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Rockyfield Newsletter

US Economy & Housing Market

Economic factors pointing to inflation are all over. It started with raw material prices. Lumber, steel and other prices are rising rapidly. Crude oil price is now not far from \$70 which used to be below \$50 last year. Many companies are passing higher costs onto products prices. Consumer prices in March jumped 2.6% from a year earlier. US dollar is weakening. Long-term interest rates, which hit 1.7% in April, are now between 1.5%-1.7%. Short-term rates are still extremely low. The FRB does not seem to tighten its monetary policy in the near future. In short, although there are many signs of inflation and the economic environment is also predicating inflation, the actual inflation is yet to be clearly emerging. Why is it so?

The single largest missing piece is employment. Traditional inflation is caused by tight supply of resources and workers and resulting higher wages. Even though the weekly job loss claims are coming down, it is still double the normal figures. April non-farm payroll was 266,000, far smaller than expected. However, this figure used to be a good one. Just starting to recover from the pandemic economy, we have a large number of job losses and job openings together. The current problem is an unprecedented large gap between job openings and applications, especially for factory, services like hospitality and restaurants. Many businesses are struggling to hire workers even though there are still so many unemployed people. The reasons may be a fear of the COVID-19 in these work environments, lack of childcare and enhanced unemployment benefit which have already become a hot political debate.

When the massive infrastructure projects start, the labor market will be further tightened. Inflationary pressure caused by rising wages are not a farfetched prediction. Since the FRB has developed effective anti-inflation skills since the 1980's, we hope they can han-

Relentless Demand for Housing

Kick-out Clause

Given the robust seller's market, some sellers or listing agents try to include a Kick-out clause in the purchase agreement. The Kick-out clause allows a seller to accept another offer even under contract with an accepted buyer. This is legally and ethically possible when a buyer has contingency to sell their home to buy the seller's property. However, in this red-hot housing market with rapidly rising prices, new buyers may be willing to pay more than the accepted offer. In fact, today's listing agent's common headache is that sellers complain later that they sold their house too low because today's price is higher than a few weeks ago. Some listing agents are unwisely suggesting that they include a Kick-out clause in the seller's counteroffer. If mutually agreed, it may not be illicit, but it is unethical and troublesome. If multiple buyers are involved, it would become messy and could be legally challenged. It would prolong the selling process. The buyer may feel no obligation to respect the contract and cancel the transaction, using a contingency when they find a better property.

In short, this practice will destroy the value and force of a "Binding" contract. Some buyers may start offering the Kick-out clause just to win the competition. It is similar to the once-prevalent practice: offering a price \$1000 higher than the highest bid. We discourage all sellers to accept those tricky unethical buyers and their agents because they may attempt to misguide the seller.

dle the situation very well.

Real estate properties are real things; their nominal values should follow inflation even if imperfectly. While the FRB may keep short-term interest rates low as long as they can, the mortgage rate follows 10-year Treasury note yield. Higher interests will reduce the number of buyers; today's overheated housing market condition is rather scary.

Palos Verdes Housing Market

Even a real estate professional's jaw drops. It is abnormal to see houses priced below \$1.5M close with a \$150,000 or even \$200,000 premium. Setting the list price is supposed to be one of the most important decisions in the pre-listing process. No more. Unless priced way too high, the list price is rather irrelevant. The Pandemic has obliterated real estate conventional wisdom: houses are selling so fast without open house, ads, staging, etc.

The number of new contracts has been mediocre since mid April; it is just because of the extreme low inventory. Whenever new listings come on the market, new contracts increase. While one can say "any thing goes," there are a few notable trends. Remodeled clean houses are still very popular, selling with a premium. Major fixer uppers also attract a swarm of offers if priced low. Many cash offers should be noted as another trend.

There also seem to be increased escrow failures: certain buyers are making offers to multiple properties; buyers accepted with a very high price tend to harden their position after the inspection. Many buyers with a loan are stretching their borrowing limits: possible difficulty during the underwriting process may happen. This can be a major issue if mortgage rates rise.

In buyer selections, sellers should focus more on the buyer's financial strength as a higher price means nothing if the deal does not close. We recommend that Seller demand "no repair or credit" on the counteroffer.

Buyers Competing with Pro Investors

We have heard and known that this housing boom has been boosted by foreign buyers, directly or indirectly; however recently, we have also noticed a few LLC's are buying single-residential homes with all cash. We thought first they were more like individual investors using an LLC to hold the title. There was a WSJ article that home buyers were competing with investors. Under this very competitive market with rising prices, it does not make any sense for professional investors to buy single family homes. So we made a quick research: indeed, many of those LLCs are professional property investment/management firms. Despite the recent sharp rise in rent, it may not still make much sense in terms of return on investment they require.

We must admit that we do not know exactly why. It is true that much of cheap money in the market is available, and there are not good investment vehicles for medium to long-terms. The PE ratios of the stock market have been too high; bond prices are expected to go down with higher future interest rates; commodities are unsuitable for long-term investment. As rents can be adjusted to inflation, though imperfect, residential prices are more stable than commercial, or other financial investments. It is also true that reasonably good multi-unit residential properties like apartments are scarce. Another benefit may be a tax shield effect in residential housing, accepting low returns in exchange for higher potential for capital gains. Those professional investors can buy in cash with financing behind the scene.

It is a tough time for home buyers if they have to compete with those professional investors. To sellers however, it is less likely to have legal liability with professional buyers who are supposed to know property issues. The only concern Seller may have is money laundering.

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

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A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 05/10/21)