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# Rockyfield Newsletter

## US Economy & Housing Market

While the inflation is cooling, the economy is steadily growing with still strong employment. Many economists who used to fear a recession due to FRB's aggressive rate hikes have now reversed their economic outlook. We have explained why the economy is in good shape despite high interest rates in our July issue: Increased government spending have been stimulating the economy in a direct manner while FRB's monetary policy has been taming the inflation. Large spending is usually inflationary; however, today's spending is geared more toward investments like infrastructure, which is less inflationary.

Now that we seem to be achieving "soft landing," a hard part still needs to be examined. Soaring government deficit and debt, due to the emergency spending during the Pandemic and the post COVID time, surpassed \$30 trillion in 2022. Thanks to the strong economy, the percentage of the debt in GDP is expected to decline for now, only to begin increasing again in 2027, reaching 107% of GDP in 2029 and 181% by 2053, according to the CBO. The tax cuts in 2017 will start expiring in 2 years and generate "significant source" of government revenue to relieve the debt growth unless they are extended or renewed. The most efficient way to reduce the deficit would be a combination of growing economy, marginal tax rate increase and discipline in spending.

However, the recent rises in the market interest rates are not necessarily because of the debts. The FRB's rate hikes have direct impacts on short-term rates; long-term T-yields jumped after Fitch lowered the US debt rating while other two rating agencies issued warnings without downgrading the ratings. Mortgage rates passed 7.5%. More importantly, the reason for Fitch's decision was not due to the soaring debt; "Political Instability" was cited as the main reason.

The government shut down is looming toward the end of September. While short-term funding (continuing resolution) has been discussed between the two party leaders, hard-liners have already provided a list of extremely tough demands. If the shut-down happens even for a few days, Moody's and S&P may

## Supply-Demand Mismatch In Price Levels

### Multiple Counteroffers

When representing buyers, we used to face multiple counteroffers (SMCO) where several buyers were competing. Recently on three occasions, we experienced SMCO made to only two buyers.

Now that the housing market seems to be changing due to the rising mortgage rate, Seller must take some caution in a multiple counteroffer situation which is still going on. During the ending period of the previous red-hot market, some sellers requested: "\$x,xxx,000" or higher, and this specific was the highest price received. The highest bidder was upset and got out as well as some others. When a cash offer was received, some listing agents recommended impossible or disadvantageous requests like a very short loan contingency period, with hopes to eliminate other buyers while raising the cash offer price. If the intention is too obvious, it will upset buyers, including the cash buyer because a cash deal is easier. Well, not quite. Cash buyers tend to believe they have definite leverage, and may demand lots of repairs, credit or price reductions. Buyers with solid financial standing are as good as cash buyers, especially if they offer a higher price.

While specific wordings vary from one case to another, we suggest sellers make counteroffers with gratitude even though some buyers have undesirable attitude or practice. Needless to say, seller must take a firm and clear response to buyer's request(s) regardless of good or bad.

downgrade the US debt, possibly causing soaring interest rates across maturities and bringing down the economy. It could be a perfect storm when job openings are shrinking and consumer debt is soaring. In short, there is a genuine risk of a "man-made" recession.

### Palos Verdes Housing Market

The number of sold properties does not grow, and there appear to be less buyers now. No change in the severe shortage of affordable listings for which the majority of buyers are active, and open houses are crowded and multiple offers are made. In short, the tight market condition with the large demand against small supply of affordable houses has been continuing over one year. For example, less than 10 listings exist under \$1.75M for the last six months. Due to the shrunken market size, the statistical price is rather unreliable. Nonetheless, prices have been rather stable since March 2021 with occasional or seasonal ups and downs.

Some sellers wrongly believe that prices keep rising, and today's buyers are armed with lots of information. They tend to pass those unreasonably overpriced listings, many of which remain on the market for a long time.

During the recent weeks, we have seen many escrow failures. We are also surprised to keep seeing many cash buyers. Good listings attract multiple cash offers. Cash buyers are traditionally low ballers; however, it is not unusual today that the highest offer is a cash offer. Those cash buyers are obviously not rental or flipping investors. We do not know if rich parents may be buying for their children, or if they are for downsizing.

If you are selling your home soon, consider 3 things: 1) September is a slumping month every year; it may be wise to wait until October; 2) With increased escrow cancellations, examine carefully buyers' financial abilities and their purpose of buying your home (to avoid unreasonable demand during escrow); 3) Buyers will compete and boost the price anyway. Pricing too high is currently riskier than pricing low. Remodeled homes remain popular; it is now possible to sell homes with old condition if priced accordingly. It could be more profitable.

## IRS: Home Energy Credit

The IRS issued Notice 2023-59 on August 4, regarding the requirements for home energy audits for taxpayers' Energy Efficient Home Improvement Credit.

The Inflation Reduction Act of 2022 includes a non-refundable Energy Efficient Home Improvement Credit for the purchase and installation of certain energy efficient improvements in taxpayers' principal residences. The credit amount is equal to 30 percent of the total amount that taxpayers pay during the year for:

- qualified energy efficiency improvements installed during the year,
- residential energy property expenditures, and
- home energy audits.

The audit must identify the most significant and cost-effective energy efficiency improvements to the residence, including an estimate of the energy and cost savings to each improvement. The maximum credit for home energy audits is \$150. Therefore, taxpayers can claim a 30 percent credit on audits that cost up to \$500.

The home energy auditor must provide a written audit report to the taxpayer. The written audit should state that the auditor is certified by one of the certification programs listed on the Department of Energy certification programs for the Energy Efficient Home Improvement Credit page to conduct the home energy audit.

The Energy Efficient Home Improvement Credit is a non-refundable credit, meaning that it can only reduce the amount of tax you owe and will not create a refund.

## 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

DRE Broker License: 01328577

727 Silver Spur Rd. Suite 205  
Rolling Hills Estates, CA 90274  
Phone: (310) 544-0857

Anthony Iwata - Broker (English+Japanese)  
Catarina Zerbinatti Iwata - Broker Associate  
(English, Spanish, Portuguese, Japanese, Italian)  
email: properties14@rockyfield.com  
visit: [www.rockyfield.com](http://www.rockyfield.com)

## 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 09/06/23)