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# Rockyfield Newsletter

## US Economy & Housing Market

Stock market (S&P) has declined more than 12% (Nasdaq 19%) from the peak on Jan 4, and may slump further, being depressed with wild volatility by Omicron and now by Ukraine. Ordinary home buyers' assets like stock investment and 401K have shrunk; their financial capability has been eroded with higher mortgage rates. Although the main price range in the PV housing market is now over \$1.5M, and the PV buyers have more financial resources and less susceptible to higher rates, such large declines in stock market and bleak prospects for the economy under inflation may change their behavior.

Typical homeowners in PV include corporate executives, business owners, professionals like doctors, lawyers and CPAs; there are also new trend: younger rich buyers from high-tech industries. They may be less susceptible to minor rate increases and slump in stock prices. However, savvy wealthy people may retreat their money into cash for the moment. Housing prices have been going up double digits, far greater than the GDP, income or inflation, and given the Ukraine situation, the overheated housing market is unlikely to be sustainable too long. They may start investing in real estate, both commercial and housing, when prices fall.

Up until February, despite all dark factors, the housing market has been even hotter than ever due to panic buying by buyers who are fearful of higher future prices and rates. Closing with more than \$200,000 premiums is now not unusual. Some closed prices make no sense to us in any respect: Paying more to save on interest? New contracts in PV suddenly declined in March may be due to reaction to the breakout of the Ukraine war, which is not expected to end soon.

It is known that real estate, especially commercial, has been often used for money laundering. And it seems that it is spreading to the residential housing market. At a minimum, from cases reported in the last five years, more than \$2.3

## Ukraine May Precipitate Housing Slump

### New Offer Form

The form for Purchase Agreement was dramatically changed last December.

While little changes were made in content, a large table of all variable terms and conditions is provided. Legal descriptions and implications in the previous version follow after the table with corresponding paragraph numbers. Yes, the total number of pages increased again to 16 pages, and 25 pages including additional required disclosures and advisories.

The new form offers pros and cons. It is easy to grasp all terms and conditions in one table without going through all pages. Potential oversight or errors may be reduced. As real estate transactions are complex and inter-related in nature, the table needs to be detailed and may be difficult to comprehend unless you get used to it.

The challenge to us realtors is: buyers and sellers may not read the following legal parts of the Agreement. Prior to the pandemic, we used to go over the purchase agreement in detail with or clients, explaining what they mean and what if questions. However, given this new format, they would not be interested in reading them. It is possible that many realtors may not read them either.

It is sad that even now, a few realtors do not read and naturally do not understand legal terms and conditions. However, it must be noted that those paragraphs following the summary table of terms and conditions become most relevant when a dispute or problem happens.

billion has been laundered through U.S. real estate. Super rich overseas people have been actively buying into US real estate to hide their assets, given rapidly rising prices. Palos Verdes is an attractive target because housing prices are high and do not draw public attention like Beverly Hills or Bel Air.

### Palos Verdes Housing Market

The number of new contracts of single family homes in PV was a big 53 for January, following last year's 56. February contracts last year was a stunning 67; this year's number is an unbelievable 77. It seems to be due to panic buying under fears of inflation and higher interest rates. New listings are finally increasing; red-hot demand has made the pending sales (in-escrow) exceed by 50 over active listings, leaving only 40 homes available for sale at the end of February.

Judging from our experience of Black Monday in 1987, the housing slump in the early 90's, Lehman Shock in 2007 and others, today's market atmosphere reminds of preceding days of those collapses. It is impossible for the housing market to continue rising double digits when inflation and income are around 6%. With the FRB's measures, we were hoping for "soft landing" if it were not for Ukraine. The direct cause of the 2008 housing market meltdown was reckless lending, which does not exist today.

A 0.25% rate hike in March would change little. Due to the Ukraine war, many prices, including oil, wheat, computer chip materials, rare metals/chemicals and others that are necessities for the modern economies are soaring. Such "cost inflation" is not caused by hyper demand. While the cost inflation by supply disruption during Pandemic should end soon, the Ukraine war may trigger long lasting, deep damages to international economic systems, and also to the housing market.

Given many unusual transactions, the meaning of "market price" is becoming less, and good realtors' ability to estimate market values is losing its merit. We hope "normality" will be restored soon.

## Prop 19 Property Tax Transfer

Prop 19 implementing legislation clarifies the rules of exemptions from reassessment allowing for the portability of a homeowner's tax basis everywhere in the state even if the value of the property is greater (with an adjustment upward in such case). Rules regarding intergenerational transfer of property or family farms from parent to child, are also addressed and clarified.

- A replacement primary residence of a homeowner who is 55 years of age or, severely disabled or whose home has been substantially damaged by wildfire or natural disaster
- Anywhere in the state (Currently within the same county with some exceptions)
- Within two years of the sale
- Up to three times; but without limitation for those whose houses were destroyed by fire (Currently only once in life)
- Regardless of the value of the replacement primary residence with upward adjustments in the tax basis if "greater" in value (Currently the same or less value)
- If the full cash value of the replacement property is of equal or lesser value than the original then the tax basis of the original transfers. "Equal or lesser" value of the replacement dwelling can be 105% of the full cash value of the original if the replacement property is purchased within one year after sale of the original or 110% if purchased within two years after sale of the original.
- If the replacement property is of "greater value" to the original property, then the taxable value of the replacement property is calculated by adding the difference between the full cash value of the original property and the full cash value of the replacement property to the taxable value of the original property.

The above is a summary and the details must be obtained from the County or a property tax specialist.

Transfer to a child and grandchild is not discussed here.

## 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



## Rockyfield contacts

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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

Rockyfield

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 03/08/22)