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Rockyfield Newsletter

US Economy and Housing Market

The politically inconvenient fact is that inflation would not cease unless the economy slows down and unemployment rises by overshooting of the economic and monetary measures against inflation. To be fair however, the effect of high interest rates is indirect and not immediate; economic policy like spending increase or cut may be more direct but takes a long time to pass Congress and may become too late. During the last major inflation in 1980, the monetary policy was re-tooled by shifting the Fed's focus from interest rate to money supply with a great success. Since then, the US had been managing inflation very well for many years until the post pandemic inflation. The current below 4% inflation rate is historically within normal cycles. However, people are wrongly saying that the Fed cannot lower the rate because of the stubborn inflation. It is because the employment and GDP remain strong, and inflation may flare up if the Fed cuts the rate now. In a sense, "soft landing" has been almost achieved; the FRB is struggling to reach the finish line.

The major reason behind it is the large excess money stock created by the FRB's aggressive bond purchases (quantitative easing) and continuing large spending since the pandemic (recently war aids and other domestic programs) while taxes are kept low. The money supply (M2) started growing in 2020 and reached the peak during 2022 over \$21T. The current FRB's anti-inflation policy is limited to higher overnight rates unlike the proven success of taming the money supply in the 1980's. It is undesirable to have an inverted yield curve (3 months 5.4% vs 10 year 4.6%) for a long time.

Given the current strong economy, rate cuts may not decrease long-term rates because it would be more likely to boost inflation. We believe that the FRB must absorb the money stock from the financial market and it may be necessary to increase tax revenue. This combination would bring down the inflation to the 2% goal. The unemployment rate would go up and the economy would decelerate.

Listing Rush Failed to Boost Sales

Cash Dominates

As far as the PV housing market is concerned, you will be surprised to know more than half of closed sales in April were CASH! And it is more interesting to learn that cash transactions are across all price ranges. For example, the lowest price cash sale in April was \$1,125,000 and the highest, \$5,955,000. Let's look at monthly cash sales (closed) for the last three months.

	Total	Cash	
Feb	31	9	29%
March	42	13	31%
April	41	22	54%

The time of each contract is about 30 days prior to closing; April closing can be assumed to be contracted in March. The recent increase of cash transactions is clearly correlated to mortgage rate movements. We believe this trend is a mixture of 1) discouraged buyers who need a loan; 2) cash rich buyers choose not to borrow money; and 3) cash rich buyers see the opportunity of taking advantage over regular buyers.

Even further curious trends are: 1) Cash buyers are not low ballers (low price); 2) Many of them demand a large discount or credit during escrow, often more than \$50,000 and a few more than \$100,000! However, apparently the majority of those cash buyers are not opportunistic investors.

The real question is how long this cash driven market would continue as cash purchases have been notable for some time. It is next to impossible to predict it. However, it is reasonable to suppose it would not last forever.

Then the short-term rate can be cut to ease those economic pains. Of course, such policy change is next to impossible in this election year.

Palos Verdes Housing Market

New listings suddenly started increasing in mid April with over 20 listings for 4 weeks in a row; one week had 34 of them! It has been believed that the stagnating sales were due to the extreme supply shortage; however, the increased inventory has so far failed to boost sales. The main reason is the mismatch of prices that buyers and sellers want. More than half of list prices are over \$3.0m, while few under \$1.5 mil. Many listings below \$2.0m are now around \$1.8m, up from between \$1.5m and \$1.7m a month ago. Because properties with attractive features are selling with premiums of over \$100,000 and a few over \$200,000, it cannot help sellers and listing agents to become very aggressive in pricing.

As the supply shortage eases under higher mortgage rates, prices could go down; however, cash buyers are driving the market, and this "abnormal" condition may continue for the time being.

There are two pieces of advice to potential sellers: 1) The risk of pricing low is small. If priced too high, properties may stay unsold for many weeks, or receive few offers that are below the asking price. 2) Cash offers. If the buyer does have money, not only it is more certain to close the transaction, but also it could provide flexibility, for example, closing date, delivery date and others to accommodate seller's personal convenience (subject to buyer's acceptance). However, it should be noted that today's many cash buyers tend to offer higher prices and then demand a large credit during escrow. Seller can save some money with a price cut for the expenses based on percentage to the price like commissions, escrow and title fees and others. Agents generally prefer credit, of course. In case of multiple offers, a large price adjustment or credit later may be unfair to other buyers, or even seller could have been better off. Sellers also need to mentally be ready for cash offers.

Security Deposit No More Than One Month's Rent

AB 12, beginning July 1, 2024, prohibits a landlord from demanding or receiving security for a rental agreement for residential property in an amount or value in excess of an amount equal to one month's rent, regardless of whether the residential property is unfurnished or furnished, in addition to any rent for the first month paid on or before initial occupancy.

Exception for small landlords: A small landlord may demand or receive a deposit in an amount or value not in excess of 2 months' rent, whether or not the unit is furnished, in addition to any rent for the first month, if the landlord (1) is a natural person or a limited liability corporation in which all members are natural persons and (2) owns no more than 2 residential rental properties that collectively include no more than 4 dwelling units offered for rent. The exception for small landlords includes family trusts.

This small landlord exception does not apply if the prospective tenant is a service member.

Landlords who currently hold a security deposit or demand or collect a security deposit in excess of one month's rent prior to July 1, 2024, may continue to retain the security even if it is more than one month's rent.

Please remember that a security deposit includes security, pet, key and any kind of deposits.

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.

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

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A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 05/07/24)