

Research [in] Brief

Analyzing Two House-Price Booms: Lessons in Uncertainty



Primary issue

Given what happened in the 2000s—high house prices fell considerably, and foreclosure rates spiked—researchers want to know if the same thing will happen if house prices again fall substantially. Will delinquencies or even foreclosures rise? And would this set the stage for another financial crisis?



Key findings

Researchers reviewed differences during the two booms in house price and rent growth, housing supply, housing demand, and mortgage markets, the four components of the housing market. They found that

- the surge in 2000s house prices was probably fueled by speculation driven by expectations of continued house price increases, whereas the current boom is driven by an increase in the number of houses people want to inhabit.
- mortgage debt relative to income has increased less during the 2020s than it did during the 2000s, and most recent mortgage originations are government insured, unlike during the 2000s boom.



The bottom line

Homebuyers are situated differently now than before the Great Recession. A fall in house prices would likely lead to a rise in delinquencies, but by how much is highly uncertain, as is the likelihood that a surge in delinquencies would trigger broader financial instability.



Want to find out more? Read “Comparing Two House-Price Booms” at clefed.org/ec202404.

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