

IVY ZELMAN: 'There's a shortage of shelter'

Yahoo, Myles Udland, Business Insider, June 6, 2016

Ivy Zelman is clear: we're gonna need more housing.

A lot more.

Speaking with Barron's this week, Zelman — one of the top housing analysts around who rose to fame with a big call *against* homebuilders ahead of the housing crisis — said that no matter how you cut it, there are not enough places for people in America to live right now.

Here's the key quote from Zelman (emphasis mine):

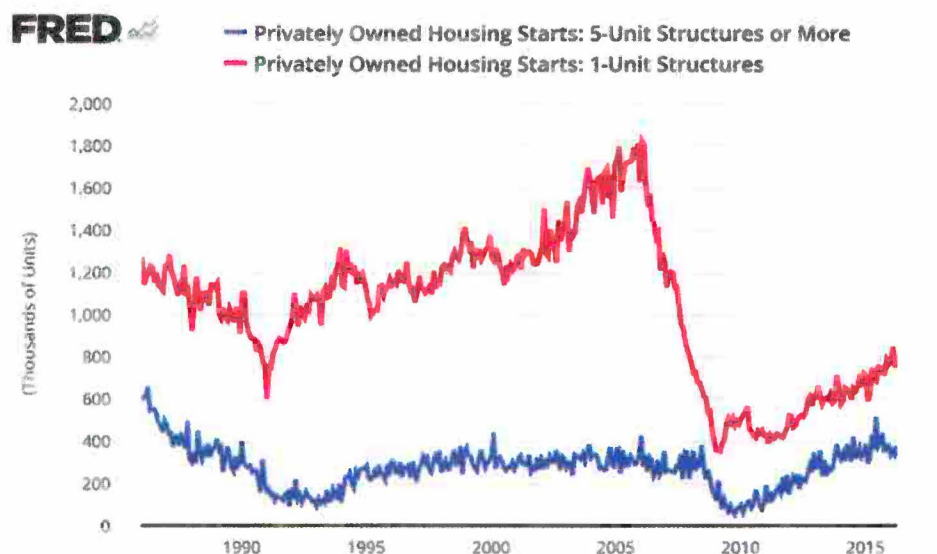
This cycle will be elongated, and the slope of the recovery is flatter than what we thought the trajectory would look like when we called the bottom in 2012. Builders have been slower to see the growth. **There's a shortage of shelter. We're pretty indifferent whether shelter should be owned or rented. We're just saying there isn't enough.** The U.S. is at a 30-year low of inventory available for sale. We are predicting double-digit housing-starts growth this year, next year, and in 2018.

Zelman also addresses what we've called the "next housing crisis," or a shortage of affordable housing on the low-end of the market (think single-family homes that cost around \$250,000 or less).

Zelman tells Barron's that some builders have told her they are in this space and "killing it."

We're now almost a decade past the worst days of the housing crisis when it was finally realized mortgage credit had been extended to borrowers who had no chance to pay back these loans. Activity in the housing market seized up, with this most succinctly captured in the cratering number of single-family housing starts.

But Zelman's commentary makes clear that the red line in the chart below is simply going to expand and to the right for a good long while.



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Now when it comes to the impacts certain housing market dynamics can have on the broader economy, Zelman's agnostic view towards buying or renting has big implications.

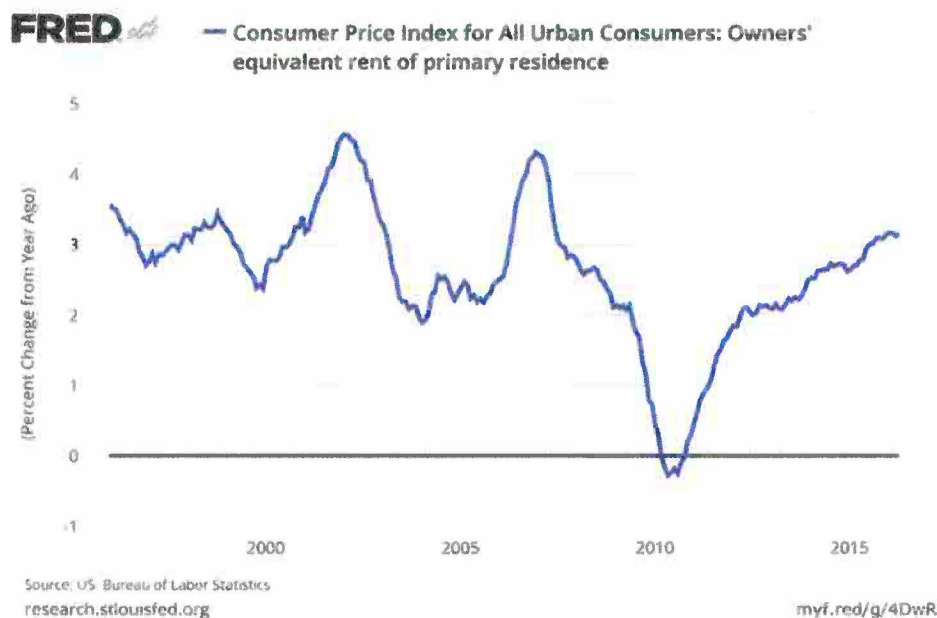
Owners' equivalent rent holds a major weight (about 30%) in the BLS' monthly consumer price index, and if you have more people renting than buying, they are left more vulnerable to major upward increases in housing costs which may potentially push inflation higher.

Mortgages, on the other hand, tend to be fixed costs and in an ideal situation go down over time as a percent of household expenditures.

The chart above indicates there exists a bigger opportunity in single-family building — and hence an increase in the number of consumers paying a mortgage, not writing a monthly rent check — but multi-family housing is what *has already been built*.

This sets the scene for an inflationary event if household formations continue rising but these new households are initially pushed to rent instead of purchase shelter.

As the chart below shows, rents have been rising about 3.1% year-on-year, more than the "core" CPI measure of 2.2%.



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