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Rockyfield Newsletter

US Economy & Housing Market

The situation surrounding SVB's fallout is different from the past economic downturns: Black Monday in 1987 and its aftermath, Dotcom burst in the late 90s, the financial meltdown in 2007 and following mess. The Black Monday was a burst of real estate and stock market bubbles, followed by a painful recession and bank consolidations. The Dotcom rupture wiped out venture capitals without much trouble to major financial institutions while the housing and consumption kept going strong under a minor recession; In case of 2007-2008, it began with total meltdown of the mortgage loan industry and medium/small banks followed by fallout of E.F. Hutton and Lehman Brothers. The great recession was eased by the government-led mergers and large fiscal spending.

This time, the housing bubble was unexpectedly created by the COVID Pandemic and gigantic amount of money supply pumped into the economy. As reactions to the end of a wide range of government support, slowdown in the high-tech sector caused failures of poorly managed SVB and other weak banks. The high-tech companies are still going forward; large banks and investment firms seem to have enough financial resources to weather the difficulty. Despite the serious slump in sales volume, the housing demand still remains robust; there has been no free fall in the stock market. Interest rates are higher as intended by the FRB who can prevent the economy from falling into a serious recession.

Referring to those past patterns, we expect a slow growth or a minor recession due to the FRB's anti inflation policy, and the risk of a serious recession is small.

We are more concerned about geopolitical situation: Confrontation with Russia over the Ukraine war; rising temperature with China over many issues. The shortages of certain natural resources and raw materials have caused economic and social uncertainty in US and Europe.

The domestic political fights are also intensifying; no solution is in sight for the debt ceiling limit. Even if the US does not default on its debt, it is possible that the US creditworthiness could be irreversibly

Shortage Depresses Sales

Rain Damages

The series of relentless rains have caused many unusual problems at our readers' homes. Interestingly, we have not received many phone calls for roof leaks. Instead, leaks from window frames, leaning or moved fences, gates, retaining partitions on the backyard slopes caused by loosened or washed away soil have been reported. Water intrusion into crawl spaces under the house, creating puddles happened too.

It is possible that lots of moisture between exterior and interior walls as the soil around the house with slab foundation is saturated; this may be the case if the house is old and moisture barriers are worn out or damaged. In any case, we recommend all windows be opened to circulate the air when rain stops to avoid mildew and mold from developing inside the house. If the crawl space becomes very wet or forms puddles, a couple of commercial grade fans may be used; however, the cause of so much water intrusion needs to be assessed like cracks in the foundation or improper design of the exterior entrance to the crawl space, if any. We are surprised by various plumbing issues which may be directly or indirectly related to the heavy rains.

One of the things we recommend strongly is to install rain gutters that will surprisingly prevent many problems big or small.

Our area is vulnerable to lots of rainfall in design. If this weather pattern becomes a new normal, we may have to make some adjustments to our houses. We have a list of roofers, handymen and contractors we can refer to you.

damaged. Then, inflation, recession and financial instability may develop simultaneously. However, both political parties must know the risk of such disaster, and we hope the debt ceiling fight will be eventually resolved in the end.

Palos Verdes Housing Market

Since Rockyfield started in 2002, the spring had been always great for the housing market in both volumes and prices. This year is the very first exception. The recent decline in sales volume is significant. Since last September, monthly new contracts have been consistently lowest during the past 10 years at least. Such slump was in the beginning believed due to the higher interest rates. However, we have recently realized that the housing demand is still robust. Many public open houses are crowded with potential buyers; attractive properties are selling fast with multiple offers. We have concluded that the depressed sales volume is merely because of too few sellers. In fact, thanks to the strong demand, prices are holding well despite smaller volumes.

The market inventory of single-family homes Since January has been stagnating at more or less 60 listings in PV. Except for the pandemic bubble time, the market inventory before COVID was about 80; spring of 2000, 150; in June 2019, over 260! The current situation is even more serious for listings below \$1.75 million where the majority of buyers exist; there are only 6 active listings in the entire PV.

As today's buyers are tough on prices, overpriced properties are not selling, while properly priced listings sell quickly though premium prices are unlikely. Those remaining on the market for a long time are selling after price adjustments. All because of the supply shortage.

Whether the housing market becomes active depends on if more than 20 new listings come in for sale every week as in the past spring times. Please note that the market becomes slow in early April due to the tax return time.

Expensive houses are also selling well; it is a far cry from a housing recession. The shortage of townhouses is even worse: there have been NO active listings for more than 2 weeks.

Capital Gain Exclusion Limit

We reported last year that a new bill to raise capital gain exclusion limits was proposed in the House. As the new Congress has been seated, the "More Homes on the Market Act," reintroduced by House Representatives Jimmy Panetta (D-CA) and Mike Kelly (R-PA). The bipartisan bill increases the capital gain exclusion amounts on the sale of a principal residence to \$500,000 for single filers and \$1 million for joint filers and indexes the exclusion for inflation.

It would provide relief for California homeowners, particularly senior citizens, who cannot move to a new place or retirement home which they cannot afford because of the tax burden. It is also great for homeowners who are looking for an up-leg replacement home.

The capital gains exclusion was passed 25 years ago with no indexing for inflation. According to the NAR, as many as 95 percent of single homeowners and 68 percent of married homeowners who purchased their homes before 2000 could face capital gains tax if they sold their home this year.

If the exclusion limits are expanded, it should help increase home sales and supply to help first time home buyers.

Those owners of 1031 exchange rental properties, with a \$1 million exclusion if the bill is passed, may consider moving into a 1031 exchange property switching to a primary residence at least for two years and sell it, if this idea is practical.

Of course, the above is possible only if the bill is passed. Because it is a bi-partisan bill, it should have good chance to

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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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 04/06/23)