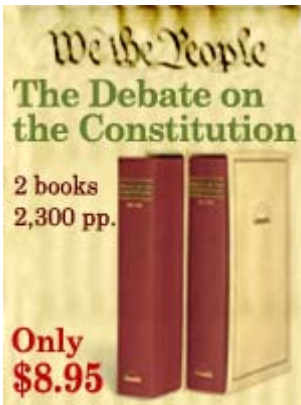


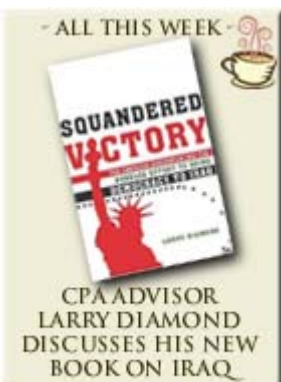


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The World At Your

FORBES: HOUSING BUBBLE "DANGEROUS"

By [Jon Lackow](#) | [bio](#)

From Forbes's [Advisor Soapbox](#):

[A] lot can change quickly on Wall Street. And the current climate carries special risks. We're not talking about oil recently hitting a record \$62 per barrel, or Fed Chairman Alan Greenspan's new warning of more rate hikes ahead, or even China's revaluation of the yuan against the dollar this week. We're talking about the growing danger from real estate. And yes, folks, even with the risk of our being mislabeled doom-n-gloomers again (as we were during the Wall Street bubble of 1998-99), we are officially calling it a dangerous "Bubble."

Too right. The S&P's real estate index is already **down almost 5%** today ahead of expected Fed rate hikes.

Aug 05, 2005 -- 12:12:17 PM EST

Forbes: Housing Bubble "Dangerous" | 17 comments (17 topical, editorial, 0

The Coffee House

Supreme Court Watch

America Abroad

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hidden)

Re: Forbes: Housing Bubble "Dangerous" (3.00 / 0) (#1)

by Ellen on Aug 05, 2005 -- 02:56:42 PM EST

And yes, folks, even with the risk of our being mislabeled doom-n-gloomers again (as we were during the Wall Street bubble of 1998-99) James Stack

And yes, Jim, those of your clients who took your advice in 1998 exited the 90's bull market a year and a half too early and gave up half profits they could have earned.

Re: Forbes: Housing Bubble "Dangerous" (3.00 / 0) (#2)

by DanielGree on Aug 05, 2005 -- 03:46:46 PM EST

Are we talking about housing stocks, eg Toll Brothers etal or houses? The former at getting beat-up in part beacause insiders are taking profits. It is a bit silly to say this is the end of the bubble in housing because of thetemporary downturns in these stocks.

As for housing itself how can there be a bubble like there is in stocks. Even in 1987 and my career was rather shattered by the real estate crash in New York there were areas in the country in which real estate stayed strong. Unless Congress acts in some way to make owning real estate less advantaged it would seem to me that

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OVERHEARD IN TPMCAFE BLOGS

(What is this?)

Matthew Yglesias - **A National Party**: I'm with Josh and Kenny in doubting that 2004 was a "realigning election." But I think Mike Lind is correct...

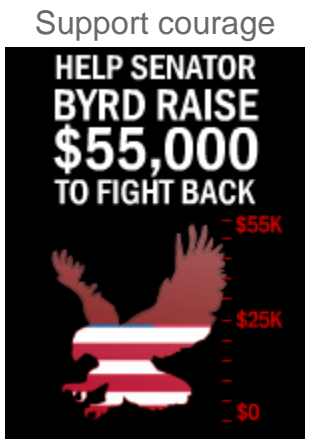
Kenneth Baer -- **Political Science 101**: Let me join Josh in taking exception to Michael Lind's claim that 2004 was a "realigning election." As I was...

Kenneth Baer -- **Chocolate City?**: In 1975, that esteemed observe of American urbar life, George Clinton, noted that the nation's capita was "chocolate city" and...

