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Rockyfield Newsletter

US Economy and Housing Market

Inflation is gradually cooling and the April core PCE (personal consumption expenditures) which the FRB is watching came out below 3%. Even though a rate cut is still unlikely at the June 11-12 meeting, it would be possible at the July 30-31 meeting if May and June figures come under 3%. However, as we stated before, the rate cut may not substantially lower mortgage rates for two reasons: 1) the margin of the rate cut would be rather modest; 2) upward pressure on long-term rates could increase.

While we cannot expect a boost from lower rates, we have an uneasy situation looming though it is technical. In mid August, the new NAR/MLS policy will take effect with two major changes: 1) No publication of buyer agent commission on the MLS; 2) Buyers now must have a written agency agreement before starting to see houses. While many guidelines and lectures have been offered, none of them addresses specific and gray-area situations or actions. For example, no specific suggestions are publicly made, regarding how sellers can communicate a compensation offer to buyer agents. We hope that this potential turmoil will not disturb or disrupt transactions.

Polarization is also apparent in the housing market. Income disparity has accelerated since COVID. While the macro economy has been growing despite the inflation and higher rates, at individual levels, an uneven recovery has been felt by many people. Nationally, housing prices started falling in some areas; however, our market still enjoys strong demand with no sign of slumping prices. Polarization in price levels as symbolized by cash dominance exists in the PV market.

In the long run, there seems to be a serious social/economic issue for many countries. Fertility rates are sharply falling in Mexico, India, China, S. Korea, needless to say Japan and northern Europe. The US is also among them. As those economies have been recovering from the Pandemic, labor shortages are becoming acute. Japan has been struggling with long depressed consumption.

Sales Fail To Follow Inventory Growth

Flipped House

"Flipper" buys a fixer and old property, repair, remodel and upgrade it with an attempt to sell with a big profit. It must be completed in a short period of time, or a flipper would incur incremental financing costs and face market price risk. Historically, their profit heavily depends on general market price increases. They enjoy great profit when the market price is rising. However, it is also a high risk investment, and professional flippers push very hard to put the property back on the market as soon as possible. Cutting corners and hiding invisible defects are unfortunately common. Of course, high-end homes in high-income areas would be a different story.

Shiny newly remodeled houses are attractive to buyers. It is also common that those buyers experience undesirable issues or need for repairs or corrections after purchase. Those new-looking houses tend to receive many offers, driving up the price. A combination of buying high and buyer's remorse should be avoided.

When we see houses, we have little information about invisible parts. So, we look closely at small details that could infer big issues, or at least care by the investor/owner. Painting can hide everything from cracks to old materials. Many remodeled houses have old roofs! You can tell if it is a cheap or corner-cutting work. When you make an offer, you should check if the current owner is a professional investor like LLC, when it was purchased, the condition at the time of purchase that can be found in the MLS listing then. If it looks like a flipped house, then you must have thorough and various inspections.

Even if the remodel is made cheap and shoddy, as long as the property has a great fundamental value in itself like view, location and others, it is definitely worth acquiring it. Unfortunately, many buyers as well as realtors tend to be blinded by houses with beautiful appearance.

Expansion and growth are in our Sapiens DNA; however, it may be changing. Coincidentally, rapidly developing AI and robotics can alleviate labor shortages under shrinking population. It is socially good if the housing shortage eases in the future; however, it implies that the housing demand and prices may soften.

Palos Verdes Housing Market

We previously reported cash sales accounted for 54% in April. Though it declined in May, still 28% of closed sales were in cash. Many cash purchases are also made for very expensive properties. Small volumes, if continuous, would depress prices. The number of closed sales kept decreasing from 867 in 2021, to 617, to 515 and at 500 pace this year. Despite this clear downtrend, housing prices are holding with seasonal ups and downs. This puzzling trend is due to the persisting shortage of affordable homes where large volumes exist. Although new listings began sharply increasing in April, pushing up the market inventory, sales are not growing as much. The difference between the inventory and in-escrow listings is widening; the demand-supply condition has now started softening.

We go around weekend open houses to see the reality on the ground. Given very few listings around \$1.5M or below, those open houses are flooded by buyers. Properties with great value or attributes attract many buyers even if they are over \$3M. Pricing low still offers little risk or even potentially brings about a better result than pricing high.

As job openings keep decreasing and the expected confusion by the NAR new rules in August, we have few positive prospects. Even if interest rates become lower, we cannot expect great increases in sales or prices. The FRB's rate cut will further increase money supply; cash buyers would keep dominating our market.

We have recently noticed that sellers tend to give a large credit or price discount to buyers during escrow in many transactions as if it were a norm. It can be considered good for sellers because they do not have to make repairs and avoid potential liability of repair results.

New Disclosure Requirements For Flippers

Effective July 1, 2024, "Flippers" of residential 1 to 4 properties must disclose recent repairs and renovations to the property in addition to all other existing disclosures. Applies to properties that are resold within 18 months of closing, and renovations or repairs were performed by a contractor with whom the seller entered into a contract. Standard TDS categories, exemptions and cancellation rights apply.

It requires a seller to disclose to the buyer:

- Any room additions.
- Structural modifications.
- Other alterations.
- Repairs.
- A copy of any permits if obtained.

Additionally, where the cost of labor and materials was \$500 or greater, the seller will disclose

- The name of each contractor.
- The contact information of each contractor (as provided to the seller).

This new law applies when the seller accepts an offer from a buyer to purchase the property on or after July 1, 2024. This disclosure comes within the Transfer Disclosure Statement law.

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 06/06/24)