PALOS VERDES RESIDENTIAL PROPERTIES

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Rockyfield Newsletter

US Economy and Housing Market

FRB cut its Federal Fund Rate (overnight) by a large 0.50%. Many news media and real estate concerns predicted the housing market would be greatly boosted by lower mortgage rates, as opposed to our forecast that mortgage rates would not drop significantly by the FRB rate cut due to the current extremely inverted yield curve (long-term rates are much lower than short-term rates). Right after the rate cut, short-term rates fell but long-term rates went up a little as the market expects the rate cut would either boost the economy and inflation in the future. The 30-year mortgage rate is loosely linked to the 10-year Treasury yield, which is almost 1% lower than 1 month rate. This inverted yield curve has existed for a few years, disturbing the financial market from properly functioning. Historically, the inverted curve has been indicative of a future recession; however, except for the case of economic policy failure or a huge disaster, the risk of a near future recession is minimal.

The labor market is no longer overheated, and inflation is eased. The FRB is expected to continue rate cuts by likely 0.25. As we expect the 10-year T yields to increase in the future, the mortgage rates would not decrease too much. Low short-term rates will bring down the credit card rates and others (more consumption), and reduce business borrowing cost. Overall economic growth and household income would be net positive for the housing market. The US debt obligations will be also helped by lower rates.

If all election promises are implemented, fiscal spending and deficit would swell with new inflation risk. The impact of either tax cuts or hikes on the economy is rather indirect and often undiscernible.

The Middle-East war is a real concern for the near-future economy. While we no longer depend on imported oil, if international oil prices shoot up, high general energy costs would cause “cost inflation” to the whole world. The US election results will also alter our economic path to the future. It is almost impossible to make a reasonable forecast for 2025.

Frozen Market Starts Melting?

Buyer Agents Still Get 2.50%

What’s changed after the new NAR listing rules? Realtors are in two categories: understanding and not understanding what to do; however, they are all essentially doing the same things as before. Yes, the listing agreement has changed for commissions, and the buyer representation agreement is now mandatory. We have created a way to let other agents know what compensation our sellers are offering; however, we have not seen any sign of doing something similar to our idea. Instead, realtors are conducting business as if nothing had changed. In the Palos Verdes market, the most prevalent commission rate for buyer agents used to be 2.50%. The MLS no longer shows the commission rate; instead, compensation amounts paid to buyer agents are indicated when transactions are closed. We are closely watching and calculating %. Surprisingly(?), almost all are 2.50%! Realtors appear to be working with tacit understanding. Buyer’s offer can request Seller to pay buyer agent a compensation amount by attaching a special form. So, buyer agent compensation is now a part of negotiations.

There are still two issues: 1) Sellers cannot advertise even if they want to offer a higher commission rate; 2) Buyers have to commit to potentially 2.50% compensation for their own agents if the prevailing rate offered by sellers is 2.50%.

Now the listing agreement is divided into two parts, the main and MLS related terms, in which the seller can choose to authorize the listing agent to offer a concession for a buyer’s agent on the MLS. Well, things seem to be going on as business as usual with in-

Palos Verdes Housing Market

Our housing market started cooling in June, and with the advent of the NAR new rules, weekly contracts of single-family homes in PV have been barely over 10 until the last week of September. Both new listings and sales typically slump in September; however, new listings kept coming. The market inventory on January 1 was just 60, but now approaching 170. The active listings are 2.5 times of in-escrow listings in number. As the mortgage rate is about 0.5% lower, we were hoping sales would recover come October. Well, 18 listings opened escrow during the last week of September, which is large for the month. It is possible there are many ready buyers after the long dull market. Nonetheless, some buyers may be unsettled with concerns over the elections and wars, they may further wait.

Housing prices have surprisingly been stable for the last 3 years, ups and downs within the small band. The excess inventory is not limited to single family homes, but also has spread to townhouses and condos. Therefore, even if sales grow, we may not see sharp increases in price like a couple of years ago. Sellers must price their properties very carefully.

As the cost of remodels can be added to the property’s cost base, if the capital gain exceeds the $500,000 exclusion (married, joint return), the after-tax cost would be around 75% of the paid expenses. Or if the price is cut to sell quicky, such a discount would cost 75%ish after tax.

It is only natural that homeowners are attached to the house they lived for so many years, and they want to sell very high. However, it is not just the cost of remodels, but also unbearable stress, inconvenience and disturbance with jobs and family life that cannot be understood until they actually experience it. We hear a lot about their regret. If you put your home on the market at a low price for the “as is” condition, it would attract more buyers and it can be sold fast. It is your decision as selling homes involve private and family reasons.

Prop33 Removes Restrictions on Rent Control by Cities

It is true that rents keep going up almost regardless of the economic factors. Governments are pressured to do something about it. In California, we will vote yes/no to Prop33. Currently, a few cities like Los Angeles, Santa Monica, W. Hollywood and Culver City (this year) have rent control. The Costa-Hawking law has been imposing a few limitations on those cities' rent controls: exemptions for single-family homes, built in and after 1995 and new tenants. Prop33 will remove those restrictions. Some people fear it will rather worsen the housing shortage. In cities with rent controls, it is common that rents are raised to the maximum allowed amount every year regardless of the market conditions. Owners with financial means tend to acquire apartment buildings and force all tenants to move out by monetary incentives; then rebuild the building to qualify for the "after 1995"exemption. With much higher rents being exempted from rent controls, those property value will soar.

We have been advising our income property owners to avoid the cities with rent control, including Harbor City and San Pedro, for new investments of any types. If Prop33 passes, those cities may remove those exemptions, possibly pushing rental property owners to move out to cities without rent controls; or at least new investments will decline. Some cities close to the rent control cities like Inglewood which is adjacent to Culver City could thrive with new monies. New tenants may voluntarily offer to pay higher rents under shortage.

The WSJ recently reported: Argentine imposed one of the world's strictest rent control laws for years. Contrary to its intent, rents had been rising sharply. Now, the new president Milei has scrapped the rental law. The supply of rental properties jumped and many renters are now getting better deals.

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 10/04/24)