Thomas Donnelly - **The Domestic Front**: Larry Diamond is correc



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- Robert C. Byrd, August 2, 2005

Paid for by Friends of Robert C. Byrd
I'm Rachel Wacholder

the sale market is going to level off and the rental market strengthen. Incomes will have a chance to catch up to home prices. Some of the speculators will be washed out and a new leg of the suppressed Baby Boom demand will begin.

Daniel A. Greenbaum
[Parent]

Re: Forbes: Housing Bubble "Dangerous" (3.00 / 0) (#3)
by jlackow on Aug 05, 2005 -- 05:18:38 PM EST

Just because a housing bubble isn't like a stock bubble doesn't mean it isn't bad. See [my family's experience](#) with the late '70s-early '80s South Florida housing bubble.

Having a catastrophic income loss and being trapped in a now-unaffordable house that won't sell while high interest rates make refinancing a non-option is not the same as losing one's retirement savings, but it still sucks.

It's true that a one-day slip says nothing about the future of real estate. But you appear to be saying there's no connection between today's expectations that the Fed would raise rates and a decline in the housing sector today due to expected declines in housing demand. [Bloomberg](#) seems to think that "investors fret higher rates will curb housing demand," which is not an obviously unreasonable conclusion.

[Parent]

Re: Forbes: Housing Bubble "Dangerous" (3.00 / 0) (#4)
by cnic on Aug 05, 2005 -- 05:21:14 PM

that US domestic opinion about the Iraq war is the "center of gravity" for the insurgents,...

Matthew Yglesias - [Fired for Cheating?](#): Like various other commentators I'm a bit surprised to learn that troops operating under your command ca torture people and...

Nathan Newman - [Sweeney Backs Down on CLCs](#): S locals of the disaffiliated unions won't necessarily be thrown out of local Central Labor Councils: Yesterday, after being urged...

OVERHEARD IN DISCUSSION AREA

(What is this?)

unclesmedley -- [The Duke's Shenanigans](#): In a letter to past donors to his re-election committee Duke Cunningham's magnanimity is made manifest. "Should you object to my..."



I will Lay Out
For Every Last Ball

I will Challenge the
Net
And My Most Fierce
Competitor

I will give it my all for
I am Rachel
Wacholder

This Summer I'm
Playing

LIVE on NBC
August 13 & 14
at 4:30pm EST

EST

Daniel Greenbaum is right that real estate will probably remain strong in various areas of the country (think NYC). However, I think he underestimates the size of this bubble. There are many places where the sheer amount of speculation and flipping are staggering (think southern FL), as well as still others where housing prices seem to have no rational correlation with rental prices (Seattle, San Francisco). Foreclosures have risen sharply this year, and the rate is expected to continue to rise.

Remember, the Fed propped up the housing market after 9/11, thus using it to disguise the weakness of our economy. Last year, Greenspan even advocated that people take out risky adjustable mortgages (who cares about the peons' solvency, as long as gov. policies are propped up!). However, interest rates can't be held down indefinitely, and the dike is going to break.

[Parent]

Re: Forbes: Housing Bubble

"Dangerous" (3.00 / 0) (#5)

by Ellen on Aug 05, 2005 -- 06:03:11 PM
EST

. . . a new leg of the suppressed Baby
Boom demand will begin. Daniel A.
Greenbaum

We're near 70% home ownership, and
home ownership among baby boomers,

scott white --
**Plame's a
Boondogglor;**
Rove's a Hero:
This is actually a
pretty accurate
picture (except for
the heroic part): th
Wilson trip was a
boondoggle. To
understand...

Rick Heller --
**Spatial Advantage
of the GOP:**
Congressional
district lines are
currently drawn to
the GOP's
advantage, which
allows them to
pursue a polarizing
base strategy. If...

Josh Marshall --
**New Hampshire
Phone-Jamming
Scandal:** Why is
the RNC paying
the legal bills of an
election tamperer
its publicly
disowned? ...

