



Basis Points – October 24, 2019

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Above the Fold

America's New Housing Challenges

An overheated housing market, funded by sketchy loan products and “flippers,” who had little equity, fueled the Great Recession. Today, as home values in many areas eclipse 2006 peaks, investors and consumers wonder if a repeat is in store. And while nationwide home values are 40% above the 2012 lows and 4% above pre-recession highs, the current climate is quite different from the mid-2000s.

A recent housing report by J.P. Morgan showed a lack (in most areas) of rapid price growth, accelerating debt growth and expanding supply that was present in 2006. Combined, these three factors can be a recipe for crisis.

Many households spent the last decade paying down debt and homeowners who stuck it out or purchased in the years after the recession have enjoyed an increase in equity. A great number of homeowners are taking advantage by selling in this strong market and downsizing, or by consolidating debt with a refi or home equity loan. Mortgage debt per capita has not ballooned as it did back in the mid- to late-2000s either, a sign that consumers aren't over-leveraged. Supply also remains relatively tight in many areas, which helps to buffer sharp price declines when the economy slows.

That said, it's important to note the vastly different housing climates from city to city. Some areas, like Bend, Oregon, are [changing zoning laws](#) to allow for two- and three-story (hopefully affordable) multi-unit buildings in single family home neighborhoods. One thing is certain, cheap real estate in desirable cities is getting harder to come by.

Three Things

1. *Getting Back to the Burrito* – Mexican food chain Chipotle's stock has more than doubled since bottoming out in early 2018 after several foodborne-illness outbreaks. Former Taco Bell chief Brian Niccol took the helm in March 2018 and continues to deliver strong results with a tailwind of cheap avocados and carne asada at his back.
2. *JetBlue Employee Upgrades Herself to Prison* – Ex-JetBlue gate agent Tiffany Jenkins faces up to 20 years in jail for using a special booking code called "INVOL," short for involuntary exchange, to give major upgrades and high-end flight conversions to her friends and family. She used the internal code, normally reserved for flight cancellations and emergencies, more than 505 times and scammed the airline for nearly \$1 million.
3. *California's Got a Gas Problem* – California currently boasts the highest fuel prices in the nation. In some areas, the cost of petrol is more than double the national average, currently around \$2.60 per gallon. A combination of regional taxes, environmental rules and disruptions due to weather all contribute to price fluctuations. The state's higher emission standards require a special blend of fuel that only a limited number of national refiners can produce.

Did You Know?

The Priciest Properties

When it comes to average property costs, Los Angeles beats New York City by about \$5,000 with an average cost of close to \$680,000 per home, [according to data from CBRE](#). New York's price per square foot is higher at more than \$526. Manhattan also boasts some of the highest rents in the U.S., fetching more than \$3,000 on average or about 82% of the median American salary. And since we're comparing NYC to LA, consider that more people pay rent in New York City than the entire population of Los Angeles!

Globally, the two most expensive cities in the U.S. seem cheap when you consider that the average price for a property in Hong Kong is more than \$1,235,000 or nearly \$2,100 per square foot. Singapore boasts the second most costly real estate in the world, but may be gaining in popularity with the continued protests and unrest in Hong Kong.

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