



July 2016 | When the Market Goes Bust

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American Dream

Home Ownership has always been one of the cornerstones of the American Dream; but could it be that in 2016 the American Dream is evolving? The answer is a resounding YES! According to several studies, home ownership is at its lowest mark in 48 years.

The American economy has played a major role in the evolution of home ownership. Millennials (Generation Y, described as being born between 1980 and 2000) are much more cautious about owning a home than any generation prior. This may be, in part, because they witnessed the downturn of the economy at an age where dreams usually include getting married, starting a family and becoming self-sufficient. Some millennials saw their parents struggle or perhaps even worse, lose a home to foreclosure.

Adding to the caution and reluctance to commit to long term debt are lower starting salaries and uncertain job security. Many in this age group don't see their current jobs as their "forever employment." Saving for a down payment is challenging. Rent can eat up almost one half of salaries, make it extremely difficult to millennial renters to save enough to become buyers. With 56% of the group considered "working class," big dreams don't always equal big homes. Still, in a recent study, 90% of responding millennials did say they wanted to own a home one day.

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Big family gatherings, backyard barbecues, impromptu flag football, sparklers...the scene of a great July 4th celebration may seem out of reach. But it isn't. The American Dream is still very alive and well. As Realtors, we've studied the market and we know where the best investments are. It may not be possible to have a house on the beach or a 5 bed/3bath home right out of the gate. However, smaller homes have a distinct advantage for those starting out and they are no less of a dream home than their mansion counterparts. The blood, sweat and tears that sometimes come with starter homes make them all the more special. We can't control the economy and we certainly can't turn back time, but we can make strong investments in the future. Buying smart is the best way to keep the dream alive and well.

As we proudly fly our red white and blue, attend parades, bask at the beauty of our country and celebrate the courage of our forefathers who fought for our freedoms, let's also celebrate the pursuit of happiness. It's there for everyone. It isn't that far away after all.

Proud parent moment: Congratulations to our son Rick Wells, Manatee County Sheriff-Elect!



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When the Market Goes Bust

A Crash Course In Real Estate Cycles

"I have enough money to last me the rest of my life, unless I buy something." - Jackie Mason

Ms. Jackie Mason sounds like she understands the recent economic woes. With the housing bubble burst a few years back, some took harder hits than others. But even those less scathed were left with a bitter taste. There's no denying Buyer confidence has suffered.

The REALTORS® Confidence Index was 72 in April 2016 according to respondents, showing "weak" Buyer confidence for Single Family sales.

But the light at the end of the tunnel is slowly emerging. Especially in the Florida real estate market. Home prices and sales are on the rise. Investment opportunities are becoming widespread. This is a great time to get back into the swing of things.



Home sales up **6%**
from April 2015

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Still, not all Buyers and Sellers have rejoined the competition. Many were left financially catatonic from the last crash. Truth is, market downturns are unavoidable. Business cycles are always churning from one extreme to another. Gaining a better understanding of how these cycles work can help. This requires a good look at the economic cycles themselves.

“The boom and bust cycle is the alternating phases of economic growth and decline. It’s how most people describe the business cycle or economic cycle.”

Market fluctuations are classified as Boom and Bust cycles. A Boom market has a low unemployment rate coupled with high profits. Inversely, a Bust economy is marked with high unemployment rates and low profits. Both economies are fiercely opposite. Bust economies are an anemic disappointment, while Boom economies make up for their slack with remarkable growth.



Causes of Cycles

Now you might ask: What causes these cycles?

Three driving forces must be addressed: **supply and demand, availability of capital and future expectations.**

Heightened consumer demand creates a Boom phase. Factors such as better job opportunities, increased lending, and higher investment performance can spark this uptick. It fuels consumer optimism. As a result companies must boost supply to meet demand. Increasing supply requires increasing labor. Unemployment rates begin to drop. Record gains are sure to follow.

