



# ASPEN INSIGHT

Economic Insights Focusing on Macro-Economic Trends

## In This Issue

*Special Report:*

**HOUSING**

**MARKET**

**FORECAST**

## Goodbye Summer

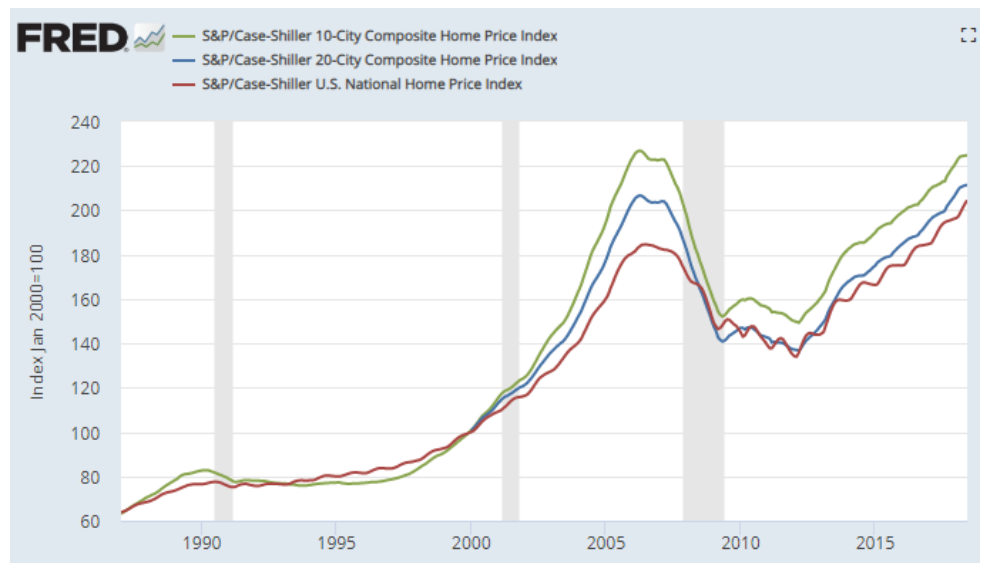
I hope your summer was as memorable as mine. I had the privilege of seeing my only daughter married, on the pristine beaches of St. John. With all my four children now married and launched in life, there is a unique satisfaction that only a parent in our stage of life can understand. But as summer ends, I find myself looking forward to cooler weather, the turning of the seasons, and the faster pace of business.



## NEWS AND ANALYSIS

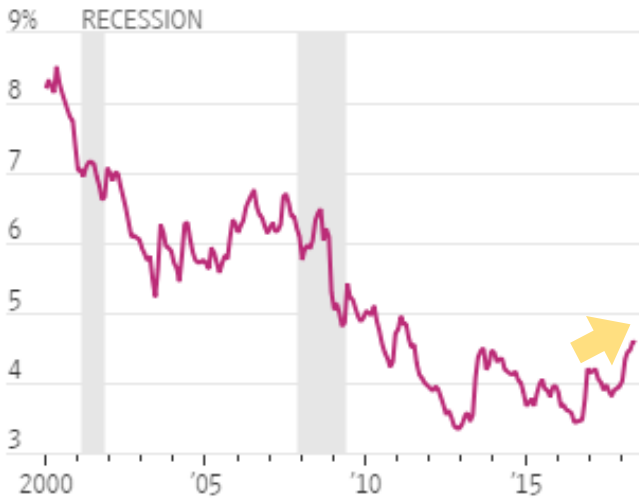
### The U.S. Housing Market 2018: Bubble or Boom?

As housing prices have risen now for 5 years, thoughts of the 2005-6 housing bubble are inevitably returning. Since bottoming in February 2012, housing prices have risen steadily. In the largest metro areas, prices have fully recovered, to just below the 2006 peak. Nationwide, prices are now approximately 10% above the July 2006 peak. With interest rates rising and affordability dropping, many fear we are once again entering into housing bubble territory.



The concerns are primarily driven by rising mortgage interest rates and decreasing affordability.

