



BUBBLES

Jack Davidson



I grew up on Long Island. I have a problem with bubbles. Twice each summer my parents would take their five children to Jones Beach. We would all come back with

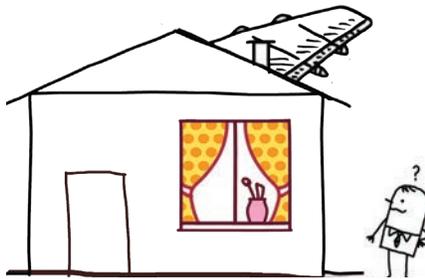


sunburns that suggested we had been retrieved from a burning house. I also personally encountered large waves and jellyfish.

My early experience designed my approach to water. I don't like to swim. If I go into a pool and open my eyes....and see bubbles...I spend very little time even in safe pools.

In the early forties, my father was a teacher in the Syracuse area. He decided to change schools and selected the school district that he thought, at the time, paid the best teacher's compensation at a public high school. So he moved to Long Island in the early forties, where he taught business at Hempstead High School. For reasons unknown, he was able to buy a small house next to Hofstra College.

As a five year old I came across an interesting modification to the house across from ours. There



was this unusual object...a wing that went from the top of the house to the basement. We lived next to Mitchel Air Force Base and I learned this was a wing of a plane that crashed nearby. Thus my parents decided to look for a new house. And we subsequently moved to the Roslyn Country Club.

As my parents planned for the future, Long Island was changing rapidly. In their early years they would drive by potato fields. Then the Leavitt brothers showed up. They created Levittown nearby and built 17,447 houses on 6 thousand square foot lots. Their Cape Cod and ranch-style homes cost \$7,990. During the construction, they were able to build a house in 16 minutes.

One of the Leavitt brothers decided to abandon the name Leavitt and go after those with more resources, creating the upscale Roslyn Country Club with large home lots that commanded a price more than twice that of Levittown. My parents, currently owning a home, had the resources and the foresight to buy upscale. Their financial advice, which stayed very consistent over many years, is that your home is the best asset in your portfolio.

There were only 600 houses in the Roslyn Country Club and there were two styles: a single floor ranch-style house all on one level, and another model that had a higher roof, with enough attic space to add rooms. My parents chose the more expensive one. With five children, a few of us lived in the attic.

As the neighborhoods expanded, so did the school districts. Our high school, newly created, was based in Old Westbury. After graduation from high school, my parents moved to Roslyn and selected an older home in a tree-lined street where they remained for many years. In the early eighties they moved to Southbury, Connecticut in a residential neighborhood designed for retirement. Evidently their advice never faulted... each home appreciated enough in value that our family experienced free living and an increase in liquid assets.

While in college, I worked summers at the Bohack's Grocery Store in Roslyn Heights, unaware that approximately a decade earlier, Ken Langone worked in the same store. He grew up in the working class neighborhood in Roslyn. Ken, at some point, also recognized the value of homes. He was the founder of Home Depot and his recent book is titled "Loving Capitalism".

THE FIRST CRASH - THE GREAT DEPRESSION

Clarence Mackay also recognized the value of homes. In my early years I would bike over to a heavily forested area overlooking Roslyn Harbor. I would come across an abandoned roadster from the 30s and find two statues, a two-foot deep swimming pool and an empty field. One day a bulldozer came and created a deep trench. I wandered around the trench and saw a small hole. I crawled in. I found gorilla cages, and ran home and told my friends. It turns out that it was Clarence Mackay's wine cellar. In 1899, Clarence retained Stanford White to design a 576-acre estate, which included two replicas of the famous Marly Horse 26-foot statues with pedestals.



As a result of the Depression, and Mackay's death in 1938, the value of his home became a liability and

the mansion was demolished in 1947. The property was sold in the late 1950s and became the Country Estates housing development, with many new upscale homes. One of the Marley horse statues was given to the Roslyn High School, where it resided in the school's parking lot.

