Today's Housing Bubble & The Changing Market

The Next Real Estate Crash

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The Next Real Estate Crash:
Phases Of A Housing Bubble
By Tim & Julie Harris

Housing bubbles follow a predictable progression:

- **Phase One: Mania** - Prices rise at an accelerating rate as factors like excess central bank liquidity/loose credit/hot foreign money drive a virtuous bidding cycle well above sustainably affordable levels. (Last 5 to 6 years, Seller's Market)

a- Big teams, mega teams, expansion teams. All the while not making profit.

b- Buying buyer leads.

c- Tech companies coming out of woodwork, venture-funded, supporting the buying leads model.

d- Agents spending money on branding and marketing.

e- Agents spending money on things from the 'Ego Bucket'.

f- Market reinforces NOT doing what you don't want to do at the highest level; homes sell themselves, agents feel like rockstars.

g- Lots of emphasis on mindset, mystical things, very little emphasis on skills.

h- Flat fee brokers and discount models which claim to be revolutionary.

i- New construction everywhere.

j- Hard to sell listing takes weeks.

- **Phase Two: Peak… 'Reality Check time!... Is the party over? -** Increasingly jittery owners attempt to sell out before the party ends. Supply jumps as prices stagnate. Inflection point where the market could sell off again or it could become more of a buyer's market.

EVIDENCE:

- the supply of homes for sale during the "all important" spring market rose at 3x last year's rate,
- 30 of America's 100 largest cities now have more inventory than they did a year ago, and
- mortgage applications for new homes dropped 9% YoY.

Taken together, these suggest that residential housing supply is increasing as sales slow, exactly what you'd expect to see in the transition from Stage One to Stage Two.

a- Aspirational pricing comes to an end.

b- Longer days on the market.

c- Fewer offers, sometimes only one.

d- Rarely over asking price.

e- Appraisal issues start to become an issue again.

f- Inspection issues start getting negotiated again.

g- Transaction Management becomes more challenging.

h- New construction slows. Builder incentives re-appear.

i- Expired listings increase.

j- Sellers become MUCH MORE SELECTIVE with whom they list with. They value agent skills again. Key differentiator isn't your internet marketing, likes and follows, it's the fact that you got their neighbor's house sold.

k- Teams & Brokerages who were running low profit margins are starting to worry.

l- Most of the industry puts head in sand and go into denial about the market changing. Industry produces articles to support that we're in phase one still.

k- BPO orders begin to increase.

l- 'Hard to sell listing takes months'

- **Phase Three: Bust** - As inventory builds, sellers start having to lower prices. This begins a vicious cycle: buyers go on strike not wanting to catch a falling knife, causing sellers to drop prices further.

a- Return of REAL appraisal issues.

b- Banks tighten lending standards again to stave off future foreclosure issues.

c- Home Equity Lines of Credit (HELOCs) get capped or taken away.

d- Anyone in real estate industry has a very tough time getting a loan on anything, let alone to buy a house.

e- Upper end, would-be sellers decide to lease their properties instead.

f- Many home owner's equity has been wiped out. History has shown that these people will strategically default, living in their homes for free for as long as possible.

g- Return of the short sale conversation.

h- BPO orders go crazy.

i- Industry watchers watch for NODs as an indication of the direction the market is going. The problem is that the banks are not compelled to report NODs for months, since it effects their ability to borrow. An intentional opaqueness over the easiest way to test for industry health. Using NODs as an indication doesn't work for this reason.

j- Socialistic attitude about housing. Everyone is entitled to be a homeowner. May even become a political hot button.

k- Substantial value decreases in property sale prices. (Not universally true).

l- Days on market no longer measured in days; measured in months. Luxury measure in years on market.

m- 'Hard to sell' in phase 3 takes years.

Phase 4 – A slow return to a seller's market. In the last recovery, the true seller's market really lasted 5 or 6 years. Crash started late 2006. Media didn't say it really started til 2008. Recovery started around 2011. 2011 to probably 2019, hot seller's market. Certain markets came to the seller's market starting only in 2015. (Columbus for example). Slow to recover and slow to deflate. Last cycle was a 12 year cycle.

Phase 5 – Return to Hot Seller's Market. Lather, rinse, repeat.

a- Emergence of new, next-generation business models which could only come out of the hardships of a correction.

Here's why we might be wrong: (it might take fewer years to correct)

1 The GDP is at 4.1%, the highest it's been in the past 10 years.

2 Sheer size of the Milennial population and their need for housing may throw a wrench into the higher inventory story. This could recalibrate the timing of peak to trough. They could accelerate the correction.

3 Unraveling of the real estate market will happen in a more predictable, organized way this time, since there are clear paths to follow, unlike before. (We started teaching Short Sales in 2006 and no one even knew what it was. Now there are streamlined short sales.) You can buy a house within 24 months of a short sale now, not 7 years. Home owners can be MORE strategic than before and actually plan their graceful exit. No constipated python this time.

We know that when people are underwater on their home, many will strategically default once they have no real skin in the game (no equity).