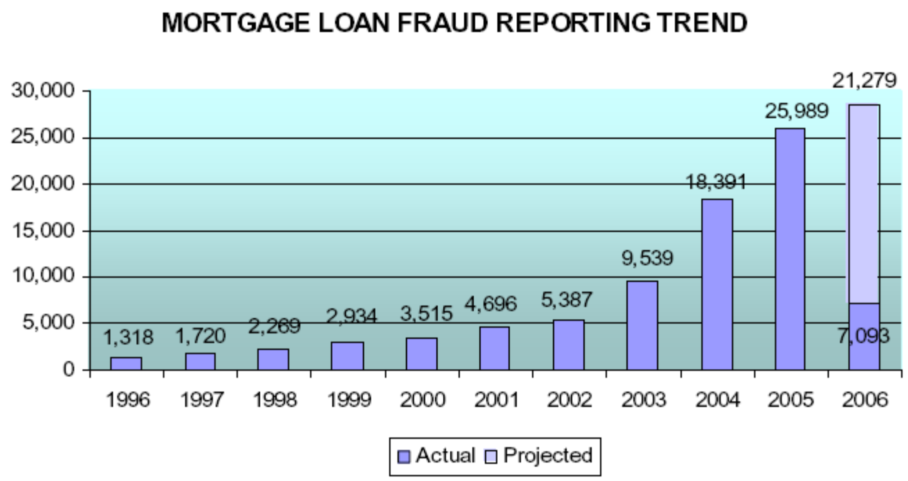
US HOUSING MARKET

(2001-2020)

1. US House Market (2001-2020)

- **2001-2006**

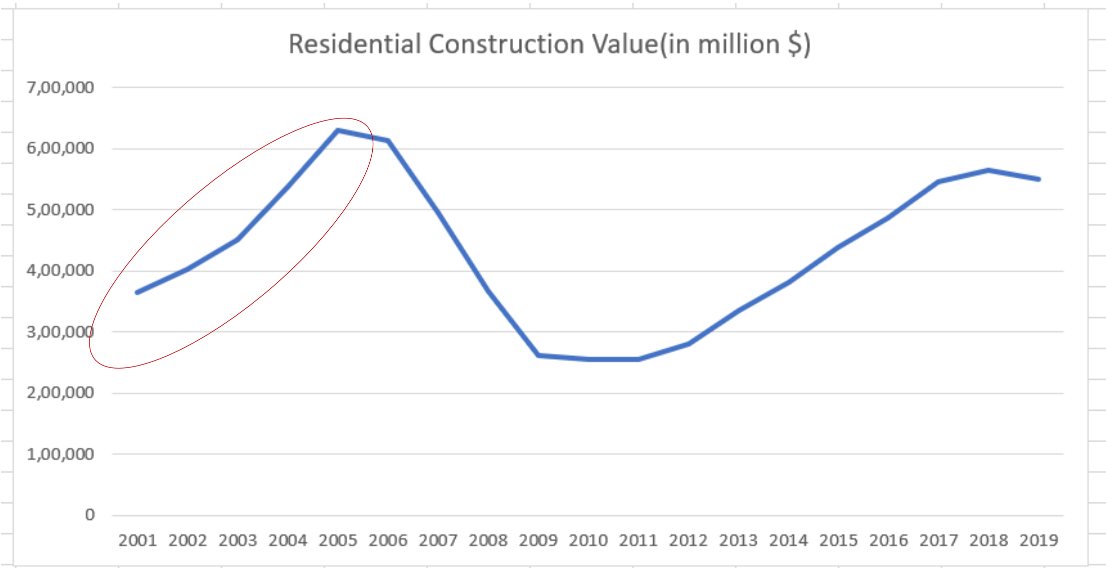
It was time of **late 1990's and early 2000's** when **mortgage frauds started to increase rapidly.**



(image source)

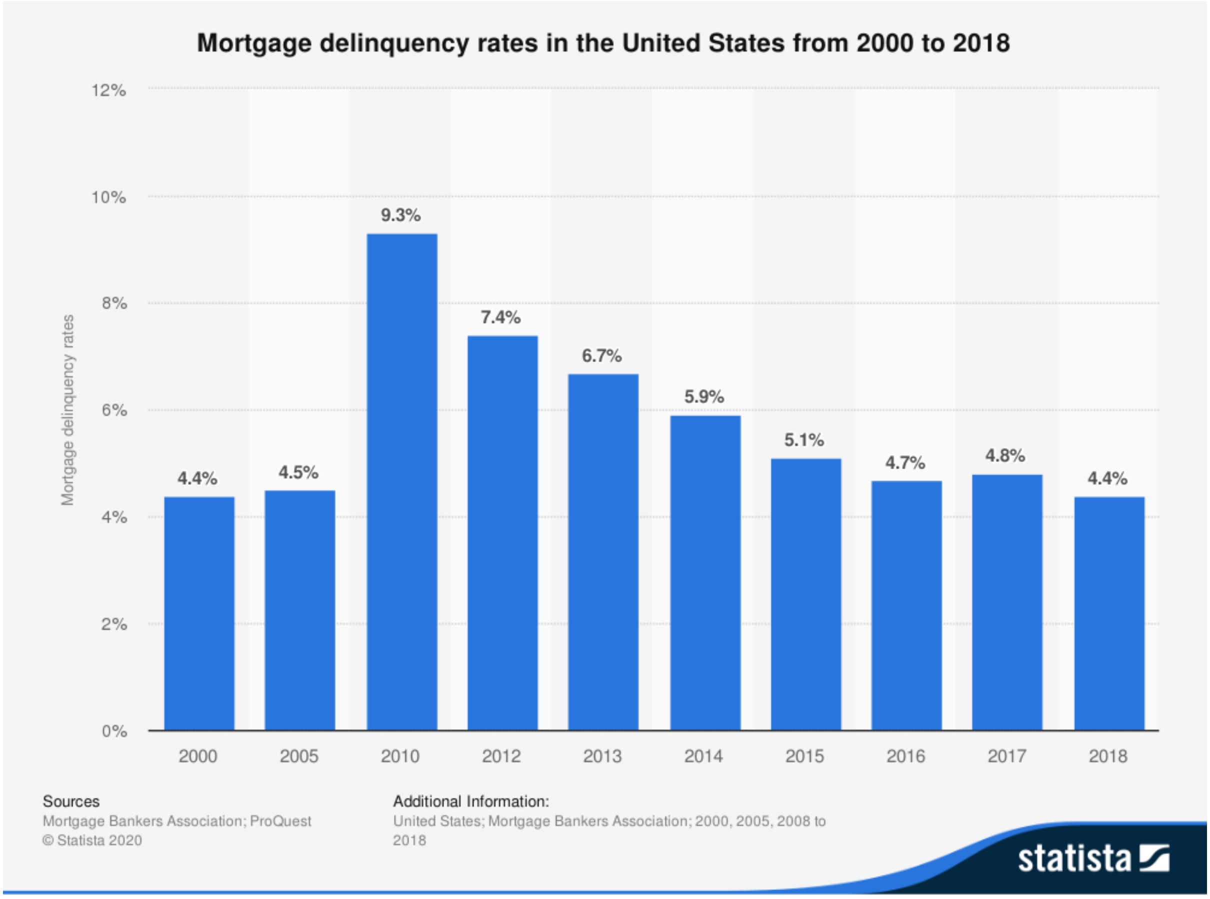
Mortgage-Backed Securities (MBS) and **Credit Default Swaps** (CDS) emerged to be a whole **new market for financial institution**. Therefore, Banks were giving **easy loans and so sub-prime mortgages increased**. Ultimately this **increased the demand** of houses.

