BiggerPockets®

CURRENT REAL ESTATE MARKET NEWS

Spring 2023 Update

Introduction

The housing market correction that began in the second half of 2022 has continued into the first quarter of 2023. Low affordability and economic uncertainty have led to a slowdown in sales and modestly declining prices. That said, buyers have regained power in the housing market for the first time in years, and steep discounts can be found for patient investors. This is a market ripe with both risk and reward.

While a good deal of uncertainty remains, new data from the beginning of 2023 provides us with insights into what is happening in the housing market and where it might be heading over the remainder of the year. In this report, we'll dive into the most recent macroeconomic and housing market data to help investors understand what is going on in the housing market so they can make strong investing decisions, even in this difficult climate.

About the Author

Dave Meyer is the Vice President of Data and Analytics at BiggerPockets. In this role he is responsible for researching and reporting on current conditions impacting the real estate investing climate. Dave sources original datasets and conducts his own analyses in an effort to provide unique and unbiased information to real estate investors. He shares his insights regularly on BiggerPockets' blog, YouTube channel, Instagram account, webinars, and podcasts.

Dave has been investing in real estate since 2010 and has experience with rental properties, short-term rentals, and multifamily investing. He is the author of the best-selling book *Real Estate by the Numbers* and hosts the popular real estate news and economics podcast *On the Market*. Dave has a BA in political science from the University of Rochester and an MS in business analytics from the University of Colorado Denver.

Dave currently lives in Amsterdam and outside of work enjoys traveling, outdoor sports, and sandwiches.

You can connect with him on BiggerPockets or on Instagram:

