

DEEP RECESSION THOUGHTS

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Deep Recession Thoughts

- Not all recessions are created equal.
- The severity of a recession matters.
- Prices don't always decline during a recession.
- Prices can decline **after** a recession.
- A recession doesn't mean there's going to be a housing crash.
- The Great Recession isn't the new template for every future recession.

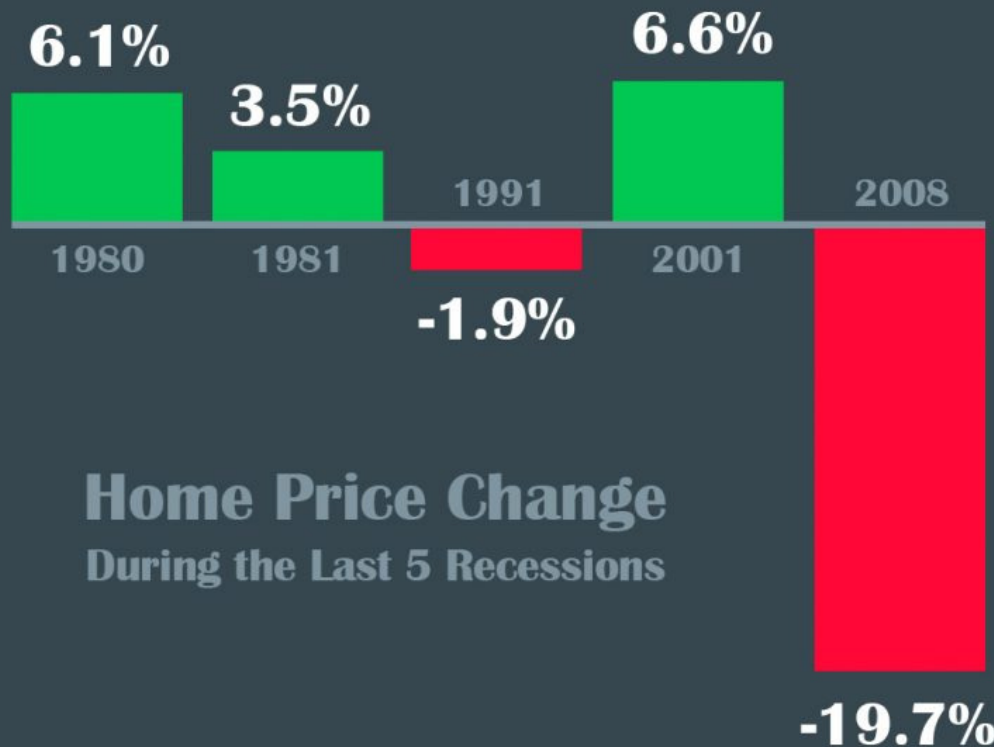


“Recession”