Developers saw this **demand** as an **opportunity**, and they began to increase their business. Below is the data/chart showing the residential construction rise from 2001-2005.



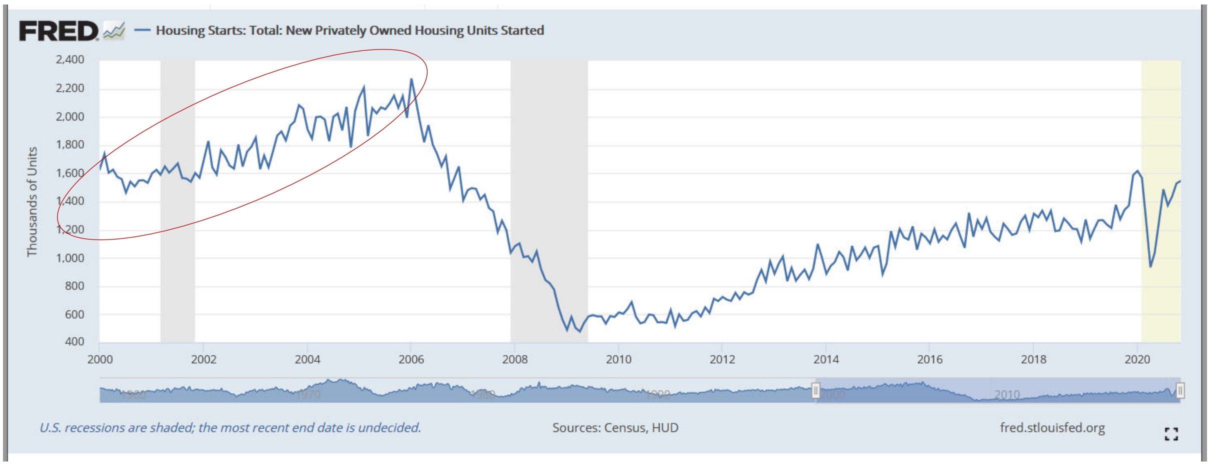
(data source)

As neither the homeowners sold their house expecting even better price for their house nor defaulters started defaulting at great extent till 2005.

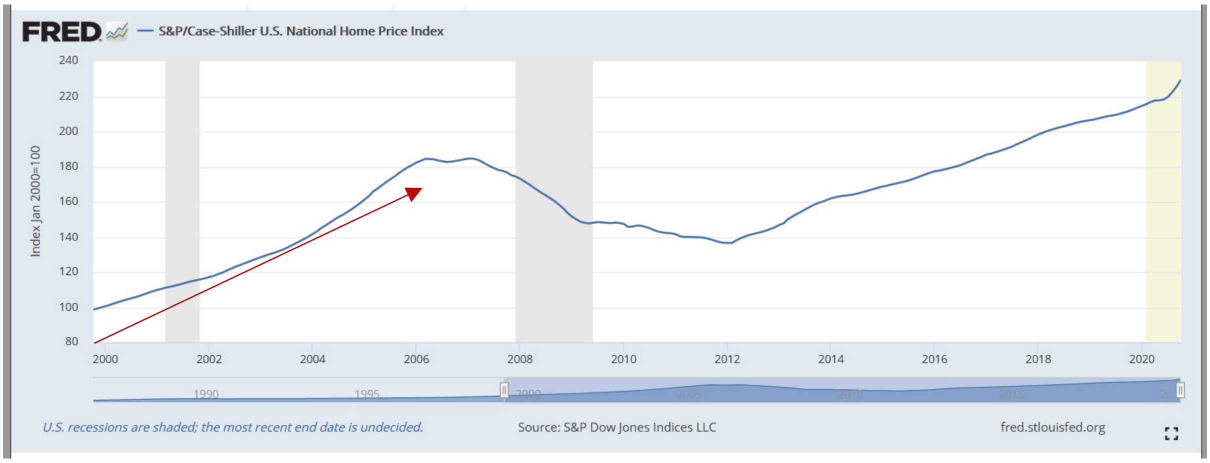


([image source](#))

