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Dear Clients,

I have been receiving many questions and emails in regards to purchasing during a recession.

I came across this great article in Forbes magazine. It has some GREAT insight.

Key Takeaways

- From 1975 to the start of 2022 the Housing Price Index has increased by over 860%.
- On average, home buyers who had bought at the beginning of the 2007 recession lost 15.96% over the next five years, but still made money over 10 years.
- Home buyers who purchased a property at the beginning of the pandemic have seen an average increase of almost 30% in the value of their homes.
- Saving for a down payment can be a long and difficult process, but using inflation protected investments and hedging strategies can help speed the process along.

Buying a house is a major priority for many people and is generally one of the biggest long term goals for investors who haven't yet managed to get on the property ladder. It's an admirable goal and can provide long term security and stability.

But buying your first house is tough. To start with, there's the issue of the down payment. Saving a regular monthly amount on top of existing rent, groceries, bills, healthcare and all the other costs of living is a tall order, and it can take years to get enough cash together.

The problem is compounded by the fact that house prices are often rising at the same time. It can mean that the 5% down payment amount that is typical for first time buyers can be a constant moving target.

5% of a house worth $250,000 is $12,500 but if the price of that property goes up to $300,000 then it means savers need to get together a further $2,500 to meet the 5%.

The second concern for first time buyers is getting the timing right. For most people, buying a property is the largest purchase they make in their lifetime. Paying through the nose or getting a great deal can make a massive difference to their financial future, so it can be nerve-wracking wondering whether the timing is right.

are compounded when the word 'recession' starts to get thrown around. It can make first time buyers nervous about their job security, their investment portfolios and the direction of the housing market.

In the short term, we don't know for sure what the future holds for real estate or for the economy as a whole, but we can look to the past to give us some guidance on how these issues have played out before.

Let's have a look at how the property market has responded to previous recessions, what this means for buyers and finally, some innovative ways to use AI to save for a down payment without taking big risks with your cash.

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It might surprise you to learn that there have only been three official recessions since the year 2000, and they've lasted for a combined period of 31 months out of a total 259. Pretty good.

The point is that recessions can be scary and they can impact a lot of people, which is why there is so much attention paid to when the next one might arrive. It's really important to keep perspective though, because overall the economy and the stock market tends to go up more than down.

With all that said, how has the housing market performed during previous recessions?

March 2001 to November 2001

The early 2000s saw the end to a period of growth that had been the longest ever experience in the US. Almost the entirety of the 1990s were a period of sustained economic expansion, which finally came to an end in early 2001.

There were a number of factors that came into play, including the dot com bubble bursting and the September 11 terrorist attacks.

Despite this, it was a relatively short recession and by the end of the year the economy had turned around again. Throughout the recession the housing market continued to grow, increasing just over 6% from Q1 2001 until Q1 2002.

For home buyers who purchased at the very start of the recession, in Q1 2001, they did very well. Over the five years from the start of the 2001 recession, the housing price index increased by 48.59% and over 10 years it grew 27.18%.

Why was the 10-year return lower than the five year, you ask? Because in late 2007, the next recession came to town.

December 2007 to June 2009

The 2008 global financial crisis (which actually started in 2007) was the worst experienced since World War II. Not only did we see the collapse of multinational banks and financial institutions, but many other industries required billions in bailouts to stay afloat.

It was particularly damaging to property investors and home buyers, given that the collapse was off the back of the housing market.

The recession lasted significantly longer than the previous one, and it took many years for the economy and businesses to fully recover, even after the recession was officially over.

Home buyers who bought at the peak of the market would have likely seen their property values plummet, with the five year return from the housing price index from the beginning

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of the recession a sickly -15.96%.

After 10 years, the market had recovered to the point where homeowners were back in the green, though with a total return of 7.73% over that period it was nothing to get too excited about.

Even so, it's worth noting that even with the worst possible market timing, the average home buyer would still have made money over a 10-year period.

February 2020 to April 2020

The most recent recession has also got to take the award for the weirdest. Firstly, it was brutal, with the largest economic decline since the Great Depression. Secondly, it came and went in the blink of an eye, lasting less than three months from start to finish.

Due to the nature of the pandemic, it also drove a significant level of activity in the housing market. With companies all over the world having to provide the ability for employees to work from home, many took the opportunity to move house, suburb and even cities once the commute was no longer a factor.

Home buyers who took the plunge at the start of the pandemic may have seemed brave at the time, but they've been handsomely rewarded, with the housing price index increasing 28.33% since.

What should first home buyers do?

The takeaway here is that first time buyers shouldn't worry too much about the timing of their house purchase, as long as they have a long time horizon. Even the worst market timing over the past 20 years still ended in the green after a long enough time frame.

It's important to consider whether the market may be looking overpriced in your area, but you should also realize that there's no way to know for sure what the future holds for housing in the short term.

So while we can't help you perfectly predict the housing market, we can help you with saving for your down payment. One of the biggest questions for first time buyers is where to keep their savings.

Bank accounts pay next to nothing in interest, but a high risk stock portfolio might fluctuate too much, and could even go down in value depending on how long you have left until you want to buy a house.

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