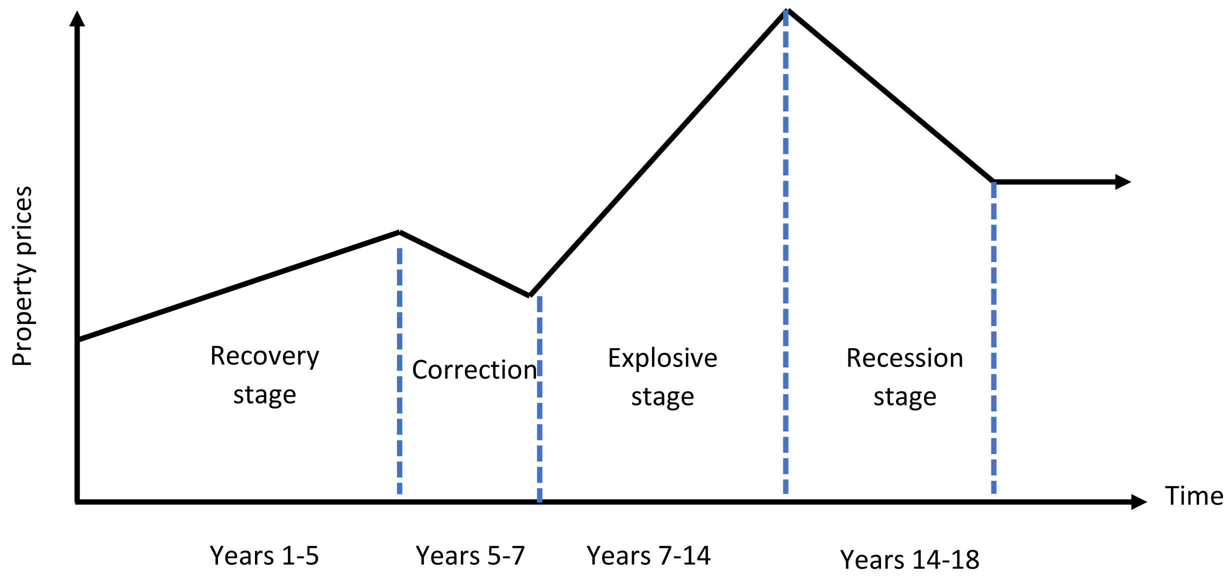
The 18 Year Property Cycle



In this article we will look at what the 18-year property cycle is, the different stages of each cycle and what it means to existing investors in the UK property market and those looking to start their property portfolio.

What is the property cycle?

If you are already a keen property investor, you may have already heard of the 18-year property cycle. However, most people who are not already in the market are unlikely to have heard of this theory.

The 18-year property cycle is a theory used by some investors to determine at which stage of the current cycle the market is at. If you believe in the cycle, it could be the difference between success and failure as a property investor.

Like all markets, the property market has a cycle or process. The property cycle is a model used to describe how the property market evolves over time & the transition phases in-between.

As with other markets and their cycles, the property cycle repeats itself over time.

There are generally four stages to each property cycle. The four stages are reflected in the graph above. In this article we will look at each stage in detail.

How long is each property cycle?

Despite the model being named the 18-year property cycle, there is no set time period. It is important to note that the graph above is not, and cannot be exact.

Generally speaking, the property cycle lasts for around 18 years before repeating itself again. However, this is only a general rule. Unfortunately, no theory can predict with 100% accuracy exactly how long a cycle will last for.

The actual length of a property cycle may be shorter or longer than 18 years. The same can be said for each stage within the cycle. Each stage may be shorter or longer than shown above.

If the property cycle is not exact, why is it useful?

By understanding the different stages, investors can better predict market conditions and what is likely to follow. Even if not exact, it does give investors a general guide as to where the current market is heading.

This can be used to your advantage. For example, you may believe that we are coming towards the end of the explosive stage. If so, you may wait until we enter the recession stage before acquiring your investment.

It also allows property investors to take a more pro-active approach as opposed to a reactive approach.

Recovery stage

The recovery stage starts immediately after the recession stage.

In other words, this stage starts after property prices have fallen during the recession stage.

This is often when property prices are at their lowest during the cycle.
Usually, this represents the best time to buy a property for investment purposes. This is because it allows for the most capital growth & allows you to enjoy the highest yields.

Furthermore, there is usually less competition at this stage of the cycle as some investors would have panicked and left the market during the recession stage.

This can lead to a larger volume of properties available for investment. With increased supply again potentially pushing down prices.

In practice, you are unlikely to know exactly when the recession stage has reached its floor and the recovery stage has begun. However, assuming a roughly accurate estimate, any short-term loss in the recession stage can easily be regained in the recovery stage.

Correction

There is usually a correction stage where property prices drop immediately after the recovery stage.

This period is usually short lived before the explosive stage starts.

There are several reasons why this occurs. One being that some will believe the market has risen to sharply and try to time the market. Thus, realizing profits before the market corrects itself.

Other may simply be happy with the profits they have gained during the recovery stage and will seek to exit the market permanently.

Explosive stage

After a mid-cycle correction follows the explosive stage.

This is where property prices see the most growth & usually achieve this growth at the fastest pace.

This sparks confidence in the property market which in turn increases property prices even further.

With the property market rising at such pace, housebuilders usually start to increase supply to keep up with demand. Mortgage lenders are also more likely to provide finance due to the assumption that property prices will increase significantly from here.

As we move towards the top of the market, some investors may seek to take their profits before the looming recession stage. This is when investors looking to realize profits can do so with the highest gains.

There are two fundamental risks at this stage of the market. Sell too soon and the market will keep rising. You will therefore lose out on potential gains. Sell too late and you might end up selling in the recession stage. Therefore, again losing out on potential gains.

Inevitably, this period of rapid growth cannot continue forever and ultimately ends in the recession stage.

Recession stage

As with all markets, after a major boom, there is often a bust.

At this stage, confidence in the market deteriorates rapidly. In turn, house prices also fall rapidly.

Some may even be forced into selling their property which can lead to even lower prices.

During this stage demand for property is low and housebuilders cut back to accommodate this. Mortgage lenders are also more reluctant to lend as they worry that house prices will continue to fall.

With falling house prices, few are likely to enter the market and will look for other places to invest their capital.

Ultimately, the market will reach its floor level, and this will again lead to the recovery stage. From here the market will repeat itself all over again.

Conclusion

The property market, like all other markets has a cycle which repeats itself over time.

Property prices do not always go up and investors can lose their money if they buy at the wrong stage of a cycle.

The general rule is that a property cycle lasts for around 18 years. However, this is not exact and actual cycles may be shorter or longer.

By using the 18-year property cycle, and looking at current market conditions, you can better predict at what stage of the cycle we are. As a result, you can also predict what is likely to happen next.

The 18-year property cycle should not be used in isolation. However, it is a useful tool for those keen to invest in property.

If you have any queries regarding your property, please do not hesitate to contact us.