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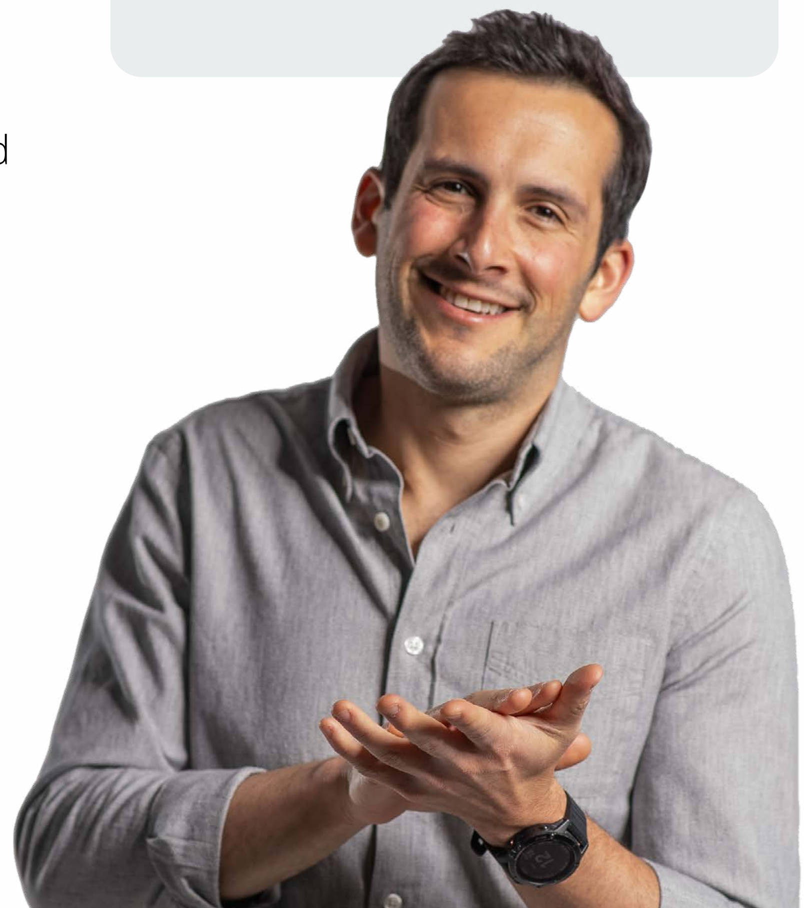
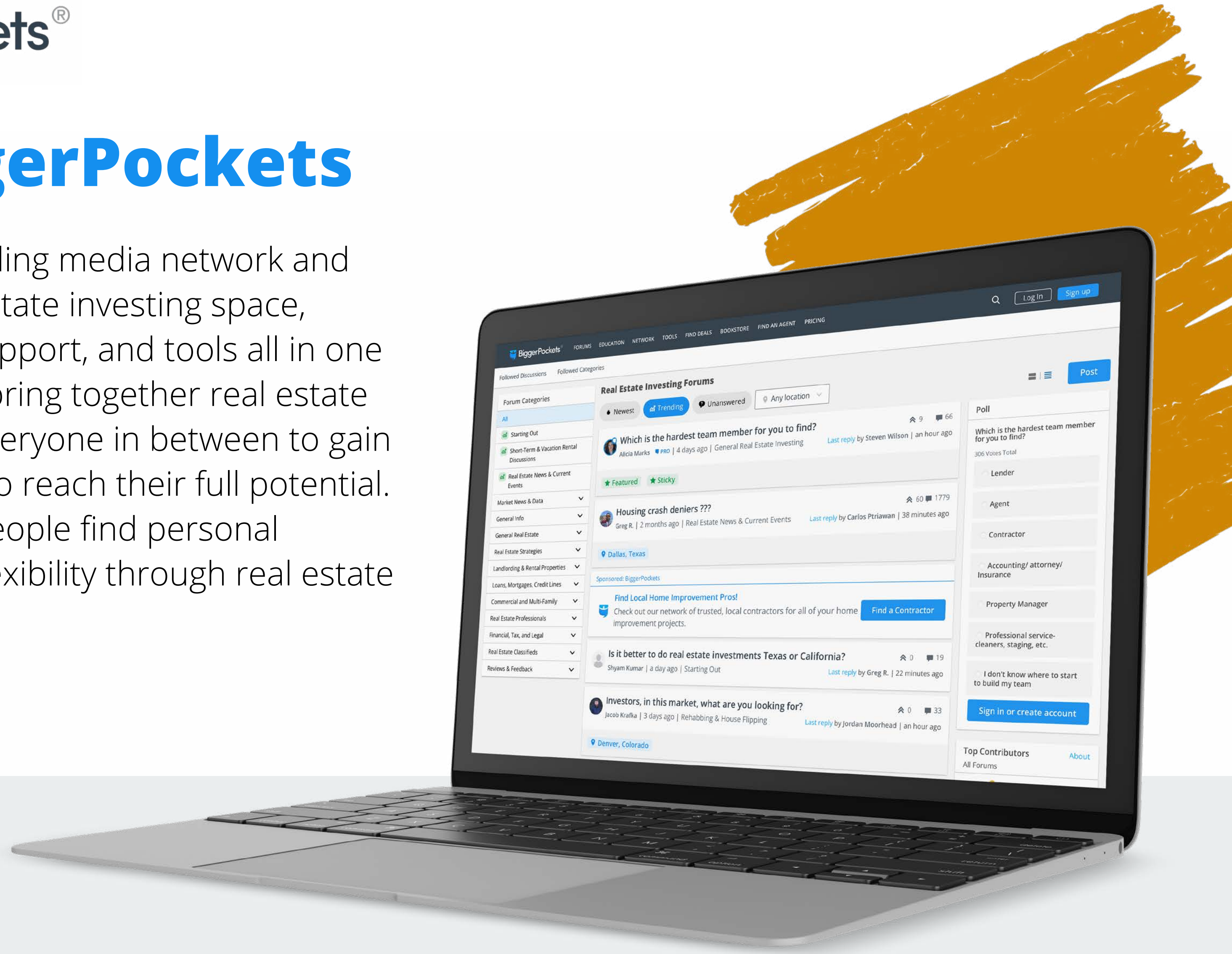


About BiggerPockets

BiggerPockets is the leading media network and community in the real estate investing space, combining education, support, and tools all in one place. We work hard to bring together real estate experts, newbies, and everyone in between to gain the knowledge needed to reach their full potential. Our mission is to help people find personal freedom and financial flexibility through real estate investing.



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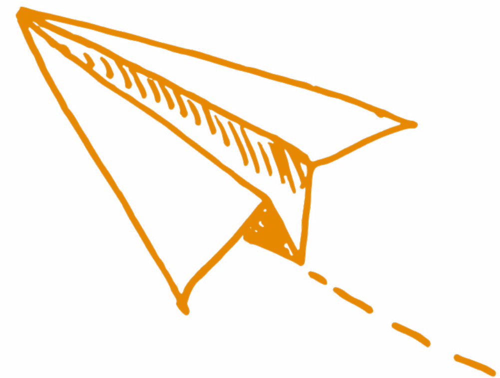
Q1 Macroeconomic Trends

So far in 2023, the investing climate for real estate investors has largely been a continuation of the market correction that began around June of 2022. Primarily, relatively high mortgage rates combined with a high degree of economic uncertainty have led to a dramatic slowdown in home-buying activity. Sellers don't seem particularly interested in selling right now, and buyers don't want to buy. This dynamic started more than six months ago and has continued to be the prevailing sentiment in the market in Q1 2023.