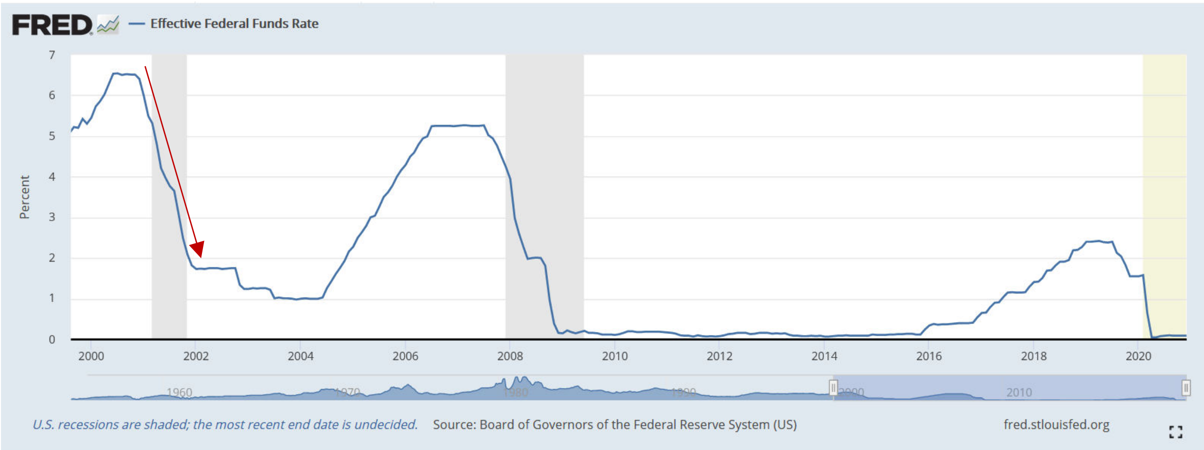
So, there was a **need of building new houses**. New house **construction** also **started** to **increase to meet with this increasing demand**.



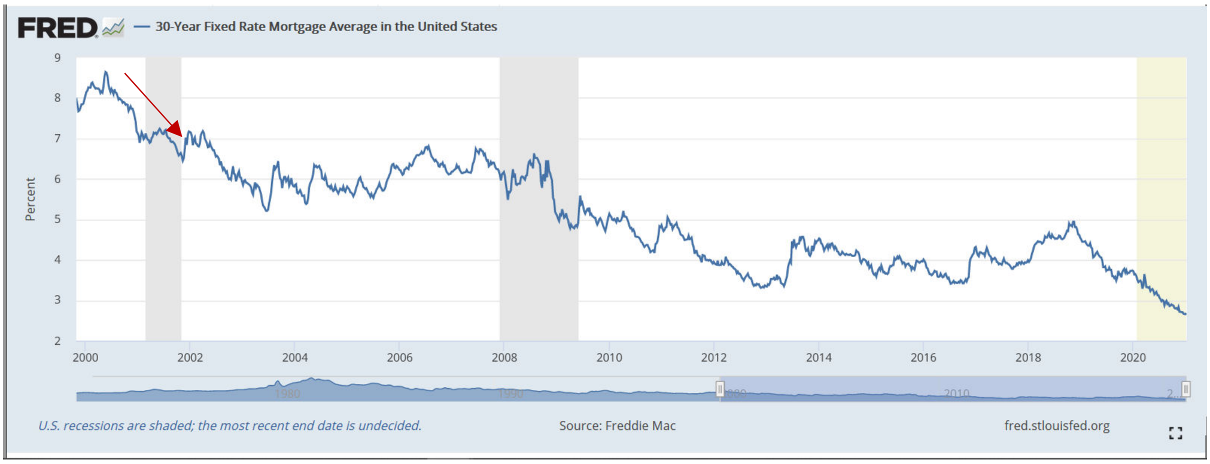
Due to this increasing demand, we can see home price index increasing till 2006.



In **2001**, US federal reserve **lowers** the **Federal Fund Rate from 6.5% to 1.5%.** Whenever **FED fund rate has decreased, mortgage rate has decreased as well**. So **low mortgage rate**, **easy loan increased the house demand and so house prices were increasing.**



(image source)

