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Good signs for real estate from first quarter data

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The data on real estate market trends from the first quarter of 2014 shows some important trends. Although the just released (adjusted) 1% annualized decline in GDP may be troubling to some, a deeper look at the data shows growth in many important sectors. In the first quarter, consumer spending was up 3.1% and durable goods spending increased 1.4% - lower than fourth quarter 2013, but still growth. Some credit these lower figures more to the ugly weather throughout the country in the first quarter than economic problems. We'll see what the second quarter looks like.

The housing market has cooled somewhat - this is not an entirely bad thing in my opinion. According to data recently reported by S&P Dow Jones, the Case-Shiller Home Price Indices indicates that average home prices are back to their mid-2004 levels. Average home prices are still approximately 20% below the mid 2006 peaks - a level thought by many to be an unsustainable "bubble" level. FNMA economists report that the economy is poised for growth despite the stall experienced in the first quarter, however, they note that housing remains the weakest link. Chief economist Doug Duncan attributes the housing market stall primarily to affordability and consumer conservation. Many also feel that a lack of supply may be a contributing factor as well.

One interesting change noted is the substantial slowdown in the pace of Wall Street firms' purchase of single-family homes for investment. The buying spree of the last several years saw an estimated 140,000 homes purchased for nearly \$20 billion. The private equity firm, Blackstone Group, alone spent \$8.6 billion on 45,000 homes in the past two years, according to Jonathan Gray, head of real estate. This activity has slowed considerably of late. The most probable explanation is the recovery of home prices. At current levels in many markets, there is no room left in price vs. rent ratios to allow for the 15% gross yields formerly available for this newly discovered asset class.

In my opinion, the cooling off shown in this data is not to be feared, but rather an organic application of the brakes needed to avoid some of the excesses, which have accompanied the housing bubbles of the recent past.

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