



Happy Holidays from Your Home Equity-It is Not Going Down Anytime Soon.

"I recommend that every man own the roof that sheltereth him and his," Arkad says. "Nor is it beyond the ability of any well-intentioned man to own his home." Arkad argues that "to own his own domicile and to have it a place he is proud to care for, putteth confidence in his heart and greater effort behind all his endeavors." -- "The Richest Man in Babylon"

One of my clients called me in a frenzy about a housing bubble. In an investing environment with plenty of bubble- like asset classes, housing is not even close to a tipping point.

My wife and I went to a lottery for our first home with 25+ couples jammed into the dining room of a sample home surrounded by mud and open lots. Verbal arguments and physical pushing matches were breaking out to get a seat closer to the bouncing lottery balls that decided which families got the rights to their American Dream. It was the late 1990's and the start to the housing bubble that would lead to the Great Financial Crisis. The FED was lowering interest rates and suburban housing tracts were popping up everywhere with seemingly endless demand.

I thought we overpaid for the house at purchase only to see its price go up 50% in a couple of years. Cocktail party and golf course gossip was flooded with "how much money I made on my house" comparisons. They were not making much money at all on their houses when factoring carrying costs, but why ruin a good time.

Now, after writing extensively for the last 3 years that the stock market is not in a 1999 like bubble yet, let me state emphatically that the U.S. housing market is nowhere near balloon status. In fact we are in the very early stages of a long boom. More on the stock market 1999 comparisons in my coming year-end letter.

Here is my late 2016 article "Long Live the White Picket Fence" predicting a slowdown in the apartment market and a boom in home buying, I was early, but it is worth the read.

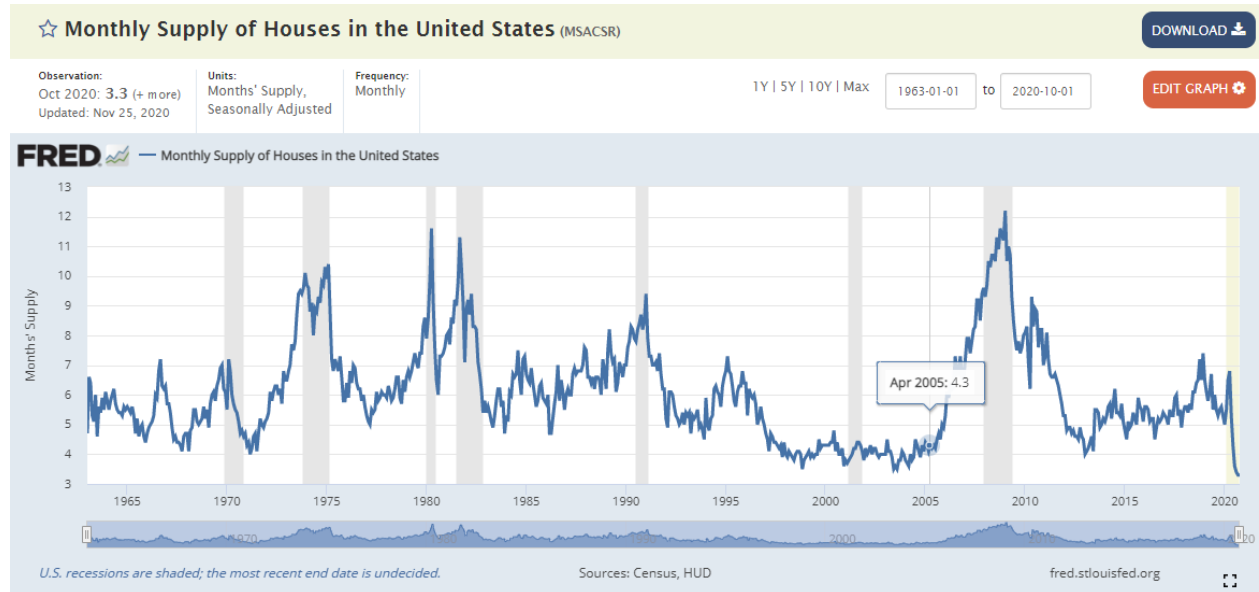
<https://matttopley.com/wp-content/uploads/2018/02/June-2016-The-Apartment-Boom-is-Ending-Long-Live-the-White-Picket-Fence.pdf>

Why we are Nowhere Near a Housing Bubble Let Me Count the Ways? Let us start with the obvious and move to the less obvious.

Top 10 Reasons the U.S. is Nowhere Near a Housing Bubble

#1-Inventories at All-Time Lows.

