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FT Long Short

US housebuilders: double bubble?

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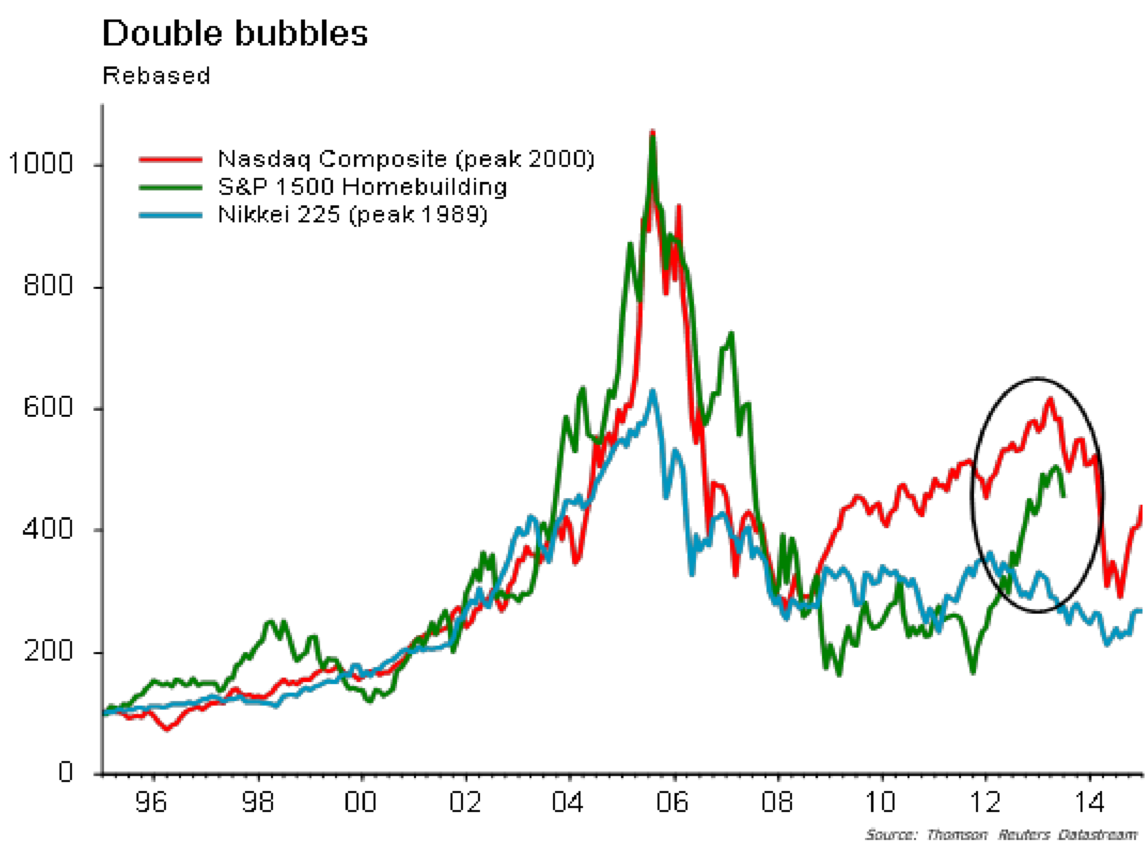
Americans have been wondering if the housing market is in a double bubble for a little while, since Professor Robert Shiller, co-creator of the Case-Shiller house price indices, raised the danger.

The real action has been in housebuilders, though. Their valuations, based on price to estimated book value, peaked in May above where they stood at the height of the property bubble in 2005/6. Prices look very much like the rebound bubble in the Nasdaq, in the Dow Jones Industrials in the late 1930s and in the Nikkei 225 (although it wasn't quite so big). This chart shows the Nasdaq and Nikkei time-shifted so the peaks overlap with the 2005 peak in housebuilding shares:



I've circled the point where the rebound went wrong again: seven to eight years later for both Nasdaq and, less spectacularly, the Nikkei (the Dow's second depression-era boom-bust came in 1937, also eight years after the original bubble).

