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Rockyfield Newsletter

US Economy & Housing Market

All kinds of markets were relieved and upbeat after the debt ceiling fight was over. However, the inflation still persists, and the FRB may or may not keep the rate (June 14). Further to our thoughts that more rate hikes would bring the economy down as already high interest rates had started cooling the employment and economy, we have now realized that the economy could be boosted despite the FRB's efforts to fight inflation because record amounts of election campaign donations are expected. During the pandemic, the wealth disparity had further widened and so much money is available for campaign donations.

As a result, we no longer hope that the FRB would start cutting rates this year, while it is possible that rate hikes would be smaller or halted. The implication is huge for the housing market. Unless mortgage rates come down substantially, many potential sellers would be still stuck with their current homes which have cheap loans. We expect the demand (buyers) to remain robust, and the extreme supply shortage will keep housing prices from falling. However, because rising rates will erode buyer's purchasing power, we do not expect housing prices to jump higher in the near future.

The political instability will persist, further complicating the FRB's anti-inflation policy as they do not want to increase unemployment or usher in a painful recession during the major election season.

Now the US cash position is very low and lots of US Treasury bills are expected to be issued in a short period of time that will push up Treasury yields even without the FRB's rate hike. Currently, 6-month yield is more than 1.6% higher than 10-year yield which is extremely inverted. Therefore, we expect short-term interest rates to remain very high, and mortgage rates would not come down even though long-term rates are low.

In conclusion, for the housing market to become as very active as the normal spring season, either prices or interest rates must measurably decrease as

Uncertainty Will Persist Thru 2023

Tough Housing Market

Although we are usually optimistic about the future housing market, we are seriously concerned about this year as a perfect storm is gathering: Sharply elevated mortgage rates, cooling economy and labor market (though still strong). More importantly, general anxiety is spreading among consumer sentiment even though the financial market got a temporary boost after the debt ceiling issue was over. Potential sellers are still stuck; buyers are now hindered by high rates. As a result, our housing market has notably shrunk. Given the small number of transactions: (Single-family homes, Jan-May: 330 in 2021; 288 in 2022; only 200 in 2023), we are afraid quite a few real estate agents cannot survive in part because so many new agents came into our industry during the pandemic. (We Rockyfield will be fine thanks to our tiny overhead and solid customer base.)

The amazingly strong housing demand has been keeping prices despite higher rates. However, if high rates and concerns over a recession reduce many buyers' appetite, then prices may fall as higher interest rates usually do. Despite so much uncertainty, one thing seems to be clear: it would be a very tough year for all housing market participants: sellers, buyers and realtors alike.

Buyers could not win tough bidding wars last spring; now, they cannot find a house of their preference or needs this year. Sellers cannot afford double interest rates for their replacement purchases. If interest rates start coming down later this year, then, we will be all back in business.

potential housing demand is expected to continue being very robust.

Palos Verdes Housing Market

The number of new contracts for Jan-May is the smallest during the past 10 years. This is mainly due to the shortage of properties for sale, not notably affected by the FRB's rate hikes. Many open houses are flooded by potential buyers. An increasing number of closed prices have recently been higher than list prices; some of them are closed \$100,000 or even \$200,000 higher. Although the sudden sharp rise in mortgage rates just before the debt ceiling agreement halted housing sales, both new listings and sales increased after the debt ceiling settlement. Perhaps being encouraged by higher closed prices, some sellers aggressively set their prices high. However, buyers are also savvy; those unreasonably high priced listings tend to remain unsold. Prices are not rising due to high rates; nor are they decreasing.

More listings under \$2M will produce more sales. While the market price may go down with increased sales of lower priced properties, the expanded market will soon lead to higher prices. However, whether the current mighty housing demand will sustain is yet to be seen.

There are still many cash purchases. The majority of buyers at open houses are Asian and geopolitical concerns may be a factor. While newly remodeled houses are still popular, fixer uppers sell well only if priced right. Buyers seem to ignore fixers with high price tags.

Recently, two similar houses next to next came on the market at the same time. One has a great view, slightly larger size and better floor plan; its condition is clean but old. The other was handsomely remodeled and naturally more expensive with the view that is not as good. We liked the former. To our surprise the remodeled house sold in 3 days and closed \$27,000 higher than its list price. The old condition house followed in a few days but closed \$25,000 lower (cash). This episode depicts the recent market trend well, we thought.

Replacing Own Home

Replacing own home always poses a tight rope difficulty: the best strategy should be different depending on the market and financial conditions. A home loan that was refinanced a couple of years ago possibly carries well below 4% interest rate, and a new loan for up-leg or downsizing home may be double in monthly payments. This seems to be a major reason for today's severe shortage of homes for sale.

One of possible solution for this predicament may be leasing the current home if the owner has enough cash for the down-payment for a new home purchase. Although the market rent has softened since last year, it is still high. A combination of a high rent and low payment of the existing loan can produce a good profit that can be deemed to help the new loan's higher payments. An experienced loan officer can add the expected rent income to the owner's income for the purpose of qualifying for the new purchase loan. The FRB's series of rate hikes seem to be cooling the economy; if mortgage rates come down in the future, the high interest loan can be refinanced.

Three important cautionary points to rent the current home.

- (1) \$500,000 capital gain exclusion (joint) will be lost unless the property is sold within two years, which can be \$150,000 tax saving, though the amount varies by the gain amount and total income. Once this two year limit is passed, it is better to continue renting the property.
- (2) The property would be damaged in many ways if rented. It will cost to repair for either renting again or selling. In addition, costs of marketing, vacancy (no rent income) while paying for loan, property tax and insurance must be taken into consideration.
- (3) The time and mental stress in dealing with the tenant cannot be overlooked. Bookkeeping and administrative work will be involved. An additional charge by the CPA is also possible. A quiet tenant seems to be good; actually, it is often found later a serious damage has developed over years while the tenant did not report to the landlord.

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

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A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 06/08/23)