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Rockyfield Newsletter

US Economy & Housing Market

The question of how long this red-hot housing market would last is in everyone's mind. Interest rates are likely to be the one to trigger the turning point. Despite various signs of inflation, 10-year T yield has been stable and has gone close to 1.3%.

US interest rates that are much higher than other leading countries with the stable US dollar attract foreign investors to the US Treasuries. However, the main reason for low interest rates is the FRB's aggressive bond purchases of monthly \$80 billion of Treasury debt. The FRB has also bought \$1 trillion of the mortgage bonds since March 2020, and currently buys at least \$40 billion each month. Thanks to the FRB's easy money policy, mortgage rates have been historically low, sending housing prices sky-high.

The FRB officials have been expressing concerns about the over-heating housing market: "We cannot afford to have another violent fluctuation in housing market that would cause another great recession." The FRB is seriously considering to calm housing prices without puncturing the bubble. The 30-year fixed mortgage rate is loosely linked to 10-year Treasury note yield. However, this may change soon.

The FRB policy meeting last month affirmed their plan to continue keeping short-term rates near zero and asset purchases for the time being. However, they have been discussing during the past few months "when and how" to begin tapering the asset purchases. Now that the overheating housing market has come to their focus, scaling back mortgage-backed security purchases earlier and more quickly than Treasury debts has emerged as priority, and we believe it will happen very soon.

As the last thing the FRB wants is a repeat of the 2008 meltdown, this time by sudden soaring mortgage rates. If the purpose of the FRB's tapering mortgage bond purchases is to calm down the housing prices, should we expect hous-

Mortgage Rates May Go up Soon

Return of Open Houses

After opening of California on 6/15, open house is now allowed with less restrictions. No signing the COVID safety notice, physical distance, max capacity, cleaning after each visitor, or attesting one's health. As previously allowed, open house listings are available via the MLS which will be fed to public websites like Realtor.com or Zillow.

The only requirement is wearing masks unless everyone in the house is vaccinated. Because attesting one's condition is not required, wearing masks is effectively needed. Children two or younger, and people with medical condition can waive it.

We still have reservations on a couple of items above. As new variants are spreading and as even fully vaccinated people can be infected, caution to prevent possible infection is important especially because about 50% of the population are yet to be fully vaccinated. Therefore, we feel some capacity control is wise; more than 10 people in a small house is not desirable anyway. It is also better to suggest a good physical distance from strangers.

Sellers can demand any requirements, nonetheless like one party at a time, no touching anything, sanitizing hands before entering, or allowing only vaccinated people to enter the house (practically difficult).

For individual showings, masks are not required, though recommended, and a seller may require mask wearing to prevent spreading virus in the house.

The question is whether or not open houses are needed to sell the house as houses have been selling quickly without open houses. Our answer is: probably not for now until the market slows.

ing prices to stop rising or decline? Since many buyers are financially stretching to their limit, a rate increase may force them to drop out. Rising prices have reduced buyers' purchasing power. The recovery from the pandemic may make people preoccupied with jobs and schools. In any case, we hope the FRB will take a very careful approach.

Palos Verdes Housing Market

Even if the FRB let mortgage rates rise in the near future, it is still at historical low, and actually recently dipped further. Increased new listings, apparently due to the fear of the bubble to end, may have boosted more purchases. Even the long weekend did not affect sales as we predicted.

Listing and closed prices are still moving in the similar manner despite \$100,000 to \$200,000 or more gaps between them, and the median prices have been relatively stable during the past 4 weeks. As sales continue to be robust, buyers' financial abilities may be reaching their max.

In Palos Verdes, there are still many cash purchases, and expensive properties are selling well. Our market should sustain for the time being.

One of the notable ominous signs is that more sellers are setting unrealistic or unreasonably high prices. Even in this "whatever goes" market, they cannot sell easily simply because there are good and cheaper alternatives. This is a typical prelude for a market collapse.

However, our words may not be trusted as we see everyday unbelievable and astonishing closed prices. We can advise for sure, though that it is wise to set the listing price that could be slightly higher. The final price is unlikely to be suppressed by setting the listing price low. Prices are driven up by competition regardless of listing prices; that is today's market condition.

We must admit that we hesitate to encourage a buyer any further when the price of the property they made an offer to has gone up too much.

Eviction Moratorium Extended

Following Federal extension of the eviction moratorium till July 31, State of California extended its program through September 30. While the State will pay back rent caused by COVID-19 for low-income tenants to landlords, there are many tenants who are not qualified, yet unable to pay their rent in full. California started so called Just Cause Eviction law which heavily protects renters. Please note that tenants must submit a declaration of financial difficulty due to COVID-19 to be protected. Single family residences and individually owned units in townhouse and condo complexes used to be exempted. In March when the moratorium was extended to June 30, this exemption was temporarily suspended, and the exemption continues to be suspended until September 30. This is a huge deal for many owners of rental properties.

Generally speaking, if the tenancy is month-to-month, it is extremely difficult to terminate tenants, except when a property becomes no longer for a rental. It is better to keep a term lease. When a lease expires, if a termination or a rent increase is acceptable now is not clear and would need a legal opinion. Of course, if the tenant is willing to accept the landlords' request, it can be done.

Please note that there are similar more detailed moratorium programs by LA County and City of LA (PV is not).

Those tenants with financial plight due to COVID-19 can avoid eviction now by paying 25% of the rent amount. The question is if they will be able to pay normal rent when the moratorium is over, and rent payments jump 4 times. Massive delinquencies and very expensive evictions could push many landlords to the edge. Such event could trigger a housing market collapse. We hope the State has a good plan for smooth ending of the moratorium.

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 See

Attached Sheet

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 07/10/21)