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## An Old-Fashioned Notion: Home Sweet Home as Shelter, Not ATM

On the face of it, the USA is over-stocked with housing. The graph below shows that there are still some 116 housing units for every 100 households, an excess which has barely edged off since the height of the bubble.

Ratio: Number of Existing Housing Units / Number of Households

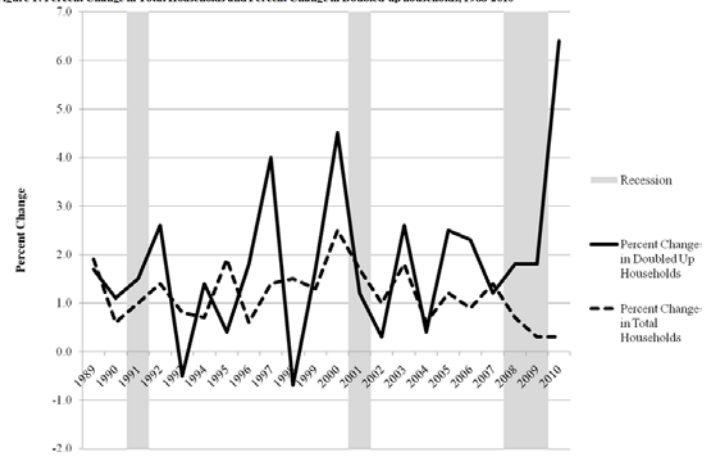


Source: Northern Trust, Haver Analytics

This helps explain why home values keep sliding. Housing inventories, of course, don't de-stock as fast as inventories of sneakers, microprocessors, or Cheez Whiz. Even though new construction has settled at a level that resembles nothing so much as a rock skipped down a dry creek bed, the boarding-up or bull-dozing of old units can't be expected to proceed fast enough to normalize the units/households ratio to its accustomed sub-1.14 levels of the last half century.

Given that the numerator of the relationship is unlikely to provide relief, let's look to the denominator: number of households. One reason the units/households ratio has stayed sticky near its highs is an unprecedented spike in "doubling-up" (cohabitation by previously distinct households to save money) which has taken household formation to new lows.

Figure 1: Percent Change in Total Households and Percent Change in Doubled-up households, 1988-2010



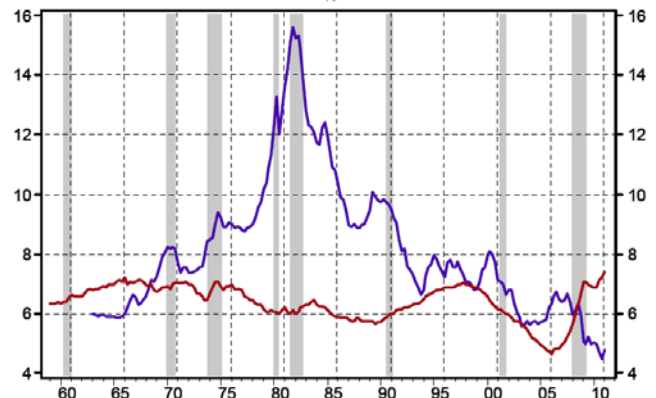
Note: Excludes group quarters population; Cohabiting households are defined as "doubled up" in Figure 1

Source: US Census Bureau, Current Population Survey

Presuming this spike results mostly from high unemployment, we believe that so long as the jobs picture doesn't get significantly worse, "doubling up" won't keep sucking the household formation data lower... which means we may start seeing some improvement in the way of a lower units/households ratio.

Most heartening is the high implied return on owner occupancy financed at today's low mortgage rates.

'Yield' on Owner-Occupied Housing  
Imputed Rent on Owner-Occupied Housing as a % of Mkt. Value of Housing  
Purchase of Existing Single-Family Home: Contract Interest Rate



Source: Northern Trust, Haver Analytics

Given the right mindset – that we borrow to buy houses not because they're guaranteed to appreciate, but because it's a cost-efficient way to secure shelter – buying instead of renting hasn't looked so good in half a century.