

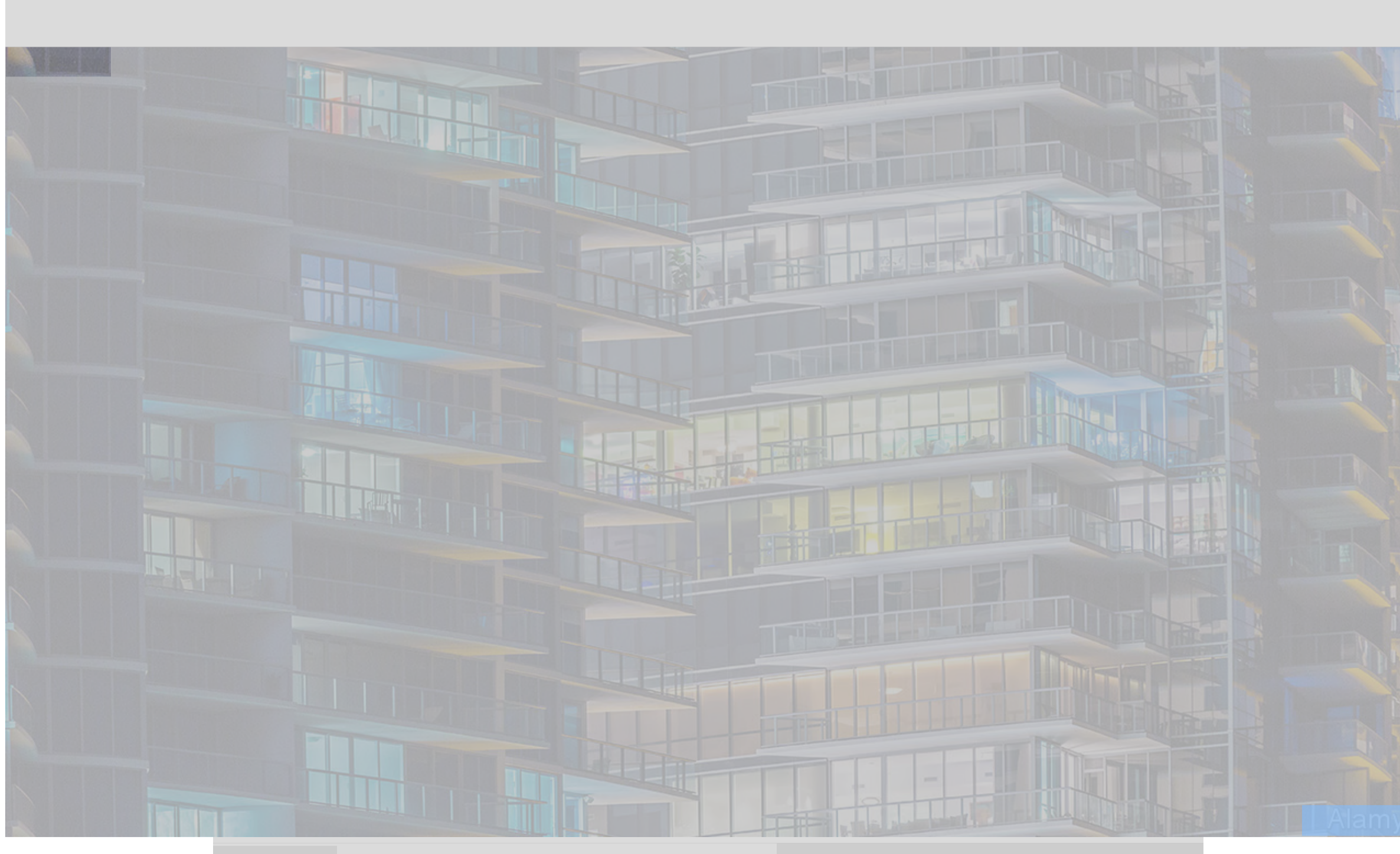
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The rich world's housing crunch is far from over

Markets can be split into three camps: early adjusters, bullet-dodgers and slow movers

