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**ARE WE REALLY IN A
'HOUSING RECESSION'?**

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ARE WE REALLY IN A 'HOUSING RECESSION'?

Are we really in a 'housing recession'?

There seems to be a great deal of confusion between our current market conditions and those of the 2008-era housing crisis.

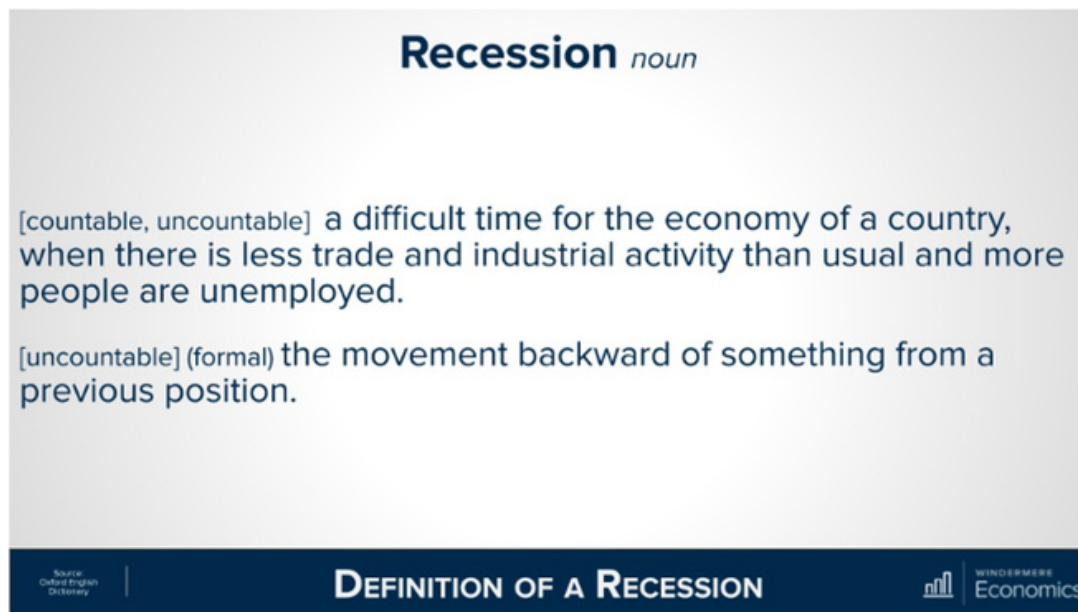
A little while ago, a housing analyst was being interviewed about the current state of the residential market and they suggested that the country is in a “housing recession”. Well, needless to say, this got a lot of attention from the media and the public at large — for obvious reasons.

Any time the word “recession” is mentioned we almost subliminally cast our minds back to 2007 — and when the word “recession” is combined with the word “housing” — well, then panic starts to set in with flashbacks of headlines about burgeoning housing supply, plummeting home prices and surging foreclosures.

As this is a topic being discussed by many across the country right now, I wanted to share with you my opinion as to whether the phrase “housing recession” is an appropriate one when describing today’s market.

So, what is a “recession”?

To answer this, I will turn to my trusted Oxford English Dictionary, and this is how they describe that word.



Recession: A difficult time for the economy of a country, when there is less trade and industrial activity than usual, and more people are unemployed.

OK, well that’s not a surprise.

And they also offer an alternative, defining a recession as “the movement backward of something from a previous position.”

So, how do we use these definitions when it comes to the ownership housing market?

I guess that “less trade” could mean lower sales and we have certainly seen sales pull back, and “moving backward” could be how someone might describe the fact that sale prices have been pulling back in many markets across the country.

But although some may say that we are in a housing recession defined the word, is it accurate? Are we are inextricably headed down a road that leads to the bursting of some sort of bubble as we all remember from 2007?