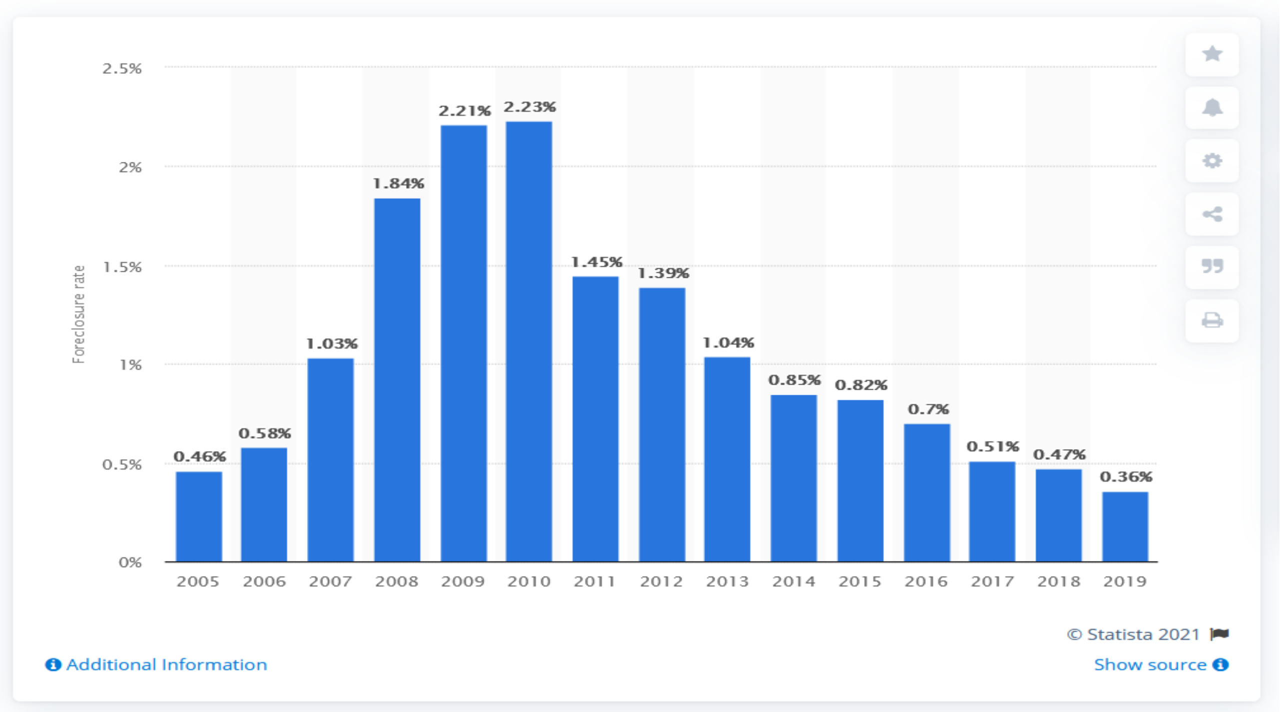


(image source)

In **2004**, US **home ownership rate** peaked with all time high of **69.2%**. During **2004-2006** federal reserve **increased** fund rate from **1% to 6.25%**. This move was to **control inflation** and to **cool housing market bubble** but it back fired and **higher rates caused more mortgage defaults**.

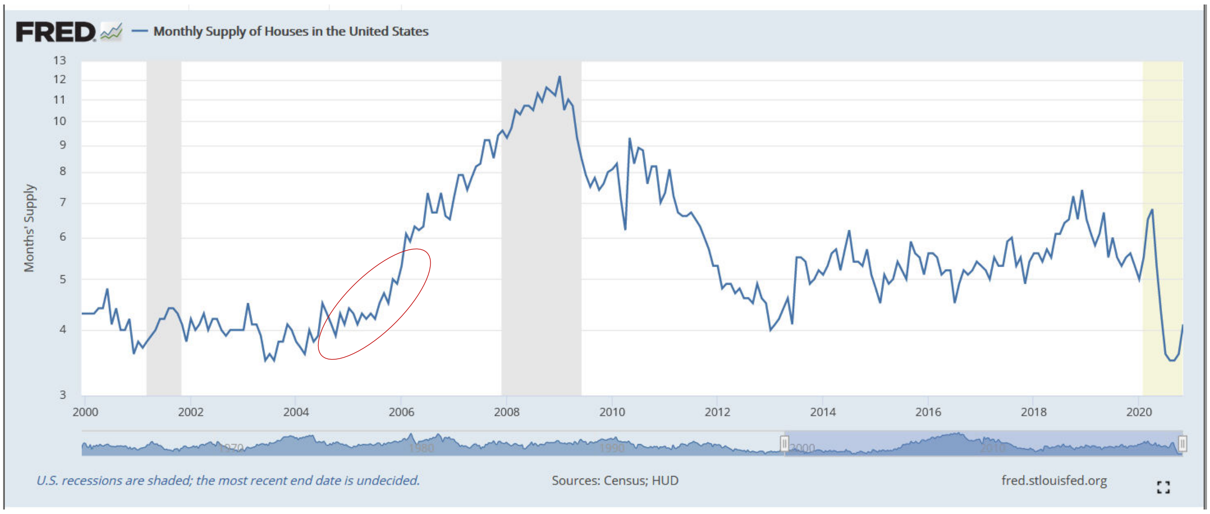
So, it was year of **2005** from which **foreclosure rate started to pick up the pace.**

Foreclosure rate in the United States from 2005 to 2019



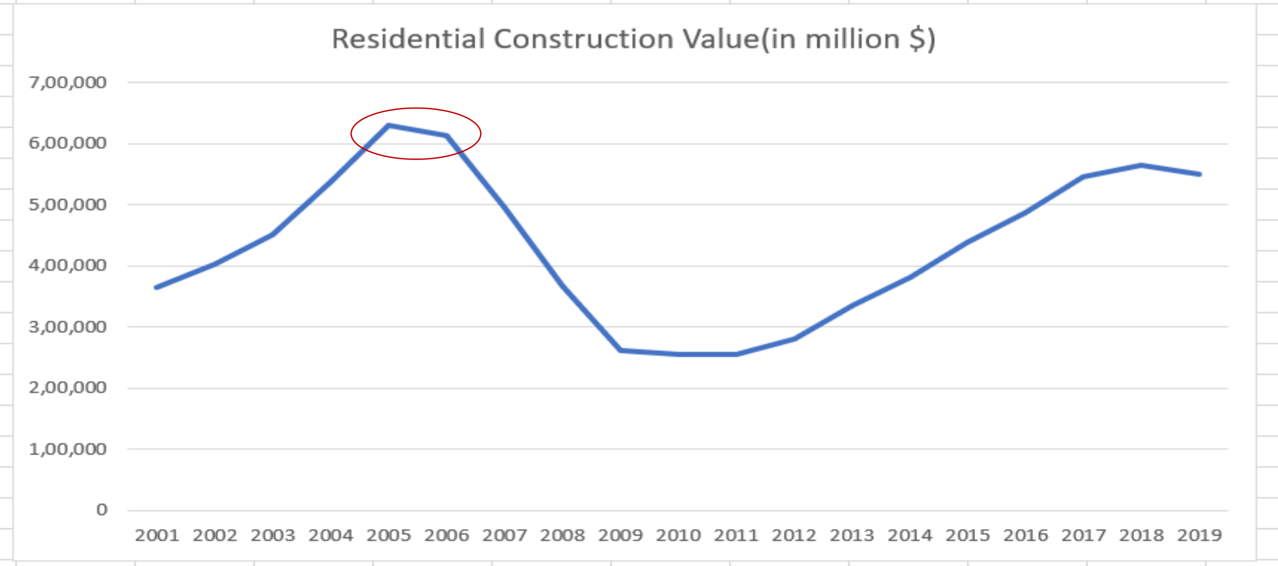
(image source)

So, **Supply** of houses (**house inventory**) in the market started to **increase**, but as fund rates were increasing **demand did not rise** in the same manner **rather it decreased**.



