Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – July 1, 2024

Mind the Gap ~ Underground platforms throughout the UK

We live in an era when warning signs abound. Driving? You'll see shiny signs alerting you to deer crossings, school zones, and pedestrians. At work? There may be notices concerning high voltage, slippery floors, or admonitions against smoking. And though we have never traveled the London Tube, we are familiar with the ubiquitous "Mind the Gap" warning posted in stations near the space between the platform and train. In American parlance we might say, "Watch your step."

It's no secret that the lockdowns and panic from 2020 and beyond threw a good many wrenches into a good many markets. We've discussed several in these commentaries over the years. Today, the market we highlight with clear warning signs is housing.

The median sale price for homes has increased just shy of 50% since 2020. It now stands at $419,300. The average homeowner's insurance premium increased 21% from 2022 to 2023, adding to shelter's expense. The average monthly payment on a newly purchased home is up 114% over a similar time frame, chiefly due to higher interest rates and inflation. Finally, it is not just the inflationary fiscal and monetary policies of our government that have driven these trends. The host of illegals crossing the southern border require housing, driving up demand. And while US wages, too, have experienced inflation over the same period, they have not kept pace with housing.

The median price is now five times the median household income in the US. It is prudent to purchase a home that is less than four times your household income.

Owners aren't the only ones reeling. Renters share the pain. As apartment owners have dealt with skyrocketing insurance premiums, maintenance costs, and refinancing expenses, rents have followed. Monthly rents are up between 26% and 50% nationwide since 2020. Nearly a third of all renters in the US now pay over half of their monthly income on rent alone.

In a report by Harvard, these housing related burdens represent new records – not the good kind. Similarly, Federal Reserve metrics indicate homes are as overvalued as they were in 2007. And with housing inventory still far below the long-term, balanced market, it will be another year or more before steady equilibrium is obtained.

Must all this mean only bleakness lies ahead?

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For some, it most certainly will. Folks who overbuy housing will have less money available for spending and saving. Even if there is no financial crisis or these buyers do not enter bankruptcy, owners with profligate outlays will find those prodigal birds always come home to roost.

For others – prudent folks like our clients – the current dearth of adequately priced supply need not permanently derail plans. After all, a market such as housing can often stay overvalued for a long while, and even get more overvalued. If a move is required or desired, we advise friends to follow these conventions:

1. A home no more than four times your annual household income.
2. A monthly mortgage payment less than 30% of your monthly income.

The upshot is that buyers at these prices ought not expect tremendous gains going forward. But as long as sensible rules are followed on the front end, buyers need not experience dramatic anxiety either.

For young tradesmen or professionals, a roommate in your rental for an extra year or so will do wonders for your budget. As long as you save your excess earnings for a downpayment and don't spend it on pizza or excess streaming services, you will be rewarded in the years to come.

And really, that is what all this finance stuff comes down to. Trade-offs. Prudence. Delayed gratification. Hard work. Compounding interest. And some generosity thrown in for fun.

Let us pay attention to the current warning sign – Mind the Gap. Let us beware of the expanding gap between incomes and housing. Then, let us demonstrate wisdom in our political and housing choices so that our families and communities can continue to count on us for decades to come.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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