What is the 18 Year Property Cycle and Where Do We Find Ourselves Now?

Some experts believe that property markets follow a cycle of boom and bust. In this article we will look more closely at what is known as the 18 year property cycle, and try to decide where on this cycle we might be right now.

What causes property markets to boom and bust?

Free market economies generally follow a cycle. They experience a number of good years in which businesses invest and expand, where employment, wages and consumer spending rise and where the economy grows.

Gradually, a peak is reached and a downswing occurs. Prices and inflation rise, consumers cut back, businesses scale back and employment falls. The economy may fall into recession.

After a period, however, the bottom is reached. A recovery begins and growth restarts.

Property markets tend to follow a similar cycle. They experience a number of good years where house prices are affordable, buyers are keen to buy, banks are keen to lend and the market rises.

Gradually, demand begins to exceed the supply of property. Prices rise, often sharply. Eventually buyers become reluctant or unable to afford to buy. As demand drops off prices fall and may even crash.

After a period of recession, the bottom is reached. Property prices become attractive and affordable again and the market starts to recover.

What is the 18 year property cycle?

There have been a number of theories which suggest property markets run in cycles. However, one of the most widely regarded theories is the 18 year property cycle. This suggests that property markets boom for a period of around seven years on average, then crash over a period of four years, before recovering for a period again of around seven years on average.

Who identified the 18 year property cycle?

The 18 year property cycle is widely attributed to land economist Fred Harrison.

Fred Harrison outlines his theories in his books including Boom Bust: House Prices, Banking and the Depression of 2010, The Power in the Land and We Are Rent.

Fred Harrison suggests that evidence of the 18 year property cycle in the UK property market dates back around 300 years. A similar cycle also occurs in other countries.

Fred Harrison is credited with accurately predicting the 1990 and 2008 property market crashes.

The phases of the 18 year property cycle – an explanation

The recovery phase

After the last recessionary period the next new cycle begins with a recovery phase. The property market tends to proceed slowly at the start of the phase with prices rising only slightly. Experience of the last recession means buyers and investors are reluctant to buy, and banks are reluctant to lend.

Buyers and investors during the early recovery phase tend to be risk takers and expert investors. The more established property locations, such as London and the south east, tend to enter the recovery phase first.

The recovery phase lasts for around the first seven years of the 18 year property cycle on average.

The mid cycle dip

At some point following the recovery phase a mid cycle dip or market correction occurs. Prices stabilise or even drop slightly. This might be because early investors finish investing, or decide to sell and take their initial gains.

A mid cycle dip may sometimes be confused with the end of a recovery and a beginning of a recessionary period in the property market.

A mid cycle dip may last for 1-2 years on average. After the dip property prices start to rise again.

The boom phase

During a property boom, sometimes called the explosive phase, confidence in the market increases dramatically. Encouraged by what they have seen in the recovery phase buyers, investors and developers are keen to become involved in the market. Banks are keen to lend money to buyers, and to lend larger amounts.

Large numbers of people see property as a good investment and/or a way to make money quickly. Homeowners see now as a good time to upsize. First time buyers feel pressurised to buy now, before buying becomes out of their reach.

During the boom phase demand for property begins to exceed supply – particularly since the supply of land is finite – and property prices rise fast, frequently to new records.

Property booms last for around seven years on average, or approximately between years 7-14 of the 18 year property cycle.

The winner's curse

The theory identifies the period towards the end of the boom as a 'winner's curse'. During this period, a feel good factor leads many people to believe the boom and bust cycle has ended for good and property prices will rise indefinitely. This can lead buyers and investors to pay over the odds, even though prices are becoming unsustainable.

The crash or recessionary phase

The recessionary phase may begin when property prices, having risen much faster than wages, become unaffordable. Buyers cannot meet seller's expectations. Banks are unwilling to lend at those levels.

As the crash advances, property owners who have to sell or who fall into debt have to sell at a loss. Experienced investors decide to cut and run. The market becomes flooded with properties that no one wants or can afford to buy.