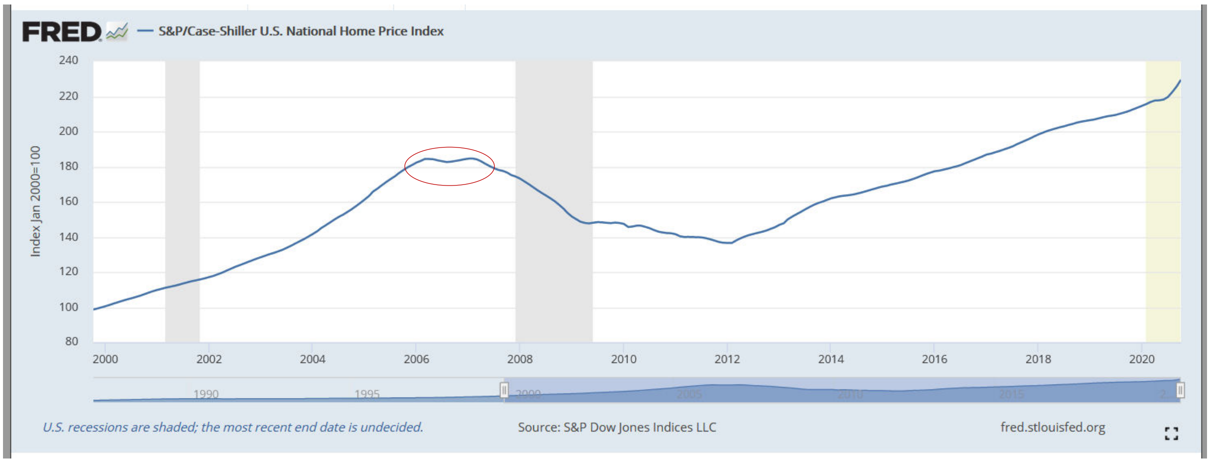
(image source)

This can be overserved as a **decline in residential construction value** from 2005-2006.



- **2006-2008**

From **2006 prices went flat**, can be seen in picture below, it was a thing to worry because experts had started doubting house market's rise (whether it is a bubble?) in addition to this **bank stopped giving easy loans**, **rise in foreclosure and it resulted into inventory build-up**.

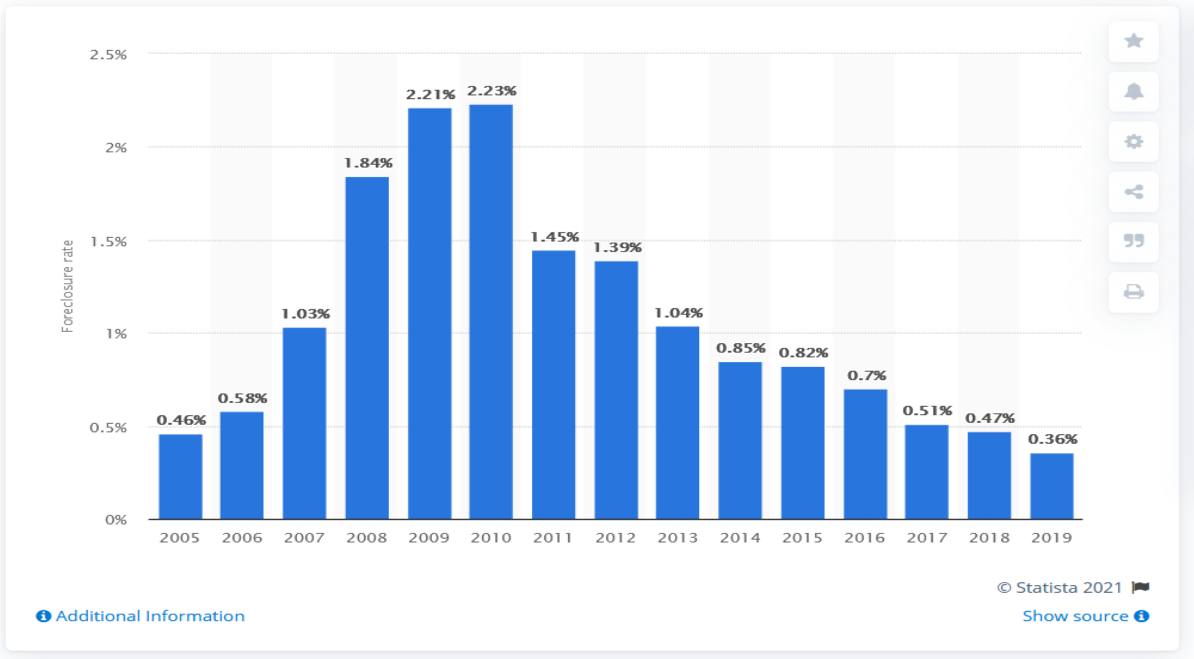


In **2007 home sales and home prices fell**, **foreclosures continued to increase**, **house inventory continued to increase** which all resulted into **high supply and low demand**. Bank owned houses acquired after foreclosures had **no buyer in the market**. **Sub-prime lenders started going bankrupt**. Bank stopped lending each other money in fear of not getting it back.

In the same year, **according to Standard & Poor's/Case-Shiller index**, home prices started making **new low every new month**. **Foreclosure** rate has given a **sharp rise** from 2006.