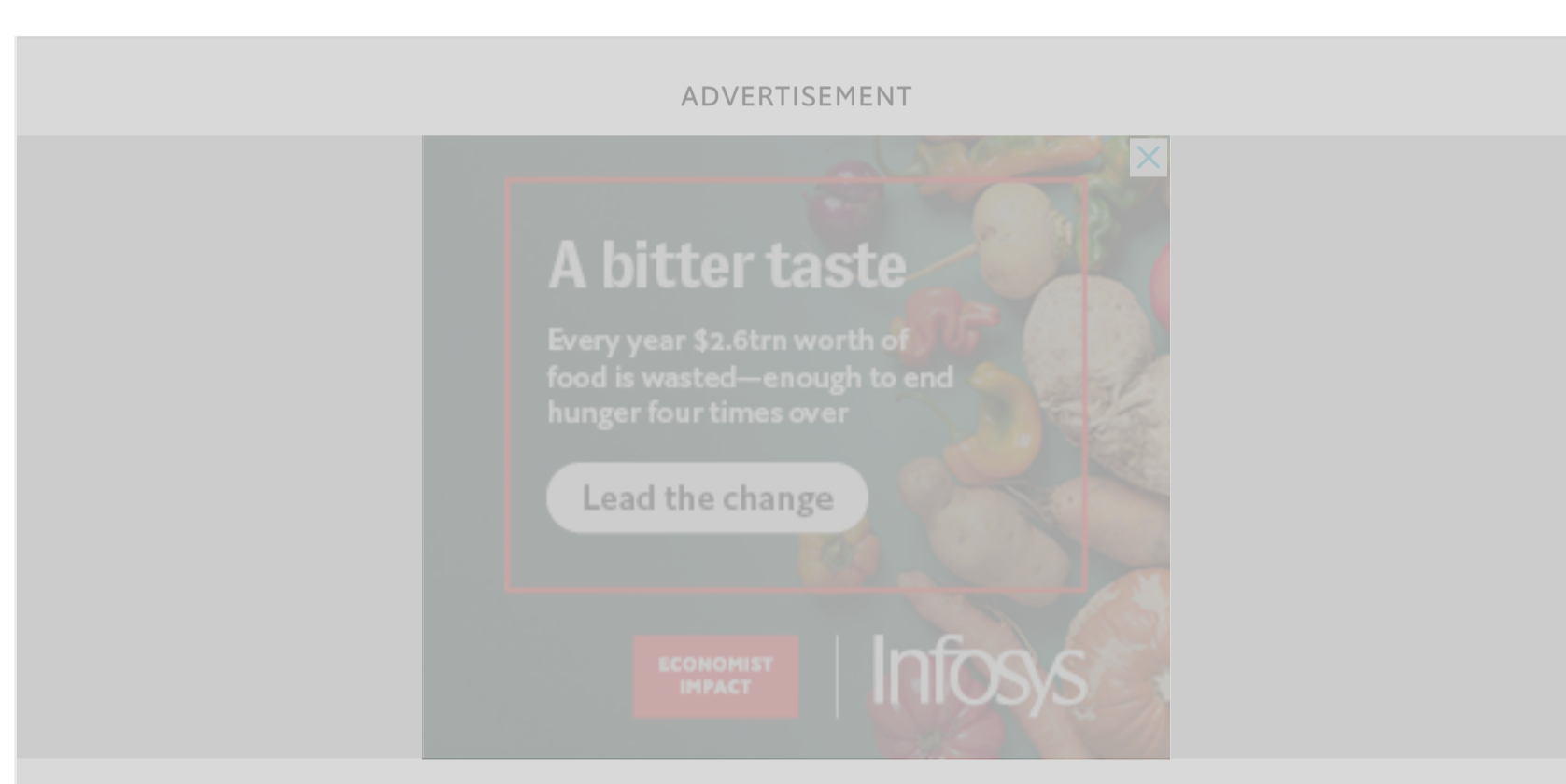


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AT TIMES DURING the long boom that followed the global financial crisis of 2007-09, it seemed as if house prices would never stop rising. Sales surged as a cocktail of ultra-low interest rates and supply shortages boosted competition for properties. Things are very different today. In countries across the rich world, from America to New Zealand, sales have cratered over the past year, as central banks have embarked on the sharpest monetary-policy tightening cycle in four decades. In almost all major markets prices are now heading in the wrong direction, too, at least from the perspective of homeowners.

