

# Real Life

## ECONOMY

### Try This Inflation Hedge at Home



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Over the long term, home prices tend to rise with commodity prices. And with prices for commodities like oil, copper, steel, and cement commanding sky-high prices and the Producer Price Index for construction up 39 percent over the last five years, sooner or later, the increasing costs of raw materials will push home prices higher.

So if you know consumers who are looking for a hedge against the rising cost of commodities and the inflation that usually accompanies it, you have a story to tell them about real estate. With the risk of rising construction costs on the horizon, "now is a good time to buy" becomes insightful investment advice, not just a marketing catchphrase.

Housing, after all, is the ultimate commodity. Every home is a basket of materials like steel, wood, and copper wiring that, when combined with the cost of land and labor, becomes a store of value for every commodity that's gone into the home's con-

struction. It's this tangible quality that ties the long-term price of a house to its cost of production and makes a home such a fundamentally different kind of investment than a stock or a bond.

The current oversupply may be keeping home prices low for now even as the cost of raw materials rises. But because home prices are grounded in hard costs, the long-term home price equilibrium will adjust at some point to reflect the price of production and the cost of land. Once builders are in a position to pass on higher commodity costs, buyers will begin to feel the price pressure.

Investing in commodities is a time-tested way to turn inflation's lemons into lemonade. And purchasing homes is a time-tested way to buy commodities. If commodity prices continue to go up, as many experts anticipate, your customers can stay ahead of inflation if you can help them understand that, over the long term, home prices will go up. ■

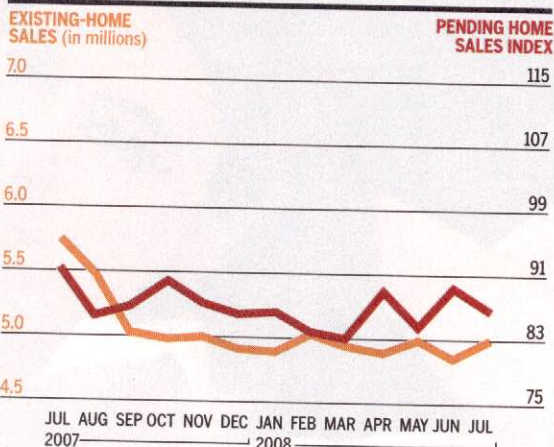
## MARKET PULSE

### SALES SIGNALS CONTINUE TO SEESAW

Existing-home sales in July rose 3.1 percent to the highest level in five months, though sales have hovered in a relatively narrow range over the past 11 months. This increase was predicted by June's increase in the Pending Home Sales Index. In July, however, the PHSI took a small, 3.2 percent drop. Both indexes have been fluctuating monthly between gains and losses for the last year.

June numbers are adjusted from figures published in September.

#### HOME SALES

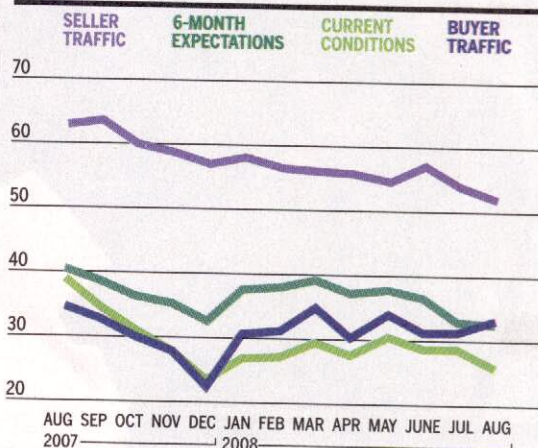


### BUYERS COMING THROUGH

The outlook for buyer traffic continues to increase, although practitioners are divided on whether the trend will continue. Practitioner confidence in seller traffic continues to dip. Practitioners were surveyed in August.

Results are based on 1,432 responses to 3,000 surveys sent to large and small real estate offices. The survey asks practitioners to indicate whether conditions are strong (100 points), moderate (50), or weak (0). Responses are averaged to derive results.

#### BUSINESS CONFIDENCE



### EHS 5.0 million

#### EXISTING-HOME SALES

Seasonally adjusted annual rate, which is the actual rate of sales for the month, multiplied by 12 and adjusted for seasonal sales differences.

### PHSI 86.5

#### PENDING HOME SALES INDEX

The Pending Home Sales Index measures housing contract activity. An index of 100 is equal to the level of activity during 2001, the benchmark year.

Source: NAR Research