However, as the correction continues, clear trends are starting to emerge that can help us understand what's happening in the housing and rental markets today, and where they might be heading in the future. Let's review some of the most important data trends impacting the real estate investing climate and discuss what they could mean for the rest of 2023.



Let's review some of the most important data trends in real estate:

1. Inflation
2. Labor
3. The Banking Crisis
4. Gross Domestic Product (GDP)

Inflation

One of the most—if not the single most—important factors driving the economy right now is inflation. As we all know, inflation started to pick up steam starting in 2021 and raged through 2022, deteriorating the spending power of American households and businesses alike.

So far in 2023, the inflation data has been somewhat of a mixed bag. On the positive side, inflation, as measured by the Consumer Price Index (CPI), is coming down on a year-over-year basis (the most common way of measuring inflation).

Consumer Price Index for All Urban Consumers: All Items in U.S. City Average

Shaded areas indicate U.S. recessions

Source: fred.stlouisfed.org

As of this writing, in late March 2023, inflation has fallen on a year-over-year basis for eight consecutive months, peaking at 9.1 percent in June of 2022, and falling down to 6 percent in the most recent reading (February data). The 6 percent annual inflation rate is far above the 2 percent target set by the Federal Reserve, but it is trending in a positive direction.

On the less positive side of things, monthly inflation rates remain stubbornly high. Back in November and December the monthly inflation rate averaged 0.17 percent. This annualizes to a 2 percent inflation rate—right at the Fed's target. However, monthly inflation has picked up steam again in Q1 of 2023, with January coming in at 0.5 percent, and February at 0.4 percent. If you extrapolate this out for the year, we would have about 5.4 percent inflation in 2023. That's better than where we are today, but not by a whole lot. This is a big concern for the Fed and for the economy as a whole.

Labor

If Q1 2023 has taught us one thing, it's that the U.S. labor market is extremely resilient. In January, the economy unexpectedly added 517,000 jobs, and in February a more modest but still impressive 311,000 jobs were added. As a result, unemployment sits at 3.6 percent as of this writing, which is near historic lows.

Unemployment Rate

Shaded areas indicate U.S. recessions

Source: fred.stlouisfed.org

It seems that despite economic uncertainty, and perhaps even declining profits, companies want to hold on to the talent they have.

