DR. STEVE SJUGGERUD'S
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The Housing Boom Isn't Over Yet

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You make the most money in opportunities where perception differs from reality.

We have that situation in the U.S. housing market today.

Last year delivered a near-perfect storm of events to scare folks about the future of the property market...

Home prices soared again in 2018. It was the seventh straight year of gains based on the Case-Shiller 20-City Composite Home Price Index. Interest rates rose as well, which caused mortgage rates to jump... And that really spooked investors.

Rising rates, combined with higher home prices, put the affordability of homes further out of reach...

That's the narrative, at least. That's the perception folks have right now. But the reality is much different. Housing is healthier than almost anyone believes.

Let me explain...

Longtime readers know I've been one of the biggest bulls in recent years for U.S. housing.

I've even put the largest part of my net worth into local Florida housing in recent years. And while housing isn't the generational opportunity is was a few years back, the bull market isn't dead yet.

We're late in this housing cycle. But that doesn't mean prices can't go higher.

That pessimism is the leading perception in the market today. Everyone's waiting for the bottom to fall out. And yes, some data points look scary for housing...

New home sales have been falling for a little more than a year. Interest rates have been rising, too. And that, combined with higher home prices, makes it seem like nobody wants to buy houses right now.

Those factors have pushed investors into a negative perception of housing. But if we step back and look at more data, we start to see a different picture.

The housing market has plenty of runway left.

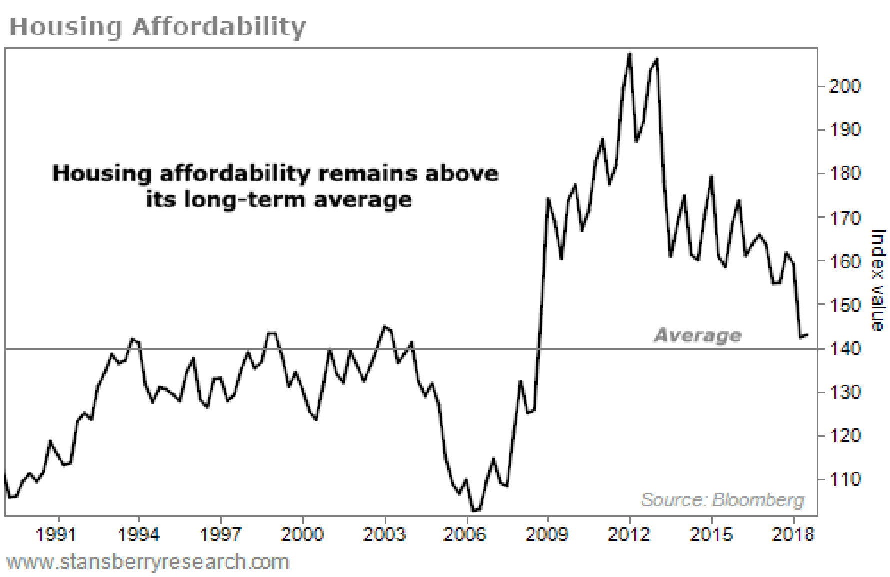
One of the biggest reasons why is affordability. Right now, folks think this measure is saying the housing boom is over... but they're dead wrong.

Affordability looks at a few figures (home prices, interest rates, and incomes) to determine if average folks can afford a home or not.

When home prices and interest rates rise – like they have in recent years – affordability falls. And if affordability gets too low, folks simply can't afford to buy. That's an obvious sign of a housing slowdown.

Folks believe affordability will kill housing because rising prices and rising interest rates have caused affordability to fall in recent years. But today's situation isn't nearly as dire as you might expect.

The chart below shows housing affordability over the last few decades. Today, housing isn't as affordable as it was in recent years, but it's far from out of reach. Take a look...



This chart distills the factors that go into affordability into one simple number. A reading of 100 means a typical person can afford a typical house in the U.S. A reading of 150 means he could afford 150% of the typical home price. So higher is better.

Historically, housing affordability has averaged a reading of around 140. And despite a dramatic decline in affordability in recent years, current levels remain above long-term averages.

The typical person can afford 143% of the typical home price today. That's not as good as it was a few years ago. But it's foolish to think higher prices and higher interest rates have made housing unaffordable in America.

This means two things: Home prices can still rise from here... And that's possible even if interest rates continue to rise. Neither possibility is the death knell for the housing boom.

This goes against the overall perception of housing today. But you make the biggest gains in opportunities where perception differs from reality.

That's the case with the housing market right now... And it's why I continue to be fantastically bullish on housing today.

Good investing,

Steve