Harry's Take
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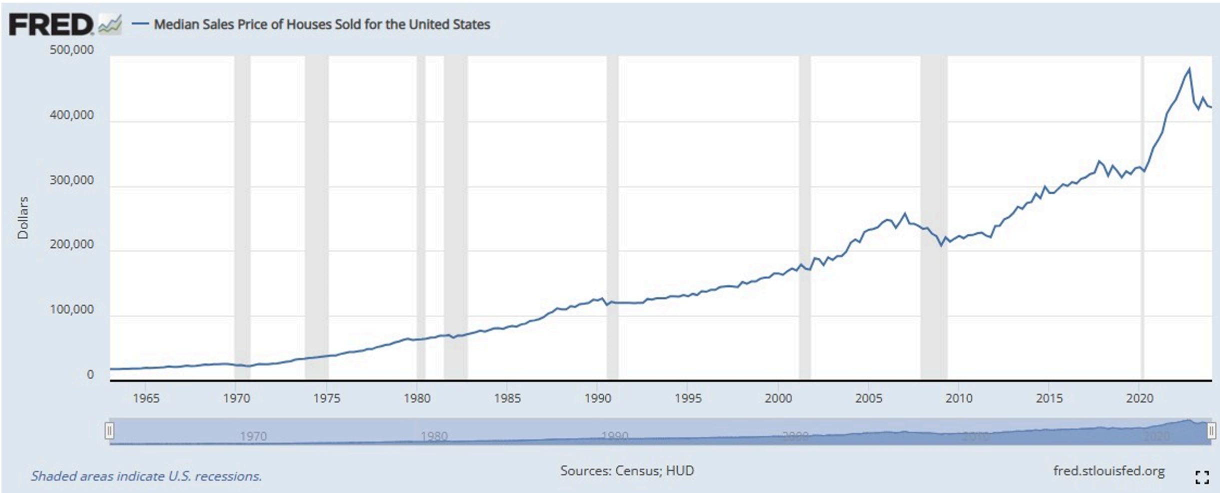
Second Housing Bubble Very Likely Has Peaked: 57% Decline Ahead?

For most of my life, the word in real estate was simple: You can't go wrong buying it, as they aren't making any more of it! Well, that leaves out the proven fact that homebuilders are notorious for overbuilding when times are good. Also, consumers do think real estate always will go up and can't go down much, so they overbuy and spend when times are good.

Well, that was blown out of the water from 2006 to 2012, when real estate crashed 34% on average, more than the 26% decline in the Great Depression. Why? Home loans were much harder to get in the Roaring '20s, typically requiring 50% down and with a note of five years' maturity. Hence, real estate didn't bubble as much as stocks, back then.

We are now seeing the top of the second major real estate bubble here in early 2024, like the first top in early 2006… But this bubble has been longer and larger, as with stocks, and it is peaking closer to stocks as well. Last time, stocks bubbled first, and their burst led investors straight into the real estate bubble that peaked about six years later.

Median, Everyday Home Prices Very Likely Have Peaked Long Term



Source: https://fred.stlouisfed.org/series/MSPUS

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In this chart we can see the first bubble, with its final, three-year blowoff into 2006 of a mere 32%. The recent blowoff from early 2020 was 47%. That's a lot for houses, which historically appreciate only with inflation rates, which have been low in recent years.

After the first bubble, the average home price went down 34% between 2006 and 2012, dropping most before late 2009. This time, the fall should be substantially more, likely the most in U.S. history, both past and future. This chart shows the median, everyday house prices, and a return merely to the 2009 lows implies about a 57% decline. That means the average price skewed more toward higher-end homes would go down even more, perhaps falling 60% to 70% for our precious, upscale McMansions and vacation homes.

If this is anywhere near right—and I believe it to be both inevitable and healthier for the economy longer term—then this 57%+ crash in housing is going to be far more painful than an 80% to 90% crash in stocks, which most everyday households don't own that much of. What good is it for your income to grow if it can't keep up with our largest cost, housing?

It's the last chance to sell, especially that McMansion or vacation home, the value of which will go down more than the average house! If you wait just a few years, you can buy back your dream retirement or vacation home at the bargain price of a lifetime!

Harry

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