



Rockyfield Newsletter

US Economy & Housing Market

Let's look at an optimistic scenario despite so many negative factors: Omicron BA5, Ukraine war, inflation, higher interest rates, recession fears... The inflation was precipitated by the supply chain disruptions by COVID and Ukraine war, and spurred by rising demand created by huge spending for COVID relief. While the end of Ukraine war is not in sight, today's Omicron does not have serious impact on our economic activities thanks to low hospitalization rate. The supply chain may improve soon thanks to investments in computer chips and resumption of Chinese manufacturing.

To achieve Fed's target inflation rate: 2% in a short order, a recession is inevitable. Consumption is cooling, wages seem to have peaked and labor shortage is softening. The high-tech industry, especially start-ups, has either stopped hiring or laying off employees. The inflationary pressure from the demand side is deflating. Commodity prices (raw materials) have also declined with hopes for an earlier containment of this inflation. Interest rates, including mortgage rates, are now lower than a few weeks ago.

One of the major actors of the soaring housing market is young high income earners from the high tech industry. Hiring freeze and layoffs in the high-tech industry under high mortgage rates should cool down the housing market. People who bought their homes more than 3 years ago have large equity and may be able to avoid financial disasters by selling their houses; however, those who recently bought their homes may have little or negative equity. They may trigger a collapse of the housing market.

When facing a clear sign of recession like shrinking consumption and mounting layoffs, the FRB will slow down its rate hikes. However, as long as the high material costs due to supply chain disruptions persist, inflation will not shrink to the 2% target, and super low interest rates will not return.

The economy will move to a new equilibrium. The US 10-year T-bond yield is

Hope Emerges For Easing Inflation

Income Property?

When the inflation is over 8%, keeping cash in the bank is a losing game. Stock prices have been weak and volatile. So where shall we invest?

The housing prices have started leveling off and possibly going down. There are two kinds of returns in property investments: capital gain and rent income. Under today's circumstances, the former may not be good; however, the latter maybe. While a gross direct return (annual rent / price) is less attractive due to high prices, it is still much better than any bank rates; while the rate of return is lower than inflation, the rent can be raised to partially match the inflation. Real property has characteristics of a "real thing" as well as a financial vehicle: possibly less susceptible to inflation than bonds and stocks. If housing prices decline, it may be a great opportunity, especially for cash buyers, to acquire income properties.

Given the elevated mortgage rates, highly leveraged purchases are not recommended because they would result in large negative returns. If you can buy a property with cash only, that will be a great advantage right now. However, if you need to borrow money to buy a property, consider the following: 1) Down payment should be large enough to avoid losses as a passive loss cannot be offset against your other income; 2) Inflation and higher interest rates would slow down the economy; mortgage rate should eventually come down though it may take a few years; 3) The current 5/ARM rate is about 1.5% lower than the 30 yr fixed rate (shorter than 5 year fixed period has not been seen). If mortgage rates will come down in 5 years, refinancing would secure a long-term fixed rate.

Finally, you will have to take many other costs into consideration: vacancy, agent commission, property tax, possibly HOA, repairs, etc.

still historically very low, and we expect the FRB will continue to tighten money supply; the long-term rates are likely to increase. This will normalize the yield curve and will be good in the long-term to reach the new economic balance.

In conclusion, depending on Ukrainian war and FRB's monetary policy, it is possible to avoid a tragic combination of inflation and recession (stagflation) and to achieve soft landing for the US economy, including the housing market.

Palos Verdes Housing Market

The housing market is quickly changing. The E/A ratio (Escrow/Active) continues falling since the end of March. The market inventory has kept rising even though new listings have remained small in numbers in May and June. New contracts were not so many until May and then declined since June; they have been less than a year ago. The hot housing market has ended.

We need to examine prices based on closed prices as the gap between listed and closed prices are still large. So far prices have been higher than a year ago, and no clear sign of falling from a month ago. Closed prices reflect the prices contracted 30-45 days ago.

Increasing number of listings are cutting their prices while there are a few sellers who are yet to awake from the hot market dream. By price ranges, over \$5M and lowest price levels seem to be slumping. In August, we expect statistics to start showing weakness in price due to the reversal of the supply-demand condition. As mortgage rates have stabilized, we hope prices will not collapse. The worst scenario, though unlikely, would be that people who recently bought their homes face foreclosures due to a recession caused by the anti-inflation policy.

Because today's market price is much higher than a few years ago, prospective sellers should list their properties a little lower than competitors, and the priority should be to sell fast because prices may go down if staying on the market too long. The list price used to be irrelevant in the red hot market. No longer.

LA County Tenant Protection

After the State's COVID-19 eviction moratorium ended, many people do not realize we still have the LA County Eviction Protection which was voted earlier this year to extend through December 2022. Even though single family homes and individually owned townhome/condo units are exempted from the State Tenant Protection, this LA County measures do not allow such exemption.

As far as rent increases are concerned, except for special low-income areas of LA County, you can raise the rent unless the property is in the City of LA or other RSO cities. Although those exempted properties are not subject to State Rent Cap law, we recommend landlords follow the law: the max increase is limited to 5%+inflation during any 12 month period, though more than 10% increase needs a 90 day notice (month-to-month tenancy).

While the LA County Eviction Protection has been eased from June 1, No-fault, nuisance and unauthorized occupants or pets cannot be a reason for eviction, except a qualified owner move-in. (Qualified owner includes immediate family members)

And on July 1, the purchase date requirement (6/30/2021) has been lifted. So, if you buy an exempted house with a tenant (M2M), a new owner can evict the tenant with a 60 day notice, or Seller can give a 60 day notice during escrow. In any case, if you sell your rental property (single unit), it is better to remove the tenant to avoid potential issues or simply improve marketability.

No August Issue

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



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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

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 even if you have no plan to sell. No strings attached.

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 07/07/22)