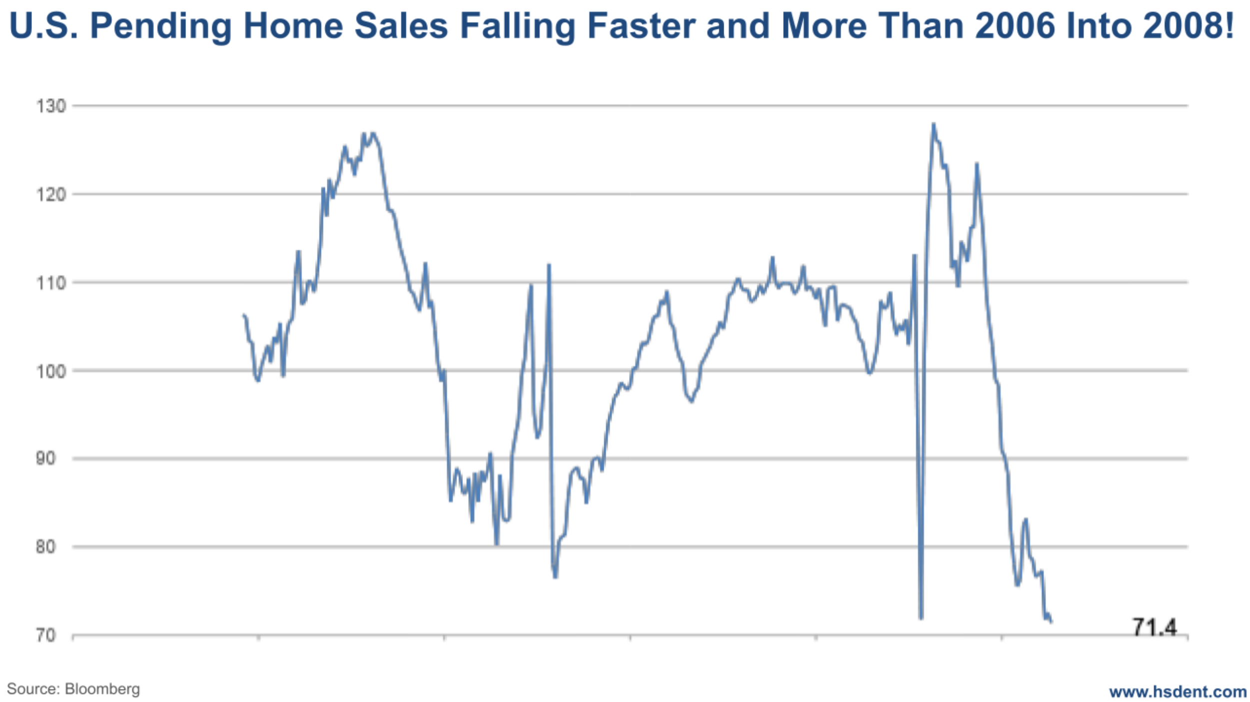
Harry's Take

December 19, 2023

Pending Home Sales Crashing Worse Than in 2006–2008

The biggest difference between this crash of a lifetime and the last one from 1929 to 1932, when stocks went down 89%, is that real estate has bubbled up much more this time, given much more liberal lending for mortgages. To buy a home in the Roaring '20s, a household typically had to put 50% down and pay off the loan in five years! Hence, during the worst downturn by far in U.S. history, housing did not bubble up as much as stocks and on average, the value of a house crashed only 26%.

And as I have been predicting, this real estate crash should be about 50% worse than the last one from 2006 into 2012; the price of the average house will go down 50%+, vs. 34% in the 2008 financial crisis. The fall in pending home sales since May 2020 is starting to suggest just that, as this chart shows.



New home sales are already down 40% from that top into December 2023, compared to 33% at the beginning of the last recession in 2008—and we're not even officially in a recession yet. That is already 21% more, and by the start of the recession, likely early next year, the drop easily could be 50%—1.5X worse, which is what I have been predicting, roughly, via my 1.5X rule for this downturn vs. 2008.

The total fall from 2006 into the bottom in 2010 was 44%, so if we apply the 1.5X rule, the fall should be by roughly 66% this time. Now again, that is in home sales, not in home prices. But if this 1.5X rule holds up, then the total fall in prices should be about 50% for the average house, vs. 34% from 2006 to 2012 last time…

So, how much do you love your main house (or your vacation house, if you have one)?

Harry

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