Illustration by Lanette Behiry/Real Estate News

BY THE NUMBERS

Retro housing market stuck in early ‘80s time warp

Many of today’s challenges are throwbacks to what consumers and the industry faced four decades ago.

Dave Gallagher

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Key points:

- Elevated interest rates, lack of affordability, low inventory and slow sales were all hallmarks of the early 1980s market.
- Demographic changes were also similar, with a large number of people moving into the prime homebuying age.
- Falling inflation and stabilizing mortgage rates helped the ‘80s market get back on track.

There's plenty to love about the early 1980s — mix tapes, neon everything and MTV, to name a few — but the housing market dynamic is something many in the real estate industry would be happy to leave in the past.

Still, cycles seem to come back around. Today's challenges of elevated interest rates caused by the Fed's efforts to knock down inflation, high home prices, low inventory and sluggish sales were all present in the late 1970s and early 1980s, noted Mark Fleming, chief economist for First American Financial.

In a blog post earlier this month, Fleming said we are in a "déjà vu" moment, pointing out the similarities between what's happening today and the state of the market four decades ago. In addition to similar economic factors, demographic changes influenced the market as baby boomers aged into the prime homebuying years, much like the millennials are today, creating a generational "echo," Fleming said.

Between 1978 and 1982, home sales fell nearly 50%, Fleming found. Home prices jumped 14% in 1978, then slowed to 1% in 1982. It's a trend we've seen again in recent years, as the pandemic-era market led to a 16.9% spike in home prices in 2021; this year, price growth has been slowly waning but still showing annual gains.

"History doesn't repeat itself, but it often rhymes," Fleming said.

Mortgage rates key to breaking the cycle

While fads like leg warmers and Cabbage Patch Kids faded quickly, the return of the early-1980s style housing market may take longer to snap. With mortgage interest rates continuing to rise and now nearly double what they were in March 2022, low sales volume is expected to remain in place for the near term. But if rates hold steady or start trending down, that could break the cycle.

"Mortgage rate stability, even if stabilization occurs with rates at a higher level, is the key to an eventual housing recovery," Fleming said.

Odeta Kushi, deputy chief economist at First American, agreed, adding that in the mid-to-late '80s, the housing market recovery began in earnest as inflation fell along with mortgage rates. For some perspective: Mortgage interest rates hit their all-time high of more than 18% in 1981.

The recovery could take a while

Kushi said current economic factors, like the spread between the 10-year Treasury bond yield and mortgage rates, could make things sticky, signaling a slightly different recovery scenario. And first, the Federal Reserve needs to get inflation closer to its 2% target, which has proved challenging (it's currently at 3.7%).

"In other words, mortgage rates are likely to remain higher for longer," Kushi said in an email.

Demographics will also play a role in a recovery, according to Kushi. Those same baby boomers who influenced that housing market four decades ago are starting to head into their 70s and 80s, making them more likely to downsize, which would increase housing supply.

Write to Dave Gallagher.

More By the Numbers

BY THE NUMBERS

Jobs report could mean lower mortgage rates are coming

The pace of jobs and wages slowed in October, which may reduce inflation and potentially knock down mortgage rates in time for the spring selling season.

Dave Gallagher
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