

Housing Boom to Continue

Housing prices have soared in the past year. The national Case-Shiller index is up 11.2% in the past twelve months, the largest gain since 2005-06. The FHFA index is up 12.0% in the past twelve months, the largest on record (going back to 1991).

Given these gains, some are wondering whether housing is back in a 2000s-type bubble. But a deep dive into the data suggests we are not.

To assess home prices we use the market value of all owner-occupied homes calculated by the Federal Reserve. We then compare that to the “imputed” rent calculated by the Commerce Department for the GDP report. (Imputed rent means what people would pay to rent their homes if they rented them from someone else.) In the past 40 years, home values have typically been 16.4 times annual rent. At the peak of the bubble in 2005, they were 21.4 times annual rent, or 33% above normal. Now, home prices are 17.8 times annual rent, about 11% above normal.

We also compare home prices to the Fed’s measure of replacement cost. In the past 40 years, home prices have typically been 1.59 times replacement cost. In 2005, they peaked at 1.94 times replacement cost, a premium of 22.5%. Now homes are selling for 1.63 times replacement cost, only 2.5% above normal, which is minimal.

Does this mean housing is at risk? We don’t think so. The recent price surge is based on fundamentals and the housing market should continue to boom.

The primary problem is a lack of homes. Based on population growth and scrappage (voluntary knockdowns, fires, floods, hurricanes, tornadoes...etc.), we would normally expect housing starts of 1.5 million per year. But in the past twenty

years (March 2001 through February 2021), builders have only started 1.256 million per year. Builders haven’t started more than 1.5 million homes in a calendar year since 2006.

No wonder the inventory of homes for sale is so low! Single-family existing home inventories are at rock bottom levels, with only 870,000 for sale in February. To put this in perspective, the lowest inventory for any February on record from 1982 through 2016 was 1.55 million. Meanwhile, there are only 40,000 completed new homes for sale, versus 77,000 a year ago and an average of 87,000 in the past twenty years.

Two other factors are likely at work. One issue is that there’s a moratorium on evictions, so some tenants are paying less in rent than they normally would, which is temporarily holding down rental values versus home prices (therefore elevating the price-to-rent ratio). This is also holding down the housing component of the Consumer Price Index, which is calculated using rents, not home prices.

Another factor is that people have moved away from places where renting is popular to places where home ownership is popular. If you leave New York City or San Francisco for Nashville or Boise, there’s a good chance you went from renting to owning. This helps boost home prices as well.

Yes, home prices are up and, yes, they look somewhat expensive relative to normal, but this is more about the unprecedented events of the past decade, not some problem with the market. With the Fed so easy, and the stock of housing constrained, prices will continue to rise. The housing boom will continue.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-13 / 7:30 am	CPI – Mar	+0.5%	+0.5%		+0.4%
7:30 am	“Core” CPI – Mar	+0.2%	+0.1%		+0.1%
4-14 / 7:30 am	Import Prices – Mar	+0.9%	+0.7%		+1.3%
7:30 am	Export Prices – Mar	+0.5%	+0.8%		+1.6%
4-15 / 7:30 am	Initial Claims Apr 10	700K	713K		744K
7:30 am	Retail Sales – Mar	+5.5%	+5.6%		-3.0%
7:30 am	Retail Sales Ex-Auto – Mar	+4.8%	+5.1%		-2.7%
7:30 am	Empire State Mfg Survey - Apr	18.8	21.8		17.4
7:30 am	Philly Fed Survey – Apr	40.0	47.6		51.8
8:15 am	Industrial Production – Mar	+2.5%	+3.0%		-2.2%
8:15 am	Capacity Utilization – Mar	75.6%	76.0%		73.8%
9:00 am	Business Inventories – Feb	+0.5%	+0.5%		+0.3%
4-16 / 7:30 am	Housing Starts – Mar	1.600 Mil	1.620 Mil		1.421 Mil
9:00 am	U. Mich Consumer Sentiment- Apr	89.0	92.5		84.9