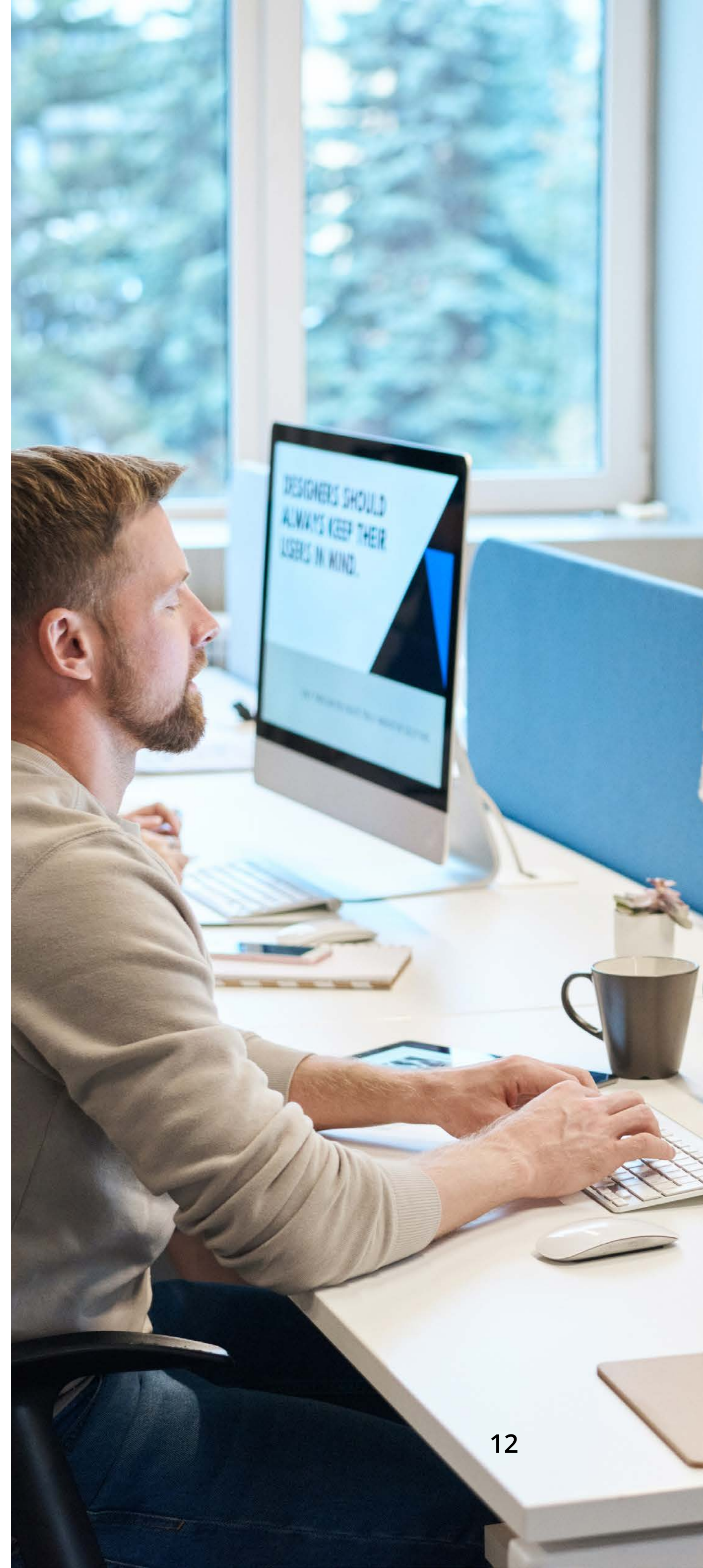
All of this hiring has left the U.S. with about 10,000,000 open job postings, despite some very high-profile layoffs—particularly in the high-paid tech and finance sectors. When you dive into the employment data you see that although tech and finance are shedding some jobs, other industries are maintaining hiring levels and absorbing any excess labor that comes into the market.

The primary driver of this labor resilience is likely something economists are calling "labor hoarding." The idea is that because hiring has been so difficult over the last several years, and demographic trends suggest the labor market will remain tight into the future, employers are very reluctant to lay off workers. It seems that despite economic uncertainty, and perhaps even declining profits, companies want to hold on to the talent they have.

Of course, this could all change, and most economists are forecasting an uptick in unemployment over the course of 2023. The Fed started raising interest rates about a year ago, and according to historical precedent, it can take six to eighteen months for interest rate hikes to ripple through the economy. This means we may just now be starting to feel the impact of the first interest rate hike back in 2022, and we'll be experiencing the repercussions of the subsequent rate hikes throughout the course of 2023.

While a strong labor market is generally considered a good thing, and I don't think anyone out there is actively rooting for any Americans to lose their jobs, the labor market strength does come with some potentially negative economic consequences.

The Fed has a dual mandate from Congress: to maintain price stability (aka control inflation) and to maximize employment (aka grow the economy). Typically, the Fed has to maintain a delicate balance between overheating the economy (which causes inflation) and causing a recession (which can help inflation but hurts the economy). But now, with the higher monthly inflation rate and a strong job market, the Fed has some wiggle room to push interest rates higher to fight inflation because they haven't yet seen the impact on jobs. This led many forecasters to believe that the Fed would continue raising rates well into 2023—until, of course, the last major macroeconomic factor emerged: the banking crisis.



The Banking Crisis

Starting in mid-March, with the collapse of Silicon Valley Bank, the banking system in the United States has been under severe pressure. Two additional banks, Signature Bank and Silvergate Bank, have collapsed in the U.S., and Swiss banking giant Credit Suisse had to be sold off for pennies on the dollar after facing a major loss of confidence.

This is a complex and still-evolving issue that isn't a direct result of rising interest rates, but it is indirectly impacted by the Fed's monetary policy decisions over the last year. To briefly explain, almost all banks hold U.S. Treasuries (government-issued bonds). In these scenarios, banks are essentially lending money to the U.S. government and earning interest on those loans. The amount of interest paid is known as the "yield," and yields are dictated by the bond market.

