A CONSTRAINED MARKET

REPORTS ON HOUSING
ECONOMICS EXPLAINED

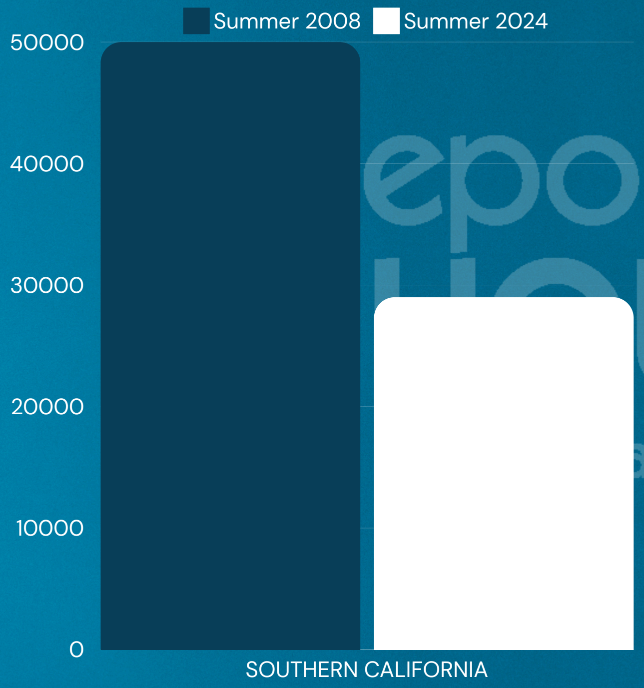
ARTICLE BY: MATTHEW GARCEAU

COULD A HOUSING CRASH BE ON THE HORIZON?

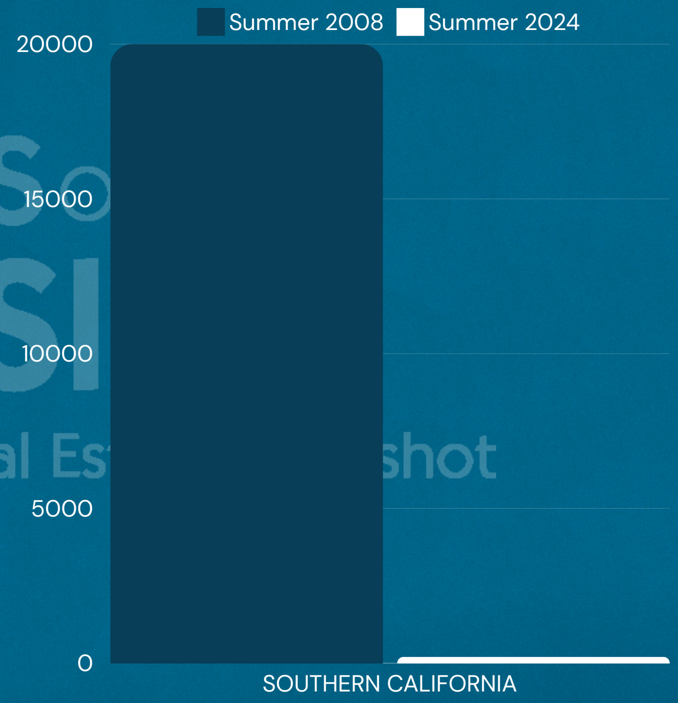
With housing prices across the country reaching all-time highs and an affordability crisis at its worst in decades, would-be home buyers are rightly concerned about the possibility of a housing crash. The memories of the most recent housing crash loom large, causing many homeowners to fear another severe price correction. Between 2005 and 2007, the U.S. housing market showed signs of instability before home values plummeted and foreclosures surged. The bursting of the real estate bubble plunged the global economy into its deepest downturn since the Great Depression. Now, with the recent housing boom threatened by skyrocketing mortgage rates and fears of a potential recession, what are the experts saying?

Experts point to a significant difference between today's market and that leading up to the last U.S. housing crash: inventory levels. For example, in late 2007, Orange County had nearly 18,000 homes on the market. Today, inventory levels are just over 3,000 homes—a staggering difference.

The current market has faced a lack of supply for some time, largely due to elevated rates stemming from the Federal Reserve's efforts to quell inflation. This issue was exacerbated during the pandemic when home sales and prices skyrocketed in a low interest rate environment. While prices rose, affordability did not become an issue until rates began to climb. By late 2022, the U.S. housing market started slowing due to these rising rates, and a correction in home prices seemed imminent.



OF AVAILABLE LISTINGS



OF AVAILABLE DISTRESSED LISTINGS

However, an unexpected trend emerged: home values began rising again. In October 2023, home values held steady even as mortgage rates soared to 8 percent, their highest levels in more than 23 years. Prices hit a new all-time high in May 2024, with the National Association of Realtors (NAR) reporting a 5.8 percent increase in median existing home sales over the previous year—the 11th consecutive month of year-over-year jumps. May 2024's median of $419,300 surpassed the previous record high of $413,800 from June 2022. The S&P CoreLogic Case-Shiller home price index for April was up 6.3 percent from the previous year, also reaching an all-time high. Homeowners locked into ultra-low rates from the pandemic years are less likely to sell in the current environment, and many potential buyers are priced out while rates remain elevated.

Experts believe that once inflationary pressures ease, mortgage rates will fall, unleashing a wave of pent-up demand. Those sidelined by affordability constraints will flood the market, pushing home prices up further—another reason why a housing crash is unlikely anytime soon.

Current lending standards and foreclosure activity also support the stability of the housing market. Leading up to the Great Recession, lenders issued loans to almost anyone, regardless of credit score or down payment size. Today, lenders impose strict standards on borrowers, with new mortgage borrowers having excellent credit. In the first quarter of 2024, the median credit score for new mortgage borrowers was an impressive 770. Banks had reportedly tightened lending standards across almost all categories of residential real estate loans in the fourth quarter of 2023 amid an elevated interest rate environment. Additionally, the flood of foreclosures seen during the last crash is absent today. For example, in the summer of 2008, Orange County had nearly 6,000 distressed listings. By summer 2024, there were only seven. Without a wave of foreclosures or significantly loosened lending practices, a crash appears unlikely.

Housing economists and analysts agree that any market correction is likely to be modest. The recent run on home pricing will not result in a crash. Price drops similar to those during the Great Recession, where some homes lost 50 percent of their value, are not expected. As builders bring more homes to market, more homeowners decide to sell, and prospective buyers get priced out, supply and demand will come back into balance. However, this won't happen overnight. It will be a slow evolution in the housing market, likely taking place in 2025 and beyond.