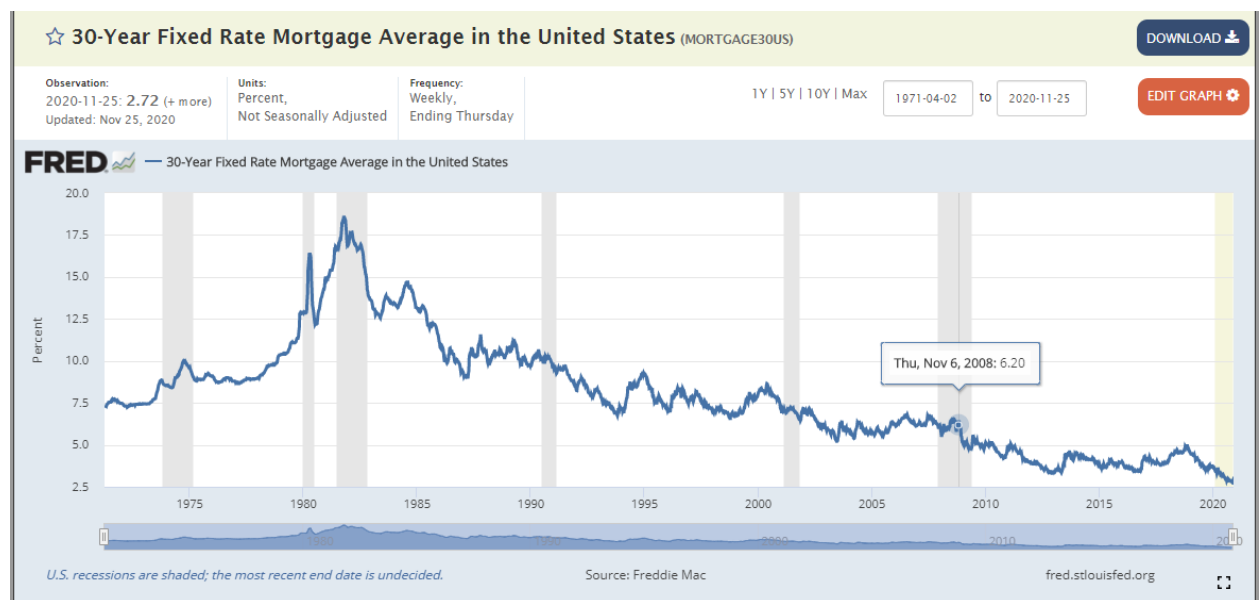
Not only are homes-for-sale low, but inventory is the lowest in modern times. And as the chart shows, the last time they got this low...You guessed it right - before the 1995-2007 boom. The market is still years away from meeting an adequate supply of homes.



<https://fred.stlouisfed.org/>

#2-Interest Rates are at All-Time Lows.

Interest rates are not low, they are absurd - leading Warren Buffett to say, "This is a very good time to borrow money." The average rent in America is close to \$1500 per month. In today's environment you can mortgage \$300,000 for that amount.



<https://fred.stlouisfed.org/>



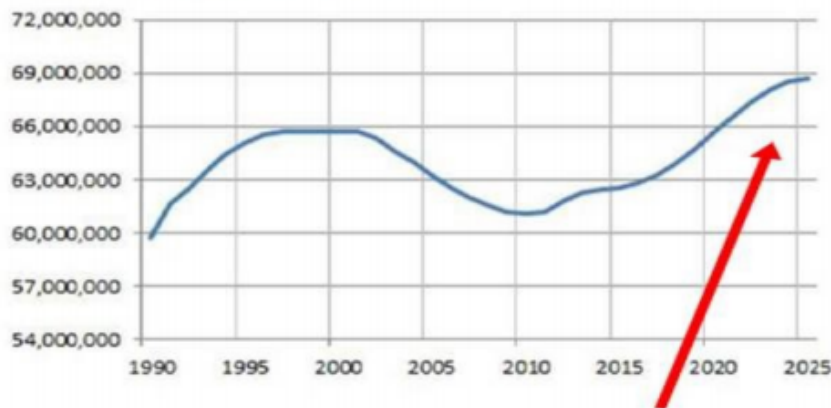
#3 Household Formation

After a 15-year downtrend in household formation, we are in the early innings of a 30-44-year-old growth cycle in the U.S.

Although Millennials are buying houses at later ages than previous generations, the cycle will be the same and it is just starting.

The Potential for Future Household Formation: The Uptrend Is Starting

U.S. population, age 30-44



Source: Bureau of Labor Statistics, U.S. Census Bureau

#4-U.S. Median Income is Surging.

To buy a home Americans need a down payment - so confidence in their income is paramount. The below chart shows compensation surging pre-COVID-19 with most potential home buyers unaffected financially.