LibertyBell -- **The
Gaping Divide:** Th
Democrats lost the
culture to the
Republicans, and
we are all paying
the price. We
Libertarians have
been wandering...

The Duke -- **One
Fish Two Fish Red
State Blue State:**
Hat tip from the
Land of Indigo to

ages 41-59, must be a good deal higher than that.

What Baby Boom demand has been suppressed?

[[Parent](#)]

Re: Forbes: Housing Bubble "Dangerous" (3.00 / 0) (#6)
by DanielGree on Aug 05, 2005 -- 06:47:35 PM EST

For second homes and here in New York there are still lots of Baby Boomers who do not own their own apartment. Remember, when we graduated from college and graduate schools inflation had been rampant and interest rates were in double digits. For a long time people had to put off home ownership.

Daniel A. Greenbaum

[[Parent](#)]

Re: Forbes: Housing Bubble "Dangerous" (3.00 / 0) (#7)
by cnic on Aug 05, 2005 -- 06:52:50 PM EST

Also, with vastly inflated home prices, rising interest rates, stagnating wages, and tighter credit, more Americans will either downsize their homes or enter the rental market, where prices haven't followed the bubble . . .

[[Parent](#)]

Robert Kuttner for writing that the country is not irrevocably divided into...

RECOMMENDED READER BLOGS

[Think urban blue America is immun from Wal-Mart 'populism'?](#) (Aug 09, 2005) By [artappraiser](#)

I am referring to both blue state and to blue collar as consumer and voter. When

[Atomic Morality](#) (Aug 07, 2005) By [viviane](#)

Sixty years have passed since the Enola Gay dropped an atomic bomb on Hiroshima,

[Where Are the War Heroes?](#) (Aug 06, 2005) By [cscs](#)

Today, the NY Times asks an important question "Where are the war heroes?" Unlike WWI

[Where's the Porn Outrage?](#) (Aug 06 2005) By

[WinstonSmith](#)
Lost among all the hypocritical blather coming from the right about "values

Re: Forbes: Housing Bubble

"Dangerous" (3.00 / 0) (#8)

by cnic on Aug 05, 2005 -- 09:32:57 PM EST

"downsize their homes"

I erred here. Those who have "bought up" and then can't afford their mortgages and other home expenses may have to sell at a loss. Newbies on the market may find renting more financially viable.

[[Parent](#)]

Re: Forbes: Housing Bubble

"Dangerous" (3.00 / 0) (#9)

by John on Aug 08, 2005 -- 08:43:28 AM EST

The average US home has risen by 70% in size since 1970. And the youngest baby boomer is 40 this year.

It's hard to believe that Baby Boomers have much more oophm to give the housing market. When the oldest (who has just turned 60) is already looking to retire and downsize (and there were far more babies born 1945-55 than 1956-65.

It's important to understand from the Australian experience that there doesn't have to be an obvious external cause to a housing market falling. Australian demographics are good (even better than the US), the economy is growing faster than the US, but prices have fallen 16% from their peak.

Higher interest rates *might* kick it into touch, but the reality is that when a market

and their endless

"authorized" vs "suggested",
[Plame & the State Dept. Memo](#) (Aug 06, 2005) By [p lukasiak](#)

One of the most overlooked question regarding the Plame leak is who warned off both

[Reinventing the Party of Jefferson](#) (Aug 06, 2005) By [David Nichols](#)

Having just read Michael Lind's article and many c the responses to it I understand

gets a momentum, it goes with that momentum. In stocks the cycles are short because transactions costs are low and supply is liquid (high share prices bring new issues).

In property the cycles are long because transactions costs are high, search is costly, information is imperfect and liquidity is limited.

Here in the UK we are about to have housing prices negative year on year for the first time in 13 years, that will be an important test of a market which has trebled since its lows 12 years ago.

