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Not enough houses

Americans bought 6.3% fewer houses—new and previously lived-in alike—in the first quarter than they did in the year-earlier quarter. The news fits right in with the prevailing new bearishness on housing. Mortgage applications over the past four weeks fell by 59% from the year-ago period, the Mortgage Bankers Association said on May 2. Don't expect any pickup in sales activity just because the weather's nice, Realogy Holdings Corp. warned on May 5 (shares of the real estate brokers' promptly dropped by 8.5%). Right up there in the risk department with Russia and China is the palpable flattening in housing activity, Janet Yellen told lawmakers on May 7.

Renting is the new-new thing, the bears concur; the home ownership rate declined by 0.4% to 64.8% in the first quarter, the lowest level since 1995 and lower than the average of 65.4% that has pertained since records started in 1965.

The bad news about sticks and bricks jostles with better economic soundings elsewhere. Thus, the National Federation of Independent Business Small Business Optimism index rose to 95.2 in April from 93.4 in March. It was the first breach of the 95 level since 2007, the NFIB said. Bankers, too, seem cheerier to judge by the acceleration in the pace of commercial and industrial lending (see table to the right).

Especially does the bear case conflict with the arithmetic of housing

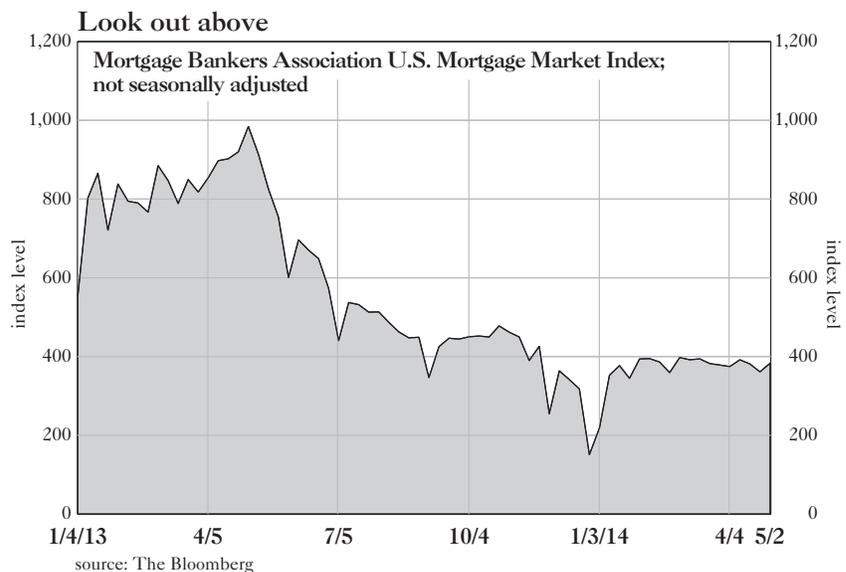
demand. Young people may be dispirited (we doubt it); they may be overencumbered with student debt (very likely). Still, observes colleague Evan Lorenz, "they will still need some place to live once they crawl out of their parents' basements."

"Demand, which we calculate as the combination of household formation, second-home demand and obsolescence is around 1.6 million [units a year]," Marvin Shapiro, CEO of Avanti Properties Group, long-term investors in raw land suitable for residential development, tells Lorenz (*Grant's*, Feb. 21). In the 2004-07 boom, America built houses at a rate of 1.8 million a year. Over the

past five years, the rate of construction has collapsed to 691,000 a year. The latest monthly reading, for March, came in at the annual rate of 872,000.

"We are seeing a very wide gap in under-building," Shapiro continues. "In fact, it is a gap that supersedes the overbuilding gap that existed during the boom period of 2004-07."

The bulls may have another trick up their sleeve. According to a new report from NASA scientists, a fast-melting Antarctic glacier has passed "the point of no return," threatening the world with rising sea levels. It happens to be a fact that most Americans live on the coasts.



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