

Commentary: House Prices Will Rise Greatly over the Next Few Years, Buy Now

Posted By [beth](#) On February 19, 2009 @ 5:36 pm In [Today's Top Story](#) | [Comments Disabled](#)



^[1]RISMEDIA, February 20, 2009-“Those who do not study history are condemned to repeat it.” So spoke Sir John Buchan, the First Baron of Tweedsmuir, back in the mists of time often referred to as “the good old days.”

Well, I may not be as old as the Baron, but I did live through President James Earl Carter, 21% prime interest rates, 20% inflation, Paul Volker and his attempt to strangle inflation by strangling the money supply, and that famous “WIN (Whip Inflation NOW!)” button the White House handed out. The period I am referring to was in the 1970s and early 1980s, and it effectively reduced the purchasing power and the true value of the dollar forever.

It wasn't that long ago that we lived in a different economy altogether. Americans often affectionately remember the 50s, when Ike was president, America was the benefactor of the world, and life was so simple. Then, a man making \$10,000 annually was quite successful. Then, a home might cost \$13,000. A nice Ford or Chevy might cost \$2,300; New and gleaming and using 22 cent-a-gallon gasoline.

But it was only in 1971 that I bought my first home for \$33,690 in Chelmsford, MA; the same year I purchased a new 454 Corvette Roadster for \$5,100 out the door. Then, \$50,000 a year was the equal of my dad's \$10,000 in earning power.

I remember how excited I was when I finally had \$100,000 in savings-I was wealthy, I thought, and my future seemed assured. When the pardon of Richard Nixon jolted America into changing administrations, the Peanut Farmer, James Earl Carter of Plains, Georgia, was elected to the Presidency of the United States. The wreckage his administration presided over made it possible for “The Great Communicator” to be elected in 1981; and by the time that happened, houses were \$300,000 and cars cost about \$30,000.

Personally, I wasn't noticing the effects of inflation, yet-after all, we sold that original home and moved into a beautiful new home that cost \$86,000 just as President Carter took office. Although I sold that home for north of \$200,000 a mere five years later, it never occurred to me that our currency was being debased; no, I thought I was a brilliant investor!

Whatever happens, the stage is set for inflation to come back with a vengeance. Discounts abound, but prices of durable goods are increasing.

In the 1970s those gurus of the Federal Reserve told us that “M1 (an arcane measurement referring to the `money supply'-the total number of dollars in circulation), was the most key statistic to watch, for if the money supply grew too quickly, inflation would persist and continue.” We then became a nation of M1 watchers, and the Fed attempted to control the most complex economy in the world by watching that one statistic and throttling the economy with interest rate surges that brought about disintermediation, the death of the savings bank

industry and that set the stage for the rise of Merrill Lynch and Wall Street to replace banks and savings and loans as purveyors of the American mortgage.

Interest rates were so high banks couldn't keep deposits because they were subject to interest rate restrictions. "Let them compete-take the shackles off the banking industry" Washington thundered, and so the Garn-St. Germaine banking act was passed, allowing the community bank 'to compete' with Merrill Lynch.

Predictably, Merrill Lynch won. King Pyrrhus couldn't have put it better: "One more such 'victory' and I am undone." We are all paying for that 'victory' today.

The savings and loan industry abandoned 50 years of thrift and sound banking practices and put insured deposits into junk bonds sold by that ever-smiling Michael Milliken and his henchmen instead of local mortgages. When the dust cleared, there was no mortgage expertise left, no savings and loan industry recognizable to anyone left, and Wall Street had achieved their goal of displacing the community bank and becoming the "one stop shop" for all things financial (See; Sanford Weil, Citigroup, et al).

In any case there can be no debate that the trillions of dollars about to be pumped into the economy-while they will save us-will also bring inflation back; unless-of course-all that stuff about M1 and the money supply, and all those pronouncements by Paul Volcker, then-Chairman of the Fed, were mistaken. Since Mr. Volcker has now returned in a quasi-official capacity to advise the President's team, I'd guess we're in for inflation, now, and part of his mission is to try to minimize it.

Good luck Tim Geithner.

Our new secretary of treasury is reportedly a brilliant man- perhaps a little forgetful about taxes, but nonetheless, brilliant, by all accounts. Together with the rest of the Obama team, he will need every bit of that intelligence and brilliance to help this great country of ours avert total meltdown, but I believe that the team will indeed accomplish that and we will make a recovery, led in part by housing. It's never smart to bet against the United States of America.

But when the money supply is increased by an amount equivalent to 20 or 30% of Gross Domestic Product or more-naturally or unnaturally, inflation must result. That means that prices of all fixed assets rise to keep pace with the devaluation of the currency. We won't be taking the wheelbarrow to the market full of dollar bills to buy a loaf of bread, as happened in Germany after WWI, but we will be going on a pretty thrilling ride for a while.

Now, what is going to happen to home prices over the next few years?

I am not as formally schooled in such matters as our current leaders are. I'm just a guy who has seen this movie, too. It is my belief that a side effect to saving America's economy will be a robust increase in inflation. I believe that Inflation will regain all the "value" we lost in housing over the past two years, and that it will regain it in five years or less. Simply put, to put the brakes on inflation, government must inhibit the recovery. The people in power aren't going to do that. Inflation is a necessary evil compared to a full scale depression and an acceptable trade off for most of us. (And oil won't stay at about \$40 a barrel too long, either!)

So, tell your clients the truth: Interest rates will never be this low again in their lifetimes. Home prices won't be this low again in their lifetimes. This is the perfect storm economically, but it also the perfect time to buy a home; provided that you buy it as a home and not a piggy bank. It's just a nice side benefit that five years from now, the home you bought today will have appreciated so much that you'll be thinking (just like I did in 1979): "What a smart investor I am!"

This just happens to be the perfect confluence of opportunity and necessity: we must fix the economy and we're going to, whatever it takes. Inflation is an unavoidable side effect. Buy that house this year!

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