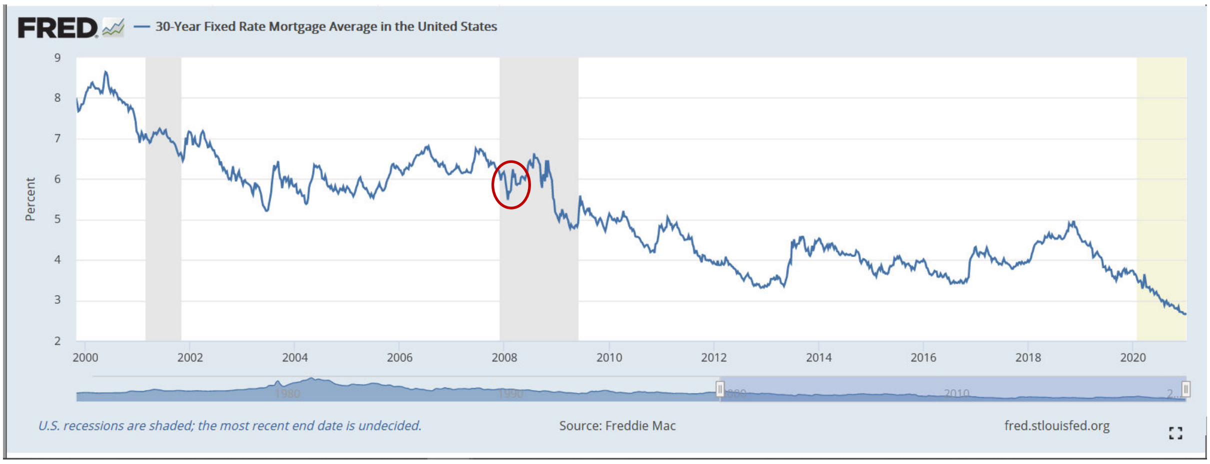
In **2008** finally this **bubble burst** as stock market fell abruptly. By 2009 **house inventory** went above **12**(refer to the above house inventory chart) making a **all-time high**.

Foreclosure rate in the United States from 2005 to 2019



Foreclosure rate was also at **all-time high**, it **increased supply** of houses in the market and **decreased house prices**.

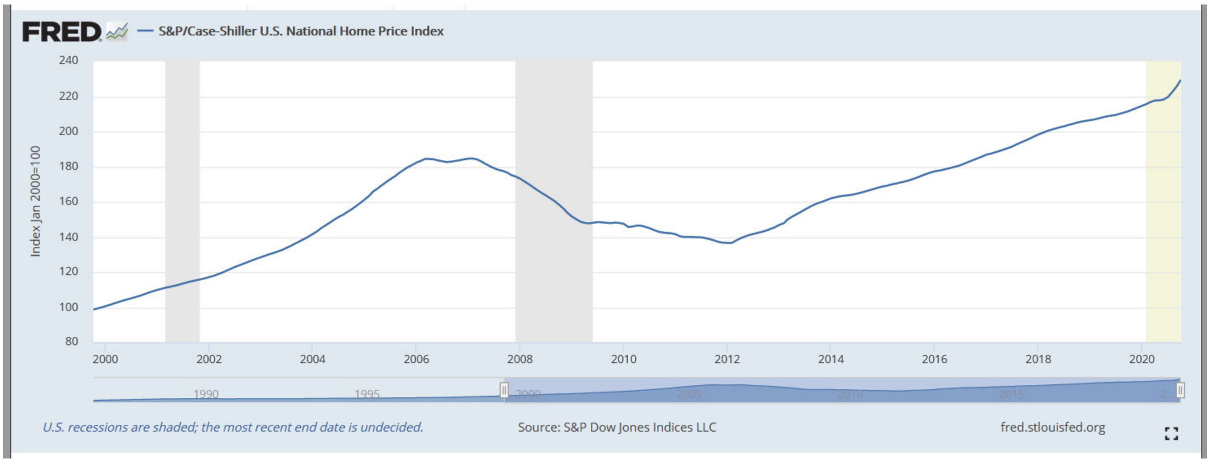
Banks again **reduced mortgage rate sharply** to **meet with this increasing supply** and to cover their due mortgage payment.



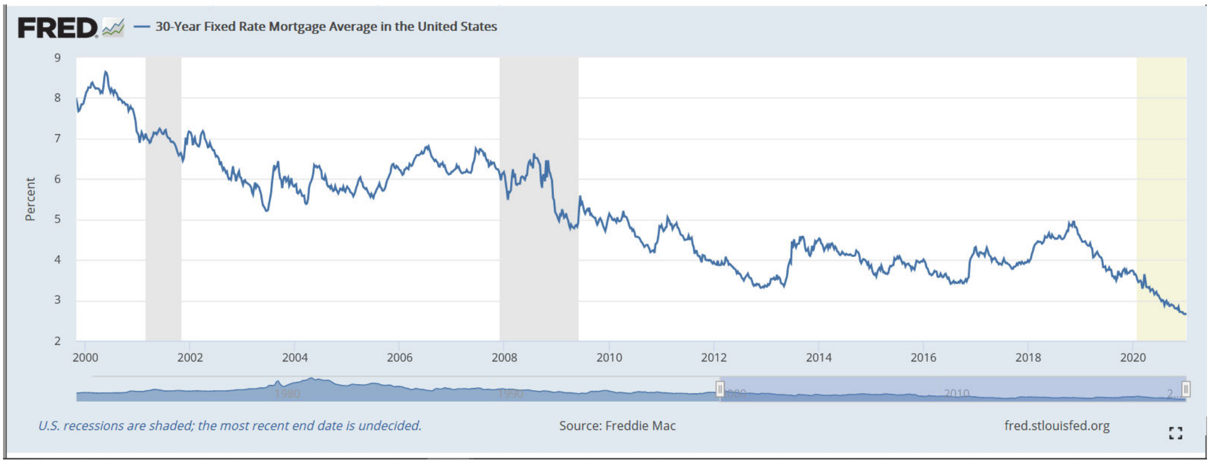
But it seems that people had **no confidence, money/jobs to grab this opportunity and buy a house with low mortgage rate and at low price**.

- ## 2009-2013

In 2009, to help people to pay their mortgage payment, Federal Housing Finance Agency launched **Home Affordable Refinance Program (HARP).** But it was limited to **Freddie Mac** and **Fannie Mae loans.** To qualify for this scheme, **i**t had several other conditions too. This **scheme did play little role in recovery from 2008** crisis therefore we could see the **slope of S&P index decreased from 2009**. But this scheme was aimed to aid this crisis at greater extent. In the **first quarter of 2014** the number of **mortgages refinanced through HARP was 76,930**. In total, **only 3.1 million mortgages have been refinanced through HARP — 8 million** less than the potential number of refinances (link).

