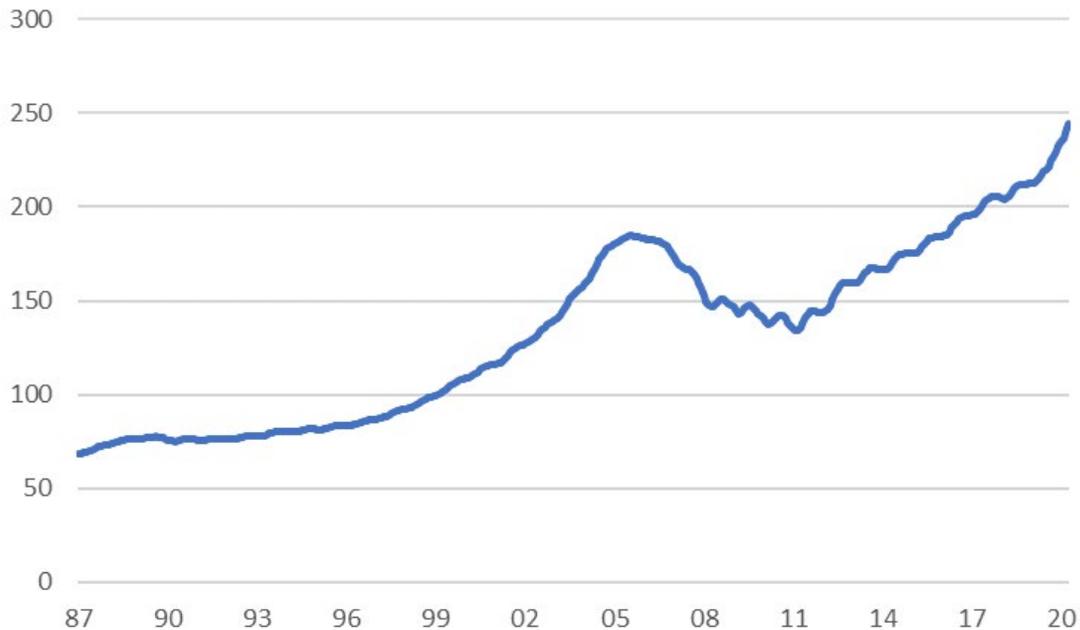


## MARKET COMMENTARY

FIG. 1: S&P Case-Shiller National Home Price Index



Sources: Bloomberg, Mill Creek

The S&P/Case-Shiller National Home Price Index increased by 14.5% on a year-over-year basis at the end of April (the most recent update). This annual price increase was the highest on record and stands without peer except the 2005 “[delusion stage](#)” of the last real estate bubble. Are we in a new housing [bubble](#)? The evidence doesn’t seem to suggest so.

There are the typical warning signs. In addition to historic price increases, [price-to-rent ratios](#) are back to 2004-2005 levels and the ratio of [house prices to median incomes](#) is also now higher than at any point except the 2004-2008 time period.

A [bubble requires speculation](#), but there are few signs of speculative behavior this time around. [Lending standards](#) remain tight, home equity extraction has been modest, and buyer sentiment has declined to all-time-lows, with [64% of consumers saying it’s a bad time to buy a home](#).

On the other hand, there are several explanations for the price boom:

1. Current inventory: We are close to all-time-lows in regards to inventory, and inventory and price change have historically been inversely correlated (prices increase when inventory is low),
2. Total housing supply: The US has produced six million fewer single family detached homes since 2005 than would have been expected based on the 1985-2005 trend,

3. Low borrowing rates: Even at higher prices, affordability remains reasonable due to low mortgage rates, and
4. Demographics: Millennials have reached prime home-buying age.

In sum, home prices have likely exceeded fundamentals, but those fundamentals also point to sustained strength (with significantly lower price appreciation) in the housing market for the bulk of this decade.

## QUICK LINKS

- [House View Summary](#)
- [Q2'21 Macroeconomic Outlook](#)
- [Q2'21 Equity Outlook](#)
- [Q2'21 Fixed Income Outlook](#)
- [Q2'21 Private Equity Outlook](#)

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