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# Rockyfield Newsletter

## US Economy & Housing Market

Footsteps of recession resonate louder and louder. We must cite poor financial and economic actions by major countries. After Volker tamed the last major inflation that hit 19.3% in April 1980, the FRB had been successfully managing inflation. Today's monetary policy makers were too young 40 years ago to be in policy making positions. The FRB should have begun anti inflation measures in October last year. Rate hikes started too late and asset sales only began in September: all too late to be effective and minimize the harm. Now we have a real risk of a recession without eliminating the inflation, which was originally brought about by Pandemic supply disruptions and later by the energy crisis by the Ukraine war. While it is true that the demand in US is quite good thanks to the robust employment and rising wages, the demand is not the main reason for this inflation. The recent overheated stock and housing markets were caused by excess liquidity (too much money supply). The FRB could have started selling bonds a couple of years ago.

While many countries are raising interest rates, Japan is adamantly keeping its easy money, zero interest policy, resulting in weakening YEN. Cheap YEN policy is outdated and no longer boosts the economy. Japan's exports no longer depend on exchange rate sensitive consumer goods. A combination of raw material inflation and weak YEN is also hurting businesses. Exports are suffering from the sharp cost increases rather than benefiting from weak YEN. BOJ's intervention only failed. If they keep this obsolete monetary policy, Japan will fall into another recession.

The UK's Truss announced a large tax cut which makes no sense under inflation. The bond and pound markets collapsed, BoE has been forced to walk on a tight rope: buying bonds while raising short term rates. Ditching the tax cut for the rich would not change the fundamental error. Fiscal deficit is expected to explode. Italy's economic future is totally uncertain with the new extreme right government. European countries in general continue to have energy crisis and may have stagflation.

## Soaring Rate To Force Prices Down

### In Slumping Market...

Even under the sharply shrinking market, the number one interest to sellers is "Price." The next is how quickly their houses can sell and close without incidents. In short, the sellers' reality: If their homes can sell at a good price, the market condition is the secondary importance to them. Typical scripts realtors have to memorize to take advantage of seller's frame of mind, include: "I can sell higher," "I can sell at \$\$\$" or "I guarantee to sell at any price you want" (this could be a violation). Unlike until the 1990's, today's buyers have lots of "real time" information. Buyers, of course, want to buy a house as low as possible. In short, the market determines the sale price; no agent can. Some sellers may engage the aggressiveness of an agent who promises to sell at the highest price among others. We also hear: "Get the listing by any means, and the price can be cut later."

Recent news articles report: as housing prices soften and it takes longer time to sell, it may be more beneficial to rent than sell a home, given skyrocketing rents. It is also true an increasing number of buyers have given up to buy homes and decided to rent; if a recession comes, some homeowners may sell their homes and move into rental properties. While it is doubtful that rents would further rise, the robust rental or lease market is likely to continue.

There are a few things we need to remind them when homeowners rent out their own homes: 1) they must be sold (closed) within 3 years to avoid losing the \$500,000 (joint return) exclusion from the capital gain, worth about \$125,000 in tax saving; 2) Any house is likely to be worn or damaged after being rented, and would need repairs or upgrade before selling. Those costs cannot be ignored.

Including the time for preparation, marketing and escrow, it is safer to start selling in two years after being rented.

The US Treasury yield curve is flat or in part inverted, predicting a recession. The 10 year yield may go up again even with trivial incidents. 30-year mortgage rate has passed 7%. The housing market recovery is unlikely until the inflation and rates settle down. Signs of recession are showing up all over the world; our initial forecast for the resurgence of our housing market in spring 2023 is now in doubt.

## Palos Verdes Housing Market

While housing sales (contracts) sharply declined since June, new listings have been also unusually few keeping the supply-demand condition from deteriorating. It is because 1) prices are about 10% down from early summer while taking more time to sell; 2) many homeowners have refinanced with super low rates, they will lose such cheap loans if they sell their homes. If they cannot afford to buy a new house without selling their current home, they may choose to rent for now.

September is a quiet month every year; single-family home contracts for the month were shocking 38, compared to the last 3 years (57/79/64); before the Pandemic, it was around 50. The lease market has been also frozen in September. We believe it is because schools have been re-opened; many workers are returning to office.

Mortgage rates hit 7% and housing prices are still high; buyers cannot buy a house they want. Higher interest rates require higher rates of return for income property investors. Unless property prices decrease, it is not profitable for investors to purchase rental properties. Soaring prices were driven by remote workers and investors. As they are gone now, we expect housing prices to decrease, though not so sharply. The situation is quite different from the aftermath of the last meltdown; it is rather unlikely to have a serious housing slump.

An increasing number of escrow failures also tend to have difficulty in selling quickly after returning to the market. In good times, they could open a new escrow in a couple of days. That is only a dream today. So, it is imperative for seller to be very careful in buyer selection. Pre-approval may not be reliable as before.

## New HVAC Rules

The Department of Energy has passed new HVAC system regulations that will go into effect on January 1, 2023. All new air conditioning and heating systems will face tougher guidelines for efficiency requirements, testing & certifications, meaning higher equipment prices under inflation that is already pushing up labor costs.

Any systems installed in CA on or after January 1, 2023 must comply with the following changes in federal regulations:

- Cooling Systems: the minimum SEER (Seasonal Energy Efficiency Ratio) rating for air conditioning units will increase from 14 to 15 SEER
- Heat Pumps: the minimum efficiency will increase from 8.2 to 8.8 HSPF (Heating Seasonal Performance Factor)
- Furnaces: 81% AFUE (Annualized Fuel Utilization Efficiency) will be the minimum acceptable rating

Homeowners do not need to install new heating and cooling equipment to meet the 2023 guidelines. The above regulations solely effect newly manufactured equipment that is installed on or after January 1st of next year.

The State of California is recommending heat pumps that work for both heating and cooling. The indoor equipment (one unit) is much smaller. With the new gas furnace rules, it could be cost effective, too.

Do you also know "heat pump water heater"? It is 3 times more efficient (1/3 electricity cost) than regular electric water heater. Approximately 800,000 water heaters are replaced every year in California, and under the agency's program, customers can receive incentives for installing heat pump water heaters — up to \$4,885 for low-income, single-family residential customers and \$3,800 for other single-family residential customers.

## 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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*We are looking for a good house cleaner.*

### 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

Rockyfield

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 10/05/22)