-PALOS VERDES RESIDENTIAL PROPERTIES

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Rockyfield Newsletter

US Economy & Housing Market

While the debt ceiling crisis may lead to a long international recession, the US economy seems to already be decelerating. Some economists believe that inflation would be resolved only by a recession. Although the FRB would never admit, we believe they are aiming at "soft landing" by creating a mild recession. As this inflation was not caused by overheated demand like a traditional one, it is not easy to completely eliminate this inflation which may stubbornly remain for many more months. The 0.25% rate hike ironically triggered free falls of regional bank stocks. If tens of regional banks go into trouble, it is almost impossible to rescue all of them, possibly spreading the crisis to larger national banks. The FRB was too slow to deal with SVB, and we wonder if they were aware of the effect of the rate hike on smaller banks.

The supply disruptions by the pandemic started this inflation. The supply shortage and tight labor market have been eased. Because the economy is growing slower with high interest rates, it is prudent to keep the rate, if not rate cut, to wait and see how the employment and inflation develop. The FRB raised the rate by 0.25% anyway. We expect no rate hike at the next FRB meeting on June 13&14.

The 30-year mortgage rate does not decrease as much as the decline of the 10 year Treasury yield probably because 10 year yield is 1.8% lower than 3 month yield (significant inverted yield curve) and the link between the mortgage rate and 10 Year T yield may become very loose. Lower rates are crucial for the current residential market, which can greatly affect the economy.

The key for the future FRB's rate decision is employment. While job openings are shrinking, they are still larger in number than job seekers, and employment is still strong. If employment starts slowing, we hope that the FRB will take a preemptive small rate cut. The question is if declining demand would freeze the inflation; our guess is "unlikely." If the debt ceiling agreement is a short-term, the market would remain nervous and may push the economy into a recession.

It is true that the US debt is soaring since the pandemic. As long as the government deficit exists, or even zero, the debt will keep accumulating. There are two ways to boost the revenue: economic growth and tax increase. But, it is politically impossible to have economic growth, tax increase and spending cut as a series of events in sequence.

Palos Verdes Housing Market

Our analysis: "Housing sales slump is due to supply shortage" has been confirmed by various media. Prices are also a little up without momentum. Potential demand centers on properties around $1.5M or cheaper. The price range between $2M and $2.5M is also doing well. New listings increased mid April only to contract in late April. They seem to have recovered and to be continuing in May with mediocre numbers. The supply shortage may appear to benefit sellers. However, it may not be so because no exciting energy exists as closed deals remain low. When tons of transactions are going on, it is easy to sell with prices in upper trend. We do not believe that an increase in inventory would dampen the market price, which is more directly affected by mortgage rates right now.

We go around public open houses on weekends to assess the market condition. Those priced under $1.5M are flooded by buyers while expensive ones are almost empty, perhaps because higher rates have reduced purchasing power. We also witnessed that rates greatly vary by lenders. Borrowers with a high credit score, large income and assets seem to be able to obtain a substantially lower rate than the national average.

There are still many foreign buyers. Many cash offers have also been seen. While totally remodeled houses remain popular, fixer uppers, if priced right, attract many offers. It is not easy to set a listing price with so few comps; it is too risky to determine the price by one or two sold houses only. Remember each property differs from one another.

Buyers for the PV market are well-educated and will not be affected by cosmetic make up like staging. We suggest such money be spent on more fundamental things that add to the property value or correct the negativity.

Need More Sellers

Debt Ceiling Risk

Debt ceiling fight is entering the final stretch, though the two parties are still too apart. Before the actual debt default, it is likely that payments to government workers, suppliers and others stop first: or government shutdown. And the next could be Social Security, Medicare and such. While it seems unfair to put investors to the last, given the possible catastrophes for the entire world, there is no other choice. Yellen is emphasizing on the possible disasters for consumers like unemployment and higher interest rates; let's examine other potential calamities.

By actual default, on-going US debt repayments and interest payments would stop; even raising the debt ceiling would not resolve the consequential difficulty or higher costs of new debt issuances, meaning continuing default or delay in payments. The US Treasury market is the fundamental base for the international financial system and US dollar is the dominant currency for international trades.

Sharply falling US Treasury prices mean soaring yields or interest rates, which are benchmarks of all kinds of rates. Borrowing costs for everyone: consumers, corporations, banks alike, would soar. Many companies would face financial troubles, and bankruptcies or massive layoffs would happen. World governments' foreign currency reserves (USD) would shrink and financial institutions would suffer large losses. While it is unclear if the US dollar will plummet, foreign exchange markets would definitely go wild. Except the EU, the US dollar is the world trade currency. Including import/export financing, international trades of goods will be substantially disturbed. In short, serious shortages can happen at production to retail levels, causing soaring prices. Such turmoil in rates may make commodity future markets like Chicago mercantile dysfunctional.

Also importantly, once the international financial system collapses, no clear answer to quickly rectify it exists. Spending and deficit should be controlled by the budgeting process.

Tax and Your Home

The interest of HELOC (Home Equity Line of Credit) can no longer be deducted except for the loan amount used to buy, build, or substantially improve your home. HELOC used to be an additional deductible (up to $100,000) on top of the mortgage loan amount limit for interest deduction.

You can now deduct home mortgage interest on the first $750,000 (joint) of indebtedness. However, higher limitations ($1 million for joint) apply if you are deducting mortgage interest from indebtedness incurred before December 16, 2017. The same rule applies to refinance loans with a limit up to the remaining loan balance; interests on the refi loan amount in excess of the existing loan balance cannot be deducted.

The term points is an upfront charge for a new loan. Points are prepaid interest and may be deductible as home mortgage interest, if you itemize deductions. If your home acquisition debt exceeds the limit for your filing status, you won't be able to deduct all of the mortgage interest and points.

Starting this year through 2032, a tax credit up to $3200 is available for qualified home energy saving expenses. The maximum credit you can claim each year is: $1,200 for energy property costs and certain energy efficient home improvements, with limits on doors ($250 per door and $500 total), windows ($600) and home energy audits ($150); $2,000 per year for qualified heat pumps, biomass stoves or biomass boilers. A home energy audit for your main home qualifies for a credit up to $150. The credit has no lifetime dollar limit. Until 2032 such credit can be claimed every year. The credit is nonrefundable, so it is limited to what you owe in tax; nor can it be used for future tax years. (You need to consult with your CPA)

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.

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 05/06/23)

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