Income Surge

U.S. median household income rose 6.8% between 2018 and 2019



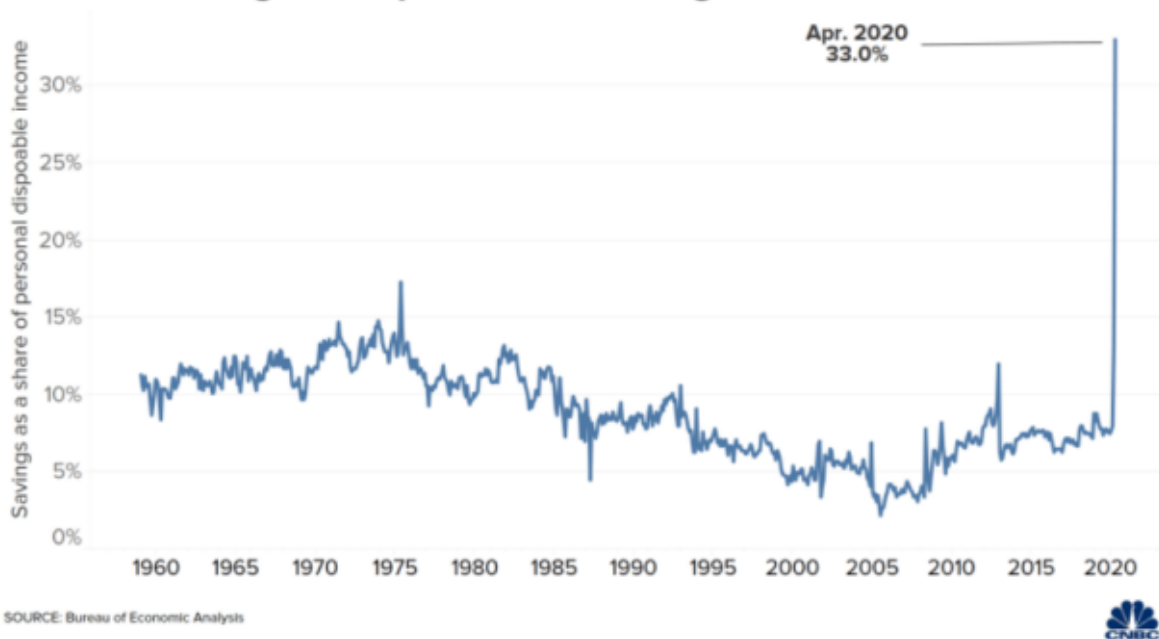
<https://www.bloomberg.com/news/articles/2020-09-15/u-s-median-household-income-jumped-6-8-in-2019-poverty-fell?sref=GGda9y2L>

#5-Middle Class Americans are Flush with Cash

One of the strange consequences of COVID-19 was a massive increase in the savings rate as household credit cards showed only two line items - Amazon and the Supermarket. At one point the savings rate reached 33% - another American record - leaving excess household savings at \$11.2 Trillion.



Personal savings rate spikes to record high



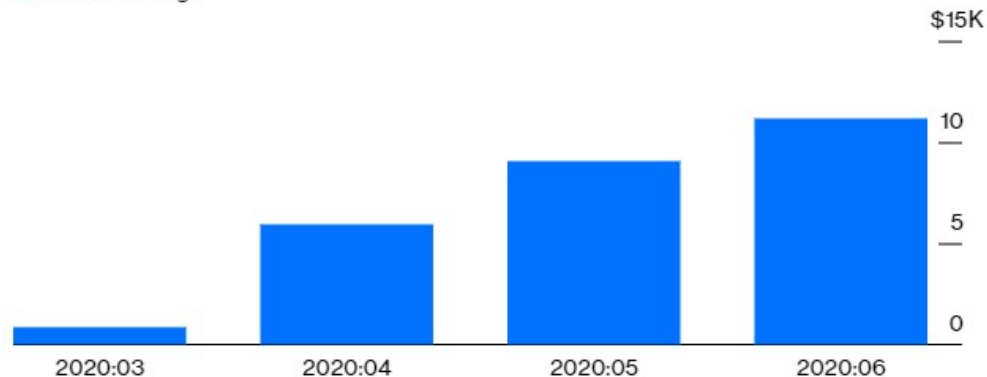
<https://www.cnbc.com/2020/05/29/us-savings-rate-hits-record-33percent-as-coronavirus-causes-americans-to-stockpile-cash-curb-spending.html>

Tim Duy at **Bloomberg** broke down the numbers on this and they are staggering:

Government Support

Excess household savings stood at \$11.2 trillion on an annualized basis at the end of June

