Hello Everyone,

"If God had wanted us to spend our time fretting about the problems of home ownership, He never would have created beer." Dave Berry

As you might guess the subject of today's missive is real estate. And, in particular, home ownership.

We have all heard the stories about how fast homes are selling…and at remarkably high prices. We will try to explain why this is happening.

I hope it helps you see the housing market in a different light.

Signed, Your The-Scientists-Who-Are-Mixing-Human-DNA-With-Monkey-DNA-Must-Not-Have-Ever-Watched-Planet-Of-The-Ape-Movies Financial Advisor,

Greg

KKOB 2021.04.19 More Realtors Than Homes To Sell

Bob: So, Greg, today we are going to shift our focus to real estate. And I know our listeners like these segments because almost everyone has a vested interest in it. Even if it is just the price of their home.

Greg: Right. So, Bob, I am going to throw two data points at you and ask you for your quick analysis.

- First: The National Association of Realtors reports they have 1.45 million members. That's up almost 5% since last year.
- Second: There are 1.04 million homes for sale in the US. That is down 26% since last year

Bob: Wait. That means we have 400,000 more realtors than homes for sale. That's crazy. I know the housing market is tight. And I know there are bidding wars on houses. But more realtors than homes? That can't be normal.

Greg: It isn't. So, how did we get here? Well, as you might suspect, it was a confluence of things.

- Obviously, the Federal Reserve (and our Government) are spraying trillions of printed dollars across the fruited plain. And real estate is a beneficiary.
- Next, artificially low interest rates help. Because low rates allow for more qualified buyers.
- Finally, we have the flight from the big cities where the high taxation, drugs, riots, and lawlessness are taking their toll. (BTW, this is reversing a 150-year trend of people leaving the rural areas for the cities. Amazing.)

Anyway, if you are a realtor who has lots of homes listed, this is like an oil boom. You are taking multiple offers for your listings and often at prices considerably above the asking price.

If, however, you are the buyer's agent, I can't imagine how many times you must go back to your client and say, *"I'm sorry, but we got outbid again. Let's try to find another one to buy."*

Bob: So, I would guess that experienced real estate agents are doing better than the newbies. I mean, they would be the ones with the most listings and the longer track records.

Greg: Exactly. A lot of the new agents are Covid refugees. They may have worked as bartenders, or flight attendants, or small business owners. Then, Covid suddenly left them sitting at home wondering what to do. So, to their credit, they studied. Worked hard. Got their real estate license and embarked on a new career.

But now they find themselves staring at very little inventory in an incredibly competitive market. In my view, if you are a realtor in this market----and you are making it----you can make it anywhere.

Bob: I agree. And we have had a lot of realtors on this show who are just as you described. But with that said, I have to ask: Is this a bubble? I think most of our audience remembers all the house-flipping stuff of 12-15 years ago. And that didn't end well.

Greg: You're right. But this isn't quite the same. Unlike 15 years ago, I believe what today's housing market indicates is inflation. I mean, stocks are on a tear, not because the GDP is growing at double digits, but because a disproportionate amount of printed money is flowing there. I believe the same is true of real estate. Easy money at low rates is fueling this frenzy.

So, if I were a realtor, I would be watching the 10-year Treasury rate like a hawk. Mortgage rates pivot off that. And if inflation runs too hot, the Fed will be tempted (or forced) to raise interest rates. And if rates get too high, that will be like kryptonite to the housing market.

Oh, and the same holds true for stocks and bonds. Rising rates cripple bonds first. And, Bob, if history is any guide, bond market weakness will foreshadow later stock market weakness.

Bob: So, you're saying stocks and real estate may not be linked, but the driving forces behind both are similar. Printed money and low rates.

Greg: Yes. And I think you could throw Bitcoin in there as well. But that's a story for another day, and I know we are out of time.

Bob: We are. Interesting report. How do people reach you?

Greg: My number is 250-3754. Or go to my website at zanettifinancial.com.

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