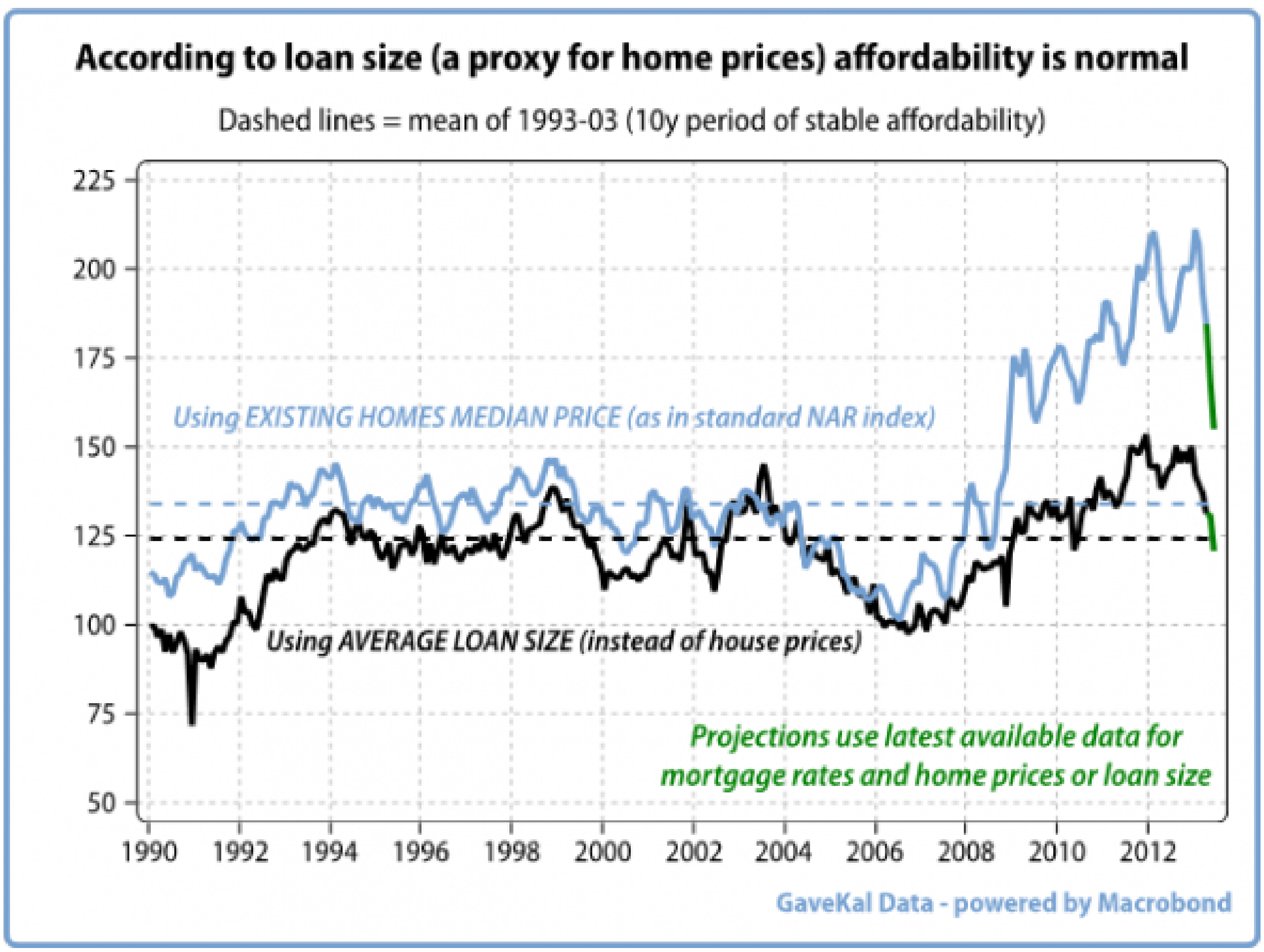
More fab charts, including one must-see on why US housing isn't as affordable as everyone thinks, after the break.

Housebuilders went into a brief bear market as mortgage rates soared and share prices tumbled over the past six weeks, but have been rising as mortgage rates dropped back.

One of the biggest supports investors see is how easy it is to buy a house in the US: affordability may be sharply down, but remains high, according to the main index, from the National Association of Realtors.

The problem is that the index relies on the median home price. This seems perfectly reasonable, until you realise that the median price of a home is now significantly cheaper than the median size of a mortgage, because cash buyers – particularly investors – are hoovering up cheap homes. They couldn't care less about affordability, because they haven't got a mortgage.

Gavekal's Will Denyer has recalculated the affordability index using the median mortgage instead of home prices in the chart below (the normal index is in blue, with the black line showing the recalculated version; green projects both to the latest mortgage rates). This seems to me a better measure given affordability only matters for those with a mortgage. The bad news is it suggests US homes are back to normal levels of affordability, in the range of 1993-2003:



The best of the boom is behind us for housing, and that suggests US housebuilders' shares might be at rather heady levels still.

It is too soon to say the double bubble is about to burst. But housebuilders certainly are no bargain. Here's today's Short View video, with more charts:

Tags: affordability, Gavekal, housebuilders, housing, Nasdaq, Nikkei 225
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