During the pandemic years, bond yields were extremely low in historical terms. For example, the yield on a ten-year U.S. Treasury was somewhere between 1 percent and 2 percent

in 2021. As interest rates have risen throughout the economy, so have yields on U.S. Treasuries. As of this writing, the yield on a ten-year note is about 3.5 percent. As a result, the bonds that many banks hold that pay just 1 percent or 2 percent interest are much less desirable than current bonds, and are worth less than they were when they were purchased—meaning banks holding these low-yield, long-dated bonds are facing something called "unrealized losses."

As of this writing, the government intervention seems to have calmed the crisis, but it's still a long way from over. We don't yet fully understand how this will all play out.

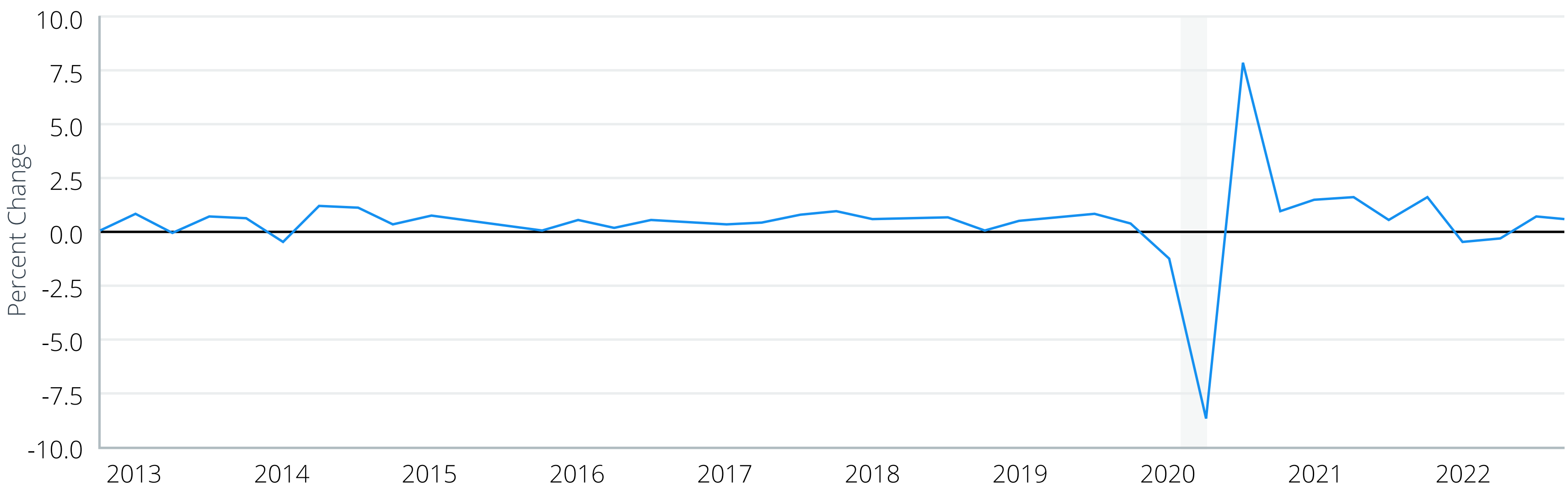
This dynamic where long-dated bonds from the pandemic years are losing value, combined with several other economic issues like lower rates of deposit and high withdrawals, has put some banks under a lot of stress. The banks affected thus far have been mostly small to mid-size banks that have niches in specific industries (tech and crypto). The U.S. government, in an effort to contain the crisis and avoid future bank runs, implemented some extraordinary measures to shore up the banking system. This included insuring deposits over $250,000 at Silicon Valley Bank and Signature Bank, and easing restrictions for banks who need to borrow from the Fed.

As of this writing, the government intervention seems to have calmed the crisis, but it's still a long way from over. We don't yet fully understand how this will all play out.

Gross Domestic Product (GDP)

The last macroeconomic pattern we need to examine before moving on to the housing market is gross domestic product (GDP). GDP is a broad measure of the aggregate economic output of the economy. GDP data lags a bit, so in Q1, we got data from Q4 of 2022, and it reported positive Real GDP—meaning, despite the high inflation, GDP grew in excess of the price increases rippling through the economy.

Real Gross Domestic Product



Shaded areas indicate U.S. recessions

[Source: fred.stlouisfed.org]

While the official designation of a recession falls to the National Bureau of Economic Research (NBER), one of the most common measures of a recession is two consecutive quarters of GDP decline. We did see that in the first half of 2022, but in Q3 and Q4 of 2022, Real GDP recovered and showed growth. So, while there is still a good deal of reasonable fear of a pending recession, by the most traditional way of measuring recessions, we were not in one as of Q4 2022.