Having left Roslyn many years ago, I did not meet Pamela Gluckin and her boss, Frank Tassone. Both passed the Marley horse sometimes daily, if not more often. They both understood the value of homes. Pamela owned three and Frank would often say that the best public schools would increase the value of homes.

Pamela was the assistant superintendent of the Roslyn School District (the North Shore Public-School System), and struggled with the costs of 3 houses on a salary of \$160,000. She hired her son to use the school's credit card to purchase the materials to renovate her beach house. The purchases were made at, no less, Home Depot, and these charges resulted in an initial investigation of her books, revealing a \$250,000 theft.

Frank was the superintendent of the Roslyn School District, which had managed to make, based on test scores, one of the ten best high schools in America. He was widely admired and would often promote the ever-increasing property values in the district, based on a diploma from Roslyn High School, that would significantly increase the probability of having children go to Harvard. Well, it turns out that he collaborated with Pamela and confiscated a total of

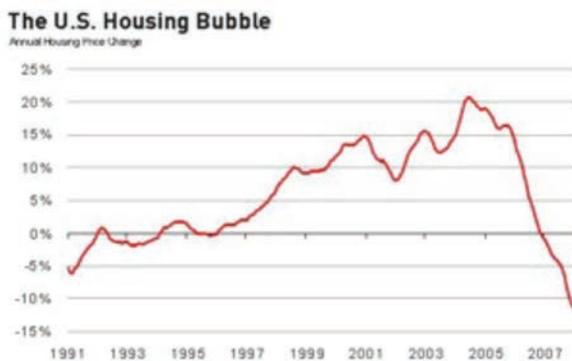


8 million, and they both went to jail. The 2019 Movie "Bad Education" starring Hugh Jackman as Frank Tassone is both entertaining and, perhaps enlightening.

I often encountered those in the Roslyn High District destined to premier schools. As a 13-year-old Boy Scout, I was 4 feet 6 inches tall, and I encountered a 13-year-old 6 foot 6 inch Boy Scout. I made comments that I should not have made regarding his height. He looked down at me and let me know that I was a low life human being in so many words, half of which I did not understand. He went to Harvard but changed his career and became a famous author. His name was Michael Creighton and one of his movies was Jurassic Park. The park sometimes reminds me of the housing market today.

THE SECOND CRASH - THE GREAT RECESSION

The Great Recession in the United States, officially lasting from December 2007 to June 2009, was considered the most significant downturn since the Great Depression. The U.S. housing market crashed as a result of the large amounts of mortgage-backed securities and derivatives that lost significant value. Before the crash, it was easy to buy a house and secure the loan, but the interest rate on the loan could not be controlled. This is what happened to home values:



My fear of bubbles when they first showed up on Jones Beach will not equate to the bubble I am working on now. Will we have another housing bubble? Hopefully the answer is no. The problem in Vermont is being faced over much of the country.

Evidently, more than half of homes in the US are selling above list price. It's now called playing a

lottery. Put your house on the market with a price, and you will get 20 offers and sell it for more than the asking price. Often, the bidders have not seen the property



other than online, and often the contracts have no exceptions so the seller does not need to worry about the buyer reducing the price or backing away.

The pandemic is part of the equation. Some of the many able to work at home, and telecommute, have recently found Vermont to be an attractive place in which to resettle, and the liquid assets in their portfolios may mean no trip to the Bank to get a mortgage or, if they need to borrow money, the rates are low and frozen rather than the dramatic increases experienced in the Great Recession. The unfrozen rates created the bubble.

The problem in Vermont is the inventory of homes is drying up and the cost of building or refinishing homes has gone up somewhat dramatically. This feels more like selling and buying the same stock, and the market will tone down in the near future. The trends so far do not seem to make Vermont an outlier.

Our investment managers are mindful of our portfolios and the risk of the second bubble. They are also mindful of our neighbors as well.

Hopefully, we can find more homes for those in Vermont which will dovetail with the needs of others and the beauty of the place. Rules and regulations may need modification. That said, I am not promoting 17,447 new Levittown style houses at this time. We need to go fast, but perhaps not that fast.

