales. High-end segment, which has been performing exceptionally well since the real estate meltdown, are now slowing.

The market inventory peaked in late June, and turned downward. This is a normal pattern at this time of the year when both new listings and sales start winding down. The number of in-escrow listings has been consistently lower than last year; we suspect it is because loans are closing faster.

Although prices are falling during the recent weeks, it seems unlikely for prices to keep falling, unless a sharp rise in interest rates or a recession happens.

Tenant Flood Disclosure

Commencing July 1, 2018, when entering into a lease or rental agreement, the landlord or agent must disclose in writing: Insurance issues, information about floods generally, etc... and the owner's actual knowledge that the property is located in a special flood hazard area (in which flood insurance is required) or an area of potential flooding (at risk because of dams).

We have a flood disclosure form available, which requires a landlord to check a box (or not) with pre-printed statements and to sign the form. Although most of Palos Verdes Peninsula, except for some valleys, are not within a flood zone, landlords still need to know if the property is located in a flood zone. They can check their home insurance coverage if it includes flood.

In residential real estate transactions, the law requires a Natural Hazard Disclosure report, which always contains flood area information. So, check the NHD report that was received when the property was purchased. If it was many years ago and the NHD report is not found or lost, NHD report service companies now offer a floor hazard report (\$19-\$29). A realtor should be able to obtain the report on the same day. The landlord can fill and sign both the Form and flood hazard report, and then present them to their new tenant.

National Flood Insurance Program (NFIP) is a Federal Government flood insurance program which is expiring soon on July 31. The Realtor Association is pressing the Congress to extend the program. The current premium of the NFIP is around \$700 on average.

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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Great House in PVE for Lease

5 bedrooms/4.5 baths, 4956sf house with Ocean View on Via Coronel needs a new tenant. It is available now. The asking rent is \$7,500. Please contact Catarina for showing.

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.



SELECTED LISTINGS

Please Contact Rockyfield

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 07/12/18)