Q1 Real Estate Trends

Q1 Real Estate Trends

This report started with an overview of macroeconomic conditions because they play a pivotal role in the housing market. Now that we've examined some of the key macroeconomic trends shaping the investing environment, let's take a closer look at what's going on in the housing and rental markets. The data I am showing is on a national level and meant to provide broad, high-level trends, but remember that real estate is highly localized. I recommend you look up each of these data points for yourself for the markets you are interested in investing in.

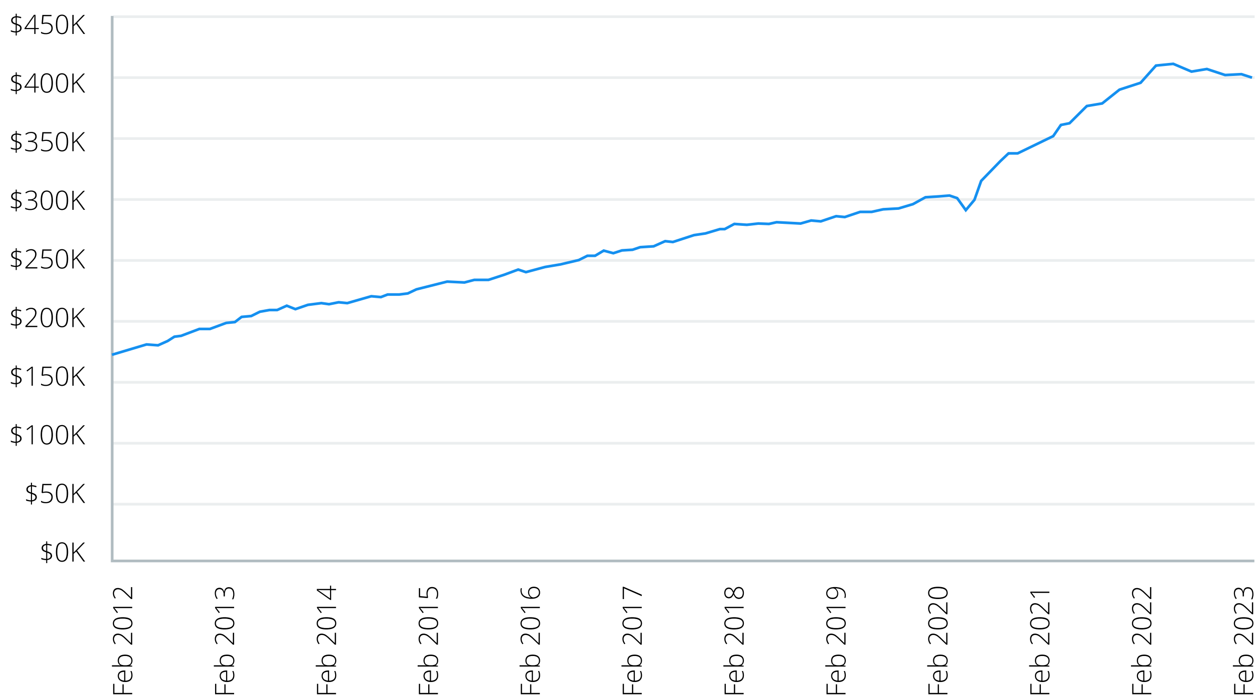
Let's take a closer look at what's going on in the housing market:

1. Home Prices
2. Home Sales
3. Inventory
4. New Listings
5. Demand
6. Days on Market
7. Rent

Home Prices

On a seasonally adjusted basis, home prices have fallen 2.7 percent from June 2022 to February 2023. This decline is in excess of normal seasonal patterns and confirms that the housing market is indeed in a correction. But note that housing prices are not in a freefall as of this writing, and there are many complex dynamics that will dictate if, and by how much, housing prices will continue to fall.