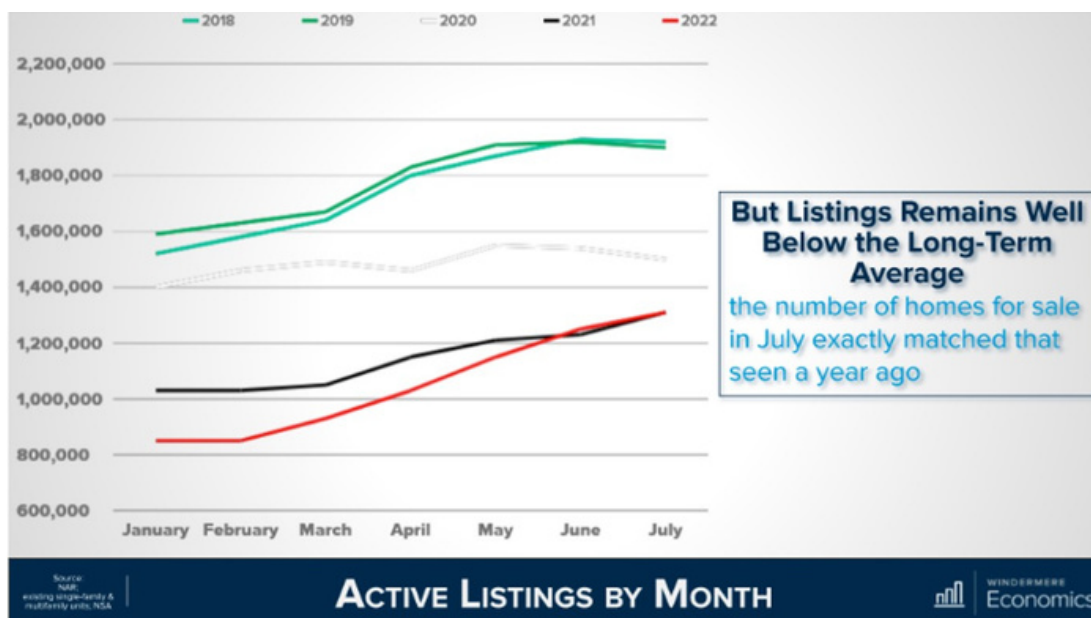
I don’t believe we are, and to explain my thinking let’s start out by looking at the housing supply.



Yes! Listing activity is up — can't argue with that — with the number of resale homes for sale jumping by more than a third from the start of this year.

But there's more to it than that. You see, we have to look a little farther back to better understand what's really going on.

And to do this let's check out the number of homes for sale during the first seven months of this year and compare those numbers to the same periods in 2018 through 2021.



I don't know about you, but this doesn't look like a chart showing a massively oversupplied market.

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The number of homes for sale in July of this year was almost the same as we saw last July and is still well below the levels seen in 2018, 2019, or 2020.

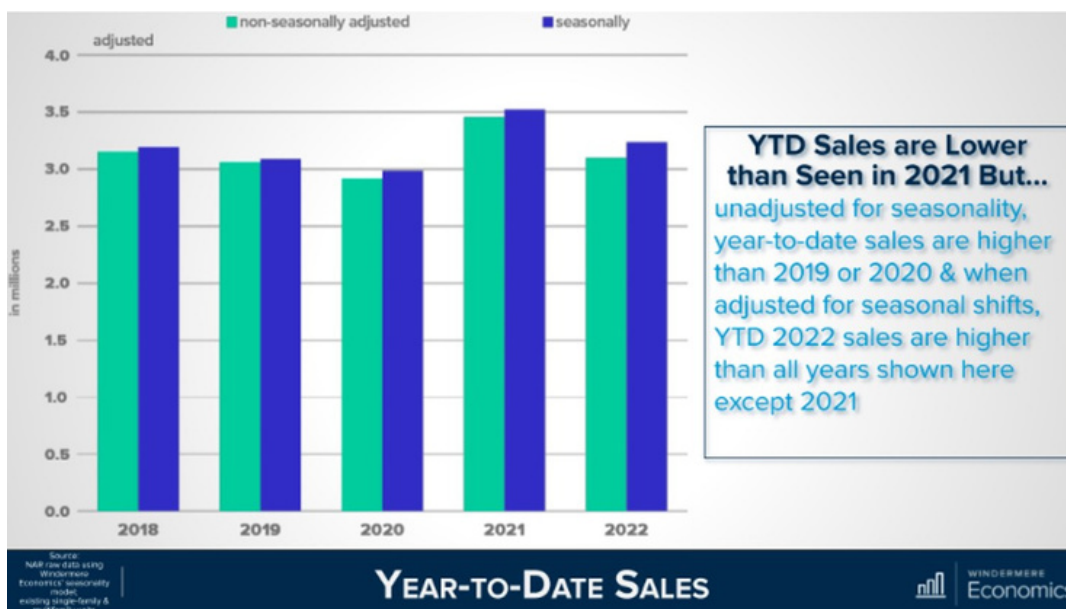
Listings are up — but are we at levels that will cause prices to tumble? Remember that it was a massive increase in the number of homes for sale that led to the housing bubble bursting back in 2007.

