ARE WE IN A HOUSING BUBBLE?

That question seems to be bouncing around a lot. Here's a stab at first of all, what is a housing bubble? A housing bubble is prices of homes being driven up by strong demand that pushes prices even higher. The end could come about by a lessening of demand for housing. Housing is driven by jobs. So if unemployment spikes or even job growth subsides (and job growth has been mild to good in the last year) then the bubble could burst. How about lack of demand by buyers? In the 1980s and early 1990s sometimes the demand went away because there was a limit to the number of buyers available. In other words, pretty much everybody that was a buyer bought and then new home sales, and existing sales declined or maybe stayed status quo.

It's not like that anymore. Demand, due to population growth, due to job growth, due to wealth growth of the baby boomers, many of whom are buying second homes and even third homes, is changing the housing market dramatically.

According to the May 17th *Wall Street Journal, (section D, page 2*) some housing markets have had annual appreciation of 17%-25%. These markets are Manhattan, southern California, Phoenix, Las Vegas, and coastal Florida. Setting aside these markets, average annual appreciation throughout the US in the last 12 months is 9.7%. (Call 319-378-6786 for a copy of the article.)

CBS Morning show

Dick Pearson of Hudson, WI clued me in on a great news show about the so called housing bubble. (Sunday May 1, 2005) It's really interesting so please call for a summary of the contents: 319-378-6786).

Professor Robert Shiller of Yale University was on the show and likens the current housing market to the dot.com bubble of 2000. Professor Shiller has been widely credited with predicting the dot.com debacle.

The economist for the National Association of Realtors says nonsense. There is no housing bubble. Strong demographics are driving housing demand. The low interest rates make it "the best of both worlds." Stay tuned on this one. As an aside, The Wall Street Journal's star analyst for the year, for the home construction sector is 36 year old, Steven Kim of Smith Barney. He is very bullish on housing and not because of interest rates. He cites demand based on strong, growing demographics. By the way, his top stock pick was Toll Brothers with a 73% increase in value over the last 12 months. Several other housing companies were close to this large increase. Can you think of any manufactured housing company-manufacturers, suppliers, community operator that is growing anything like this?

Manufactured Housing

So, why are we talking about residential real estate? What's that got to do with park & community owners? One thing, really. If - and when – the housing bubble bursts, what does that do to MHC owners. (MHC-Manufactured Home Community and Mobile Home Park) Here are some observations/questions:

Why isn't the strong demand for residential real estate sloshing over into parks and communities? Are consumers thinking that if they can't buy a house (real estate) then forget about considering a manufactured home. Buying homes is something like an infectious disease. If your friends, your relatives, co-workers, people at your church, your bowling team, and so forth are buying homes and talking about it, guess what average Joe or Betty consumer wants to do? They want to buy a house, too! Now it seems like any prospective buyer that can fog a mirror can buy a house. You've heard all the ads – no credit or bad credit, no problem. No down payment? You probably don't need one. The killer ad is the one in which the loan officer tells the buyers, "Hey, we don't care about your past credit; we care about your future credit!" (Editorial note: Do you think some of these lenders will have a rude awakening some day?) Why aren't more prospective buyers at least investigating manufactured housing? Most communities/parks and retail centers have a dearth of prospects. The exception to this is the retirement communities and resort areas, and some large metro markets.

Prices—Interest rates for residential real estate have bounced around the 5% rate for nearly five years. The mantra heard a lot in this industry goes like this: "We don't do well in times of low interest rates." In the past, before say, 1999, that probably was pretty accurate. Most of you have had the experience of working with a qualified buyer for a manufactured home, that wouldn't go a head with the purchase, because of the low interest rates for residential as compared to our 9%-10%-12% interest rates. This is the prospect, who for whatever reason couldn't buy residential real estate. But he/she could have bought a manufactured home. Our prospect didn't go head because the cheap residential interest rates as compared to MH interest rates stuck in his/her craw. The principal of it got in the way. Why, they asked, should they pay such a higher interest rate?

Wouldn't you think that the strong appreciation of prices in residential real estate would be working in our favor by now? Wouldn't you think that houses for sale that are 10% higher in price this year over last year, make some of these buyers pause and at least consider other alternatives? Even if interest rates stay low, shouldn't the escalating price send more buyers to manufactured housing? Yet, that isn't happening (again, senior communities and resort areas excluded).

Is it the depreciation problem of our homes? Is the value proposition of community living not there? Scott Jackson, CEO of ARC put it well on his quarterly conference call to the analysts: it took place on May 9th. In talking about filing vacant homesites, Scott said, "Delivering customer value is the issue not the demand for our product!" Customers are looking at the MHC and the Manufactured Home. They are voting with their feet. They are walking away – or not walking into our retail centers and MHCs to begin with.