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Rockyfield Newsletter

US Economy & Housing Market

July inflation rate was 8.5% from a year ago. While year-on-year comparison is appropriate, it is also important to look at monthly changes when inflation is going on. The government claimed, the July inflation was "Zero" which was true as CPI did not increase from June. Jan-Jul monthly changes are: 0.6, 0.8, 1.2, 0.3, 1.0, 1.3, 0.0 (%). As April was just 0.3%, and May was 1% (annual 12.7%), it is premature with one month number to say the inflation is ending. Some economists argue that the inflation has peaked because July producer price dropped 0.5% and crude oil price are lower. If August CPI (9/13) shows near 0%, it can be real. However, a 0% monthly change means prices remain high, just not increasing. Higher interest rates have already been capping the general demand, and inflation can become negative from the previous month; however, it would decrease only gradually from a year earlier for the coming few months.

Concerning the recession fears, we are not in a recession yet. Consumption is subject to both negative (higher consumer interest rates) and positive (strong employment and US dollar) factors. We are now afraid that the housing market could bring down the whole economy.

June was the turning point for the PV housing market. Although the number of contracts remains a little less than the average, it is shocking to see such a dramatic change. It is also true that quite a few escrows are failing and prices are heading downward. The number of contracts and mortgage rates peaked in early June. Those buyers who purchased their homes in May and June may not be able to refinance if their home prices go down even if rates come down. In the event of a financial trouble, selling their homes may not be easy, and their net sales proceeds could be small or even negative if prices fall substantially. This situation could accelerate the housing slump and force the entire economy into a recession.

In the medium- and long-term, the new bills for infrastructure, climate change

Sellers Need New Strategy

Common Pricing Mistakes

When the market is downward, the following 3 common pricing mistakes can be fatal:

- 1) Referring to past sold prices only. If your agent has pricing data based on contract dates, it is possible to adjust past prices to today's. Agents tend to use their sense of the market, or informed guess.
- 2) If there is no offer or receiving only lowball offers, it is simply because the listing price is too high. Such seller will be forced to cut the price to match the market price (competing listing prices). Cutting the price little by little is a very common mistake, ending up to always position behind the curve (higher than competitors). When you must reduce the price to sell, make it just below competitors. If your house remains on the market for a long time, you are likely to sell at a price less than the right price that could have been set slightly below the initial listing price.
- 3) A price eventually represents and dictates features, condition and location of the property. In short, the reason for not selling is the price. Today's buyers have armed with lots of information, and they will not buying into sales talks or cosmetic maneuvers. Some sellers prefer more adverts, more attractive photos/videos, staging, etc. to cutting the price. They should consider it as a competitive adjustment. An agent with a good sense and experience can give the seller good advice on how much cut is needed.

Some agents, especially out-of-area agents, may make errors in the area code and other important information on the MLS. In PV, the school information is extremely important. Although it is so easy to obtain it from the PVUSD website, many agents leave the school information empty. Under today's tough market condition, a selection of your listing agent is becoming crucial.

and fiscal investments can help productivity to improve and ease the recession with hopes for future stable growth without inflation. The labor shortage is a serious concern; a new effective policy to encourage people to go back to work is also needed. Of course, the ending of the pandemic worldwide holds the key to the prosperity of our economy.

Palos Verdes Housing Market

This year's statistics have been consistently lower than the last year's red-hot housing market. In June, the new contracts halved to 44 from 90 in June 2021; the median closed price peaked in late May to early June. It was primarily because the 30-year fixed mortgage rate surpassed 6% (WSJ). In early September, the rate soared again up to 6.14%. Although the rate has stabilized a little since then, The housing sales surge during the last 2 weeks of August is unlikely to sustain. September could be a slumping month for the housing market.

It has been noted that escrow failures are on the rise though individual reasons are unknown. However, we have not seen short sales, NOD or bank owned properties for sale. Prices are still higher than two years ago; homeowners who purchased their homes a few years ago can still sell their homes not only to avoid financial trouble but to keep good cash proceeds. In short, the return of the dire housing market situation after the 2008 meltdown is unlikely.

Although the median closed price is now below \$2M, prices are still higher than 2021. It is crucial for a seller to sell faster than competing listings in a declining market. Recently, quite a few sellers cut their listing price by \$200,000 or so (more than \$100,000 for inexpensive houses); reducing only a few tens of thousand dollars do not seem to be effective. They were, of course, originally priced too high. Those listings attractively priced can still sell quickly.

Due to the high housing prices, more buyers are flocking to fixer upper properties; however, low prices are the key to success for fixers.

Recession?

Recession fears are persisting. New oil producers' target of \$100 has failed to shore up declining oil prices; however, gasoline prices are still high. Inflation has cooled consumer demand for clothing and others; utility (electricity) payments are getting late, indicating many households are having tough financial situation. The FRB's rate hikes have hit credit card and auto loan rates. Yet, soaring rents many have the heaviest impact as housing expenses are the largest in a household budget. In PV, a rent amount for a 2000sf house is now above \$5000. Soaring rents are everywhere, including apartments. Especially now, the typical pattern of rising demand for rental housing during cooling housing sales is emerging.

A series of recent spending bills, like infrastructure, global warming, student loans, will start boosting the government expenditures which will help the economy from falling into a recession. Employment is still strong despite certain segments of weaknesses. Whether or not we will have a recession is subject to the supply disruption related to Ukraine war and the FRB's monetary policy.

The FRB is determined to further raise the FF rate (overnight) by 0.75% which will directly impact US consumers and demand in general. Especially under the supply disruption, it is more likely to bring about a recession. The FRB's asset reduction (sale) started in June with negligible amounts; finally they will "aggressively" reduce \$9 trillion bond holdings in September and on. It is too late and focus on short-term papers (T bills) is rather disappointing. In fact, the long-term Treasury yields are lower and the yield curve is flat and partially inverted. Long-term rates will increase mortgage rates; however, the housing market has already cooled. Minor mortgage rate increases will only dampen the housing demand without crashing it. The housing market would rather be normalized and stable prices will deter rents from further soaring.

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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

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Please Contact
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For Listing Information

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 09/07/22)