



## Economic Commentary

### The Long View

*by Lawrence Yun, Vice President, NAR Research*

“How much have real estate investors lost due to the housing market bust?” That was the (highly loaded) question posed to me recently by a producer of one of the major evening news programs. The show wanted to run a story about the "pains" being felt in the market.

Hmm. Well, exactly how much real pain are we talking about? Let's look at a couple of examples. An investor who bought a property in Las Vegas five years ago would be ahead by \$150,000; up \$200,000 in Miami. The average investor nationwide – up \$54,000. Only the recent buyers (flippers) who bought last year in few specific markets would have encountered a loss.



### Not All Losses Are Created Equal

I'm not discounting the discomfort of those who lost big, especially lenders and hedge funds who had large exposures to subprime loans. Investors in homebuilder stocks have certainly experienced pains. But nearly all real estate investors who have a reasonable holding period are doing quite fine. Some of these fortunate buyers who got into the market several years ago will still consider a modest give back as a loss without considering the large gains reaped during the housing boom. That's the nature of the human mind. A gain of \$190,000 in Miami feels like a \$10,000 loss considering that the gain had been \$200,000.

### A Home is Not a Stock Certificate -- Thank God!

Foreclosures are rising and construction workers are being laid off. REALTORS® are feeling the pinch as well. The median income of a typical REALTOR® has been falling due to the correction in sales transactions. However, consumers and homeowners who are in it for the long-term are once again coming out well ahead.

Because of the power of leveraging, \$10,000 used for a down payment on a typically priced home in the United States at a typical appreciation rate of 5 percent will return \$110,000 after 10 years.

The same \$10,000 invested in the stock market appreciating 10 percent annually will result in \$23,600. No wonder the data from the Federal Reserve show consistent results year-after-year of the staggering difference in net worth between homeowners and renters. A typical homeowner had \$184,400 in net worth versus only \$4,000 for a typical renter.

### **The Spooky Thing**

The lack of buyer confidence to enter the market has been the one principal reason in holding back home sales. Many would-be buyers are spooked of a possible home price decline. And the media is fueling that fear. Some of the most popular market gurus who offer their advice on television and other media say so. Caution is in order, however. As a recent Barron's article pointed out, stock picks made by one such expert actually underperformed the market.

### **Opportunities to Seize**

It's also important to point out that times of crisis often turn out to have been times of opportunity in hindsight. With over four million net new job additions in the past two years— the time frame during which home sales have steadily fallen – a significant pent-up demand has developed. Home sales and home prices will be higher in 2008 compared to 2007. And, as with any investment, look longer term. Those investing in a home and keeping it for a typical holding period of six to ten years will likely see their investment pay off; those homes will have been a good investment.

As for stocks, they are not the enemy of real estate. Many REALTORS® own stocks. (So do many economists!) The latest NAR research on vacation-home buyers reveals that many of them rely on stock market wealth to fund that second-home purchase. Stocks and real estate both promote the importance of private ownership.

### **Where to Throw the Darts**

Of course, with housing figures down, all eyes are looking to the stock market. Indeed, the stock market is at an all-time high. That's terrific in and of itself and reflects confidence in the U.S. economic outlook. Just be careful about taking specific advice from any hyper-emotional TV personality. Darts should not be thrown at publicity posters of any "mad money" host. You'll likely have just as good of luck by reining in your emotions (and money) and throwing them randomly on the financial pages of your newspaper for your next stock pickings.