Steve Sjuggerud's
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PREMIUM

Housing Optimism Is Back Up to 2006 Levels... Should You Worry?

By Dr. Steve Sjuggerud
Monday, January 12, 2015

Housing optimism is back up to 2006 levels...

Should we worry about a 2006-style bust?

After all, 2006 was "the beginning of the end" in U.S. housing. And it kicked off the worst housing bear market of our lifetimes.

But today's optimism is not a bad thing, as I'll show.

Homebuilders are now at 2006 levels of optimism. But today is not 2006. Home prices are still "cheap" today. And I still believe home prices could rise significantly from here.

Let me explain...

Conditions in the housing market have improved dramatically after the market bottomed out in 2011.

The economy has recovered. Unemployment has fallen. And folks are in a better spot to buy homes.

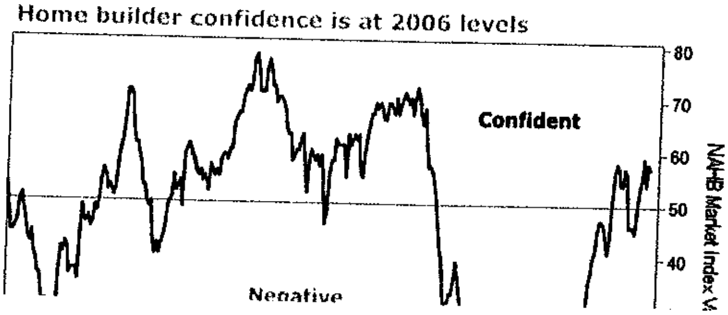
This is what I expected to happen. I've written about why housing could rise for years. And I've been right so far. And now, after years of pessimism, homebuilders are downright enthusiastic about the future.

We can see this through the National Association of Home Builders (NAHB) Market Index...

This index is a survey of what homebuilders think about the housing market. A reading above 50 is positive. A reading below 50 is negative.

Today's reading is the highest we've seen since 2006. Take a look...

Home builder confidence is at 2006 levels



Steve's Premium Notes

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Housing just got MORE affordable for most buyers...

Housing around the U.S. got more affordable last week. A typical homeowner could save over $1,000 a year, as I'll show.

Last week, President Obama announced that the Federal Housing Administration would cut mortgage insurance premiums on FHA mortgages.

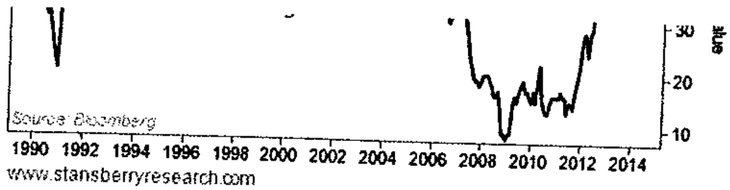
You see, if you buy a home and put down less than 20%, you have to purchase insurance against yourself. You have to purchase insurance that pays off if you default on the home. This protects whoever owns the mortgage. And it's the only reason folks are able to purchase homes with a down payment of less than 20%.

Now, if you purchase a home with an FHA mortgage (which allows ultra-low down payments and other benefits) the mortgage insurance premium used to be 1.35% a year. But that rate will fall by 0.5% soon.

Half a percent might not sound like much. But on a $250,000 mortgage, that'll save you $1,250 a year – or over $100 a month. For a homeowner on the fence about buying, that $100 a month could make the difference.

Housing affordability is already well below historical norms. And that's thanks in large part to near-record-low mortgage rates. Now the cost to insure those cheap mortgages is falling as well.

The downside to this is that easy money is getting easier. That always creates the potential for problems. And it could end badly one day. But with housing as affordable as ever, that day is not today.



Seeing that might make you nervous. Anyone burned in the housing bubble will be fearful of a housing indicator at 2006 levels... Especially one that shows how excited folks are about housing.

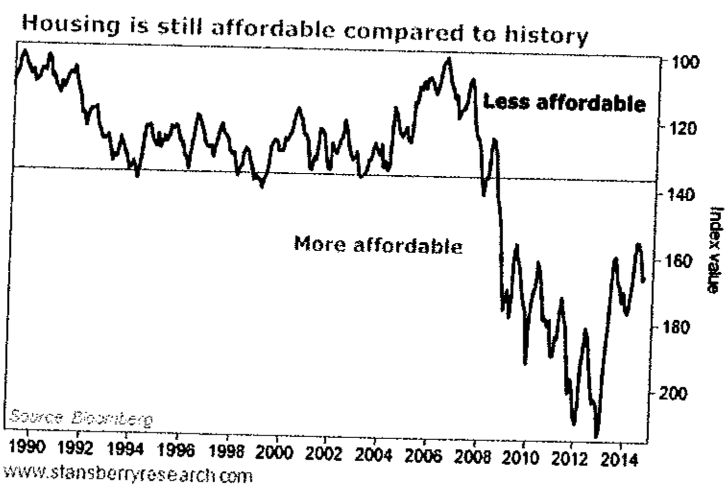
But today's housing market is much different than it was in 2006. I don't expect a crash for one simple reason. Housing is still "cheap" right now.

This becomes painfully obvious when you look at housing affordability...

Housing affordability is a simple comparison of three things... 1) income, 2) housing cost, and 3) mortgage rates.

During the housing bubble, home buyers bit off more than they could chew. Anyone with a pulse could get a mortgage. The problem was, many people couldn't afford what they bought. High mortgage rates and housing costs made housing unaffordable in 2006.

But today, even after a big move up in prices, housing is still affordable. Take a look at the Housing Affordability Index...



Affordability is down since 2012. But it's still dramatically *higher* than the long-term average.

Home prices would need to rise another 20%-plus to hit their long-term average affordability. Of course affordability could also fall if incomes decrease or mortgage rates increase. But the main affordability driver over the past few years has been home prices... And I expect that to continue.

So yes, homebuilder optimism might be at 2006 levels. But today is NOT 2006. And optimism is not a problem...

We're still in the housing sweet spot. And housing is still cheap.

There's still time if you haven't bought a house. Don't miss out!

Good Investing,

Steve

Housing just got more affordable last week. And that's just one more reason why I expect prices to continue higher.

- Steve Sjuggerud and Brett Eversole

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