■ Excess Savings



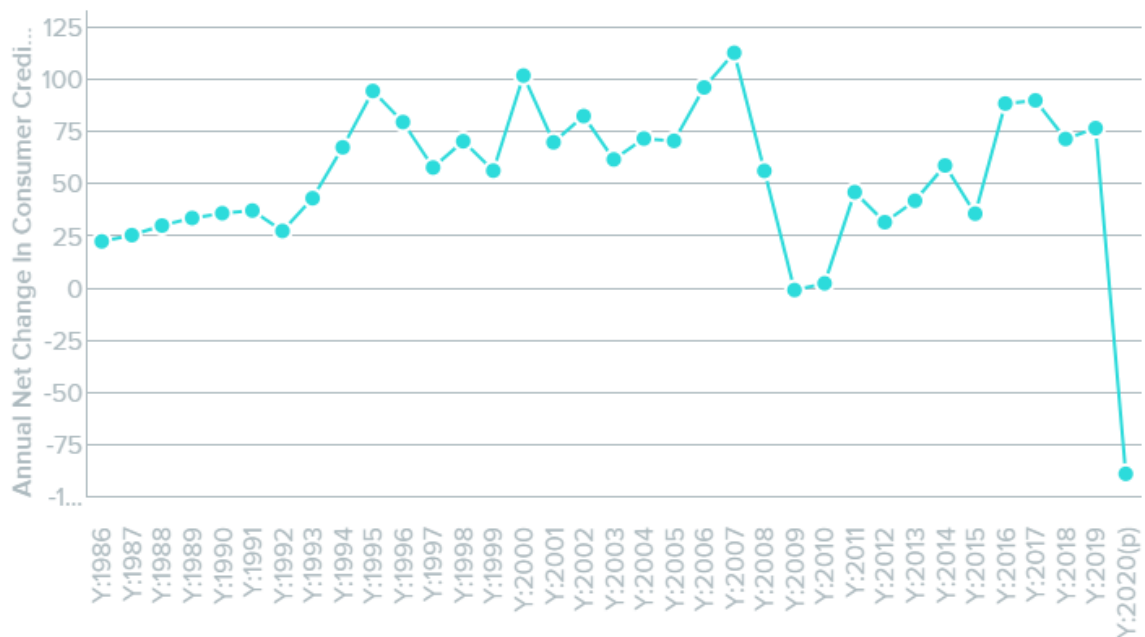
Source: Federal Reserve
\$15K = \$15 trillion



#6-Americans are Paying Down Credit Cards at Record Pace in 2020.

In a very Un-American fashion, citizens are paying down their credit cards. This frees up monthly cash flow for mortgage payments and raises credit scores to borrow for a house. As a side note on the second chart, the number one reason for delaying a down payment is student debt, so pay close attention to the new administrations moves on college loan forgiveness.

Credit card debt rose by \$76.7 billion during 2019, and WalletHub now projects a decrease of about \$89 billion in 2020.



<https://wallethub.com/edu/cc/credit-card-debt-study/24400>



Expenses That Delay Saving for a Down Payment

Student loans were cited by more than half of potential home buyers who delayed saving for a down payment as their biggest expense.

