

Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from [firsttuesday](http://firsttuesday.us)

November 2017 • Vol. 6 • Issue 11 • *Stock market on the brink of correction — what about real estate?*



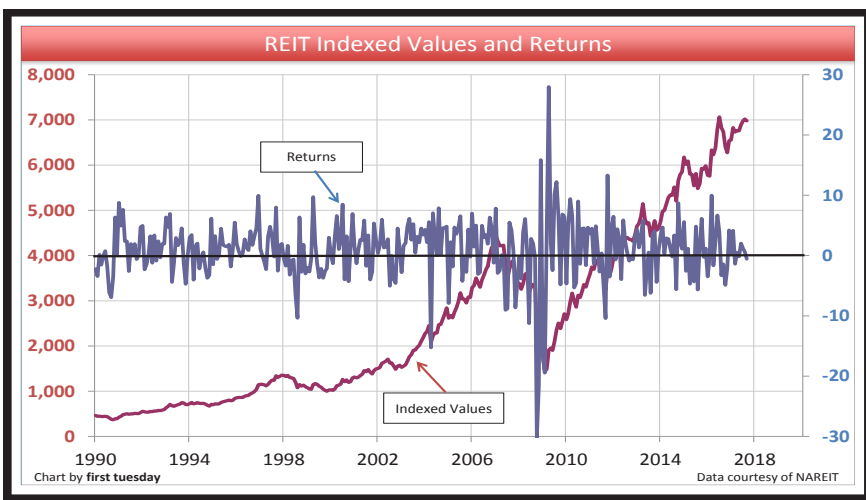
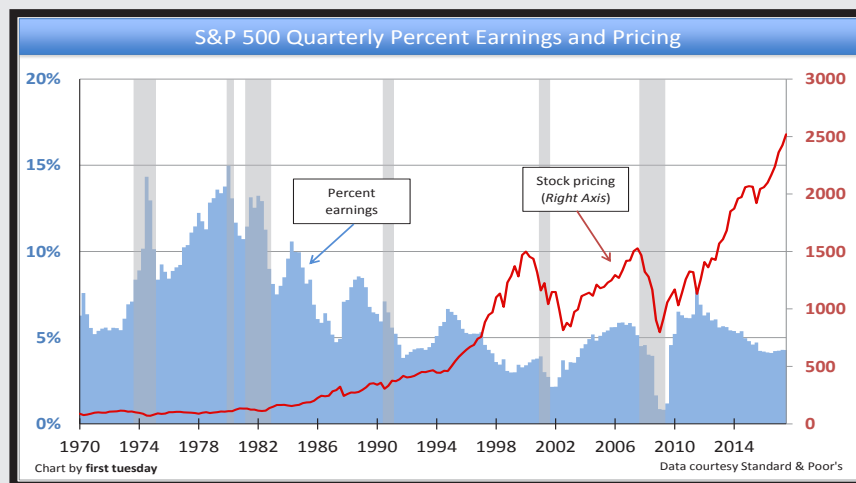
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S&P 500 soars to new heights

This chart shows stock pricing as reported by the **S&P 500** alongside the percent earnings (P/E) ratio.

Stock prices continue to rise and remained unsustainably high in the third quarter (Q3) of 2017. The P/E ratio has remained roughly level over the past two years, at 23.3 in Q3 2017. This is considerably higher than the historically applicable benchmark of 15.5.

Economists and investment companies have been sounding the alarm in 2017, warning a **stock market correction** is inevitable. Innovative licensees can encourage clients to consider shifting wealth to real estate ownership before the stock market drops and the surge in demand for new housing hits in 2019-2021.



REITs are vulnerable to correction

This chart shows the indexed values and returns of **real estate investment trusts (REITs)**. Owning shares in a REIT is one way to invest in real estate without directly owning or managing property.

REIT shares were valued at 6,980 at the end of Q3 2017, above the 6,736 index value seen a year earlier. REIT share have declined slightly after reaching a historic high in 2016. REIT values are currently bolstered by the low **vacancy rates** and continued demand in the commercial property sector.

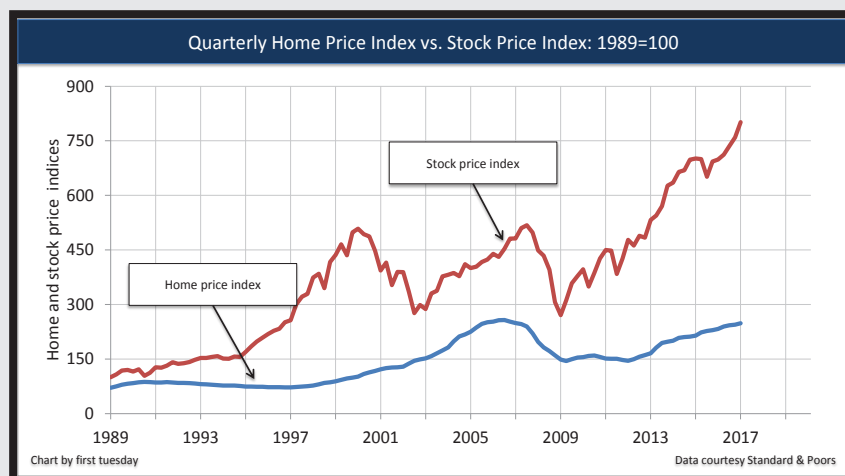
Looking forward, REIT investors need to examine the impact higher **interest rates** will have on future share prices. These rate increases will drive down the value of holdings over time, meaning the rapid REIT share value increases of recent years are history.

Real estate continues to be the safer investment

This chart shows the S&P 500 price index (the red line) and the average Case-Shiller / S&P home price index for **California's three major cities**.

The stock and real estate markets have both experienced **positive change** in the past few years. The magnitude of increase in the stock market has been greater than the increase in home values. But the stock market's volatility requires more risk from an investor than the housing market, which changes more gradually over time.

Fundamentals suggest real estate today remains a **solid investment** for long-term purposes. On the other hand, forecasters are in agreement on the direction of the stock market in the next year or two, since its current values lack sustainable support.



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