### Average interest rate on a 30-year fixed-rate mortgage:



Source: Freddie Mac

As prices and interest rates rise, home sales are slowing, causing many to predict the beginning of the end of the bull market in housing:

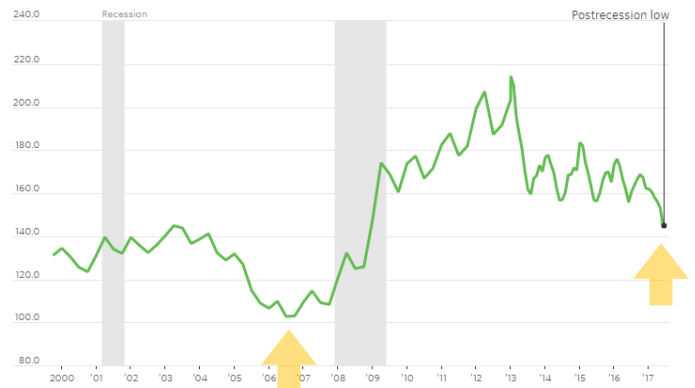
Sales of previously owned homes in the U.S. fell in June for the third straight month



Note: Seasonally adjusted annual rate  
Source: National Association of Realtors via Haver Analytics

Housing affordability is indeed dropping, but housing is still more affordable than the low in 2006-7. The index below measures whether or not a typical family earns enough income to qualify for a mortgage loan on a typical home at the national and regional levels. The index is still well above the previous low in 2006-7.

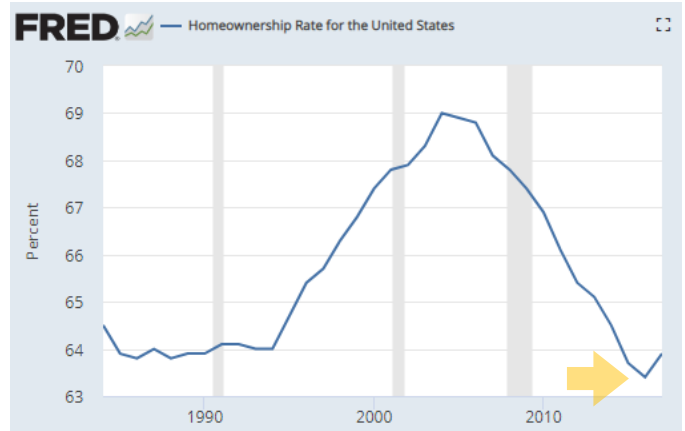
### National Association of Realtors Housing Affordability Index



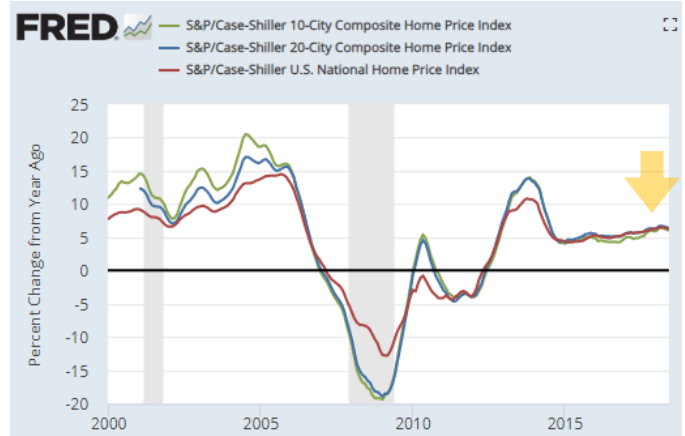
Note: Composite index, not seasonally adjusted  
Source: National Association of Realtors via Federal Reserve

THE WALL STREET JOURNAL

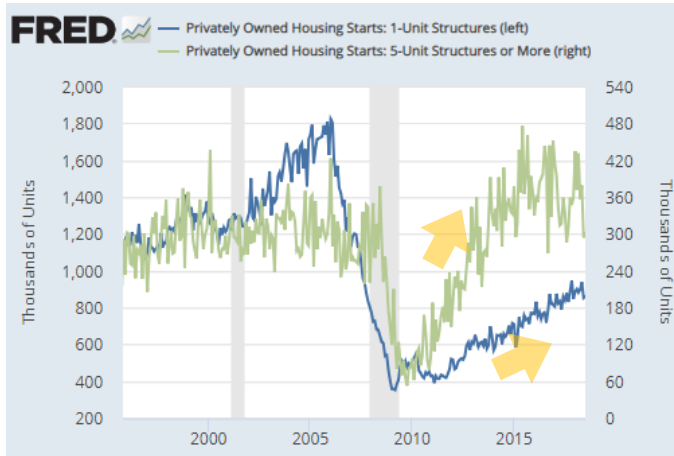
As a result of the crisis, homeownership has hit a record low, below even the home ownership rate of the 1990's.



**But despite rising prices, rising interest rates, dropping affordability and slowing sales, housing prices are continuing their relentless rise, still growing at 6% per year.** In the face of these pressures, this kind of growth is remarkable, and hints at the underlying strength in the housing market.