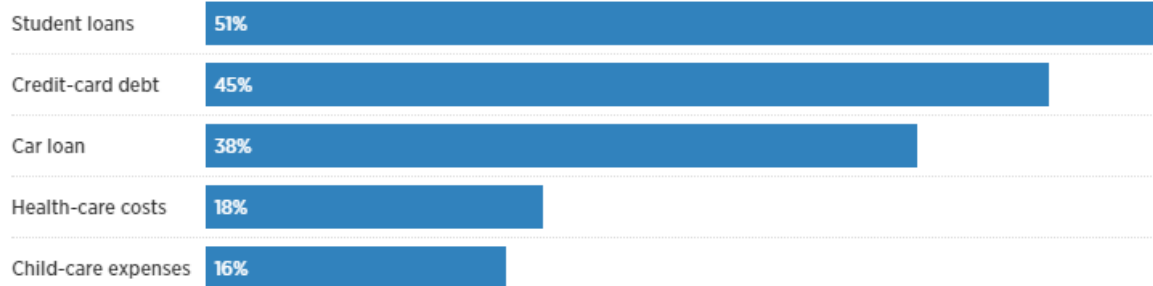


Chart: JOHN DUCHNESKIE / Staff Artist • Source: National Association of Realtors

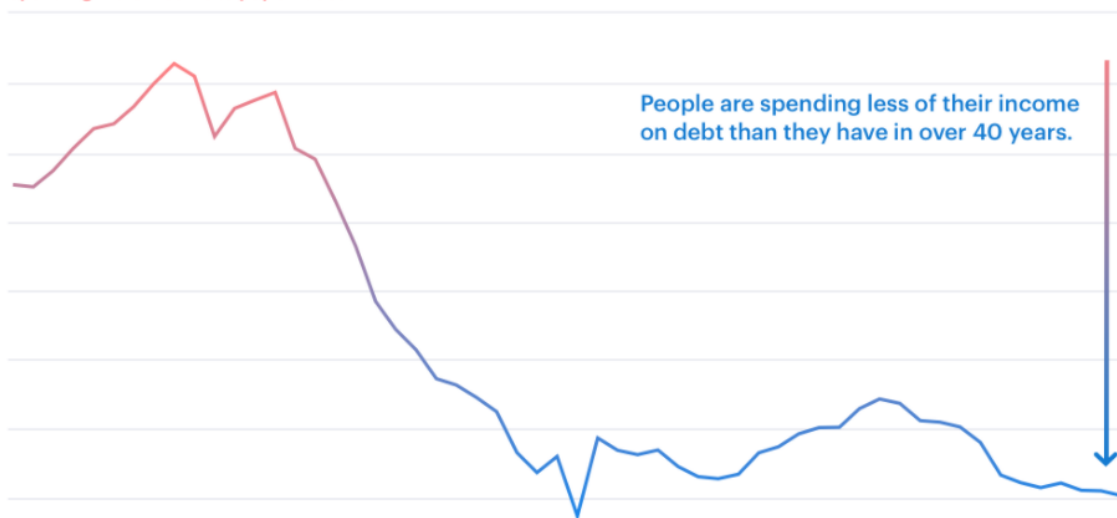
#7-People are Spending Less of Their Income on Debt than they have in Over 40 Years

Between uber low interest rates, increased earnings, flush savings and lower consumer spending during Covid-19, U.S. citizens are spending the least on debt payments in 40 years.

**Spending less on debt is a
good sign of financial health**

Opendoor

Spending more income to pay off debt



Spending less income to pay off debt

2006

Data source: Household Financial Obligations as a percent of Disposable Personal Income - Federal Reserve