Listings peaked at almost 3.9 million units in 2006, but today there are 2.6 million fewer units on the market than we saw back then.

Now that we've seen that supply isn't at concerning levels, let's look at demand.



Well, this chart doesn't look too good. On an annualized basis, sales have been pulling back since the start of the year but, that's not the full story. Let's look at this in a slightly different way.



The bars here show year-to-date sales through July — both adjusted and unadjusted for seasonality — and although unadjusted sales so far this year are lower than we saw during the first seven months of 2021, they are at about the same level as we saw in 2018 and are higher than in 2019 or 2020.

But when we adjust the monthly sales data for seasonality, year-to-date sales in 2022 were higher than all years shown here other than 2021.

So although sales have fallen, it appears to me that we are heading back to a more realistic market rather than one that is hemorrhaging.

Yet another indicator we need to consider when examining the market for evidence of some sort of recession is months of inventory — and this shows how long it would take to sell every home for sale using the current monthly sales pace.



And this graph shows that it would take three months to sell every home on the market given the sales we saw in July. That is quite a jump from the January pace but, again, perspective is everything.



At three months, it is still a seller's market. It's generally accepted that the definition of a sellers' market is any number below four months; a balanced market is four months to six months of inventory, and a buyers' market is when the months of inventory are above six.

And a simple bit of math shows us that, for the market to shift from favoring sellers to favoring buyers, the number of homes for sale must break above two million — which we haven't seen since 2015 — and monthly sales would have to drop to below 300,000 — and we've only seen that happen three times in history — in November 2008, and again in July and August of 2010.

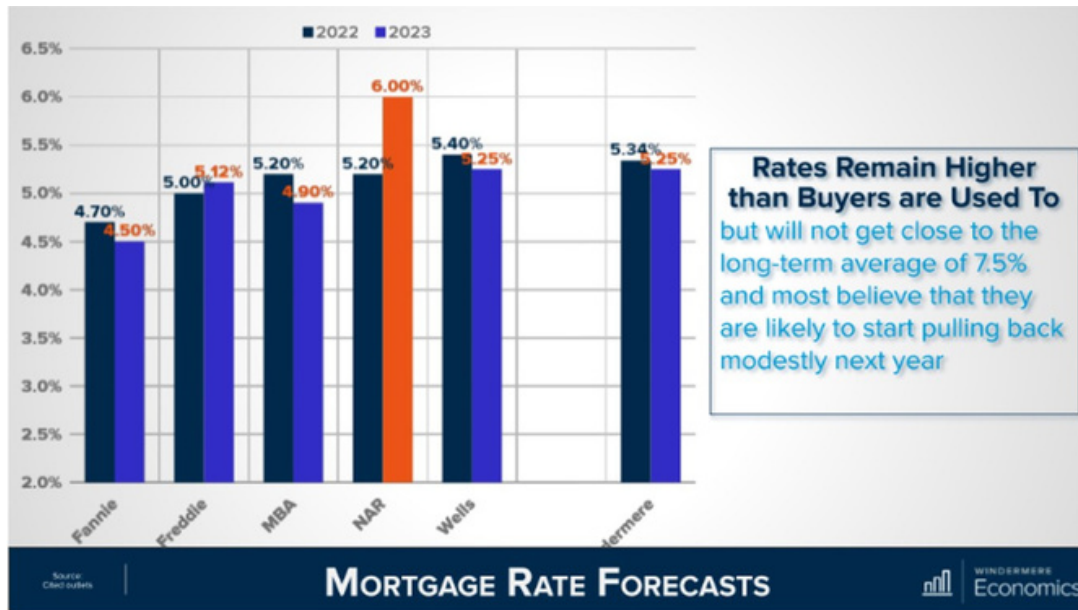
Yes, listings are up and sales are down. There's no denying it. But, again, does the data justify the term "recession"?

My answer would be no but, if you're still not convinced, let's turn our attention to sale prices. I think that might help make things even clearer.



