

2022 Housing Market: Will It Continue To Bubble Or Will It Burst?

Mike Maher Contributor Mar 25, 2022

Every month, there are thousands of searches in Google for terms related to: “Is there a housing bubble?” Clearly, it’s a question on many people’s minds. For this to be a bubble, it’s not just about high prices; investment needs to be driving demand way beyond where it should be. So, is there a real estate bubble? I don’t believe there is. Home prices are unlikely to fall by any significant measure. At best, prices will rise more slowly, at a rate that outpaces inflation (just not to the same extreme as this year). It’s worth keeping in mind that historically speaking, housing bubbles have actually been quite rare. They may *feel* common because we all lived through one – but the 2007 crisis happened due to a series of events and decisions (such as relaxed lending standards) that would not occur today.

Lending Standards. Have lenders been unscrupulous in who they lend to? It doesn’t seem so. Buyers today are extremely qualified. The median FICO for current purchase loans is about 42 points higher than the pre-housing crisis level of around 700, according to data [from the Urban Institute](#). There were many regulations and restrictions put in place after the 2007 crisis to help maintain a healthy housing market (such as Dodd-Frank) – and many banks were fined millions and even billions of dollars for their participation in lending fraud. They’re wary of getting fined again and so they opt to hold home buyers to high standards.

Mortgage Rates. Speculation was rampant in the early 2000s. Adjustable rate mortgages, which tempted buyers with low introductory interest rates that rose dramatically once homeowners were locked into paying them, were much more popular (and much less regulated). When interest rates drop, it encourages more investors to enter the market – because they can risk less of their own cash to do so. However, experts seem to unanimously agree that [interest rates are going to rise](#) by up to a full percentage point this year. This will help discourage overly-speculative investing as borrowing becomes more expensive – helping to stave off the possibility of a bubble.

Equity. The housing market collapsed in 2007 in part because many consumers had almost no equity in their homes – people were buying homes with no money down, and the riskiest mortgages required little proof that buyers could actually afford them. When the housing market was good, it was easy to simply turn around and sell your home if things didn’t work out. But once the market dipped, many people discovered that their loans were worth more than the homes themselves. Since they had almost no equity in their homes, this meant they couldn’t sell without going into debt – making foreclosure the only option. Today, the average homeowner has over \$150,000 worth of equity in their home – an all-time high, which is good.

Supply In the years leading up to the housing crash, new home construction outpaced demand – which contributed to home prices dropping precipitously. Since then, however, new home construction has lagged behind, failing to keep up with a growing population. According to the [National Association of Home Builders](#), the U.S. went from averaging between 9 and 11 million housing starts per decade throughout the 1960s to 2000, to just under 7 million homes during the 2010s. Increased building regulations, the rising price of lumber/materials/labor, and lingering hesitation due to the crash all contributed to this – and as homes became more expensive to build, home builders were incentivized to build luxury homes rather than starter homes. While the construction industry seems to have hit a recovery point (almost a million homes were built last year), it will likely take years for supply and demand to balance again.

Will Home Prices Drop in 2022? I’ve talked to experts in multiple real estate markets throughout the country. While some areas are hotter than others, one trend remains clear: demand is high and will likely remain high. Millennials and Gen Z are “coming of age” and placing more emphasis on owning homes as they form new households.

Meanwhile, [the latest data from Zillow](#) shows that the number of homes for sale in the U.S. dipped below one million this past December. For comparison: before the crazy bidding wars of 2021, there were an additional 220,000+ homes for sale a year earlier. Demand has yet to decrease, and inventory has actually dropped. We’re still seeing buyers waive inspections, go all-in with their offers from the start rather than escalate, and go over the appraised value – and it’s been an entire year of this.

So when can we expect home prices to drop, or at least stop climbing so rapidly? My guess is that prices are unlikely to experience a notable dip within the next 5 years. However, we’ll eventually see the market reach more of an equilibrium between buyers and sellers.

We can expect such a shift once certain things take place:

- New home construction continues to increase, helping meet demand (and/or)
- New technologies like home printing decrease the cost of production (and/or)
- Cities alter outdated zoning laws to better accommodate growing populations (and/or)
- Baby boomers - who own much of the US housing stock - begin aging out of their homes

All of these things have the potential to greatly impact the housing market, but none of them are happening overnight. We also don’t know what the average mortgage rate will look like in five years, but that could have a major impact on demand as well.

If you plan on buying a home, you shouldn’t delay meeting with an agent to discuss your options. If you’re thinking of waiting until home prices drop: don’t. You might end up renting forever.

EVERYONE'S TALKING ABOUT
SKYROCKETING REAL ESTATE

IS NOW THE RIGHT TIME TO BUY OR SELL? IT MIGHT BE. WHY NOT GET A REAL OPINION.
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