2019

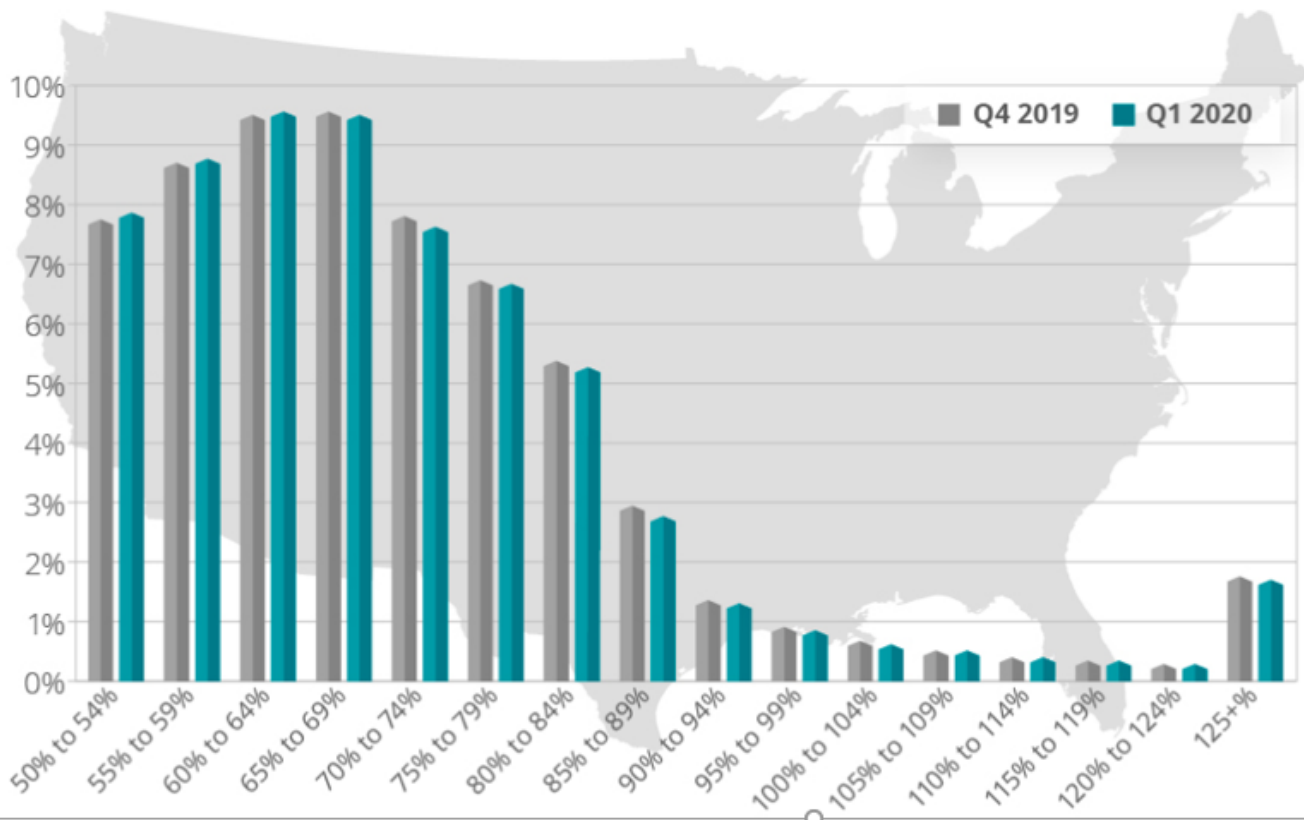


<https://www.opendoor.com/w/guides/2020-housing-market-trends>

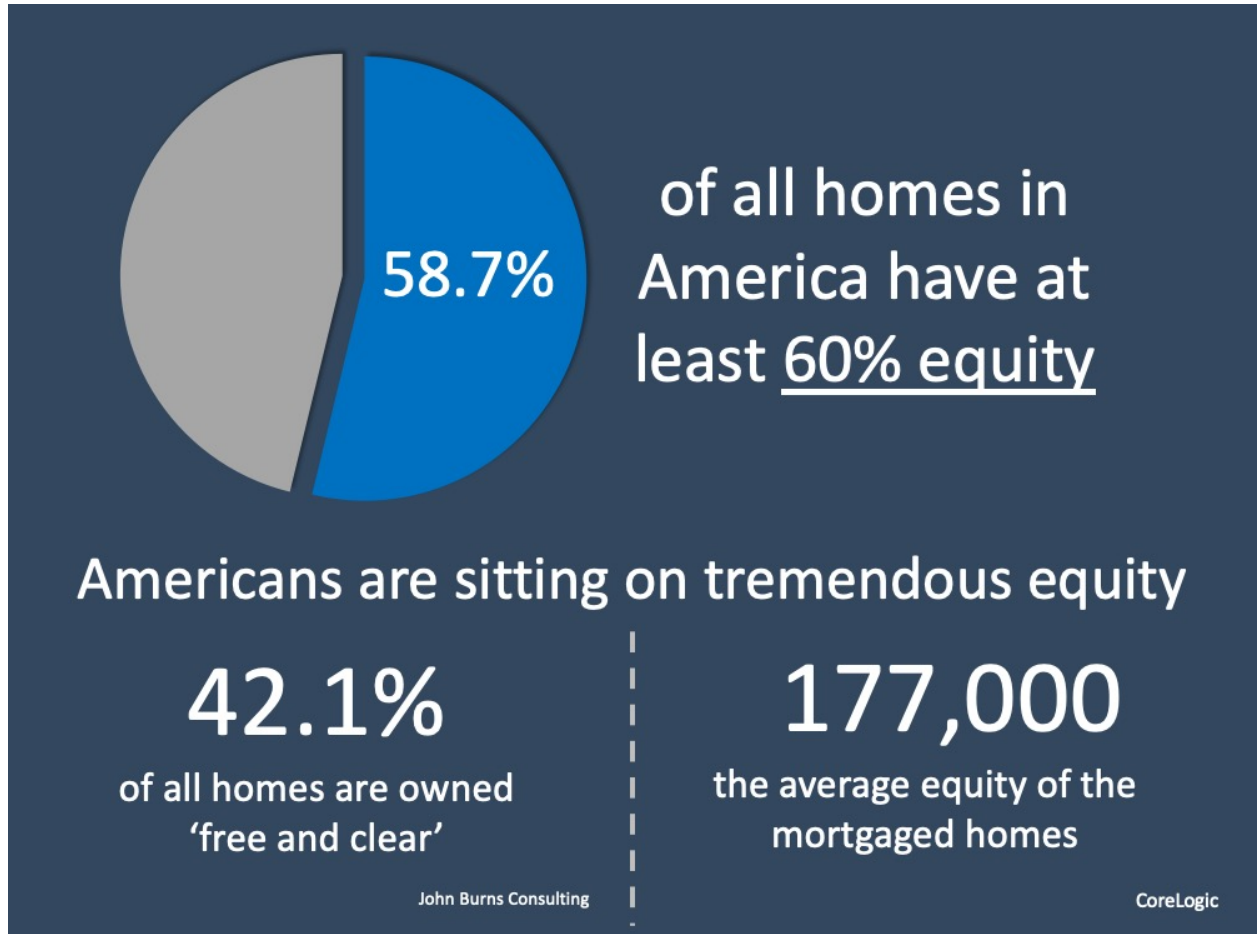
#8-Americans have Record Home Equity and They are not Borrowing Against It Like 2008 Bubble

Today, 87% of homeowners have at least 20% equity in their homes and 95% have at least 10% equity.