If this was a commercial property market we would look at the rental yield and the cap rate and say 'overvalued' and confidently expect a crash. Commercial property has a typically 15 year cycle and we would have no problem making that judgement. Because it is 'houses' we impute something magical to it and exempt it from the laws of speculative financial markets. But we are wrong to do so, a house is a financial asset like any other: you can always rent it out or release equity, just like any other financial asset.

Historically in the US only some markets crash due to regional factors (New England 1990-94 for example). However this time the overvaluation is so systemic and pervasive that many more areas and communities may be affected. With the exception of Las Vegas however, AFAIK almost all of the very overvalued communities are on the coasts.

[Parent]

Re: Forbes: Housing Bubble

"Dangerous" (3.00 / 0) (#10)

by John on Aug 08, 2005 -- 10:42:39 AM
EST

[http://www.bloomberg.com/apps/news?
pid=10000039&sid=avotuFj8V
cXs&refer=columnist_currier](http://www.bloomberg.com/apps/news?pid=10000039&sid=avotuFj8VcXs&refer=columnist_currier)

So what to do? In the absence of better answers, investors can at least imprint on their minds the idea that bubbles represent a separation of the market price from the basic purpose of the asset in question.

Disconnected

As one authoritative writer on the subject, the late economist Charles Kindleberger, described them, participants in a bubble are ``generally speculators interested in profits from trading in the asset rather than its use of earning capacity."

When something comes to be viewed as a ``trading tulip" rather than a flower bulb, we understand that the asset's price has probably broken loose from its moorings.

....

Motivation

So investors can begin an informal test for bubble conditions by examining their own motives for buying a stock. If we are working from some reasoned appraisal of what the company might earn in five or 10 years, based on a study of its business model, we can hope we are on solid

ground. If it's because ``they're talking about a price target of \$500," probably not.

So too with houses, which in their essence are places for people to live in, not price-appreciation vehicles. It's a reasonable certainty that people will always need a roof over their heads; price appreciation is a wish, not a need.

There was a time, just a couple of generations ago, when the standard advice given to new homeowners was to depreciate one's investment by, oh, 3 percent or 5 percent a year in doing one's family accounts. Like cars and many other consumer durable goods, houses lost value as they aged. My grandfather passed along that advice to me in 1974 as we sat on the back porch of a small place my wife and I had just bought.

How quaint, I thought even then. Time had already given the younger generation a different set of expectations about the economics of houses.

[[Parent](#)]

**Re: Forbes: Housing Bubble
"Dangerous" (3.00 / 0) (#11)**
by John on Aug 08, 2005 -- 10:52:27 AM
EST

[http://www.bloomberg.com/apps/news?
pid=10000039&sid=aO5TkM5bq
9po&refer=columnist_wasik](http://www.bloomberg.com/apps/news?pid=10000039&sid=aO5TkM5bq9po&refer=columnist_wasik)

good summary for investors on housing

bubbles.

I don't buy the analysis that you should invest in markets that haven't moved a lot: investing in houses in Buffalo, NY, has never really paid off. Just because a market will go down less doesn't by and large mean it is an attractive investment. The exception would be an area where housing prices are reasonable relative to rents and there has been a population influx.

The thing to watch is consumer sensitive stocks like Home Depot, household furnishings etc. If there is a downturn in the housing market, these stocks will hurt (people will feel less like spending money on their homes-- the argument that they will spend more on home repair never really works out). My parents have lived with the same kitchen and appliances for over 30 years, and our generation will find it can do so, too. Retail REITs can get hurt.

The other area of substantial exposure to the housing market is finance and finance-related stocks. Be it mortgage origination or mortgage securitisation the finance sector has been riding the housing boom.

The relatively safe stocks will be consumer staples and pharma, plus exporters (the dollar will likely weaken).

[**Parent**]

Re: Forbes: Housing Bubble
"Dangerous" (3.00 / 0) (#12)
by Ellen on Aug 09, 2005 -- 12:30:04 AM
EST

. . . *there were far more babies born
1945-55 than 1956-65*

Are you sure it's not just the opposite?

