



March 9, 2023 VOL.193 - WEB

# Rockyfield Newsletter

## US Economy & Housing Market

As we stated before, we need to watch monthly changes in inflation rates. January PCE (Personal Consumption Expenditure) M2M price index was up 0.6% or annualized 7.4%, while YoY was 5.4% up slightly more than Dec but much higher than forecast. PCE is considered a better indicator than CPI (Feb figures on 3/22). Another concern we have is: personal spending (M2M) was up 1.8%, 3 times more than personal income (0.6%); people are spending much faster than their income growth. This trend shows up in soaring credit card debt with increased delinquencies. Late payments on car loans are also worrisome. The main factor behind the strong spending is the robust employment or better future income prospect. Traditional corporations are absorbing layoffs by high-tech industries. They need tech engineers to improve their digitalization; service sectors have serious worker shortages.

This inflation was originally caused by supply shortage in combination of the COVID and Ukraine war, and also it is international; raising interest rates to reduce the money supply and to suppress the demand is not very effective. Therefore, the FRB is not expected to finalize rate hikes any time soon, and the higher price levels may persist even though the inflation may be stabilized. The FRB's monetary policy is entering a micromanagement phase, balancing risk of inflation and recession.

As the Treasury yield curve is substantially inverted (lower rates for longer maturities), further increases in short-term rates will also pull-up the 10 Year T yield, with which mortgage rates are loosely linked. This is disheartening to the housing market which has finally started to have more new listings and sales. Bad signs have already been popping up. Higher interest rates mean more monthly payments for buyers, effectively higher housing prices. If more sellers compete for buyers, prices would decline.

Higher Treasury rates mean more interest payments on continuous new US Treasury issues; the US debt will snowball, making the debt ceiling negotiations more difficult. For right now, foreign

## *Rising Rates Slow Sales & Listings*

### **Eviction Protection**

COVID-19 tenant protection by LA County and City of LA both finally ended at the end of January—sort of. City of LA Eviction continues the protections for unauthorized occupants or pets due to COVID-19 through January 31, 2024; further, “just cause” tenant protection has extended to single-family homes. (The State tenant protection law exempts single family homes and individually owned condos/townhouses)

Tenants become protected at the end of their first lease, or 6 months after a new lease, whichever comes first. In case of Just Cause No Fault, a landlord cannot evict tenant for the reason for sale, and relocation assistance must be paid. Remember, San Pedro and Harbor City are part of City of LA.

In short, investors would avoid acquiring rental properties in the City of LA. Even though apartments and other multi-unit rental properties could produce better profit, unless being professional investors, it is less troublesome, like eviction and rental hike restrictions, to buy an individually owned house or unit even outside the City of LA.

We also suggest term leases rather than month-to-month, and if no renewal is desired, a 60 day notice before the lease expiration be given.

investors' appetite for US debt is quite strong, keeping the Treasury yield from soaring. However, the future is uncertain.

### **Palos Verdes Housing Market**

The 10 year T-yield turned upward after hitting 3.4% in early February, and 30 year mortgage rate, which was below 6.5% in late January, also started rising, passing 7% in late February. It is now over 7.1% (jumbo is over 7.2%), according to WSJ. Despite our hopes for increased new listings and sales, new contracts of single-family homes in PV slumped to only 9 properties. Both sales and prices should go up in March; however, this year may be different.

While the housing demand consistently remains strong, buyers' purchasing power has financially eroded by higher rates. New listings have also failed to continue growing, though we still feel there will be more listings coming soon. Due to the extremely low inventory (below 70), the risk of competition among sellers (price cuts) is still minimal. However, it is very clear that most offer prices are below listing prices. While listed prices may not change so much, actual agreed or closed prices may further go down for many properties. The thin inventory is particularly acute for those properties below \$1.5M for which the demand is highest. If more listings come out for this price range, it is possible for housing sales to recover despite higher rates. Currently listings in the \$2M's are selling very well.

While leveraged professional investors may be less, there still seem to be individual cash buyers. Higher returns for remodeled houses which used to sell quickly at premium prices have gone. Instead, we see more fixer uppers. If priced attractively enough, they can receive multiple offers and sell quickly at above listing prices.

Thanks to the persistently strong housing demand, properties can sell quickly if priced right. From our experience, the longer a listing remains on the market, the more difficult it becomes to sell at a good price. We recommend a listing price which is reasonably high as today's buyers offer lower prices.

## 2023 Conforming Loan Limits

The 2023 conforming loan limits for mortgages acquired by Fannie Mae and Freddie Mac were raised to \$726,200 on one-unit properties and a cap of \$1,089,300 in high-cost areas (over \$1 million for the first time). The previous loan limits were \$647,200 and \$970,800, respectively.

"This year in California, nearly one out of every four homes sold between \$1.25 million and \$2 million were purchased by first-time homebuyers," according to California Association of Realtor President.

The conforming loan limit determines the maximum size of a mortgage that government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac can buy or "guarantee." Non-conforming or "jumbo loans" typically have tighter underwriting standards and sometimes carry higher mortgage interest rates than conforming loans, increasing monthly payments and hampering the ability of families in California to purchase homes by making them less affordable.

In Palos Verdes, there are many buyers with financial strengths, who can get a lower interest rate by increasing their down payment to keep the loan amount to the conforming limit. Wealthy buyers often get better rates for their jumbo loans. Recently though, the difference between conforming and non-conforming loan rates is so close, sometimes reversed.

### 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 03/08/23)