La línea sólida representa los precios de venta medios de las viviendas a lo largo del tiempo y la línea punteada muestra la tendencia. Puede ver claramente que comenzamos a romper con la línea de tendencia a principios de 2021 y eso no es del todo sorprendente, ya que comenzó el mes después de que las tasas hipotecarias alcanzaran su mínimo histórico.

Pero los costos de financiamiento de hoy son significativamente más altos y los precios han comenzado a caer. Aunque ciertamente espero que los precios de venta caigan aún más, me parece que simplemente están regresando a la tendencia a largo plazo y no colapsando.

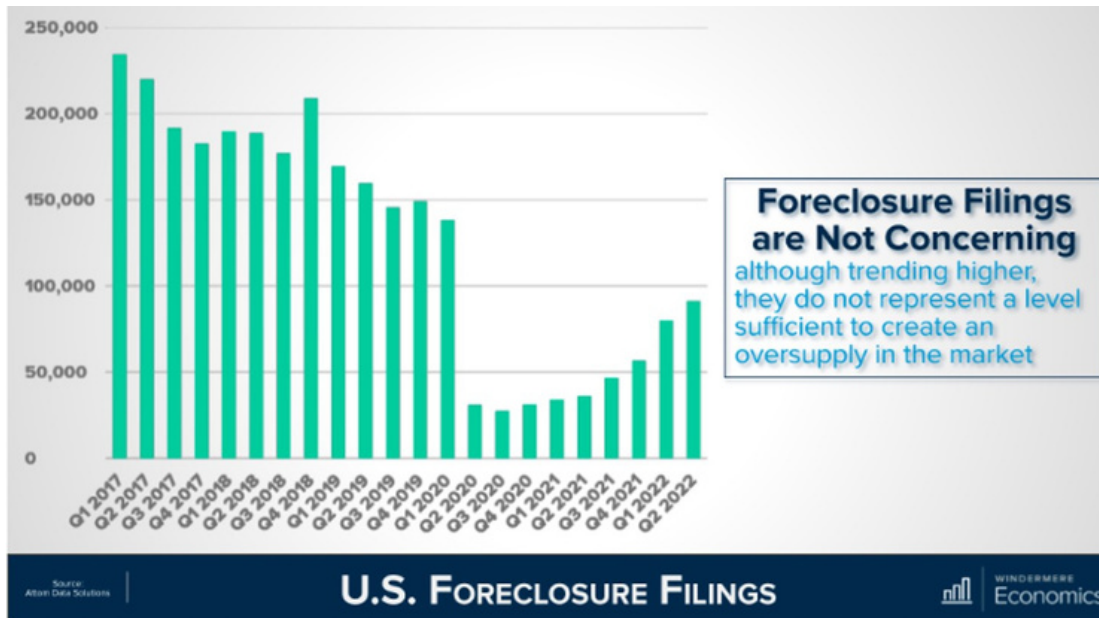


With mortgage rates doubling from their 2021 lows, downward pressure on sale prices was to be expected, but will they, as some think, rise to a level that will cause home prices to fall drastically? To answer that, here are the forecasts of several associations and you'll see that all bar the National Association of Realtors and Freddie Mac see rates pulling back, albeit modestly, in 2023.

Of course, all these are annual averages and today's rates are higher with the latest Freddie Mac data showing the average 30-year fixed rate above 6 percent — a level we haven't seen since 2008.

However, economists, including myself, find it unlikely that rates will continue rising significantly from where they are today. The mortgage market is certainly in a bit of disarray right now with the yield curve inverting, but that should correct itself by early next year and that's why we generally expect rates to start pulling back from their current levels by the start of 2023.

But if rising rates are triggering memories of 2008 you wouldn't be alone as some are expecting that the spike in rates will trigger a surge in foreclosure and that will doom the market.

