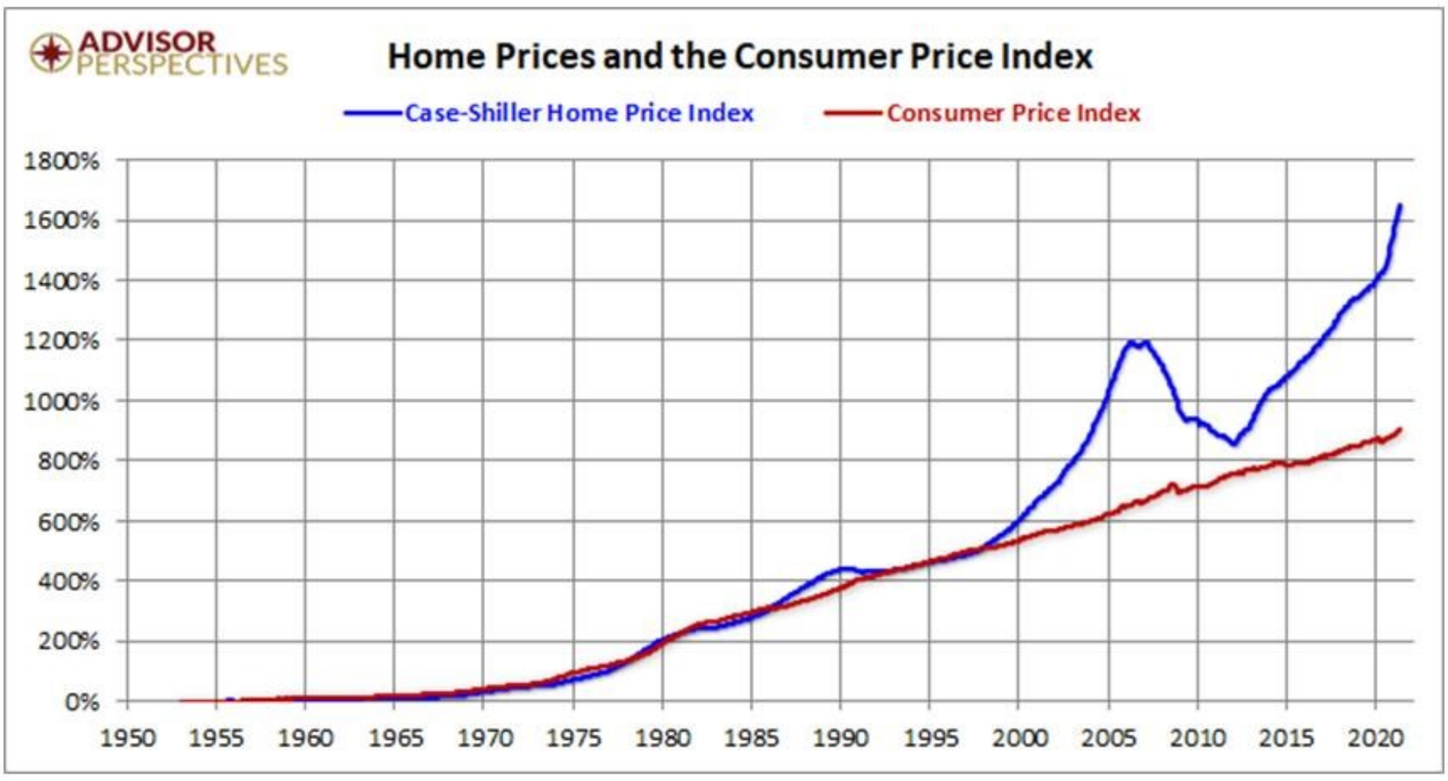
Chart of the Month

June 2021



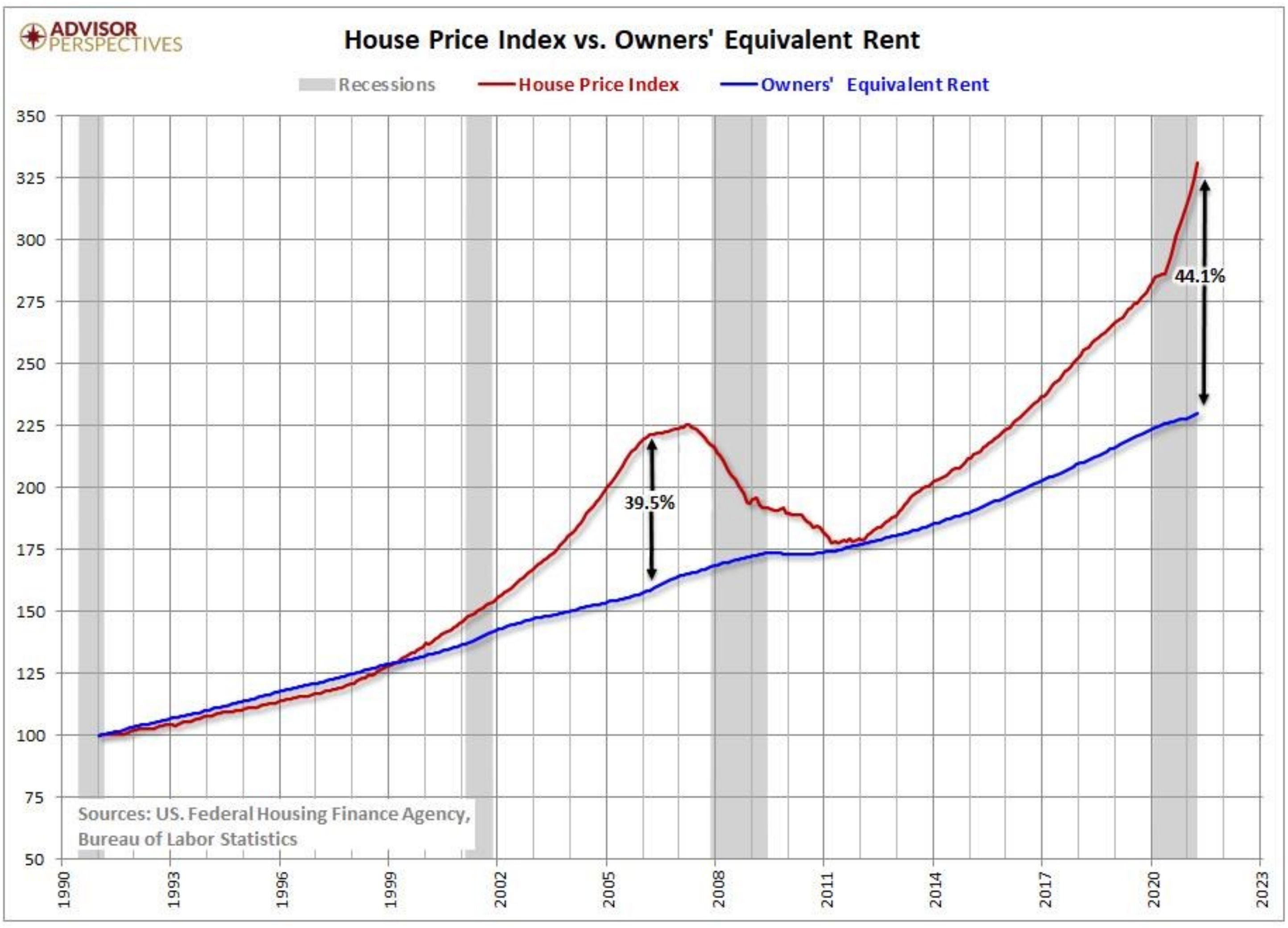
The S&P CoreLogic Case-Shiller Index, the leading measure of U.S. home prices, reported a 14.6% annual gain in April this morning, marking the 11th straight month of accelerating prices. The surge is the largest monthly increase in more than 30 years.

As shown in the chart above, the Case-Shiller Home Price Index had moved up almost in tandem with the Consumer Price Index (CPI) from the 1950s through the 1990s before ramping substantially higher over the next seven years — far outpacing the rate of the CPI — until the housing bubble burst in late 2006/early 2007.

We called the top of the real estate market at an investment conference in March 2006 (and shared our presentation with clients in a quarterly mailing) and the bottom in February 2012 (via our Chart of the Month). Both forecasts proved to be accurate. Meanwhile, the market has become even more stretched than it was 15 years ago.

As depicted below, the spread between the House Price Index (HPI) and Owners' Equivalent Rent (OER) — the amount of monthly rent that would be equivalent to the monthly expenses of owning a property (e.g. mortgage, taxes, etc.) — has widened to 44.1%, eclipsing the prior peak of 39.5%, suggesting that housing prices are once again overvalued.

Is housing in another bubble now? Due to the strong demand based on demographics, high incomes, and low borrowing costs coupled with the lack of supply (housing inventory is at its lowest level in ten years), we actually believe prices are headed even higher over the near term — perhaps at a double-digit growth rate through the end of the year. We contend that the market is vulnerable if and when fiscal and monetary stimulus wanes, mortgage rates rise, and affordability falters. However, without a financial crisis, prices are unlikely to crater like they did the last time around.



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