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Housing in America: Movin' on Up

While exceptional exceptions exist, history's shown superb sitcom sequels to be scant.

With any luck, you've long since forgotten the abysmal attempts of "AfterMASH," "The Brady Brides," "The Love Boat: The Next Wave," and possibly the worst of the bunch, "Jonie Loves Chachi." These small screen sideshows failed to give us Good Times, nor did they endear us to characters we still hold dear – Benson, Frasier, Laverne, Shirley, Maude, Mork and the lovely Mindy.

These disastrous debacles did anything but invite us to sing along to their opening songs. There was no, *Movin' on Up* to the east side, to a deluxe apartment in the sky. Ah, The Jeffersons, which premiered in 1975 and ran for 11 seasons. *Rolling Stone Magazine* ranked it the fifth-best TV spin-off of all time. Think of it as the gift that All in the Family kept giving as only the brilliant creator of both George and Archie, Norman Lear, could deliver.

The beauty of The Jeffersons was the ease with which its characters elicited laughter. No longer was it 1971, when Archie Bunker's angry sarcasm resonated so clearly with American viewers, whose own tempers were still flaring from the searing '60s. By 1975, we were all in the need of George Jefferson's victory walk across the screen and the derision it elicited from Florence, the housekeeper who gave new meaning to cynically caustic comebacks.

It's worth asking how valid the premise of The Jeffersons would be today. What are the odds a successful, entrepreneurial dry cleaner from Queens could pull up stakes and relocate to a luxury apartment at 185 East 85th Street in the Park Lane Towers? You tell me: units are available in the building with monthly rents starting at a cool $18,200.

Granted, this is an extreme example. According to Axiometrics, the national average annual rental rate is $1,304. While that figure is a record in dollar terms, there is much better news in the underlying trend of rental inflation. In May, effective annual rent growth rate was 2.2-percent, a level that's held steady for the past six months. Critically, the rate has more than halved since its record pace of 5.2-percent was clocked in September 2015.

Chances are we will see a continued leveling off in rental inflation. Apartment construction is running at its highest level in at least 25 years. Nearly 600,000 units are currently under construction nationwide. Deliveries are forecast to be 102,000 in the third and fourth quarters, up appreciably from the average 82,000 per quarter in 2016 and early 2017. Looking out over the horizon, one million units will hit the market in the next three years.

This should be welcome news for renters. (Do you sense a however coming your way?) However, the vast majority of new construction in recent years has been in luxury units. That helps explain why half of would-be renters cannot afford to set out on their own – that $1,300-plus monthly pill is too big to swallow based on the affordability standard of 30 percent of income.

That's assuming, mind you, you draw a decent salary. According to a recent report detailed in the Washington Post, no city in America has low enough rents on two-bedroom apartments for someone earning minimum wage to call home. All of 12 counties nationwide boast rents low enough for minimum-wage earners to let, that is if they can confine their belongings into a one-bedroom unit.

If you thought location mattered most when it came to buying, think again; it's an even more critical determinant of rents. The minimum hourly wage you'd need to afford to rent in some counties in Georgia is $11.46. Meanwhile, across the country in the San Francisco Bay Area, you'd need to be raking in $58.04 an hour. Good luck with that commute teachers and nurses!

The report went on to say that things have only gotten worse since the Great Financial Crisis. In the eight years through 2015, average inflation-adjusted apartment rents rose by six percent while that of real wages fell by four percent. The upshot: some 11.2 million US households spend over half their income just to put a roof over their heads.

As big as that 'however' was, there's an even bigger caveat that follows: Demographics suggest demand for apartments will only continue to increase in the coming years. Some 4.6 million MORE apartments will need to come online between now and 2030. That's according to a fresh study jointly commissioned by the National Multifamily Housing Council and the National Apartment Association (Caution: Always consider potential bias of source).

It's helpful to provide some context. The 4.6-million-unit figure is not altogether shocking against the backdrop of the million new renter households that have formed in every single one of the last five years, a record run rate as coming-of-age Millennials competed with downsizing Baby Boomers for apartments.

The question comes down to whether this momentum can be sustained. Will we really see annual construction of at least 325,000 new apartments for the next 12 years to satisfy this forecasted demand? It's highly doubtful. It would require the massive imbalance that's favored apartments over single-family construction to persist, which we know won't be the case as the homeownership rate appears to have finally bottomed and begun to recover.

