Luxury Daily®

The News and Intelligence You Need on Luxury

REAL ESTATE

Recession could halt consumers' real estate purchase plans

September 3, 2019

Realtor.com's report found half of buyers would hold off on buying until the economy recovers. Image credit: Realtor.com

By SARAH JONES

Amid growing consumer concern that a recession will hit in the next three years, a new survey finds that in the event of an economic downturn, half of homebuyers would put their housing search on hold.

Half of homebuyers expect a recession to hit by 2020, according to new research from Realtor.com, with 17 percent anticipating an economic decline beginning this year. While the next recession is not expected to be as severe as the one in 2008, the real estate business needs to prepare for a potential slowdown in activity.

"Economic activity is cyclical, so yes, undoubtedly we will face another recession at some point in the future, but we do not expect it to be anything like 2008," said George Ratiu, senior economist at Realtor.com. "The next recession will likely be driven by factors outside of housing, such as a prolonged trade war, cutbacks in corporate spending or contagion from a European recession.

"Unlike 2008, mortgage underwriting has been more disciplined and regulated, which should provide a more secure foundation for housing during the economic ups and downs," he said.

Realtor.com's survey, conducted by Toluna Research in August, asked 755 active buyers their feelings on the potential for a recession.

Real estate in a recession

When Realtor.com surveyed active homebuyers in March 2019, less than 30 percent said they were expecting a recession in 2020. In the firm's more recent study, this group had risen to 36 percent.

Additionally, 17 percent expect a recession as early as 2019, while 14 percent say an economic downturn will likely begin in 2021.

A recession could have a significant impact on real estate activity, as 56 percent of respondents would stop their search for a new home until the economy recovered.

While consumers' concerns about an impending recession have risen, their thoughts about the severity of the

recession have diminished slightly since earlier this year. In March, 36 percent believed an upcoming recession would be worse than the one in 2008, but this figure has fallen to 35 percent.

Additionally, the number of homebuyers who expect an upcoming recession to be less severe than the one a decade ago has grown to 44 percent from 40 percent in March.

Homebuyers may stay put if a recession happens. Image credit: Realtor.com

The 2008 recession was partly caused by a subprime mortgage crisis. In the years leading up to 2008, lenders were approving more "subprime" mortgages for candidates who had low credit scores.

As interest rates on the home loans grew, the housing market hit a bubble and home prices declined. Homeowners who were unable to keep up with the rising payments became stuck, since selling their home would mean a loss on their investment.

As a result, many homeowners defaulted on their mortgages and were foreclosed upon.

Lenders had been selling the ownership of the mortgages to banks, who would then group multiple loans together as a potential investment for outside parties. When the housing market collapsed, the banks and the stock market took a hit.

According to Realtor.com's survey, half of active homebuyers today think more positively about home ownership following the 2008 recession, with only 21 percent saying the Great Recession makes them more pessimistic about owning a home.

However, non-active buyers show stronger feelings of pessimism and lower optimism about homeownership than those who are currently in the market for a house.

Making preparations

With global headwinds suggesting that an economic downturn may soon arrive, luxury brands need to be guarding themselves against the possible slowdown.

Recession worries have escalated this week as the U.S. stock market took a nosedive, suffering the steepest drop of the year in August. While some experts consider this a false alarm, it is in businesses' best interests to be prepared (see story).

Knight Frank's Prime Global Cities Index for Q2 2019 showed luxury home prices grew 1.4 percent year over year, a modest improvement from 1.3 percent growth in the first quarter (see story).

As real estate and economic growth remains slow, some countries are turning to policy changes, including cutting interest rates, to spur spending.

On July 31, the United States Federal Reserve opted to cut interest rates by a quarter of a percentage point, reducing the rate to between 2 and 2.25 percent. In a press conference explaining the move, Chair Jerome Powell explained that earlier this year, the Fed was intending to raise rates, but it changed course due to weak global growth and stalling inflation (see story).

Along with businesses, consumers should also be preparing, according to Realtor.com.

"When warned about an incoming storm, Americans know to prepare by stocking up on necessities and reinforcing their shelter," Mr. Ratiu said. "Similarly, given the cyclical nature of economic activity, consumers can and should prepare for the next downturn now.

"Taking steps to shore up their financial well-being, strengthening their professional networks and having adequate savings would provide cushioning during the slowdown," he said.