



Freddie Mac November 2017 Insight

November 9, 2017

The "B" Word: Can We Spot the Next House Price Bubble?

MCLEAN, VA--(Marketwired - Nov 9, 2017) - [Freddie Mac](#) (OTCQB: FMCC) released its [November Insight](#), which explores the warning signs that lead to the collapse of last decade's house price bubble and the concern of a possible [new bubble](#). Despite the substantial house price increases in recent years and the evidence that house prices are unusually high in a growing number of metro areas, the Insight concludes that there is not currently a house price bubble.

The evidence against a bubble

- The most important fundamental in today's housing market is a lack of houses for sale, which affects virtually all the largest metros in the country.
- Residential construction is falling roughly 500,000 homes short of demand every year. The shortage of houses for sale is strong evidence against a house price bubble. And the difficulty of increasing residential construction quickly suggests that any price adjustment will be gradual.
- Contrary to a decade ago, easy credit is not fueling housing demand. Credit standards today are not looser than they were at the beginning of this century, a period that many analysts use as a reference for a "normal" mortgage market.
- There is speculation that a sharp increase in house flipping -- buying a house and fixing it up for quick resale -- may have contributed to last decade's house price bubble. However, today's volume of flipping doesn't appear to be pointing to a house price bubble.
- Finally, homeowners are not increasing their mortgage leverage. The sharp growth in house prices is generating an almost dollar-for-dollar growth in homeowners' equity with only negligible changes in mortgage debt outstanding.

Quote: Attributed to Sean Beckett, Chief Economist, Freddie Mac.

"The evidence indicates there currently is no house price bubble in the U.S., despite the rapid increase of house prices over the last five years. However, the housing sector is significantly out of balance. The incomplete recovery in residential construction following the crisis of the last decade has created several years of pent-up demand for household formation. What we can't predict is how this imbalance will eventually be resolved. Will there be a gradual restoration of a normal balance between supply and demand? Alternatively, will the rate of home building remain stubbornly low, exacerbating the income and wealth inequality that followed the Great Recession? Another bubble appears to be a less probable scenario, but not an impossible one."

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