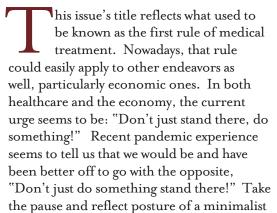


S C H W A R T Z Report

DIRECT: 302-234-5202 • OFFICE: 302-239-3000

www.charlieschwartz.com

FIRST DO NO HARM



not an interventionist. From the land of John Maynard Keynes and Adam Smith, I pick Smith over Keynes.

Unfortunately, the disciples of Keynes are seeded like perennial rye throughout the monetary policy-making centers of government. They are steeped in the belief that a stimulus here, a price control or regulation there, a subsidy for this or that program will always bring things around. As John H. Cochrane of the University of Chicago puts it, "How can anyone who hits a pothole complain about infrastructure spending?" Keynesians tell us not to worry too much about inflation; we should fear deflation more. So for the overheated housing market, mortgage rate hikes are prescribed to soften demand. This ought to take the pressure off a major area of the economy that relies heavily on credit. According to a former chairman of the White House Council of Economic Advisors, Thomas J. Philipson, housing costs make up 40% of core consumerprice inflation. Therefore, the mortgage rate hikes instigated by the Federal Reserve that began in March of 2022 should slow the real estate market sufficiently to allow supply to catch up with demand.

This is the standard interventionist formula, which simply stated, says that less sales equals less demand and less demand should engender lower prices. Well, not so fast. What happens if available/affordable housing inventory declines faster than the demand for it does? Prices will be sticky and unresponsive. They may even go up. Practitioners of the dismal science (economists) call this an inelastic response. That is what is happening now here locally.



Existing home sales typically account for 90% of all closings. The balance is made up by new construction which, acts as a safety valve for an overheated market. As a result of the historically low mortgage rates trending down for the seven years prior to 2022, there is also a significant "mortgage rate penalty" for the existing home owner looking to make a discretionary move. They will pay more for what they might buy in today's market and, if they have a mortgage currently, they'll be giving up that three to four percent loan for a

Fall 2023

seven percent or more one. So, why move at all?

Here's a quick example of that dilemma from Bankrate. com: A borrower who buys a \$500,000 home with a 20% down payment at a 4% fixed rate for 30 years would pay about \$290,000 in interest over those 30 years on their \$400,000 loan. At a 7% mortgage rate under the same terms, the interest bill climbs to \$560,000 - almost doubling the cost. Let's add one more sticking point, the average homeowners' frequency of moving is declining. When I came into the business the average time in a home before a move was seven years. Now it is more like 12 or 13. Less moves means less availability of existing homes for sale at any given time. The heretofore dormant construction of new housing units is booming in certain markets and could account for 30 % of home sales up from its traditional 10% share, although the tightest markets seem to have the least new building- primarily due to skyrocketing land costs, zoning, and permitting issues. Add artificially low mortgage rates and what you have is constrained supply bumping up against subsidized demand.

Recent administration interventions such as the Chips and Science Act, the Inflation Reduction Act and the Infrastructure Bill seem to offer little help for housing and may further exacerbate the misallocation of capital away from its highest and best uses. Again, give me that minimalist approach to solving problems.

In that spirit, I note that this past August marks the IOOth anniversary of the minimalist Calvin Coolidge ascending to

Cont. from pg. I

the presidency of the United States on the death of Warren G. Harding. There wasn't even a phone in his father's Vermont home to notify Calvin of his running mate's passing! The nearest one was in the Plymouth Notch general store which was closed. So, the message arrived by courier. Those were simpler times for sure. One cannot imagine anything like that happening today. Nor can we imagine a modern president, certainly neither of the last two, who could stifle themselves to be as laconic as Coolidge.

In reality, he was not shy about public speaking, having won medals for his speeches while a student at Amherst College. He would claim merely to be drawn to use an economy of words, a quality for which his law clients praised him. Following Shakespeare's dictum that brevity is the soul of wit, he turned taciturnity into an art form.*

Coolidge's actions as president would follow the same pattern. According to Amity Shales' biography of the 30th president, he succeeded in keeping government out of the way of commerce. His economic heroism was subtler, she writes, than other forms of heroism and thus harder to appreciate. She notes that, "The Coolidge budget was fundamentally different from our modern budgets... but the pressure to expand programs was as strong as it is today." That's why she calls Coolidge "our great refrainer." So, here's to Silent Cal!

*The story goes that a socialite seated next to the president at a dinner party told him she had a bet with a friend that she could get him to say three words. Old Silent Cal supposedly smiled and replied: "You lose."



Charles E. Schwartz II, CRB 7234 Lancaster Pike, 100A Hockessin, DE 19707 302-234-5202 Fax 302-234-5212 cschwartz@psre.com

FIXER UPPERS

Bargains, lowest prices. These homes need work. Call for a free computerized <u>list with pictures</u>.

Free recorded message
1-888-322-5252 ID #1048
Patterson-Schwartz Real Estate







If your home is currently listed for sale, this is not intended to be a solicitation

_ Visit my website _ www.charlieschwartz.com

for a detailed overview of the current real estate markets in New Castle, Kent & Sussex Counties, DE, S. Chester County, PA and Cecil County, MD. PRSRT STD U.S. POSTAGE PAID Patterson-Schwartz Real Estate