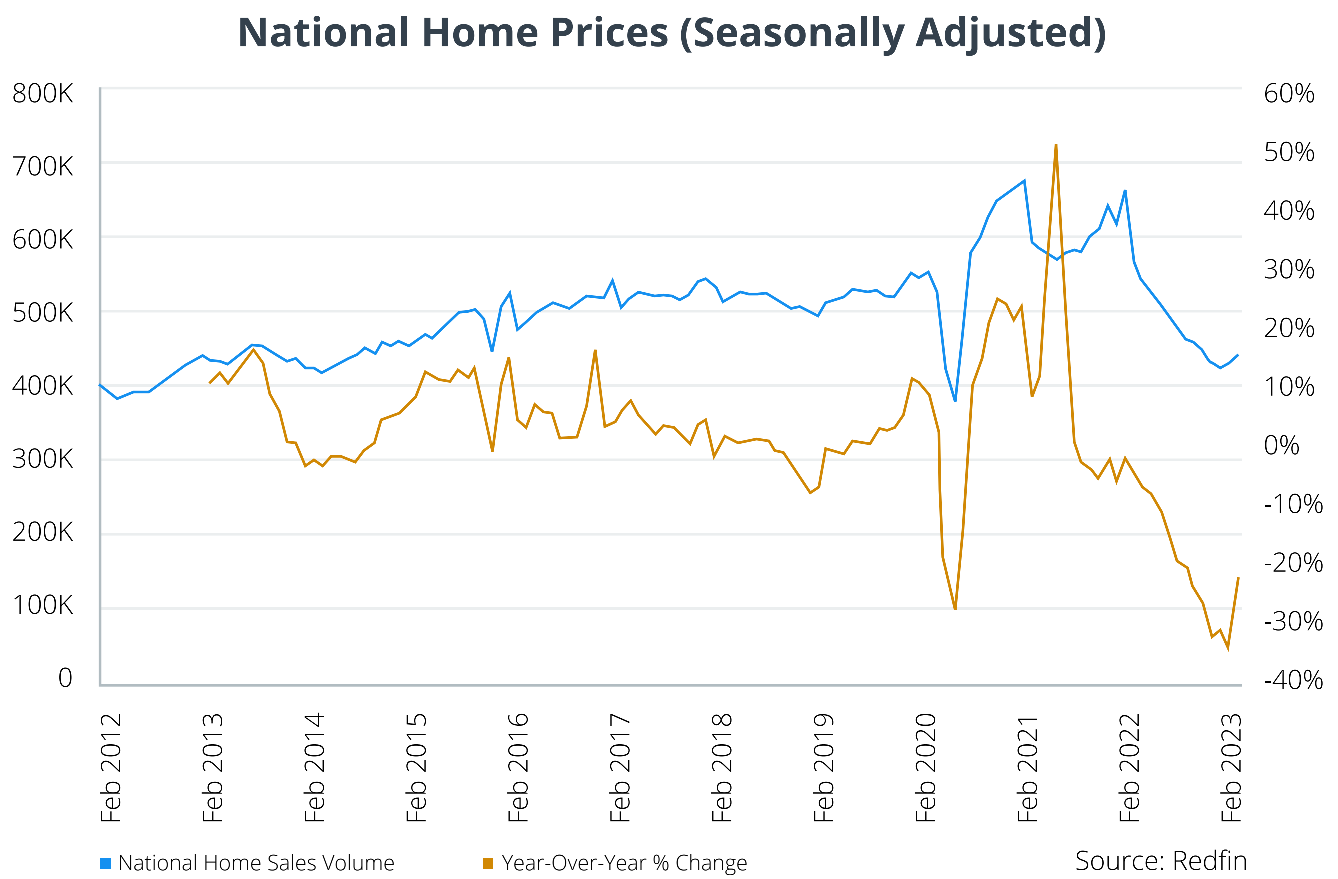
National Home Prices (Seasonally Adjusted)



Source: Redfin

Home Sales

The dominating trend in the housing market right now is the rapid deceleration of home sales across the country.



After years of elevated sales during the pandemic, the number of homes being sold each month has declined down to levels not seen since 2013. Low sales are mostly driven by low affordability. It's very difficult for first-time home buyers to afford a home right now, and many current homeowners are avoiding a "move-up" scenario (buying a bigger or more luxurious home) due to unfavorable economics. While home sales do seem to have leveled off a bit during the first few months of 2023, they are still down more than 20 percent year-over-year. You wouldn't be wrong to say that the real estate market is in a recession right now. In the past, housing sales volume has been correlated with declining prices, but it doesn't necessarily mean that prices are going to fall by a corresponding amount.