The CoreLogic chart below shows the percentage of homeowners and the percentage of home equity. We can see most homeowners have built up significant equity and are not “equity stripping” like they were prior to the 2008 real estate crash.



Somewhat surprising to me is the staggering number of mortgage-free homes in the U.S. Approximately 42.1% of homeowners own their homes free and clear, and the average equity in homes with a mortgage is estimated by CoreLogic to be \$177,000.



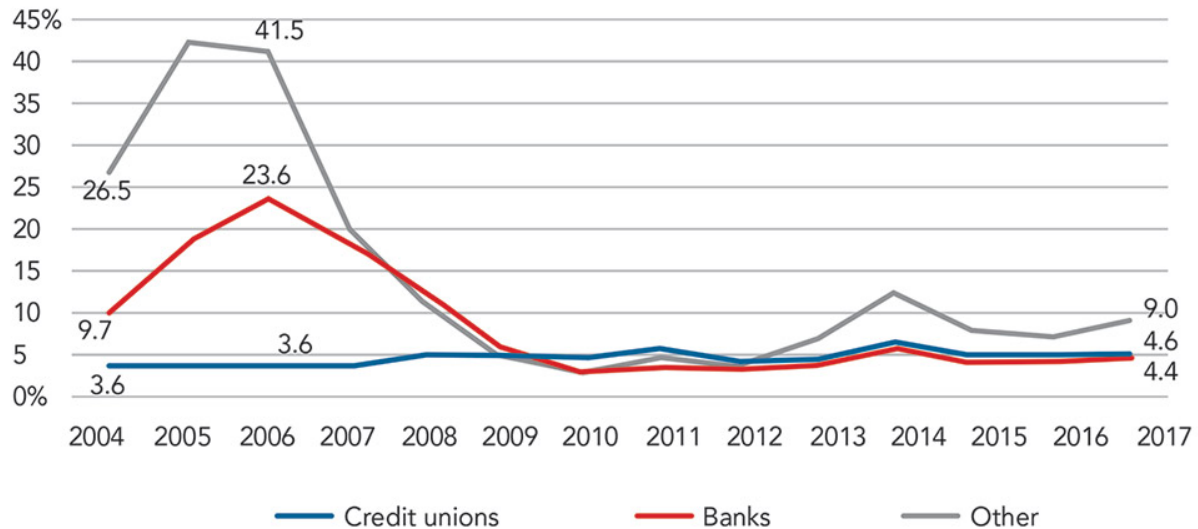
<https://www.corelogic.com/insights-download/homeowner-equity-report.aspx#:~:text=CoreLogic%20analysis%20shows%20U.S.%20homeowners,source%3A%202016%20American%20Community%20Survey.>

#9-Sub-Prime Mortgage Originations are Low Single Digits.

The epicenter of the 2008 housing bubble was subprime mortgage originations. As boiler rooms popped up all over the U.S. pumping debt to anyone with a pulse, the chart points out that subprime originations at the top of bubble hit a mind boggling 41.5% of all non-bank mortgages. Anyone who has originated a mortgage or re-financed in the last 10 years can attest that today's market is the opposite with lenders requiring everything outside of a rectal exam before closing.



Subprime mortgage originations (as a percent of total mortgage originations)



