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Rockyfield Newsletter

US Economy & Housing Market

Is inflation calming? It is no longer accelerating but staying at elevated levels. That is why people keep complaining about prices. FRB's rate hikes seem to have been cooling the economy in general; well, not quite. Many economists have retracted their recession warnings. The financial market seems to be puzzled by resilient employment and consumption. The reason is clear to us though. The monetary policy by the FRB has indirect and delayed effects on the general economy, while government spending has direct impacts with many times of the original spending amount. To support and rebuild the economy after COVID, and also to soften the negative impacts by the rate hikes, the fiscal spending has grown huge, and so has the government debt. The spending needs to be contained.

The national debt, which jumped from \$10.03 Trillion in 2001 to almost \$34T today, needs to be addressed for the long-term prosperity. It is also important to assess the debt levels relative to GDP. Currently it is about 122% down from 133.5% in 2020, as GDP growth is offsetting the ratio. The US is the second after Japan (224%). GDP growth not only keeps the ratio but also increases tax revenues.

The mortgage rate passed 8% following the rise of 10 Year T-yield. The bond yield curve has been steeply inverted (short is higher than long-term) as the FRB's monetary policy has convinced the market of future economic slowdown and lower rates. However, the robust job market and consumption cast doubt about the above assumptions, and lifted the long-term rates.

We still expect the economy to cool next year if not falling into a recession because there are a few warning signals: Soaring consumer debt; shrinking job openings and cooling employment; risk of government shutdown; and higher long-term rates due to the soaring US debt, etc.

Another puzzle is why many people feel pinched despite strong employment and higher income. The widened disparities among economic classes may be one reason. High-tech and Wall Street firms pay well, while wage increases of others are behind or just keeping up with inflation.

International wars and domestic political fights are barring us from being optimistic.

Palos Verdes Housing Market Still OK...

How High Rates Impact

Now the 30 year mortgage rate is over 8%, many potential buyers complain that their payments would be too high to afford. Let's look at this issue from a different angle. Two years ago, the rate was about 3.2% with monthly payment, \$4325 on a \$1 million loan; now with 8%, it would be \$7338, \$3013 more. It is a big jump. It is not only a buyer hates to pay too much, but a lender may not approve the loan because of the high monthly debt obligations to income ratio. There are two measurements: Front ratio (debt related the loan only) and Back ratio (all debt) for conventional loans. Generally, lenders require a max 50% for conventional loans. Here for simplicity, 40% (Front ratio) with only loan interest and principal payments (no property tax, insurance or other debt) is used for illustration purposes.

With the above 3.2% example, a buyer is required to have a monthly income of \$10,813; and with 8%, \$18,345. No one has gotten such a big pay raise during the last two years unless one has landed a lucrative job. Now you can see how high mortgage rates could hurt buyers who need to put up more equity (smaller loan amount) even if they can afford higher loan payments.

We advise that borrowing is also an investment with consideration of opportunity cost. Excess cash can be invested in a safe CD or tax-exempt municipal bonds (over 4%); however, those returns are never higher than the 8% mortgage rate. If you can earn 3% with a CD, you would be better off by 5 percentage points by reducing the 8% loan amount.

The housing market is unattractive for rental property investors even if they are cash buyers because, given high housing prices, net return (after all expenses) is smaller than low to medium risk financial investments.

Palos Verdes Housing Market

As major news media featured the over 8% mortgage rate and negative picture of the housing markets, we cannot ignore their psychological impact on sentiment of the housing market participants. While high-end properties continue selling well, once red hot, affordable properties are failing to perform better despite increased market inventory. Something common to listings across all price ranges that are staying on the market too long is "excessively high prices." Continued unstable market environment due to the sequence of short-supply, over-heating, sharp rate rises, etc., has made it difficult to estimate a "reasonable" fair market value, and created confusions with inconsistency in pricing. In short, so-called comps (comparable market analysis) have become unreliable.

During the past few weeks, the market inventory became even thinner; nonetheless, sales kept going on in PV at modest volume levels. Buyers still flock to properties with attractive prices; open houses have definitely much fewer visitors in general. We see two polarized open houses: very crowded and lonely ones. The declining number of weekly contracts finally got below 10 listings (SFR in PV). Meanwhile, the high-end market continues performing well with 4 properties over \$10 mil in escrow.

The 30-year mortgage loan rate suddenly dipped below 8% in November. If it falls further, we can hope for some recovery before Thanksgiving.

Statistical prices tend to be exaggerated when the market volume shrinks during the holiday season; and today's market is somewhat similar. As market data is currently not very reliable, realtors' professional judgement weighs more in pricing. Escrow failures are increasing again. Sellers should look for any potential issues and take pre-emptive actions.

There are still quite a few cash transactions. However, today's cash offers are not low. On the contrary, they are often the highest apparently because they are not investors. Cash buyers' remorse is natural: "I paid too much." They may try to recover some by demanding a credit or price concession during escrow. A signed agreement should stand; sellers need to take firm stance in response.

New Security Deposit Limit

AB 12, beginning July 1, 2024, prohibits a landlord from demanding or receiving security for a rental agreement for residential property in an amount or value in excess of an amount equal to one month's rent, regardless of whether the residential property is unfurnished or furnished. Important! The law does not differentiate types of deposit: security, pet, key or others. So, this one month limit means any deposit in total.

Exception for small landlords: A small landlord may demand or receive a deposit in an amount or value not in excess of 2 months' rent, if the landlord (1) is a natural person or a limited liability corporation in which all members are natural persons and (2) owns no more than 2 residential rental properties that collectively include no more than 4 dwelling units offered for rent. The exception for small landlords includes family trusts. This small landlord exception does not apply if the prospective tenant is a service member.

Landlords who currently hold a security deposit or demand or collect a security deposit in excess of one month's rent prior to July 1, 2024, may continue to retain the security even if it is more than one month's rent.

Listing Agreement Term Limit

Effective January 1, 2024, AB1345 prohibits:

- 1) exclusive listing agreements lasting longer than 24 months from the date the agreement was made;
- 2) renewing an exclusive listing agreement for longer than 12 months from the date of the renewal; and,
- 3) recording or filing an exclusive listing agreement of any duration.

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.

Happy Thanksgiving



SELECTED LISTINGS

Please Contact Rockyfield

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 11/07/23)