

ARE WE IN A HOUSING BUBBLE? DEPENDS WHO YOU ASK

More than three-quarters (77 percent) of homebuyers and sellers believe there's a housing price bubble in the area where they live, according to Redfin. Two in five real estate agents (44 percent) believe there's a housing bubble in the market where they work. But Redfin Chief Economist Daryl Fairweather said that perceived bubble is more like just a ripple.

A housing bubble is characterized by rapid unsustainable growth in home prices, eventually “bursting” when demand no longer supports the high home values, followed by sharp price declines. It’s typically caused by an influx of demand from homebuyers and real estate investors.

“Homebuyers and sellers are rightfully concerned about how fast prices are rising, especially those who remember the housing market crash during the Great Recession,” Fairweather said in a release. “If this rate of price growth were to continue for another year, I would be worried about a bubble, too, but I predict home-price growth will slow significantly in 2022.

What we're going through right now is closer to a ripple in the water than a bubble. Mortgage rates are already going up, which will likely stabilize demand and reduce the risk of a bubble that could burst.”

Average 30-year mortgage interest rates have already risen roughly 0.5 percentage points since the beginning of the year, landing at 3.56 percent in the week ending Jan. 20, according to Redfin, and they're likely to continue increasing.

Inflation also reduces the risk of a housing bubble, Fairweather said. With the prices of goods and services significantly higher than they were a year ago, people have less disposable income to put into the housing market.

The pandemic-driven housing boom is fundamentally different from that of the mid-2000s, when loose lending criteria allowed many homebuyers to take out mortgages they couldn't afford. That resulted in millions of foreclosures and a sharp decline in home prices. Today's lending practices are much stricter, according to Redfin, which ensures that buyers can afford their monthly payments.

Also, this boom is characterized by homebuyers moving to new parts of the country and new neighborhoods because of their relative affordability.

“The housing market is much stronger than it was before and during the Great Recession,” Fairweather said. “There's a very low likelihood that home prices will go down anytime soon.”