December
Real Estate News

The level of uncertainty and volatility in key housing-market metrics has economists and forecasters predicting divergent outcomes for the 2023 housing market.

Redfin Corp. (Nasdaq: RDFN) this week predicted home prices will fall for the first time since 2011 — but at a modest 4% nationally. Zillow Group Inc. (Nasdaq: ZG) is anticipating home prices to remain flat nationally next year, while Realtor.com has among the more positive predictions, with home prices appreciating 5.4% across the U.S. in 2023.

Sales are widely expected to be down in 2023, as higher mortgage rates and home prices, not to mention persistent economic concerns, continue to keep people out of the housing market. Redfin is predicting 2023 will be the slowest housing-market year since 2011. Its forecast predicts 16% fewer existing home sales in 2023 than this year, or about 4.3 million.

Realtor.com is also predicting fewer existing home sales next year — a decline of 14.1% in 2023, or about 4.53 million sales.

Lawrence Yun, chief economist at the National Association of Realtors, last month said he predicted home sales will decline by 7% next year and the national median home price will increase by 1%.

Fannie Mae predicts total existing home sales will be 3.9 million in 2023, and prices will fall 1.5%. Meanwhile, Capital Economics is predicting U.S. home prices will fall 8% by mid-2023, and Wells Fargo & Co. (NYSE: WFC) is forecasting a 5.5% decline in home prices.

But economists say forecasts are especially tricky to make this year, given several unknowns in the broader U.S. and global economy that would influence the national housing market. Those include inflation, what the Federal Reserve does with interest rates, the labor market, and geopolitical issues. Individual markets will also see different outcomes.

"There are a lot of moving pieces next year that will be interesting to watch," said Taylor Marr, deputy chief economist at Redfin.

Here are a few key factors to track in the for-sale residential real estate market next year.

INFLATION AND MORTGAGE RATES

Economists largely agree where inflation goes in the next several months will be the major lever for the broader national economy, which will then affect the housing market.

October's consumer price index grew 7.7% annually in October, a slower rate than economists had expected and a potential sign that inflation is starting to wane. However, it's too early to say whether that trajectory will continue.

"Inflation is the biggest threat to the U.S. economy, in my opinion, with it at a 40-year high," said Orphe Divounguy, senior economist at Zillow.

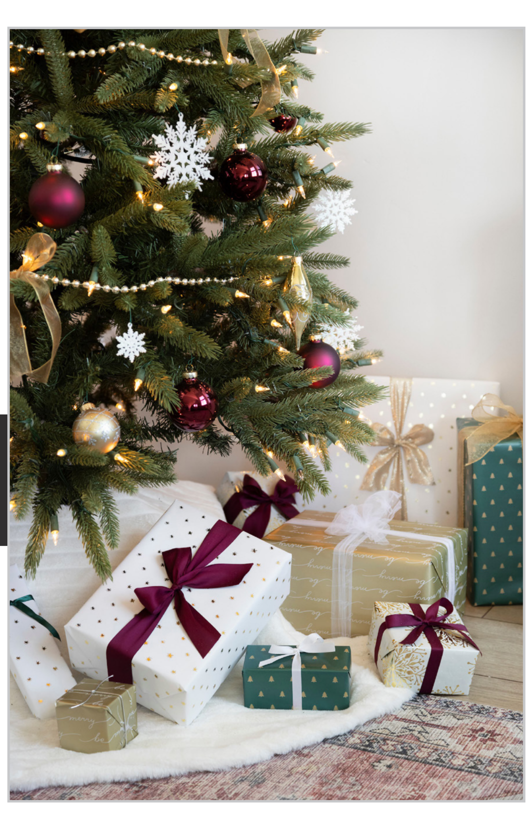
But if inflation does continue to move down in 2023, so will the 10-year Treasury yield, which is what mortgage rates track, Divounguy said.

The rapid escalation of mortgage prices this spring and summer is what finally brought the temperature down on what had been a hot fire of a housing market, Marr said. The impact of higher mortgage rates in a compressed time period was like throwing a bucket of cold water on that fire, he continued.