**Does
Not
Equal**

**“Housing
Crisis”**

Home prices have **appreciated**
during **3 of the last 5 recessions!**



**Home Price Change
During the Last 5 Recessions**

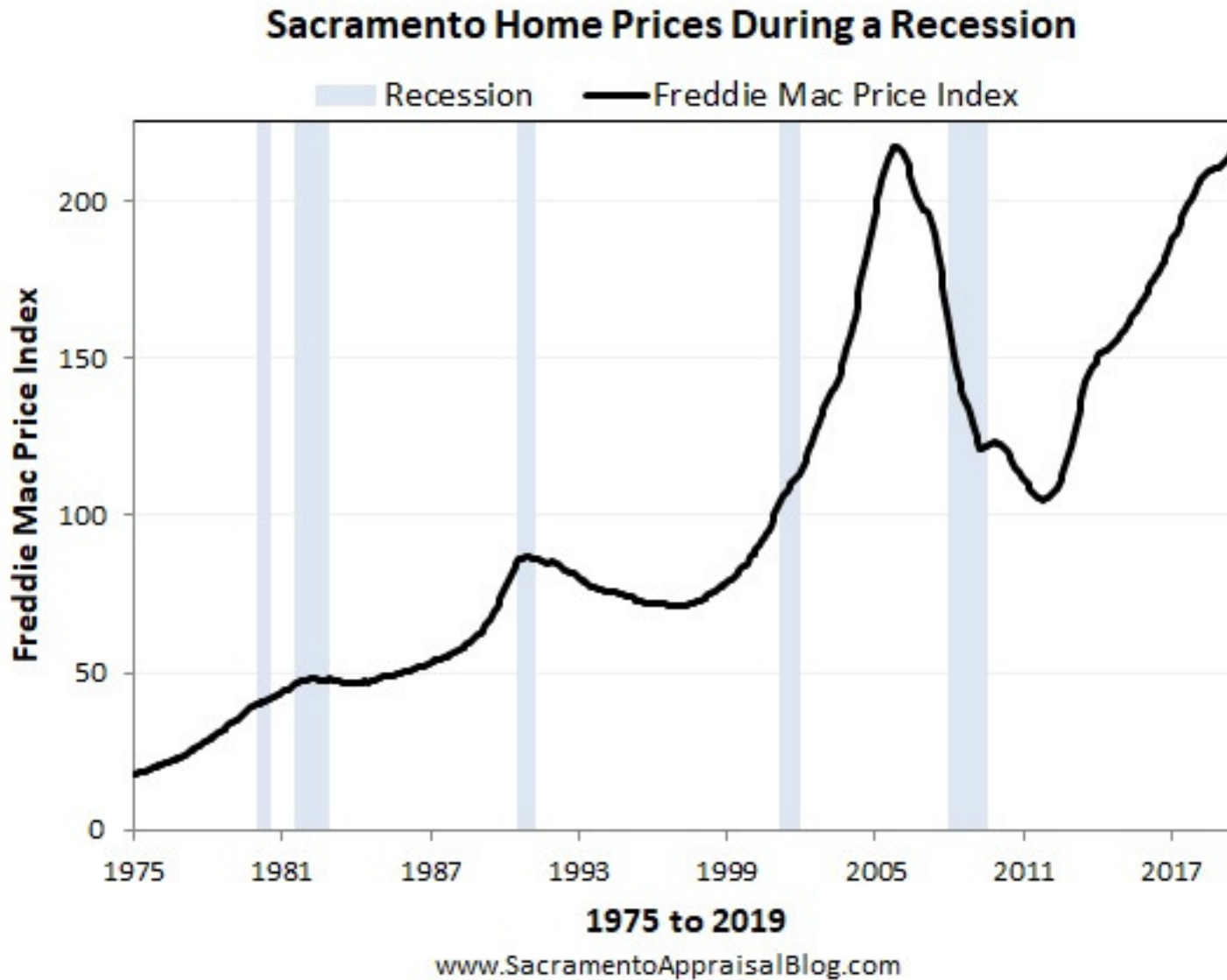
Source: CoreLogic

**A few takeaways from this image
from CoreLogic:**

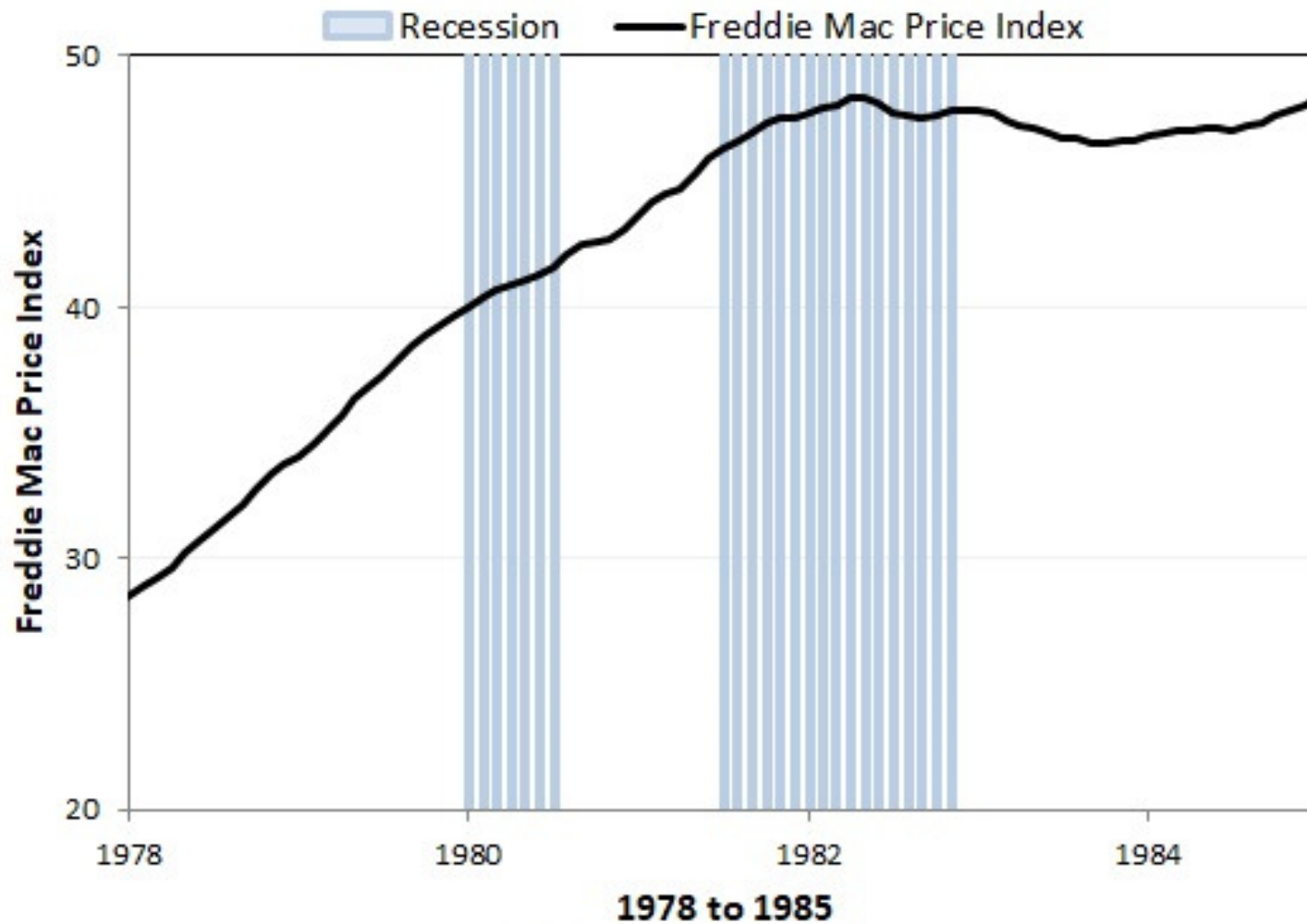
- 1) A recession does not equal a housing crisis (killer point).
- 2) This data represents the entire country. This is nice, but the trend for the United States as a whole doesn't necessarily reflect the local trend.
- 3) One big problem here is the focus is only on "during" a recession. Being that a recession is typically anywhere from 7 months to 1.5 years, this is a short window of time for focus. What about after a recession? Isn't that a relevant question? It seems very narrow to focus too heavily on during a recession only.

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What happened to local home prices during and after the last five recessions?