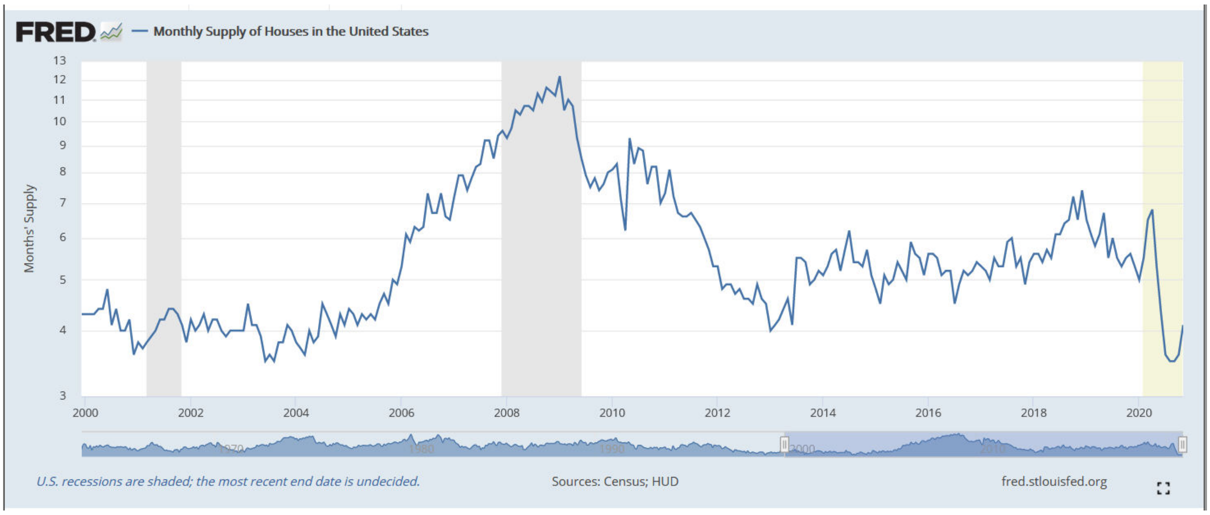


2012 played a major role in the recovery from 2008 crisis. S&P index tells the same story, let us analyse why.

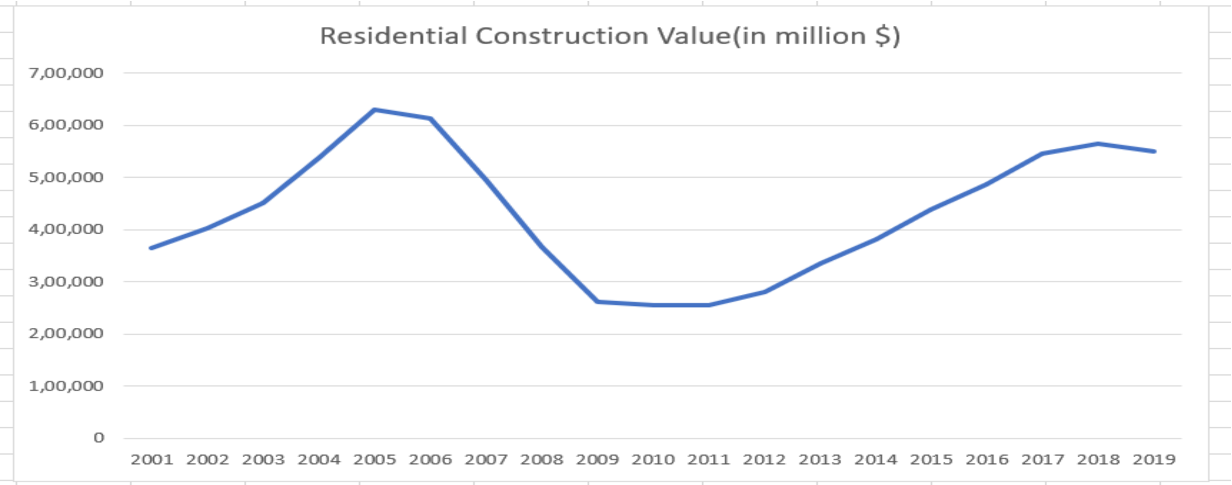


In **2012 mortgage rate were record low**, since 2008 people had not shown interest in buying a new house. People had **preferred renting a house than buying a new one** so **demand for rental house had increased so does the rents**. So, people shifted towards buying new house and started grabbing opportunity of record low mortgage rates.

Therefore, US experienced a **sharp decline in house inventory from 2011-2013**. So, **2012** was the year from which **house prices started showing appreciations**.