"Next year is the smoldering embers of coming off a really hot market," Marr said.

Danielle Hale, the chief economist at Realtor.com, said she's expecting mortgage rates to stabilize next year. The residential real estate company is forecasting mortgage rates will average 7.4% in 2023 and end the year around 7.1%.

Although that isn't a major drop from current rates, less volatility in the mortgage-rate market will mean buyers won't have the sense of not knowing where mortgage rates are going, Hale said. That volatility tends to keep them sidelined.



MIGRATION, AFFORDABILITY, AND INVENTORY

Hand in hand with higher mortgage rates is buyers' continued challenges in being able to afford a home.

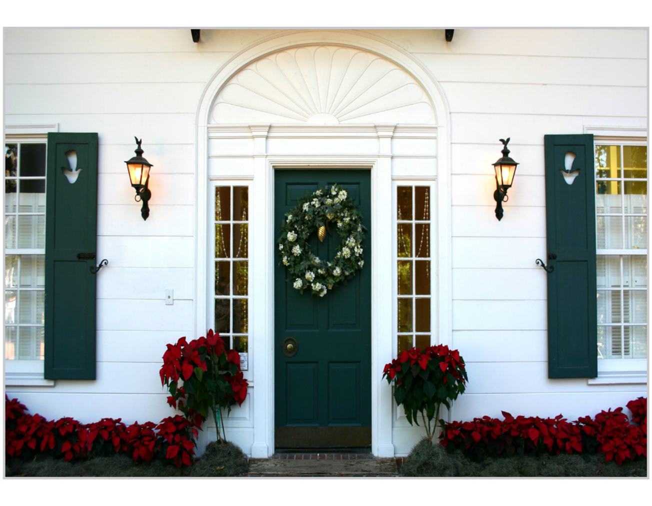
In fact, despite varying predictions about where housing market metrics will be in 2023, most economists agree that affordability will remain the signature issue of the housing market next year.

But what's debated is whether pandemic-induced changes to working patterns or reactions to a slowing economy will prompt people to migrate to new areas of the country in search of affordability.

Marr said, during the first year of recessions, it's typical for people to remain in place, in part because job growth is slower and most moves historically are prompted by a job opportunity.

"As a result of that, we typically see right away a mild drop in mobility, but then, once a recovery starts to happen, people are looking for work," Marr said. "We typically see a rebound right after a recession regarding relocating."

And because so many homeowners locked in a low-interest rate during the pandemic, through buying a home or refinancing, that'll disincentivize owners from selling their homes or relocating, Marr said.



A recent Fannie Mae analysis of its historical loan-book data of fixed-rate 30-year mortgages found more than 80% of existing borrowers have mortgages at least 200 basis points lower than current market rates as of October, and more than 90% have mortgages at least 100 basis points lower.

Because so many owners locked in low mortgage rates, that's likely to temper new listing activity and stymie inventory in 2023, especially since homebuilders have slammed the brakes on new projects. Despite a slower housing market, a flood of inventory hasn't hit the market in recent months.

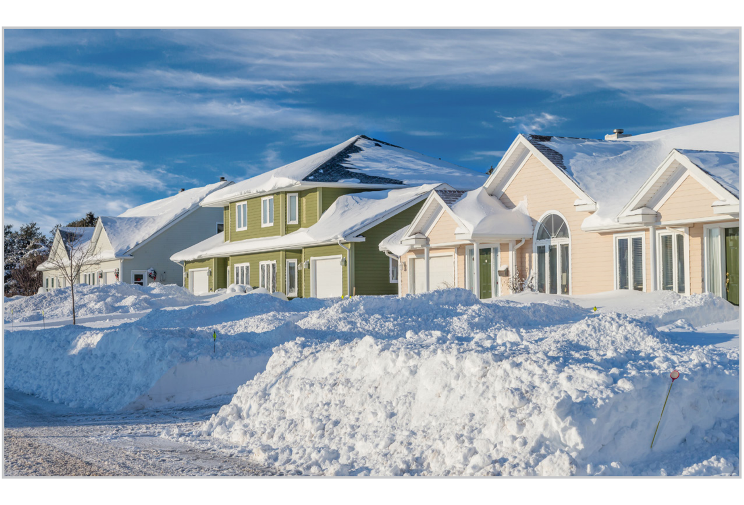
The number of homes actively for sale in October was 40.4% lower than the pre-pandemic 2017-2019 averages, according to Realtor.com. Homes that are listed on the market are, instead, likely to sit on the market longer.

