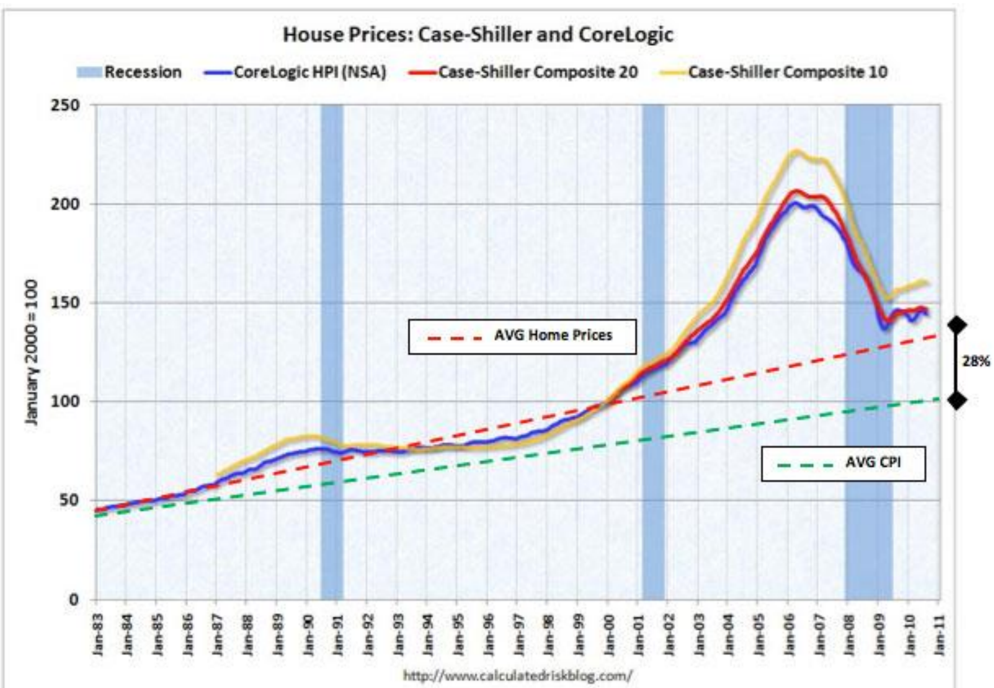
Where did the money go?

Chief among the complaints heard from homesellers in today's real estate market, is the oft-repeated lament, "I lost money due to the 2006-2010 downturn." Unless the home was purchased at the height of the market (2003 thru 2008), this assertion is flat-out wrong. While the homeowner may feel they missed out on an opportunity to cash-in, they have not actually lost money. In fact, a review of the home pricing data over time reveals what many find a startling conclusion.

The Price is More Right Than Wrong

The table below illustrates three reliable indices measuring value trends in the real estate market. In the 20 years from 1980 to 2000 home prices literally doubled; benefiting from average annual appreciation of roughly 3.53%. In the 6 subsequent years ending at the height of the bubble in 2006, values doubled again; exhibiting an astounding 12.2% average annual gain. Homeowners liked this feeling and expected prices to continue to exuberantly climb forever. So when the bubble burst, and prices fell back to where they are now, homeowners felt shocked. But is the market 'down'? We think not; they are better than where they might be. How can we say prices aren't as low as they seem? Consider...



The green dash line represents the historical average growth in the Consumer Price Index (CPI). The red dash line represents the historical growth of home values relative to the CPI. Over the course of decades prior to the early 2000's, the two typically and predictably moved in tandem; the CPI exhibiting average annual growth of 3.01% and home values at 3.53%. It's easy to see that despite the sudden growth and precipitous decline in prices, home values have arrived at a point 28% higher than historical CPI growth, and better than expected had we remained on the sober, deliberate, conservative, sustainable and responsible growth and appreciation trends.

Money Not Earned isn't Money Lost

Yes, many people found the opportunity to cash in on the crazy surge in home values. It's easy therefore to understand the feelings of homeowners who didn't take advantage in the same manner. It's also easy to focus on the opportunity and lose sight of the consequences. Had the homeowner sold in 2006, would another purchase at the height of the market held onto that outsized value? The answer is 'no', and the resulting loss would be real.

If, however, the home was purchased some 10 or 20 or 30 years ago, the only "loss" is the opportunity not taken. In fact, there's been a substantial gain. That's akin to lamenting the failure to buy stock in Apple in 1980.* Lost opportunity? Yes. Lost money? Nope.

**Apple's 1980 IPO sold at $22 per share. It was quite a roller coaster ride over the years but after dividends and splits $1,000 invested in 1980 would be worth over $3,000,000 today, even though at several times over that span it would've sold at a loss.*

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