More to the point, Baby Boomers' vacated homes don't magically vanish into thin air keeping supply and demand in some beautiful balance only a realtor's imagination could conjure. Every one of their homes sold adds to the supply that's been 'depleted' in recent years by deep-pocketed private equity buyers who've swarmed markets from coast to coast to find a home for all that dry powder in their kegs.

Let's be clear, Boomers have clearly indicated they'd prefer to sit tight, to age in their home sweet homes. Buy Home Depot stock and call it a day? That tall 'buy' order requires suspended animation, as in the presumption that recession will be held at bay indefinitely.

The reality of Boomer home sales won't come into full view until we're bearing the brunt of the next downturn. That cataclysmic catalyst will kill the optionality of aging in home. Millions of retirees on fixed incomes will buckle under the strain of their deflating retirement savings and skyrocketing property taxes, forced up to stem the bleed of underfunded pensions, which will also blow up at the intersection of Demographics and Recession Boulevards.

Wait. Go back to that part about private equity and their massive inventories of also-aging single-family rentals. Rest assured, these fly boys are not in it for the long haul despite what their propaganda purports. It's just not in their DNA. Yes, the single-family-rental business is established. Heck, they've got bonds backed by these investment-cum-income properties that trade in the secondary market.

That's all good and well until surging supply corrodes the collateral backing those securities. At that point, the big boys will do what they do best at the first whiff of a sell signal. They'll hit the bid and hit it again to liquidate their portfolios ahead of the little guys who unwittingly followed them into the next-best-thing business.

So you've got supply conjuring more supply yet…which brings us back to apartment rents and some good news for that 'lost' generation, the Millennials. Believe it or not, these no-longer-youngsters will procreate. Furthermore, they will not cotton to raising their families in apartments, even of the George and "Weezie" Jefferson deluxe variety.

So there is good news in the making, if you can indulge one more 'however'. At last check, student loans had not been forgiven in wholesale fashion. Top this with the fact that the average new home sales price hit $351,000 in 2015, a neat 40 percent rise from 2009. Holding hands with this dynamic household budget-buster duo is mortgage lending standards, which have been too tight for far too long. Taken together, Millennials could no sooner afford Boomers' McMansions than a man in the moon.

That is, unless Millennials are in a position to leap frog prior generations and jump right in to move-up market. How so? Despite what the realtors tell you, there will be ramifications that emanate from the largest age cohort in America failing to fulfill their designated role as first-time homebuyers in the current recovery. Millennials' power-in-numbers will force the closure of the price gap between entry-level, move-up-to-after-second-child-born, and die-in homes.

You might be thinking the resurgence of affordability (Yes, Virginia, that is good news), and the home-price and rent declines it necessitates, will not be welcome news all around. Lower selling prices will obviously sting sellers.

The only advice on offer: write in a complaint to your local Federal Reserve representative. It was failed Fed policy that created this fine mess in the first place.

Don't see the connection?

Do any of us truly buy into the notion that private equity could have assumed the role of buyer of first resort had the Fed not lingered too long in its capacity of lender of last resort? Of course not! As for all of that luxury apartment construction, you try making the IRR work out for low-yielding properties in a zero-interest-rate environment.

The sad fact is buying and renting have never been so prohibitively, preciously priced. We can safely add that to the laundry list of obscene outgrowths of too-low-for-too-long monetary policy. You know, it sure would be nice if some Fed staffer could concoct a convincing model that shows how detrimental income inequality is to long-term macroeconomic growth prospects. Is it too intuitive for intellectuals to infer that housing is the biggest line item in an average household's budget?

There is one last 'however' before we turn our attention to counting the words in today's Fed statement.

As the headlines have heralded, one-percent down payments and subprime mortgage lending have finally staged a comeback. While such news is no doubt a relief to the politicians who are already agitating about the midterm elections (homeownership trumps baby-kissing every day of the week), easing lending standards should not be viewed as a palliative at this stage in the cycle, before prices come off their high boil.

We still have millions of conscientious subprime-mortgage homeowners who have never missed a payment in our midst, millions who are still underwater over a decade after home prices peaked the last time around, millions who remain imprisoned in homes they should have never qualified to buy. As they've learned the hard way, it's impossible to Move on Up if you Dig in Too Deep.