Hale said data tracked by Realtor.com suggests buyers are still shopping for homes outside of their markets at a higher than the typical rate. The company found in Q3 2022, 60.7% of listing views went to homes listed in other metropolitan areas. That's a 3.8 percentage-point increase from Q2 and an increase of 8.6 percentage points annually.

"Remote work is still the thing; it's likely to stick around," Divounguy said. "People will look to more affordable markets with more space, and they'll probably continue to move to those areas."

GEOGRAPHIC DIFFERENCES

As has been the theme of the past couple of months, economists are predicting big price cuts in markets that've grown the most since the pandemic and more stability in markets that haven't grown as rapidly.



The Northeast and Midwest markets, in particular, are forecasted by some housing economists as being the most stable areas for housing next year. The past couple of years have seen Sun Belt markets like Texas, Florida, and the Carolinas as the big winners in home-price appreciation and buying activity, but they will likely continue to cool off those pandemic-induced gains into next year.

A Business Journals analysis of Zillow data in October found Sun Belt markets like Austin, Texas, have seen their home-value growths decelerate or even decline from pandemic highs. But in Austin, home values grew 65.8% between March 2020 and September 2022.

In 2022, Florida markets saw the most home-price appreciation, followed by Tennessee, Carolinas and Texas metro areas also seeing significant gains, Zillow found. But several metro areas in the Northeast and Midwest have mortgage costs less than 30% of incomes, in places like Ohio, Pennsylvania, Kansas, upstate New York, and Iowa.

Mountain West and coastal markets are also likely to see more rapid home-price escalation next year, economists predict, as those housing markets also grew rapidly during the pandemic and are also among the most expensive places to live in the U.S.

Redfin has forecasted ten housing markets that'll hold up best in 2023:

1. Lake County, Illinois
2. Chicago
3. Milwaukee
4. Albany, New York
5. Baltimore
6. Elgin, Illinois
7. Rochester, New York
8. Pittsburgh
9. New Haven, Connecticut
10. Hartford, Connecticut

Similar geographies were called out in Realtor.com's top housing markets for 2023, including the Hartford metro area; El Paso, Texas; the Louisville, Kentucky, metro area; Worcester, Massachusetts metro; and the Buffalo, New York, market.

FORECLOSURES

Economists say because of how equity-rich households are today, combined with a still-strong labor market, next year isn't likely to see a wave of delinquency in the residential real estate market.

That's because, even with forecasts that are forecasting price declines, homes will remain above pre-pandemic prices. That'll mean very few homeowners are likely to see their mortgages fall underwater, according to Redfin.

"Some of these places grew 40%, 50%, 60% since the start of the pandemic," Marr said, referring to home prices. "They've built up so much equity, they could fall 15% and be well above 2019 (levels)."

If layoffs become more widespread and the job market becomes tougher, that may raise the risk of homeowners who are out of work falling behind on mortgage payments, he added. There's a potentially higher risk for housing markets where technology companies — where layoffs have so far been most prolific — are highly concentrated. Marr said data hasn't so far suggested that's led to widespread issues in staying current on mortgage payments yet.

Divounguy also said there are few distressed sellers in the market currently. The NAR found 49% of its members in 2008 were working with a client on a distressed sale, compared to 1% of Realtors as of September 2022, and distressed property sales are at only 2% of the overall market, compared to 30% during the global financial crisis.

Although some of the movement in the housing market may trigger memories of 2008's housing crisis, current economic conditions are also much different.

"Households are in a much better financial condition than any time before the pandemic," Divounguy said. "Even though the savings rate is starting to go down, it's only going down because inflation persists, but families are still in a much better position than they have been."