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# Rockyfield Newsletter

## US Economy & Housing Market

There has been concerns about the inverted T-yield curve which may predict a recession. Well, the 3-year T-yield is higher than 10-year one; The yield curve of 2-year T and longer has become flat or inverted. This condition is not necessarily an indication of a future recession as shorter yields are still low. Under a flat or inverted yield curve, the financial market does not function efficiently.

Aggressive rate hikes by the FRB could bring a recession. While it is real, this inflation has not been caused by demand, but the supply issues. Rate hikes are not likely to tame the cost inflation, but only to depress the demand. Reducing the demand to match the supply shortage is a wrong way. The FRB has other means to combat this cost inflation from mutating into a runaway inflation. For now, we prefer aggressive reduction of the FED assets combined with modest rate hikes. This will push the longer T-yield upward, and accordingly, housing mortgage rates would rise. So far, the higher rates have not seriously impacted housing sales; we would rather prefer a more orderly market condition to avoid a disastrous collapse like the one in 2008. Right now, potential sellers hesitate to come to the market for 2 reasons: Greed for future higher prices, and Fear of being unable to buy a replacement home.

The real question is if the world economic order can be restored after the Ukraine war is settled. The tension between the West and Russia as well as China may remain for years. Energy and high-tech materials, fertilizers, etc. may need to be sourced from more expensive parts of the world; both producer and consumer prices would stay high even after supply recovers. Consumers will naturally demand longer product durability for higher prices: Consumers use products longer unlike today's wasteful consumer behavior. If this trend emerges, the velocity of the money movements would slow down which means slower economic growth, although quality of life may improve.

The healthy growth without inflation can be restored, however. Just look back at the last two decades, our lifestyles,

## *Buyers Not Discouraged by Higher Rate*

### **Senseless Offer Terms**

The unprecedented, almost crazy housing boom have forced many buyers to give up in the face of nasty competitions. In fact, we have lost five buyers (all for up-leg purchases) during the past two years. For us, it is not easy to get a listing as few potential sellers are coming to the market. We are still working with buyers; however, it is extremely difficult to win the competition while making many offers. This year, we have so far made only one successful purchase transaction.

We heard that it is becoming a norm to make an offer with no loan contingency in San Francisco. So, lenders provide a fully underwritten approval for qualified buyers to deal with such situation. Even here, no appraisal contingency has become a norm; some buyers may waive loan contingency. Other possible sweeteners include: voluntarily promise of no repairs or credit (save the right to rescind based on buyer's investigation), no home warranty, an offer to pay seller's costs. For an owner occupied property, a buyer can offer a free stay (rent back) for up to 29 days after closing. The word "Free" is always attractive, while the potential cost for 29 days is rather small in comparison to the purchase price.

Under today's market condition, Sellers can find another buyer almost instantly if the current escrow fails due to an disagreement with the buyer. They tend to be very aggressive without fear of losing the buyer; and some listing agents are becoming haughty, while seasoned agents know we will have to survive a tough time in the future.

business operations, production processes and medicines... all have kept changing dramatically, thanks to technological advancements. New efficient materials may replace traditional, limited materials; new energy sources and storage may be commercialized. The one thing that is clear to us under the uncertain circumstances is we sapiens are at a historical crossroad.

### **Palos Verdes Housing Market**

We have been struggling to pinpoint the reason for recent sales slowdown: Whether it is due to higher interest rates or due to supply shortage. With the last two weeks of the market figures, we are now confident that the effect of higher rates or Ukraine situation is so far minimal, and sales have been down just because of limited property availability. We see open houses filled with buyers; quite a few closed prices exceed 100's of thousand dollars. In short, the heat is still on.

The 30-year fixed rate is loosely linked to the 10-year T-yield with more or less a week delay. Reflecting this week's T-yield rise, the mortgage rate may go over 5% soon. In the past, a small rate movement affected housing sales; it is a surprise to see buyers not discouraged by higher rates.

Given the labor shortage, people are hopping jobs for a higher pay. Buyers' confidence in their future financial situation has become strong. An economic theory states: "Today's demand is determined by consumers' expectation of their future income." Incomes of high salaried people like in high-tech are accelerating, and their financial ability to buy houses may not have been deterred by higher rates and prices.

The situation depicted above can dramatically change if the economy slows due to the FRB rate hikes and further supply shortage under soaring inflation. The new waves of BA.2 have already locked down Shanghai, worsening the supply disruption; we hope the US will not suffer from another COVID surge.

Among active listings, many of per square foot prices of single-family homes once exceeded \$1000; now, we see more listings below \$1000, though the majority of final prices are still over \$1000 psft.

## Remodel Project - Acoustic Ceiling

Major important projects in home remodeling include removal of popcorn (acoustic) ceiling, kitchen, bathroom, floor and windows.

Removal of acoustic ceilings would be troublesome and cost more while you are living in the home; It is possible for a rental property before a new tenant moves in. Because of possible asbestos in those popcorns, buyers and tenants with limited knowledge tend to believe all acoustic ceilings are hazardous although they may not have asbestos or pose little risk if stable and contained. A vacant home is much easier and cost effective to remove acoustic ceilings.

If acoustic ceilings were to be removed strictly according to the code, an asbestos specialist is hired to test if asbestos is present (about \$500). If asbestos is found, a plan for removal is drawn (about \$800), and a permit will be obtained. This process may take up to 4 weeks. Then a ceiling specialist will be hired to remove the acoustic ceilings and then a painter will apply spackles and paint. It will take about one week; the total cost estimate may be \$1,500 - \$2,000 per one ceiling. No one will be allowed to enter the property during the work. A good specialist can work with existing furniture safely without making a mess.

For a vacant home, a general contractor may be able to do the complete work at a lower cost, if you trust the entire process to the contractor without asking about asbestos or permit. It is also better to do it as a part of other remodeling projects.

## 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

Rockyfield

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 04/07/22)