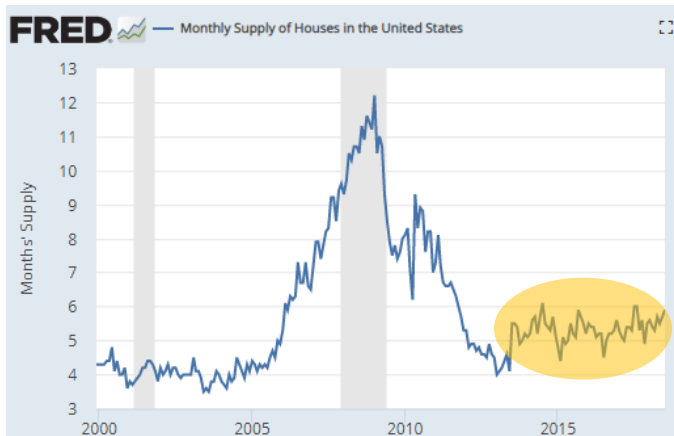


But the primary driving factor in the housing price story is the **shortage of supply**. Since the housing crash, single-family residential construction has never recovered to normal levels. In the chart below, you can see multifamily construction (apartment complexes) recovered quickly (the green line), but not single-family residences (the blue line). In fact, single family housing starts are still just half of pre-crisis levels:

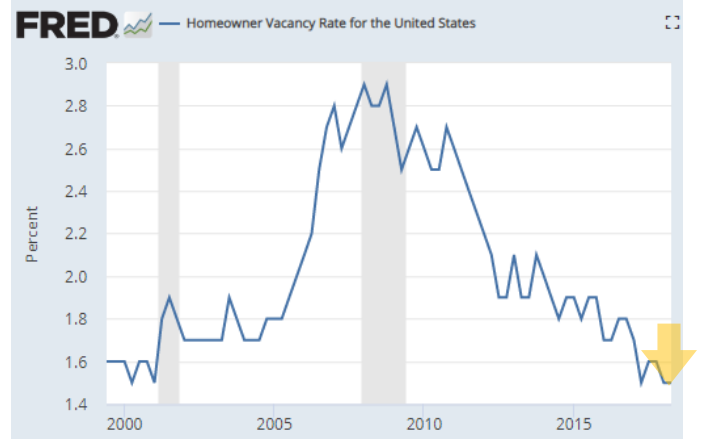


You can see this dearth of supply in the chart below. It shows the month's supply of houses and as you can see, it has stayed relatively low and flat.

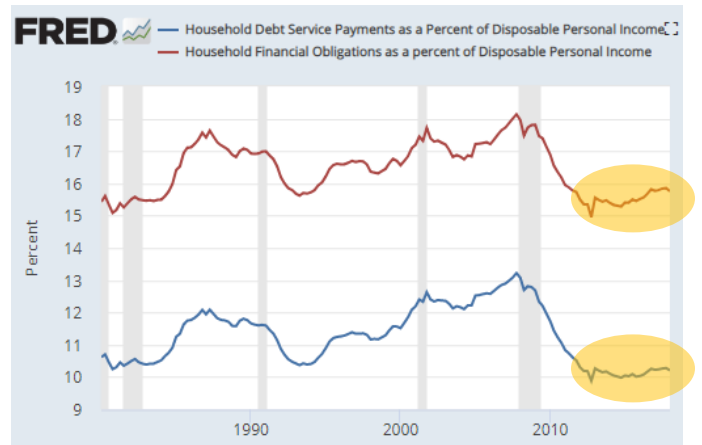
In spite of rising prices, the supply of housing for sale remains stubbornly low:



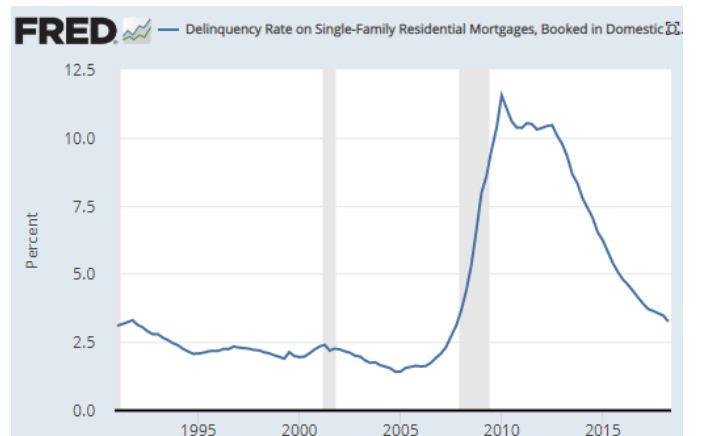
Underscoring the tightness of supply, the household vacancy is hitting record lows:

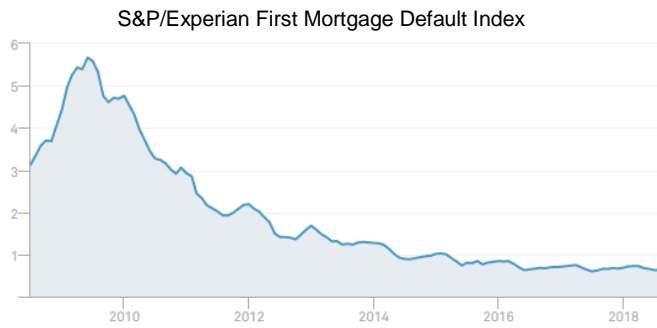


Also supporting housing prices is the health of the US consumer. In spite of rising prices, the US consumer has rarely been in better shape: Debt service payments and overall financial obligations as a percentage of disposable income is also in record low territory:



With the economy booming and the consumer healthy, mortgage delinquency and default rates are declining:





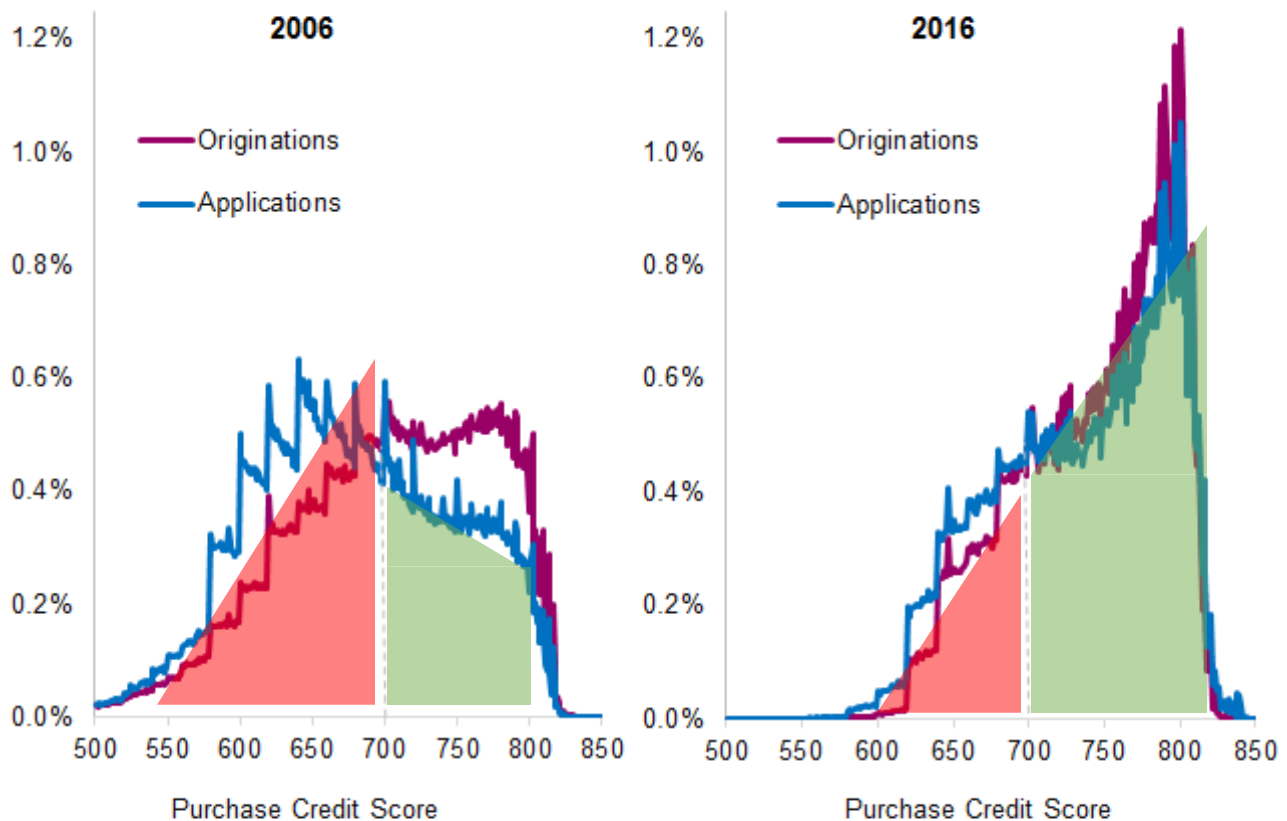
**Bottom Line:**

1. Housing prices are rising in spite of slowing sales.
2. Price appreciation is driven by fundamental factors, including a systemic supply shortage, and a healthy consumer.
3. Mortgage underwriting standards continue to be conservative.

