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By **BRETT ARENDS**

Fears of Housing Slump May Be Seriously Overdone

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Fears that the housing slump will send the economy into freefall may be seriously overdone.

That's the conclusion of an analysis by Bill Wheaton, professor at the Massachusetts Institute of Technology and one of the leading experts on the real estate market.

And it is yet another reason to add to your investments.

Prof. Wheaton's analysis coincides, by happenstance, with some better-than-expected housing data too. Sales of second-hand homes posted a surprise 2.9% jump in February, possibly because frustrated sellers at last began cutting their prices.

Mr. Wheaton is no perma-bull. Quite the reverse: He was warning about the coming real estate crash back when the usual hallelujah chorus were singing and clapping their hands.

His take now? Even if prices nationwide plunge by a massive 20%, he said in a presentation at MIT on Thursday, that might reduce GDP by no more than 3.5% -- or about one year's normal growth. "The effect would be... a mild recession or an economic slowdown," he said. If this were spread out over several years, the effect would feel even milder.

The reason? Mr. Wheaton's analysis finds that that house prices have far less to do with consumption than most economists assume. Between 2000 and 2006, as US house prices soared, home owners withdrew about \$4.3 trillion from their equity through refinancing, Mr. Wheaton says.

The assumption to date is that most of that was spent in the stores, propping up consumption. But Mr. Wheaton concludes that just \$400 billion or so was spent that way. Most of the rest, he says, was invested back into housing -- from extending and remodeling current homes to buying second properties.

Clearly, throwing house prices into reverse is hitting the housing and construction markets. But it is bullish news if its impact on consumption is a lot less than feared.

Mr. Wheaton remains heavily cautious on house prices overall: The U.S. built far too many homes, especially in the obvious hotspots like Phoenix and Las Vegas, and it may take years before enough new homeowners come along to soak up the excess supply.

And he said his economic analysis is dependent on nationwide house prices not collapsing by, say, 40% or 60%.

That would be pretty unlikely, admittedly.

It is another reason to take a sunnier view of things than the market has done. When markets have plunged as far as many have there must be opportunities out there.

Which investments will "outperform" if the economy does better than expected? It depends, as ever, on the price you pay for the asset. The panic has hit the world's markets with remarkably little discrimination. Some European and Asian equity markets have fallen as far in the crisis as U.S. regional banking stocks.

You can be too clever. The best thing you can do in a crisis is to make sure you take advantage of tumbling equity prices to add to your long-term holdings. U.S. large cap growth stocks right now seem to offer a reasonable trade-off between risk and reward. Instead of taking on company risks by buying individual equities, you can buy a basket of them through an exchange-traded fund, such as the **Dow Jones Wilshire Large Cap Growth SPDR (ELG)** or **Vanguard Mega Cap 300 Growth Index (MGK)**.

As for those hoping to bottom-fish the US housing market itself, Prof. Wheaton said three things have to happen before that will have a chance to bottom out. First, construction of new homes has to stop. Second, someone -- possibly foreign investors -- have to swoop in and start snapping up some of those leftover second homes. And third, the wave of foreclosures has to stop. Until it does,

of course, it will just keep adding to excess inventory.

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