Is the Real Estate Market Going to Crash?

When COVID-related shutdowns began in March, real estate brokers and clients scrambled to respond to the shift. Record-low interest rates caused some lenders to call a halt to new underwriting, and homeowners debated whether or not to put their houses on the market. However, those first days of uncertainty ushered in a period of unprecedented demand in the U.S. real estate market, which ended the year with increasing average home.

Now, as the spring market approaches, you may be wondering whether the good times can continue to roll on. If you're a homeowner, should you take advantage of this opportunity? If you're a buyer, should you jump in and risk paying too much? Below we answer some of your most pressing questions.

How is today's market different from the one that caused the 2008 meltdown?

At the beginning of the pandemic, fears of an economic recession and an ensuing mortgage meltdown were top of mind for homeowners all across the country. For many buyers and sellers, the two seemed to go hand in hand, just as they did in the 2008 economic crisis.

In reality, however, the conditions that led to 2008's recession were very different from those that triggered the current downturn—and this time, the housing market is the source of much of the good news.[2] This is in line with historical patterns, as housing prices traditionally hold steady in the face of recession, with homeowners staying put and investors putting their money into bricks and mortar to ride out uncertainty in the stock market.

This time around, because of lessons learned in 2008, banks are better funded, homeowners are holding more accrued equity, and, crucially, much of the economic activity is focused on financial factors outside the housing market. As many industries quickly pivoted to work-from-home, early fears of widespread job loss-related foreclosures have failed to materialize. Federal stimulus payments and the Paycheck Protection Program also helped to offset some of the worst early effects of the shutdown.

Are we facing a real estate bubble?

A real estate bubble can occur when there is a rapid and unjustified increase in housing prices, often triggered by speculation from investors. Because the bubble is (in a sense) filled with “hot air,” it pops—and a swift drop in value occurs. This leads to reduced equity or, in some cases, negative equity conditions.

By contrast, the current rise in home prices is based on the predictable results of historically low interest rates and widespread low inventory. Basically, the principle of supply and demand is working just as it’s supposed to do.

Aren’t some markets and sectors looking particularly weak?

One of the big stories of the past years was a mass exodus from attached home communities and high-priced urban areas as both young professionals and families fled to the larger square footage and wide-open spaces of suburban and rural markets. This trend was reinforced by work-from-home policies that became permanent at some of the country’s biggest companies.

Speculation then turned to the death of cities and the end of the condo market. However, it appears that rumors of the demise of these two residential sectors have been greatly exaggerated.

Renters have begun returning to major urban centers, attracted by the sudden rise in available inventory. In addition, buyers who were previously laser-focused on a single-family home responded to tight inventory by taking a second look at condos.

Overall, according to most indicators, the real estate news looks overwhelmingly positive throughout the rest of the year and possibly beyond.

STILL HAVE QUESTIONS? WE HAVE ANSWERS

While economic indicators and trends are national, real estate is local. We’re here to answer your questions and help you understand what’s happening in your neighborhood. Reach out to learn how these larger movements affect our local market and your home’s value.