It is clear to me this housing boom has legs to run for at least a few more years, and we are not yet in a speculative bubble. Certain regions of the country are obviously overheated and sales may slow, as well as the rate of appreciation, but this bull market is far from over yet.

Furthermore, this rise in housing prices is not driven by speculation and loose underwriting as during the 2000-2006 period. Look at the average FICO credit score for loans made in 2006 vs. 2016. In 2006 perhaps 35% of loans were made to borrowers with a credit score below 700. In 2016, its probably closer to 15%. Credit standards are nowhere as loose as they were in 2006:

**Figure 3: Credit Score Distributions for Purchase Loan Applications vs. Originations**



Source: CoreLogic Loan Servicing Database and Loan Application Database

©2017 CoreLogic, Inc. All rights reserved

## About the Author



Mr. Fraser has 20+ years' experience as a finance and technology executive and is a Magna Cum Laude U.C. Berkeley computer scientist and a former Ernst & Young Entrepreneur of the Year Award winner.

Fraser is the Co-Founder, CFO & COO of Aspen Funds, a fund management company focused on mortgage investments. Fraser is responsible for financial management, portfolio modeling, as well as systems and processes, designing and deploying Aspen's scalable state-of-the-art back-end platform.

In 1995, Mr. Fraser founded NetSales, Inc., a back-office e-commerce provider. As a CEO, Mr. Fraser raised \$44 million in investment capital, and guided the company to an average of 20% month-to-month revenue growth, becoming the metro area's fastest growing company between 1997 and 1999.

Since 2002 Fraser has founded and served several non-profit organizations as a board member and CFO. Fraser has also been involved in a number of entrepreneurial initiatives, including book publishing, financial consulting, and an investment fund managing member.

Fraser has been a student of economics for the past decade, has written economic newsletters for many years, and is a well-respected voice related to macro-economic trends. He has an impressive track record forecasting trends related to real estate, currencies, commodities and the stock market.

## About Aspen Funds

Aspen Funds manages several private investment funds for accredited and institutional investors in the secondary mortgage note industry.

Aspen Funds was founded by Bob Fraser and Jim Maffuccio in early 2012 to take advantage of a unique opportunity in residential real estate notes. With Mr. Maffuccio's 30-year background in real estate and Mr. Fraser's 20-year background in finance, they raised capital for their first fund. Since the success of their first fund, Aspen Funds has been rapidly growing.

Aspen Funds actively manages several funds for their investors, providing alternative investment strategies that are uncorrelated to the market and backed by real estate.

In this economic environment it is challenging to find investments that can produce a significant return without much volatility. Aspen provides access to alternative investments that can provide diversification and access to many new opportunities for accredited investors.

## Passive Real Estate Investments

Aspen Funds provides several private investment funds for accredited investors looking for passive investments that provide strong returns, are uncorrelated to the stock market, and have low volatility.

To find out more about our current offerings, visit our website: [www.aspenfunds.us](http://www.aspenfunds.us)

**Disclaimer:** This newsletter is for informational purposes only and is not intended to be a solicitation, offering or recommendation of any security. The publisher does not represent that the securities, products, or services discussed are suitable or appropriate for all investors. Any market analysis constitutes an opinion that may not be correct. Readers must make their own independent investment decisions.

The information in this publication is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation, or which would subject the publisher to any registration requirement within such jurisdiction or country.

Any opinions expressed herein, are subject to change without notice. In addition, there are many market, currency, economic, political, business, technological and other risks that are beyond our control. We make reasonable efforts to provide accurate content in these articles; however, some content and some of the assumptions, formulas, algorithms and other data that impact the content may be inaccurate, outdated, or otherwise inappropriate. In addition, we may have conflicts of interest with respect to any investments mentioned. Our principals and our clients may hold positions in investments mentioned on the site or we may take positions contrary to investments mentioned.

All current and past market commentaries are protected by copyright. Apart from any use permitted under the Copyright Act, you must not copy, frame, modify, transmit or distribute the market commentaries, without seeking the prior consent of publisher.

