

There is no housing bubble

**Opposing view:
Strong economy, short supply
and high demand equal low risks.**

By Jerry Howard

It's big box office this summer in the national media, but paraphrasing Mark Twain, reports of an impending housing price collapse are greatly exaggerated.

Demographic and economic fundamentals support today's housing expansion.

To begin with, strong household formations, fueled by population growth and immigration, are pushing average annual demand for new housing into the 2 million-unit range for the decade ahead, about today's production level. Equally important, the U.S. economy is fueling enough new jobs and income gains to support brisk housing demand even as interest rates inch upward.

Second, the unusually steep price gains provoking much of the speculation over a housing bubble are mainly in California, Nevada, Florida and the Northeast corridor, and aren't the norm for most local markets.

Third, builders are running into serious obstacles, such as excessive growth controls or moratoria, in lining up land for development in the fastest growing housing markets. In

the face of unrelenting housing demand, this is making housing shortages even worse, increasing the cost of building and persistently increasing house prices.

Fourth, unlike trading in stocks and bonds, buying a home is a costly and time-consuming process that is not susceptible to the kind of run on the market that occurred in the dot.com collapse. Also, the vast majority of families live in the homes they buy for a long time and don't flip them for a profit after a few months.

Finally, history shows that most unsustainable house price booms end quietly, as house price appreciation slows while ongoing increases in household income and housing supply help restore balance to local markets. A recent Federal Deposit Insurance Corp. study shows that house price booms lead to price busts only when local economies stumble for other reasons, such as a national recession. With the U.S. economy in the midst of a strong expansion, those risks are quite low for the foreseeable future.

It doesn't take a Ph.D. in economics to conclude that short supply and high demand do not add up to a housing bubble.

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