



Harry's Take

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Home Prices Up Largely on Low Inventory: Lifting Forbearances Will Change That

Home prices keep going up, even though they are so high now that they are crimping the volume of home sales. That alone will help trigger the way overdue recession/depression ahead. Inventory of homes is down to just less than 2 months' sales.

This month, the government began to lift the moratoriums they imposed on forbearances, and this process will continue into next July. Of course, landlords have been crying for help since the ban took effect and are happy to see this.

Here's the schedule of forbearances expiring by month and the estimates of the homes that will have to be listed to resolve the debt, adding to the

Mortgage Forbearance Expiring 8/21–7/22: Adds 25% to 50% Inventory

Estimating for-sale inventory from expected 18-month forbearance exits								
Month	Projected Expirations	Projected Sales	10 Percent Scenario		25 Percent Scenario		50 Percent Scenario	
			Inventory Added	Months Supply	Inventory Added	Months Supply	Inventory Added	Months Supply
August-21	108,000	565,410	10,800	0.02	27,000	0.05	54,000	0.10
September-21	451,900	528,650	45,190	0.09	112,975	0.21	225,950	0.43
October-21	286,800	517,830	28,680	0.06	71,700	0.14	143,400	0.28
November-21	184,900	457,790	18,490	0.04	46,225	0.10	92,450	0.20
December-21	95,600	497,840	9,560	0.02	23,900	0.05	47,800	0.10
January-22	83,100	340,400	8,310	0.02	20,775	0.06	41,550	0.12
February-22	112,200	366,190	11,220	0.03	28,050	0.08	56,100	0.15
March-22	116,400	501,460	11,640	0.02	29,100	0.06	58,200	0.12
April-22	118,400	549,700	11,840	0.02	29,600	0.05	59,200	0.11
May-22	112,200	578,030	11,220	0.02	28,050	0.05	56,100	0.10
June-22	64,400	660,740	6,440	0.01	16,100	0.02	32,200	0.05
July-22	45,700	632,370	4,570	0.01	11,425	0.02	22,850	0.04
Cumulative	1,779,600	6,196,410	177,960	0.36	444,900	0.89	889,800	1.78

SOURCE: Zillow estimates of expected 18-month forbearance exits, based on data from Black Knight's June 2021 Mortgage Monitor

inventory and reducing the pressure on home prices, which now are approaching \$400,000 for the median everyday home.

Zillow estimates that 25% of these forbearances will end up on the market, as the owners cannot sustain their mortgages when they are forced to pay them again, but they allow that number could be as high as 50%.

In my scenario, the number starts around 25%, adding to recession pressures that then rapidly turn that number to 50% and ultimately to more like 100% before the recession bottoms by late 2023 or so.

Forbearances affect 1,779,000 home loans in total. That means new listings of 449,900 under the 25% scenario and of 889,800 under the 50%. The majority, 257,900 and 515,800, respectively, will be listed by the end of November. Under that 50% scenario, inventory ultimately would increase by near 1,800,000, adding 1.78 months and roughly doubling from today's numbers. Of course, a lot of new inventory will be added in a recession, which will make it that much worse.

The point is this: Home prices are about to peak, as sales have fallen 23% already since January due to rising unaffordability. Home prices will start to fall with rising inventory, which mostly will hit by the end of November. Falling home prices and sales guarantee we'll get a recession, as housing has been the strongest recovery sector as a result of extremely low mortgage rates from the unprecedented stimulus that has gone on for 13 years.

This is the primary trigger that could end the most-extreme something-for-nothing stimulus program in history. Stocks will peak before year-end and in 2022 we are likely to see the most-extreme 1-year crash in history... and we are likely to get that first 50%+ crash by year-end or by January.

If you are going to sell, now's the time!

Harry

Got a question or comment? You can reach us at info@hsdent.com.