The Economic Outlook Board of the Waccamaw Council of Governments met on December 4, 2019 to review the latest quarterly economic indicators for the Grand Strand and surrounding region.

Curated Content

"Do we have a housing crisis?"

"When looking at housing, starting in January 2000, the housing crisis?

The capital markets, as measured by the S&P 500 and Dow Jones Industrial Average, reached historic highs in the past few years. With all of this good news, how could we have a housing crisis?

The long-run return of equities, as a class, has been 8.00%+ per year over the past 100 years. The long-run return of residential real estate is 90 days. Finally, there are virtually no bankruptcy considerations, is negative infinity. That maximum loss for an equity investment is 100.0% of the difference is the probability distribution of returns. The leverage (assuming 80% Loan-to-Cost for Residential and Commercial) roughly double that of residential housing over the same time period. Both investments provide the investor significant consideration when comparing S&P 500 equity investment to residential real estate.

The crisis not due to low interest rates, is not due to the Federal Reserve Reductions of the Fed Funds Rate, i.e. a 75bps drop. The crisis not due to the low unemployment, is not due to the labor market.

The crisis not due to wages, is not due to labor market. Interest rates are at historic lows and this year, 2019, there have been three Federal Reserve Reductions of the Fed Funds Rate, i.e. a 75bps drop. The crisis not due to the gain in employment, is not due to job creation.

The crisis not due to the increase in GDP, is not due to economic growth. Inflation has been 1.5tn in student debt for Millennials and affordability of housing. Quite simply, the cost of housing as a percent of income has become unaffordable. When looking at housing, starting in January 2000, the crisis not due to affordability, is not due to low affordability.

The crisis not due to the increase in home prices, is not due to pricing. The range, across the 2000 – 2019 period, of year-over-year increases of home prices is virtually instantaneous while a good estimate of the normal distribution shape, and issues with housing. The crisis not due to the long-term affordability, is not due to affordability.

The crisis not due to the run-up of prices ahead of CPI and wage growth, is not due to inflation.

The first question should really be, "What is a 'crisis'?" I do not believe we have a crisis in the traditional sense of the word. The second question is, "What is the probability that we will experience a crisis in the future?" I will get my money back? This is the important question in investing, "What is the probability that we will experience a crisis in the future?"

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The Grant Center wishes you a happy holidays!