Census 2000

Age Group	Number	%
35 to 44 years	45,148,527	16.0
45 to 54 years	37,677,952	13.4

[[Parent](#)]

**Re: Forbes: Housing Bubble
"Dangerous" (3.00 / 0) (#13)**
by John on Aug 09, 2005 -- 05:04:52 AM
EST

The (Canadian) data I had was that the Baby Boom peaked in 1956 then had quite a rapid drift down, with the Pill introduced into Canada in 1964 (9 months after the US) and a steep drop in births on its introduction.

However your data implies the opposite at least for the US. Part of the explanation may be deaths (older people die more often) but at those age groups that should not be a huge factor at least not by 7 million people!*

Thank you for the correction.

I still don't know many Baby Boomers who have yet to buy a house (call me the last Baby Boomer (1963) and I am on my first, my brother (1961) is on his third).
Divorce brings new homeowners but it is

also an age when remarriage kicks in, which puts two households into one: since the divorce rate is no longer rising I expect the effect nets out. Second homes are sought after, but I don't think they will be as sought after if they look like a cost rather than an investment.

The desire to trade up is always there, but again if housing is not an appreciating asset, it will be less so. My parents have lived in the same house for almost 50 years, having come from an era where you paid off your mortgage and counted your laurels. The point being that such an 1800 square foot 1920s home satisfied them through having 2 teenage sons and into retirement (with the same kitchen ;-). The current generation treats its home as a financial asset, but it may not always do so.

Australia has even more robust demographics than the US due to high immigration, with the population entirely concentrated on the coastal belt, but nonetheless prices have fallen 16% from the peak there. Economic growth has been higher than the US as well (commodity boom exporting to China).

* more of us die than we might think. After all, an average life expectancy of 77 means half of us don't make it that far. One thing I have noticed in my 40s is people dropping away.

[**Parent**]

Re: Forbes: Housing Bubble
"Dangerous" (3.00 / 0) (#16)

by Ellen on Aug 09, 2005 -- 11:05:31 PM
EST

Dividing the 19 year (1946-64) Baby
Boom generation in half at June 30, 1955,
U.S. births are as follows:

1946-55 35,953,000

1955-64 39,909,000

The birth rate (live births per 1000
population) peaked in 1954 and again, in
1957 at 25.3.

High U.S. immigration rates and post-
Boomer changes to immigration policies
probably explain the greater difference in
current lives-in-being than would be
suggested by the different birth statistics.

[[Parent](#)]

Re: Forbes: Housing Bubble
"Dangerous" (3.00 / 0) (#17)
by John on Aug 10, 2005 -- 01:25:02 PM
EST

Thank you for the factual correction.

Immigration is an interesting factor. My
gut is that since immigration has not
sustained Australian housing prices, it will
not sustain US housing prices.

[[Parent](#)]

Re: Forbes: Housing Bubble

"Dangerous" (3.00 / 0) (#14)

by John on Aug 09, 2005 -- 07:30:22 AM EST

Sorry on that second star I meant to say 'median'.

An 'average' life expectancy of 77, given that we know that most of us won't make it past 90 (at least most men won't) means that the distribution is 'right skewed': more than half of us as individuals could make it past 77 if in the previous 77 years, a number of us died in our zeros, teens or twenties, say.

I believe the average life expectancy is 77 but I don't know off hand what the median is.

conditional life expectancy (3.00 / 0) (#15)

by Joe Buck on Aug 09, 2005 -- 02:49:51 PM EST

It's common to confuse life expectancy with conditional life expectancy. The former is measured from birth, and factors in things like infant mortality (the main reason why US life expectancy is a couple of years less than Canada and Europe is that so many more American infants die).

The life expectancy at birth for a man in the US is about 73. But given that he lives to age 65, his conditional life expectancy is 15 years (half of all men who make it to age 65 will make it to age 80).

[Source here..](#)

**Forbes: Housing Bubble "Dangerous" |
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