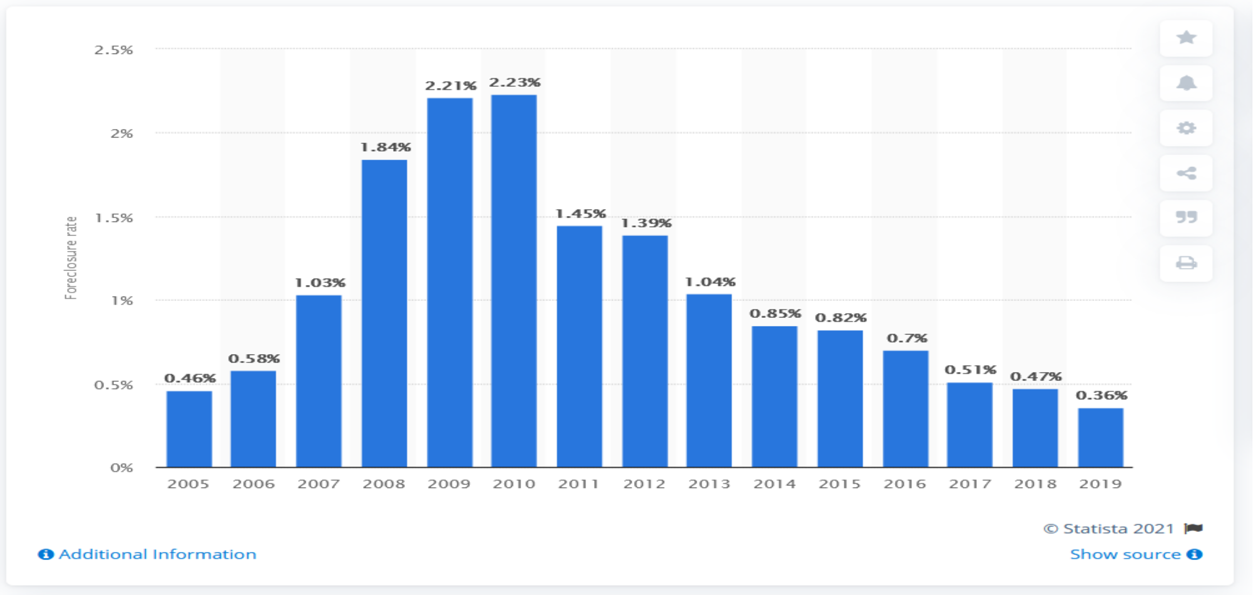


As positive news about housing started rolling out in public, **house inventory below 5** and **house price appreciation first time after almost 6 years(since 2006)** residential construction value started showing **rise**.



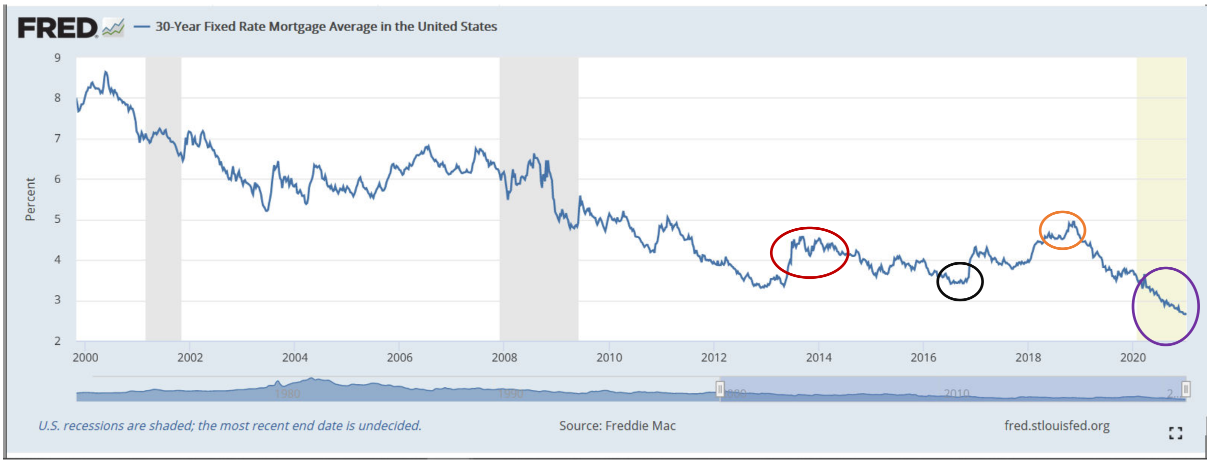
2013 recorded **sharp decline in foreclosures** from **1.39% to 1.04%.** And there after never rose as compared to respective last year.

Foreclosure rate in the United States from 2005 to 2019

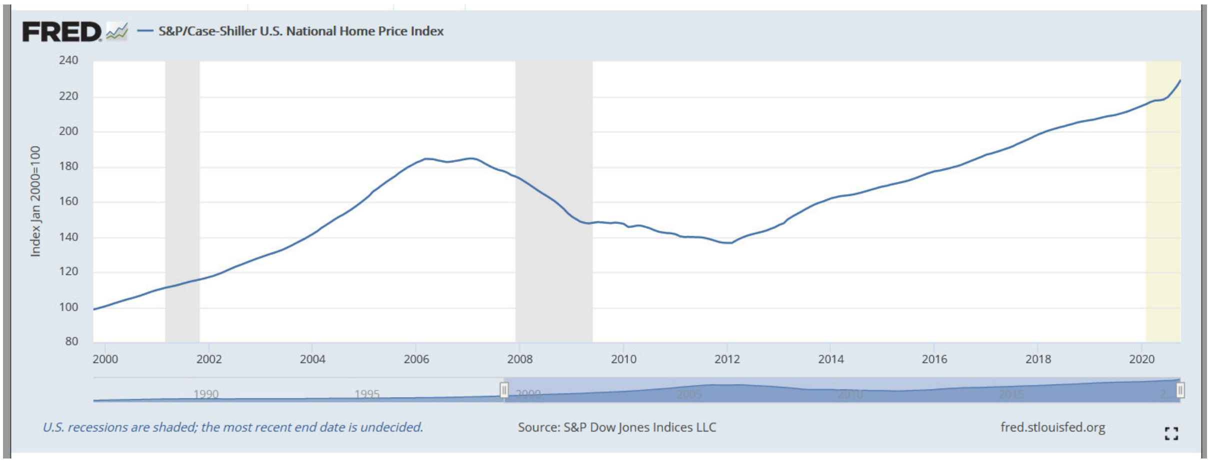


- **2014-2020**

After 2014 it can be seen that **mortgage rate** and **house inventory** has been **positively correlated** till today's date.



From the graph above, **FED did try to increase mortgage rate in late 2018** but which resulted in **house inventory to go above 7** (which it was once at in late 2006) so to avoid same crisis again FED sharply reduced the mortgage rate thereafter. **With low and low mortgage rate, S&P index shows along uptrend since 2012.**



As of now, **mortgage rate is at all time low** and **house inventory close to 4**, which creates **high demand and low supply scenario** so house prices are continuously increasing. **Is it creating a new housing bubble?** Well, it has been already discussed in my last report **'Factors that will influence US residential house prices over the next 10 years.'**