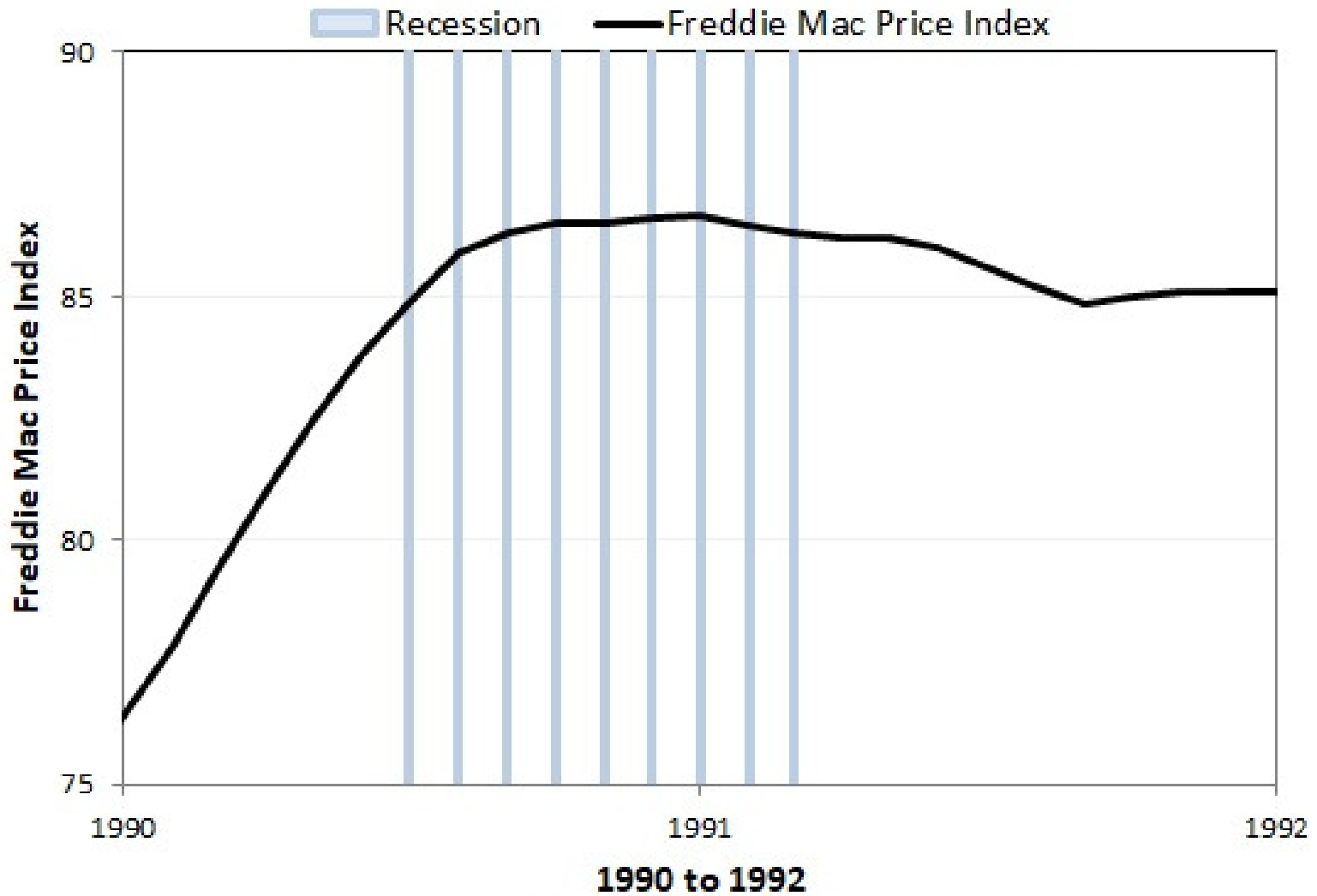


Sacramento Home Prices During a Recession



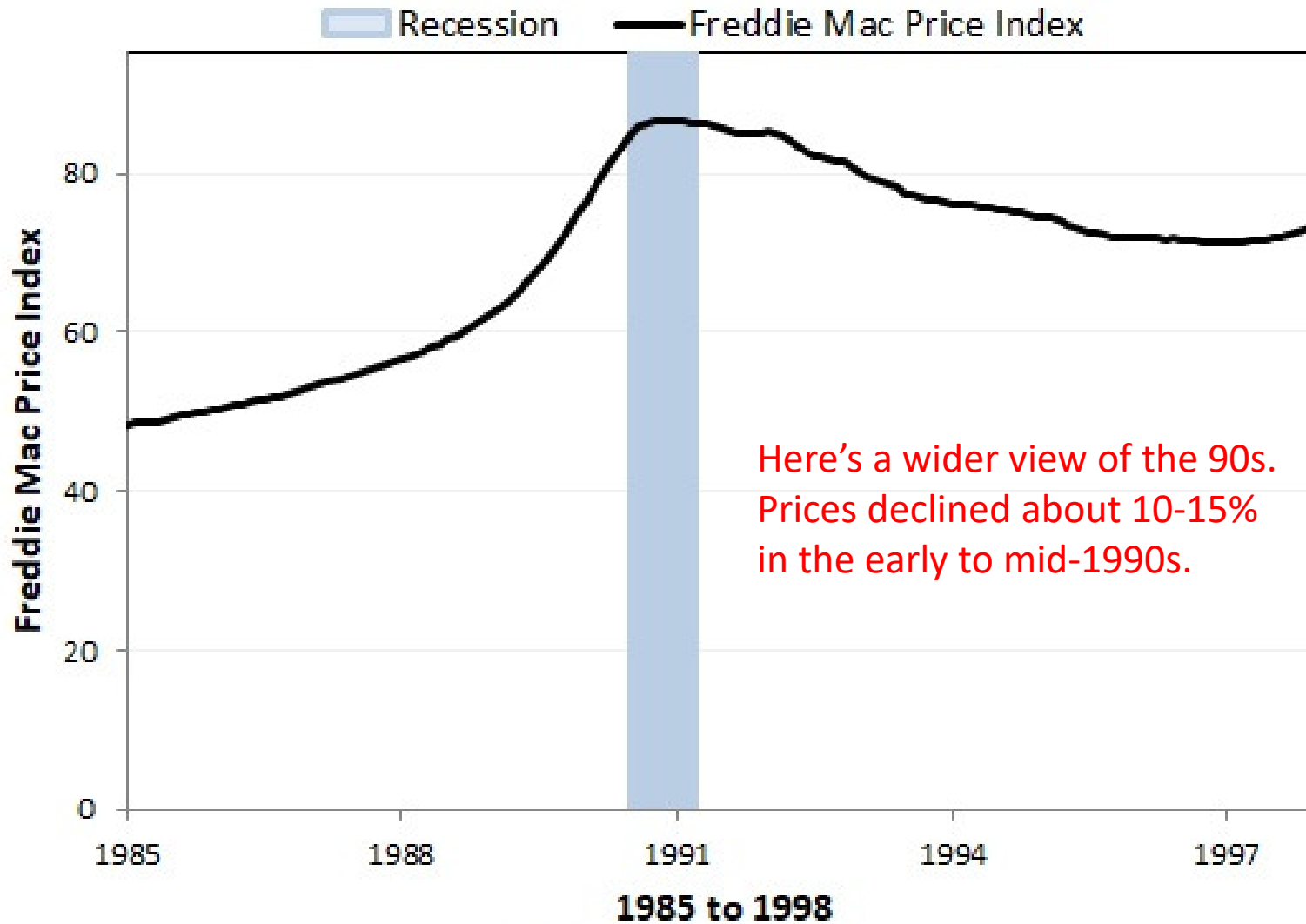
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Sacramento