

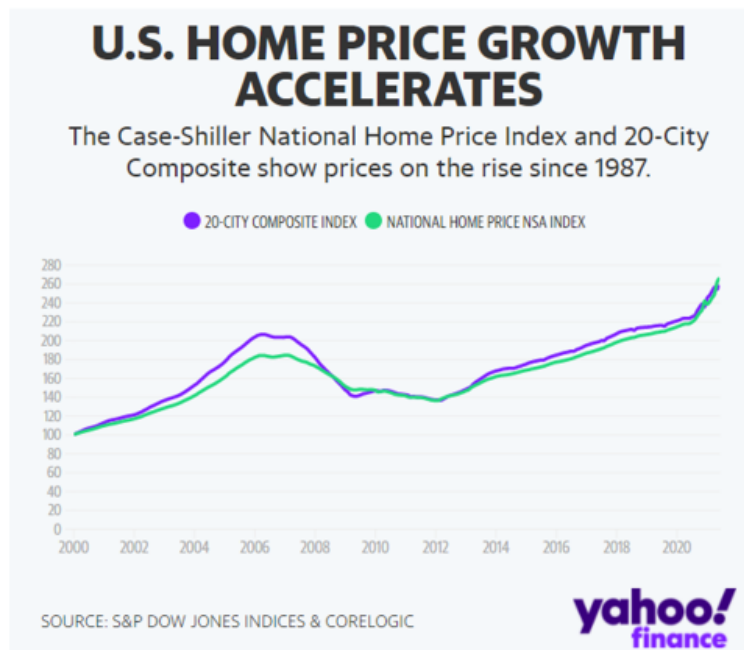


Harry's Take

September 7, 2021

The End of the Second Housing Bubble

The present bubble in housing is in its final moments. Thirteen years of near-zero to negative real rates has had a massive impact on the housing boom in sales and prices, our second since 2000, but this time the boom was totally artificial. Now, we have clear signs that a final “orgasm” is coming for this bubble.



Source: <https://news.yahoo.com/case-shiller-home-price-june-2021-130002781.html>

www.HSDent.com

Home prices have bubbled twice since 2000. In the first bubble, the 20-City Index (blue line) increased by 106% from early 2000 into early 2006 and

then crashed by 32% into early 2009. The market went sideways and slightly lower into early 2012 and then surged by 88% into August 2021, this second time to the highest levels ever.

The first bubble was fueled by strong demand from the largest generation in history and by a natural fall in interest rates that resulted from the productivity of that generation. But the second bubble has been driven entirely by over \$7 trillion in money printing, which has stimulated spending beyond natural levels and has created artificially low to negative real mortgage rates. Hence, this second bubble is far more overvalued than the first one, given that fundamental economic demand has been weaker since 2007 (and ultimately since late 2002 for real estate).

This second bubble is now in its very final stages. Pending home sales have been falling since August 2020, despite the greatest combined surge in monetary and fiscal stimulus in all of history, in reaction to COVID. How many times can you get households to refinance or trade up to a larger home without diminishing returns?

Those pending home sales were down slightly into December 2020 but then began to fall even faster and ultimately were down 18% into April. After a modest bounce into May, they are headed back down again and are likely to keep falling even more dramatically into at least late 2022.

Pending Home Sales Index Falling (Again) Since August 2020



Source: National Association of Realtors

www.HSDent.com

This is the best sign that the game is very close to over. If you are thinking of selling your real estate, now is the time.... Don't look a gift horse in the mouth. Sell by Christmas or you'll very likely live to regret it!

Harry

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