The recessionary phase is the shortest phase in the 18 year property cycle. On average it lasts for around four years, or between years 14-18 of the cycle.

Once prices have readjusted and settled the 18 year property cycle begins again with a new recovery phase.

Is the 18 year property cycle accurate and reliable?

Looking at the last few decades, there is some evidence to suggest that the 18 year theory has some validity:

● UK property prices experienced an upswing in the 1950s as more people wanted and were able to afford to buy. A mid cycle dip occurred in the early 1960s. Prices then accelerated during the 1960s before slowing at the end of the decade.

● In the 1970s the market rose before suffering a dip in the early 1980s. The 1980s saw a property (and economic) boom before prices crashed from around 1990 onwards.

The market began a recovery around 1993 and gained momentum throughout the decade before a price correction around the new millennium. Prices boomed in the mid-late 2000's before the 2008 financial crisis and a subsequent market crash.

How the 18 year property cycle can help you be a more successful investor

● You can invest in the property market with more certainty and confidence knowing that it is cyclical. Prices will always rise, fall and rise again. Progress on the cycle is a matter of 'when' not 'if'. Losses are a normal part of investing, as are gains.

● You can plan your investing by looking for clues as to progress through each phase of the cycle. For example, are prices rising quickly or slowly? Are the buyers who are currently active in the market mainly 'risk takers' …. or are they ordinary consumers desperate to buy?

● The 18 year cycle tends to show that property investors always make a gain in the long term. It is invariably the case that the low point of property prices in each new cycle is always higher than the low point of the previous cycle. It is argued that this always occurs due to the supply of land being finite.

● The cycle can indicate when the best time to buy property is, ie. at the bottom (or near the bottom) of the cycle.

● It can indicate when the best time to sell property is, ie. at the top (or near the top) of the cycle.

● It can indicate when the best times to avoid buying and selling property are …. when it is best to bide your time and do nothing.

Where do we find ourselves now?

The 18 year property cycle only becomes truly useful when you can see how it might apply to the current property market. So let's look at recent times.

Starting in 2000 UK property prices rose fast for the following decade, reaching an average of around £186,000 at the start of 2008. Following the financial crisis of the time average prices then crashed – by 17% on average – reaching a low of £154,000 in March 2009.

Prices then began a slow recovery – the early 2008 average house price of £186,000 was not reached again until spring 2014.

Prices then continued on an upward trajectory with a mid market dip occurring in 2018 and 2019 – the average property price of £231,000 during summer 2018 fell slightly over the coming months and only returned to £231,000 at the end of 2019.

Prices began to accelerate rapidly in 2020 (even though many experts felt Covid would interrupt the cycle) and this continued throughout 2021 and 2022.

The property market boomed, with more buyers than sellers and properties sometimes selling within days. Average prices reached record levels of around £238,000 in summer 2020, £260,000 in summer 2021 and £290,000 approximately during summer 2022.

By the end of 2022 average property prices were still around £290,000, and only fell back very slightly to £285,000 in spring 2023.

This might represent the 'winner's curse' period of the 18 year property cycle. It might suggest that buyers are still prepared to pay as much as during the boom years even though market conditions seem to be weakening.

** Price figures are based on average house prices from the UK House Price Index (UKHPI).*

When will the next property market crash be?

It is very important to recognise that the 18 year cycle periods are averages. Each cycle and the phases within it may be slightly longer or shorter than the theory suggests.

However, if the theory of the 18 year property cycle is to hold true yet again, it might suggest that based on the last crash and recovery being around 2008-2009 the next property market crash should occur around 2026-2027. This could see four years of property market recession before another recovery begins in the early 2030s.

It is also important to remember that, despite its past track record, the 18 year property cycle is a theory not fact. It may not happen again at all. While it may be a useful guide it isn't safe to invest purely on the basis of the 18 year property cycle.