Home Prices During a Recession



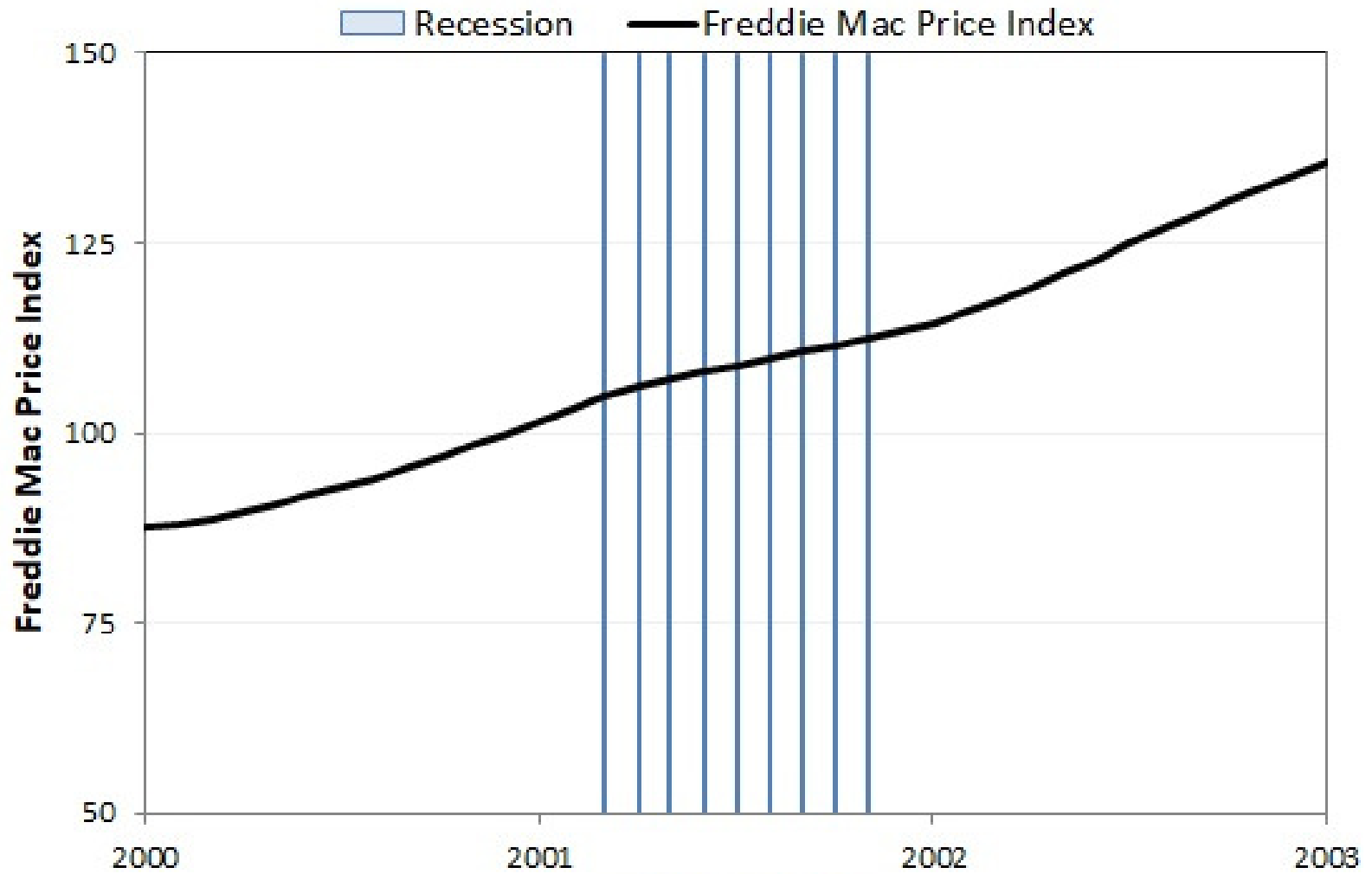
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Sacramento Home Prices During a Recession