Source: HMDA

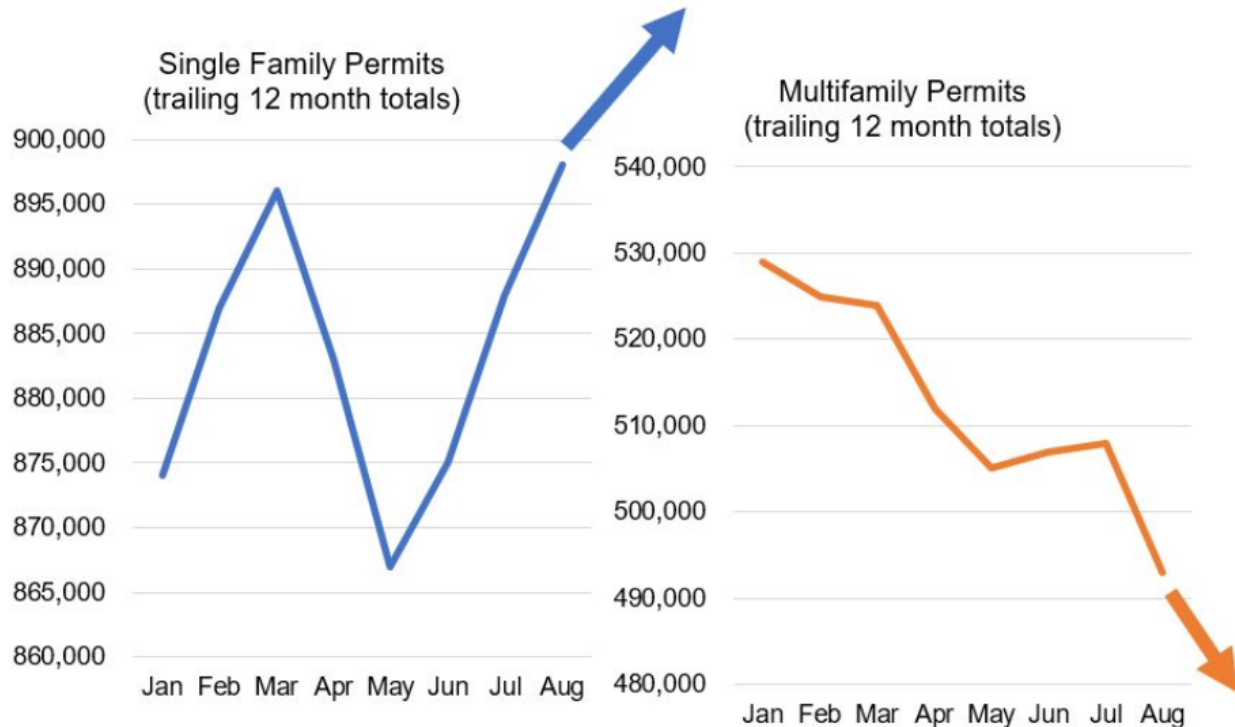
<https://news.cuna.org/articles/print/116675-subprime-mortgages-and-the-financial-crisis>

#10-Single Family Home Permits are Surging and Multifamily are Declining.

I was early with my late 2016 “White Picket Fence” article about the imminent rollover of multi-family building permits, but the below chart clearly shows a new trend in the making.



The Single Family surges and Multifamily declines that were underway pre-Covid are now accelerating.



Source: JBREC calculations of Census Bureau data

See Terms and Conditions of Use and Disclaimers. **JOHN BURNS**
Distribution to non-clients is prohibited. © 2020 REAL ESTATE CONSULTING

<https://www.linkedin.com/in/johnburns7/>

<https://www.inquirer.com/real-estate/housing/house-down-payment-mortgage-interest-rate-buyer-20201205.html>

Conclusion

Cliff Asness once remarked, “The term bubble should indicate a price that no reasonable future outcome can justify.”

Considering its cheaper to buy a home in America today than rent one, safe to say we are not at the point of no reasonable future outcome can justify. One characteristic of a bubble is the egregious use of debt that was the case in the 2008 housing bubble. But as the above thesis points out, that is not the case in today’s home market. Another trait of a bubble is unreasonable valuations but, in most of the U.S., home markets today it are cheaper to buy than rent.



Also, during bubbles, we see new financial products that are not understood by buyers - like the zero interest loans and HELOCs that became most mortgages in the 2008 crisis. Once again, today's market is the opposite as most families struggle to obtain financing under strict bank guidelines.

The hallmark of a bubble is a blowout of spreads between supply and demand and supply of homes was growing massively at the end of 2008 housing bubble. In the U.S., municipalities and townships have made it harder and harder to obtain work permits for housing, plus we just experienced over a decade of lower-than-average home building. If anything, the supply/demand equation for housing is wildly in favor of demand over supply.

In conclusion, during this Covid-19 restrained holiday season, please do not waste any stress over a housing bubble. Analysts could make educated arguments that we have bubbles in Tesla, tech stocks, government bonds, alternative energy names, IPO stocks, private equity, commercial real estate, baseball cards, wine, art, and cash. At the same time, they would be hard pressed to prove a bubble in U.S. housing. So happy holidays to all and especially to your home equity.

Thank you,
Matt Topley
President & CEO
Lansing Street Advisors

Disclosure Lansing Street Advisors is a registered investment adviser with the State of Pennsylvania.. To the extent that content includes references to securities, those references do not constitute an offer or solicitation to buy, sell or hold such security as information is provided for educational purposes only. Articles should not be considered investment advice and the information contain within should not be relied upon in assessing whether or not to invest in any securities or asset classes mentioned. Articles have been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Securities discussed may not be suitable for all investors. Please keep in mind that a company's past financial performance, including the performance of its share price, does not guarantee future results. Material compiled by Lansing Street Advisors is based on publicly available data at the time of compilation. Lansing Street Advisors makes no warranties or representation of any kind relating to the accuracy, completeness or timeliness of the data and shall not have liability for any damages of any kind relating to the use such data. Material for market review represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Indices that may be included herein are unmanaged indices and one cannot directly invest in an index. Index returns do not reflect the impact of any management fees, transaction costs or expenses. The index information included herein is for illustrative purposes only