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Rockyfield Newsletter

US Economy & Housing Market

Despite high interest rates, the economy still remains strong; employment is good. Forecast for a recession continues emerging and disappearing. We have no clear sign of a recession. We presume that the FRB held the rate last time, not because of cooling economic signs, but due to the rush of Treasury bill issues to restore the government cash position after the debt ceiling agreement. While there are signs however: decreasing job openings (still 1.6 times of job seekers); slowing retail sales, etc., it is yet a long way to achieve the 2.0% inflation target. We expect the FRB will raise the rate on July 26.

Why does it take so long for rate hikes to tame inflation? The FRB's tools are limited to monetary policy: reducing money supply to suppress the demand by rate hikes and other means. Monetary policy has an indirect effect on the economy or it is less effective and timely. The same is also true as recession measures.

Although the fiscal spending takes a long time to get through the Congress and to actually spend money, once it is enacted, the impact on the demand is direct. The large spending and investments have been made during and after the pandemic. This inflation was started by supply shortages or "cost inflation," further diluting the effectiveness of rate hikes. Government support or handouts naturally target low-income people whose propensity to spending (consumption) is high. The opposite is also true: Spending cuts will quickly cool consumption.

Short-term Treasury yield got higher, further steepened the inverted yield curve, followed by long-term rates at lesser degrees. Mortgage rates soared again since the last week of June. Its sudden, steep rise may have negative impacts on housing sales. Since mid June, new contracts are not really growing in spite of increased new listings. The escrow median price has been gradually sinking. The market price will not recover unless the rates start coming down.

It is necessary to consistently have almost flat monthly inflation rates. Today's condition is a far cry from the FRB's target inflation rate: 2%. We suspect the FRB aims to bring the economy to a mild

Sales Not Boosted by More Listings

Escalation Clause?

Have you heard of "Escalation Close" added to buyer's offer? It essentially states: Buyer will pay \$0000 more than the highest offer Seller receives.

It happened during the previous housing boom before the Lehman shock. At that time, the offer price was typically indicated as "\$x,000 higher than the highest offer" Well, any legal offer must have a specific price, and with other troublesome issues, such practice died as the housing recession came.

Given the extreme shortage, "Escalation Clause" is reviving with refined terms: 1) original offer price; 2) the premium the buyer will pay over the highest offer received; 3) the max price the buyer will accept. Sellers may think it is great. However, there are still a few serious questions or potential headache for sellers.

- Potential challenge for unfair (or preferential) treatment by the highest offeror who lost the deal. If the buyer demands proof of "bona fide" highest offer, the seller needs to give a copy of the highest offer (purchase agreement) to the buyer with the escalation clause. This may be legally challenged for violation of privacy if the other buyer's personal information is disclosed.

- How to handle if more than one offer with escalation clause come in.

- Concern over the buyer's financial ability to make up the deficiency if the appraisal value comes below the agreed price, especially when it has no max price.

It is also risky for buyers when the highest offer has a contingency like sale of the buyer's home. And the price is not everything.

We as a listing agent, would make clear that "escalation clause" will not be accepted. And if a seller still receives an offer with such a clause, simply make multiple counteroffers, requesting a specific best and final offer price.

recession as Yellen subtly suggested.

After the inflation is conquered, reducing the fiscal deficit will be important to correct the inverted yield curve to a normal one. Focusing spending on "investments" and tax increases for the purpose of debt reduction may be needed.

Palos Verdes Housing Market

June contracts of single-family homes is the smallest during the last 10 years except last year's. New listings are constantly coming though the numbers are below what we can expect for this season. We started suspecting that the few listings may not be the only reason during the recent weeks. While we still feel buyers' enthusiasm, statistics shows not so much. Perhaps higher rates have finally started stressing the demand. The poor supply-demand condition is apparent in PV Estates. Since there are only very few listings under \$1.75M, they are still selling fast. Expensive homes over \$5M are consistently selling. Poor performance is felt around \$3M and up to \$5M.

We began noticing NOD and distressed properties; more buyers are paying attention to fixer-upper listings with attractive prices. Remodeled houses are still popular; but the market atmosphere is certainly changing.

Normally, less buyers are active during the summer recess time; and this seasonal pattern is expected to return this year. We have external factors like extra hot weather. We may not see large sales this summer. As the FRB is likely to have another rate hike, sellers should focus on timely sales. Unless the FRB by mistake brings a serious recession, tamed inflation, cooling consumption and employment, and more importantly lower interest rates would rather boost the PV housing market thanks to the buyers with more financial strength. It is not clear how the landslide on Peartree Ln will affect our housing market in general. Like Malibu that remains popular despite repeated landslides and fires, we hope people still prefer Palos Verdes.

Although housing markets usually slump in September, the demand for houses below \$1.5M is extra strong and relentless, and they should keep selling well regardless of the seasonal factors.

Family Trust

It is often asked what the difference between family trust and living trust is. Basically, Family Trust is a type of Living Trust in which the beneficiary is family member(s) only. In California, an asset up to \$100,000 can use a simplified probate process. Real properties usually value more than \$100,000, and are subject to lengthy and costly probate process. A family trust is a good solution to avoid probate where the trust is the owner of the property in the event of death of the real owner(s). In contrast, "Will" will go through the probate process.

Grantors (or trustors) are the owners of the property and they can appoint themselves as trustees who have authority to manage and distribute the assets. A trust is a going concern and successor trustees need to be appointed. They are usually grantors' children either in order of succession or equally authorized trustees-to-be.

You can transfer any assets to the trust. Usually, a family trust is a revocable trust and it will not pose an obstacle to sell the house.

Another important benefit of a living trust is the privacy. The probate process is a matter of public record; whereas trust documents do not enter the court system, and their assets, amounts, terms, and beneficiaries will not be made public.

Creating a trust will cost \$3,000 to \$4,000. Much cheaper option may be web based services which can come with legal advice if you are ready to hustle around required chores. If you have many properties or the ownership is complicated, or if you have a child with special needs, it may be better to hire an attorney.

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 07/13/23)