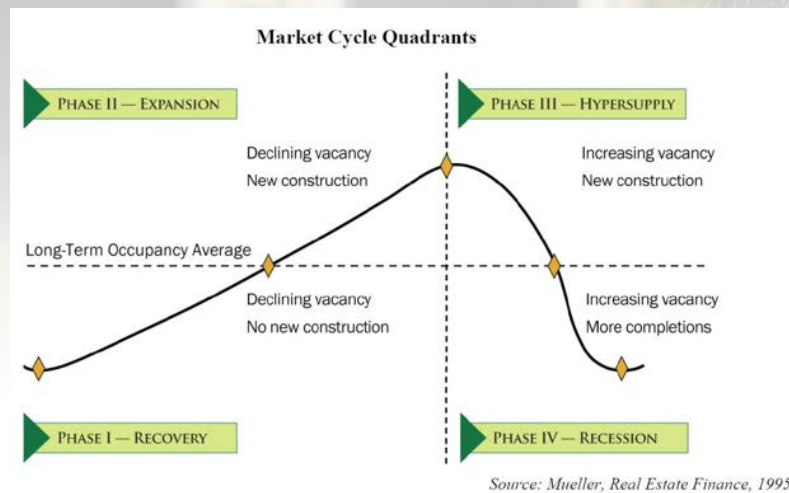
Supply and demand is a delicate balance. When one outweighs the other, the market begins to fail. Both commodities must grow hand in hand. Demands left unmet cause a disruption. The same is true when supply sits for too long. Buyer confidence will begin to decrease and unravel the market.

U.S. Boom and Bust Cycles Since 1980:

Cycle	Duration	Comments
Bust	Jan 1980 - Jul 1980	1980 Recession caused by high-interest rates to end stagflation .
Boom	Jul 1980 - Jul 1981	Fed lowered rates. For more, see Historical Fed Funds Rates .
Bust	Jul 1981 - Nov 1982	Resumption of 1980 recession.
Boom	Nov 1982 - Jul 1990	President Reagan lowered tax rate and boosted the defense budget.
Bust	Jul 1990 - Mar 1991	Caused by 1989 Savings and Loan Crisis .
Boom	Mar 1991 - Mar 2001	Ended with bubble in internet investments
Bust	Mar 2001 - Nov 2001	2001 Recession caused by stock market crash, high-interest rates
Boom	Nov 2001 - Dec 2007	Derivatives created housing bubble in 2006
Bust	Dec 2007 - Jun 2009	Subprime Mortgage Crisis, 2008 Financial Crisis , the Great Recession
Boom	Jun 2009 - Now	American Recovery and Reinvestment Act and Quantitative Easing

Effect on the Real Estate Market

Real estate cycles are similar to Boom and Bust economies. Instead of two phases, there are four. **Recovery, Expansion, Hyper Supply and Recession.** Each phase corresponds with the business cycles. Expansions occur during the economic Boom. Recessions fall within a Bust.



So, how does the Boom and Bust cycle affect real estate trends? Simply put- they are directly related. Economic 'highs' translate across all markets. Positive movement in the stock market will eventually trickle into other areas. Likewise, failing commodities will spark negative changes across the board.

You can develop strategies to help minimize losses. Some real estate purchases can act as a 'hedge'. Rental properties scooped up at a discount during a market decline can be unloaded when the market rebounds. This turns a pretty penny. Also, pay close attention to new home construction. If inventory begins to outweigh demand, a downward spiral will begin. Crashing home sales may result in a higher demand for rentals. Skyrocketing rental demand can drive up rent amounts. Rippling effects shouldn't be overlooked.

Future Outlook

Since 2009 stocks have been in a Boom market. This is projected to slowly turn into a Bust market soon. Several advisors are forecasting a change by the end of this year.

Such changes would adversely affect the real estate market's expansion. National home sales have reflected modest growth with increases expected on the horizon. Entering a Bust market will stall gains.

Forecasting the next Bust is definitely an art. Doves of financial advisors have difficulty hitting this nail on the head. Being able to identify which cycle you're in, and recognize the start of the next one, should be the goal. Will you be able to prevent all market-related losses? Definitely not.

Knowing these cycles keep circulating offers hope. Holding onto investments will result in a net gain over time. Cycles are constantly moving upward. This is especially true with real estate.

The notorious housing bubble can't be erased from history. But it's a lesson learned. Ups and downs are just perpetual cycles. With this market showing such positivity, don't let apprehension hold you back. It's days are numbered just like the last time.

- <http://www.useconomy.about.com/od/glossary/fl/Boom-and-Bust-Cycle-Causes-amp-History.html> (boom and bust definition)
- <http://www.realtor.org/reports/realtors-confidence-index> (realtor confidence index)
- <http://www.marketwatch.com/story/7-unmistakable-signs-that-a-bear-market-is-approaching-2016-05-23> (bear market coming)
- <http://www.realtor.org/news-releases/2016/05/existing-home-sales-rise-in-april-for-second-straight-month> (home sales up 6%)

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We are pleased to **welcome Mike Barrett** to the Parrish Office. He, along with his assistant/wife Jane, are **"Teamed up For You."**

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