Yet with the bulk of central banks' rate rises behind them, many in the property industry are beginning to wonder if the worst may soon be over. In March both America's Federal Reserve and the Bank of England raised benchmark rates by a mere quarter of a percentage point. Markets are pricing in at most one more rise from each. The world economy has so far proved resilient to the stress of tighter policy, even as a handful of commercial banks have gone to the wall. This has given investors and many homeowners hope that prices may soon be reaching a trough. Perhaps the [long-feared housing crunch](#) will turn out to be less terrible than expected.



Such optimism will probably prove unwarranted. Just as rate rises took time to hit property markets, so any relief will come with a delay. Cushions that have thus far softened the blow are starting to look threadbare. Although fixed-rate mortgages, which protect holders from increased borrowing costs, are more common outside America than used to be the case, most are fixed for relatively short periods. In Britain, for instance, nearly half the fixed-rate stock is fixed for no more than two years—more than two-fifths of mortgage-holders will move to new terms this year. Meanwhile, piles of excess savings built up in the pandemic no longer provide as much protection, having been drawn down in the years since. Surveys suggest lower-income households in the euro zone have largely exhausted their buffers.

When assessing how far prices have left to fall, the rich world can be divided into three camps. Start with the early adjusters, which include Australia, Canada, New Zealand and Sweden. In many of these countries, central bankers were quick to respond to inflation. They saw house prices soar in the pandemic, as buyers gorged on cheap credit, taking out mortgages mostly on variable-rate terms. According to the OECD, a rich-country club, prices have dropped by 14% in Sweden and New Zealand since peaking. In Australia they have fallen by 9%. The country's central bank did not raise rates until May, but households entered the period with lots of debt, which sat at an average of more than 200% of net disposable income in 2021, making them more exposed to higher interest costs. Goldman Sachs, a bank, forecasts eventual drops, relative to peaks, of 19% in New Zealand, 17% in Sweden and 15% in Australia, suggesting a bit more pain is still to come in these countries.



Next are the bullet-dodgers. The most prominent member of this camp is America, where homeowners are largely insulated from aggressive tightening by fixed-rate mortgages, which often last for two or three decades. After the subprime-mortgaging crisis starting in 2007, regulators pushed borrowers in the direction of such loans, which are less likely to experience mass defaults and thus blow up the financial system. According to Goldman, America has already seen half of its predicted peak-to-trough drop of just 5%. Meanwhile, France, where prices held up in 2022, is predicted to experience an even more paltry drop of 4%. The country benefits from low household debt, which sat at an average of just 124% of net disposable income in 2021.

Then there are the slow movers, which have not yet been hit hard, but which are unlikely to escape the pain. Although house prices in Britain have already fallen by 5%, worse may be to come: Capital Economics, a consultancy, forecasts a 12% peak-to-trough drop. The country's homebuilders are sounding the alarm. Many are holding off on developing new homes; some are dangling cash to incentivise buyers. Persimmon, Britain's second-biggest builder, even offered to pay mortgages for up to ten months, in an attempt to prop up demand. It is a similar situation in other parts of Europe. The German Property Federation, an industry group, predicts that just 245,000 apartments will be finished in Germany this year, falling well short of the government's target of 400,000.

Since slumping prices across the rich world have been driven in large part by higher interest rates, they are unlikely to make housing more affordable. Those who want to get on the property ladder face eye-watering monthly payments. In Canada, one of the early adjusters, the average buyer of a detached home now needs to spend nearly 70% of their pre-tax household income on mortgage payments, property taxes and utility bills, according to the Royal Bank of Canada, up from 46% at the start of 2020. Falling prices will always make homeowners unhappy. This time around even would-be buyers have little to cheer. ■

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