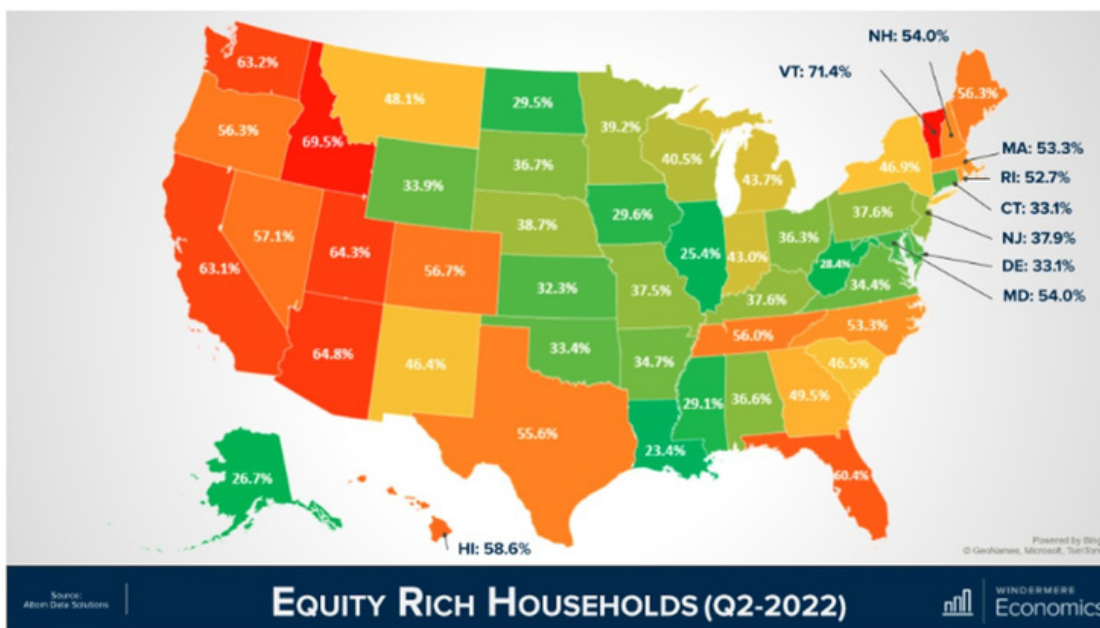


But as you see here, although foreclosure filings have certainly risen, they are still remarkably low compared to historic standards.

In the second quarter, newly delinquent mortgages represented just 1.9 percent of all mortgages outstanding — and that’s the lowest share the market has seen since 2006.

Although I do expect the number of homes being foreclosed on will rise as we move into 2023, I just don’t see it getting to the levels necessary to materially impact the overall market.

And a big part of the reasoning behind my thinking is this.



In the second quarter of 2022, over 48 percent of homeowners with a mortgage were sitting on more than 50 percent equity.

Simply put, for enough homeowners to be put in a negative equity situation that would lead them to enter foreclosure and materially damage the market, home prices across the country would have to fall by a percentage greater than we saw during the market crash and I just don't see this happening.

The word "recession" has many connotations, and when it's used to describe the housing market, it can engender a significant level of panic.

So, I will ask you all. Given the data I have shown you today, do you think that we are in a "housing recession"?

Yes. Supply levels have risen — but they are still relatively low when compared to historic averages and with builders slowing construction activity to a crawl, it's unlikely that the housing supply will grow much organically.

Over the longer term, I believe that the supply of resale homes for sale will remain below historic averages, and I say this for one simple reason: mortgage rates.

In 2020 a record number of households refinanced their homes to take advantage of the mortgage rates that had plummeted, and in 2021 over 6 million home buyers got mortgages with rates averaging below 3 percent.

I would suggest to you that we will not see the number of homes for sale even get back to normalized levels in the mid-term as many potential sellers will decide not to sell as, if they did, they would lose the "never seen before, and likely never to be seen again" mortgage rate that they currently have.

Of course, there will be sellers who have to move because of factors such as job relocation, death, or divorce, but I would contend that listing activity may well be tight for a long time and – if supply remains below the level of demand — the market is further protected.

And as far as demand goes, let's not forget that the age makeup of the country suggests that we will see a lot more potential buyers as Millennials and Generation X mature with current numbers suggesting significant buyer demand for the next two decades.

As for sale prices, I still believe — as do almost all economists — that the median home price next year will be higher than we will see this year, but a very significant drop in the pace of growth is likely as we trend down to historic averages.

Of course, all real estate is local and there are markets across the country that will see prices drop in absolute terms, but even in the most highly susceptible markets, it will be a temporary phenomenon and, by 2024, homeowners in these markets will see the value of their homes start to rise again.

I'm going to leave you with my quote to describe today's market and it's that we are in a "housing reversion," not a "housing recession."

By: Matthew Gardner

Source: <https://www.inman.com>

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