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Sacramento Home Prices During a Recession



2000 to 2003

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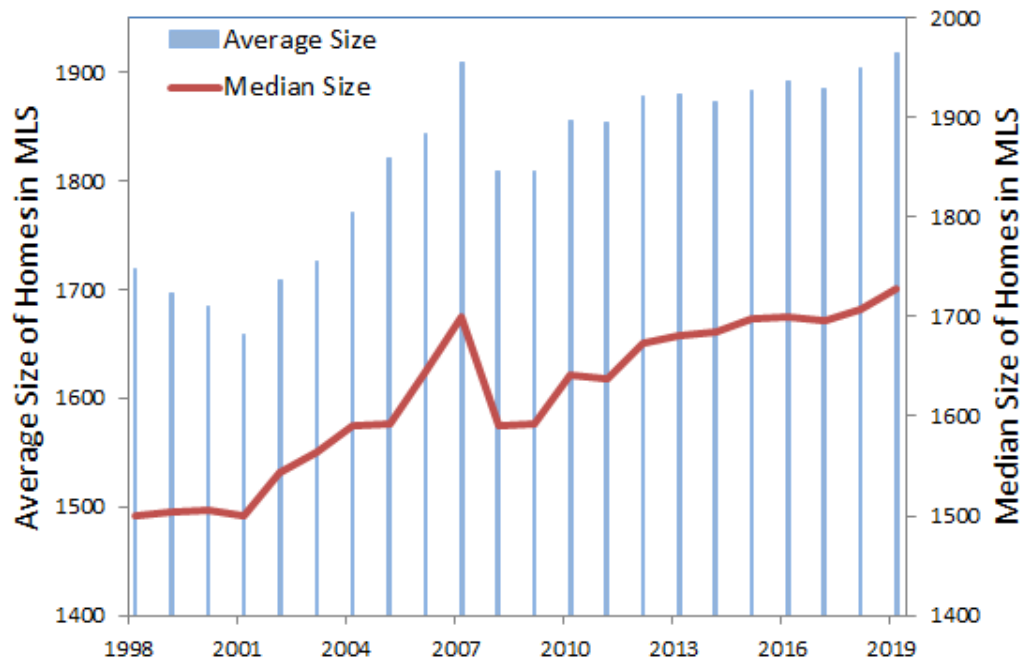
Sacramento Home Prices During a Recession



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Homes are increasing in size in the Sacramento Region



