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Why this latest building boom doesn’t look like the one that led to 2007 housing crisis

By Michael Zogg
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Lake Havasu City may be building four times more houses now than it was 10 years ago, but it’s still less than a third of the rapid residential construction that occurred 15 years ago which contributed to the housing crisis in 2007.

Local real estate professionals say the fundamentals of the local housing market are completely different now than they were during the housing boom in the early 2000s because current construction is being driven by current demand, while construction near the turn of the century was based largely on speculation about future demand.

So far in Fiscal Year 2020-21 Havasu has issued a total of 361 building permits for new residences – single family, duplex, multi-family and mobile homes – and is on pace to eclipse 400 such permits by the end of the fiscal year. Through April the city was also on pace for 438 new permits during the 2021 calendar year. Havasu has not issued more than 400 permits for new residential construction in any fiscal year or calendar year since the great recession.

But before the recession construction in Havasu peaked at 1,391 residential building permits in the 2003 calendar year, according to Lake Havasu City’s records. In general, the early 2000s saw lots of new construction with anywhere from 800 to nearly 1,400 residential building permits issued each year from 2001 through 2005.

“We were building too much back then,” said Mychal Gorden with Desert Land Group. “That is kind of what caused that housing bubble that we saw in 2006 and 2007 – we were building these spec homes. We were building them with the expectation to sell them to people moving to town, but it wasn’t somebody moving to town that was paying for it at the time - it was a speculation build. So we ended up with a big inventory.”

Making matters worse, Gorden said as housing prices fell foreclosures became widespread thanks, in part, to the laws and lending regulations in place at the time that have since been revised.

"We already had an oversupply, but then it was a distressed oversupply," Gorden said. "So that is why we saw such a huge decline in the market."

But locals in the real estate industry say the current rise in new residential building permits has little in common with rapid development that led to the crash 15 years ago.

"The biggest difference would be that during the boom that ended in 2006 we were getting way oversupplied, and we were getting oversupplied with toxic inventory that people didn't have a lot of equity in," Gorden said. "So we got overbuilt. Today it is the exact opposite. We actually have a significant supply problem – we don't have enough of it and we are running out of it. That is going to push housing prices higher unless demand subsides for some reason."

Gorden noted that, according to the U.S. Census, Havasu seems to be growing at a rate of 800 to 900 people per year. Assuming an average of 2.25 people per household that would equate to about 350 to 400 new homes – which is right on track with the current building permit numbers.

"In general, the market remains very hot," said Luke Still, of Desert Land Group. "Demand is very strong and supply is continuing to dwindle. So those are all things that point to increases going forward."

The high demand for housing is also reflected in the depressed supply of existing homes for sale, and an increase in the number of existing homes being sold. Still said a city's sales tax revenue is considered the best indicator of residential demand, and in a tourist town accommodations and the restaurant and bar taxes are also particularly telling.

"When you dig into those numbers what it is telling us is that people are here on Monday, Tuesday, Wednesday and Thursday," Still said. "Our market used to be pretty dead from an accommodation and restaurant standpoint during those days. Now, ever since the pandemic, it has just been a green light all the time."

According to the most recent available numbers from February, Lake Havasu City has produced 22 percent more sales tax revenue during the first three quarters of this fiscal year than last year, while the bed tax has shot up by 53.6 percent and the restaurant and bar tax is up 17.4 percent. In fact, Havasu is on pace to produce $30 million in sales tax revenue for the first time this year, which would be double the amount it generated back in 2012.

Still said the biggest risk factors for Havasu’s housing market are inflation and an increase in interest rates.

“Those would put a damper on demand because they would decrease buying power to some degree,” he said. “But outside of that all of our other fundamentals are really strong.”

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