1998 to 2019

Sac, Placer, Yolo, El Dorado County
Annual Single Family Detached Sales

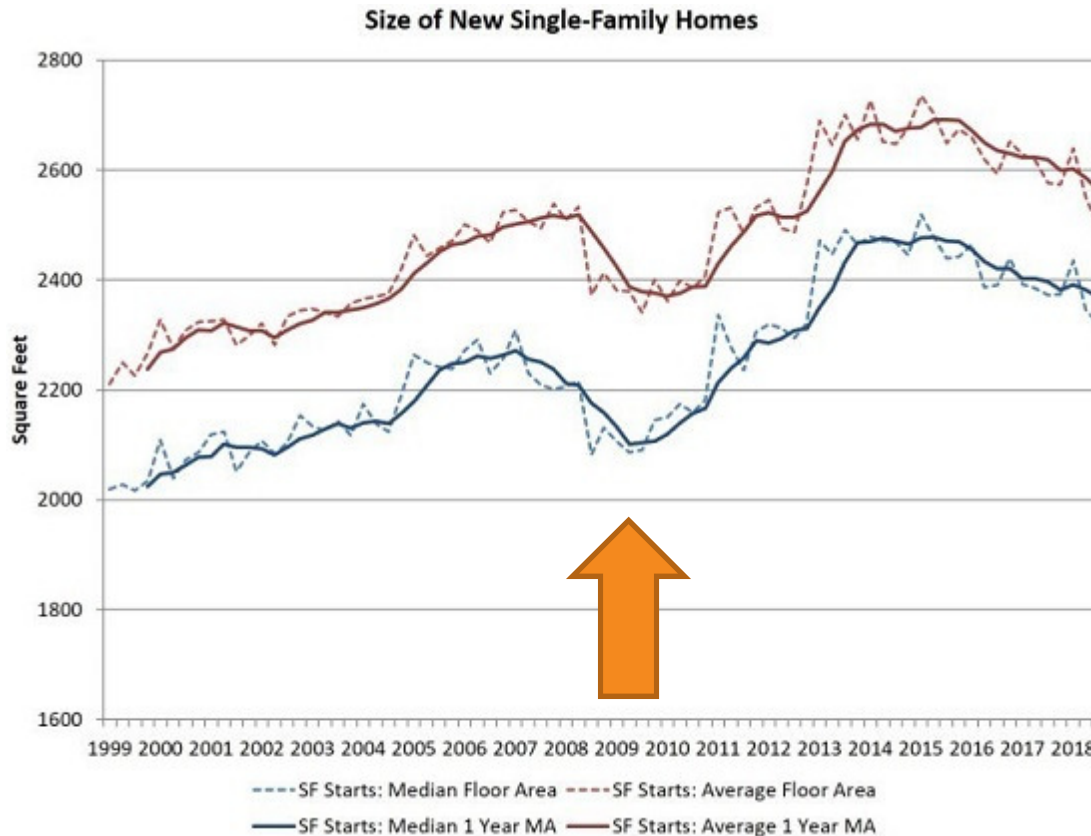
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Getting Bigger: Homes have grown in size over the past two decades in Sacramento. In fact, based on MLS sales since 1998 we've seen the average home size increase by 11.6% and the median size increase by 15.2%.

What happens to home size during recessions?

According to the National Association of Home Builders, the historical pattern is to see new home size fall after recessions **as buyers tighten their budgets**. Then as the economy improves we tend to see home size increase.

With so much talk about a coming recession, let's keep an eye on larger homes. Will they be less marketable during the next recession? Will buyers tend to gravitate toward smaller homes? These are key questions.



Builders tend to build smaller homes during a recession.

Side note: New home size has shrunk lately...

New homes seventy years ago were literally one-third the size they are now. So clearly buyers expect much larger homes today. But when looking at recent stats, the size of new homes has actually shrunk over the past few years according to the National Association of Home Builders. Why the shrinkage? Lots of people chalk it up to younger buyers entering the market and needing lower prices. Keep in mind new homes are still an average of 2,300+ sq ft though, so even if buyers are craving smaller homes, these dwellings are massive compared to decades ago.

Closing Thoughts

- There isn't just one thing that happens to prices when a recession occurs.
- Sometimes prices rose through a recession and other times they declined.
- There are many layers that make the real estate market move. It's not just about whether there is a recession or not. Let's back up and look to multiple factors that might cause prices to change – rather than fixating too much on recessions.





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