"

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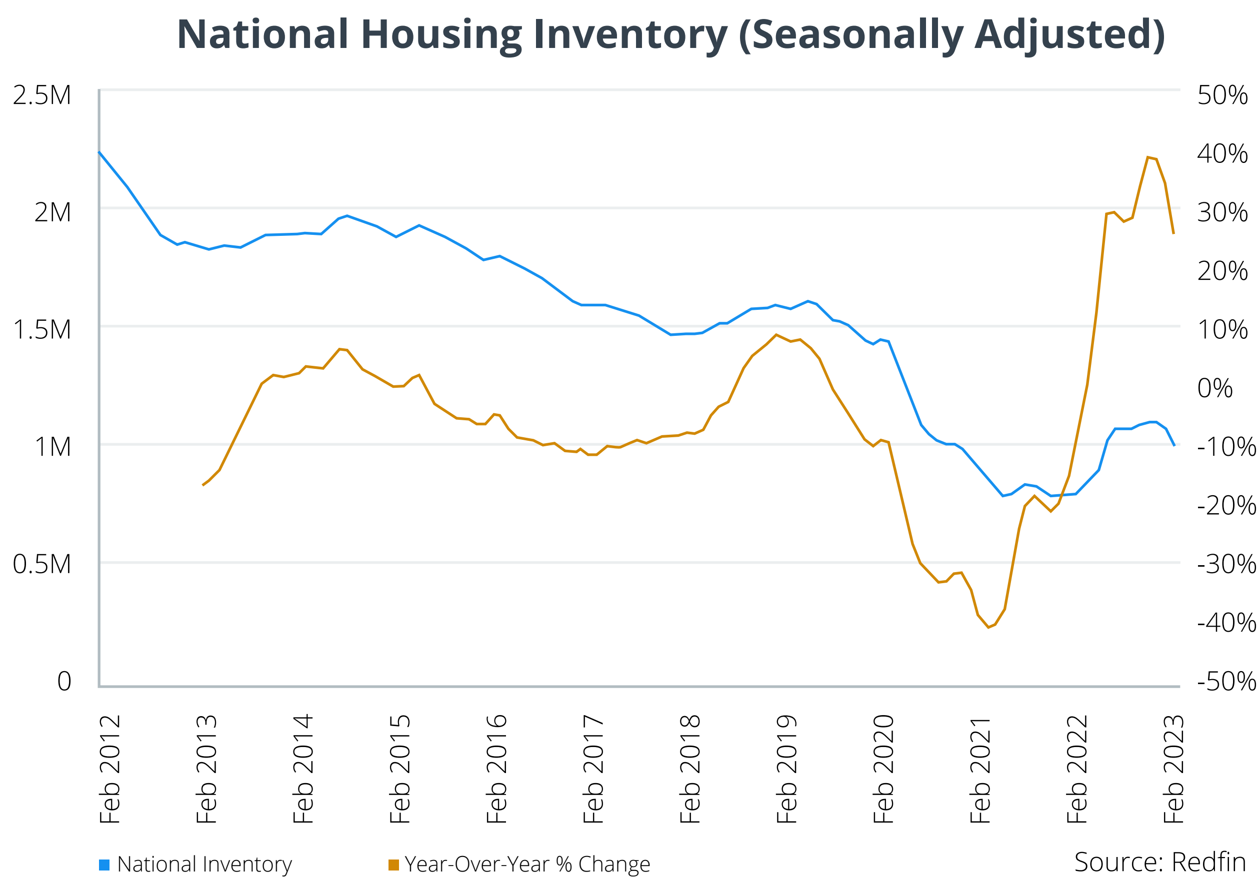
Inventory

One of the best lead indicators (a data point that helps predict another data point) for home prices is the amount of inventory on the market. Inventory is simply a measure of how many homes are up for sale during a given month, and it helps us understand the balance of supply and demand in the market.



As you can see in the previous chart, inventory has risen from pandemic lows, but remains far below pre-pandemic levels. Back in 2019, seasonally adjusted inventory averaged around 1.55 million. Currently, we're at 1million—a drop of over 33 percent. So even though inventory has risen significantly year over year, please don't think that inventory is high in any sort of historical sense. It's not.

Inventory levels are important because they help us understand which way prices are heading. When inventory is relatively high, it means it's a buyer's market, and prices face downward pressure. When inventory is relatively low, it means it's a seller's market, and prices face upward pressure. To be clear, prices can drop without inventory returning to pre-pandemic levels (as they are now!), but low inventory is helping prevent housing prices from truly "crashing."

Inventory levels are largely dictated by two things: new listings (how many homes are listed for sale) and demand (how quickly buyers take those listings off the market). To understand the strange inventory environment we're in, let's take a closer look at these two data points.

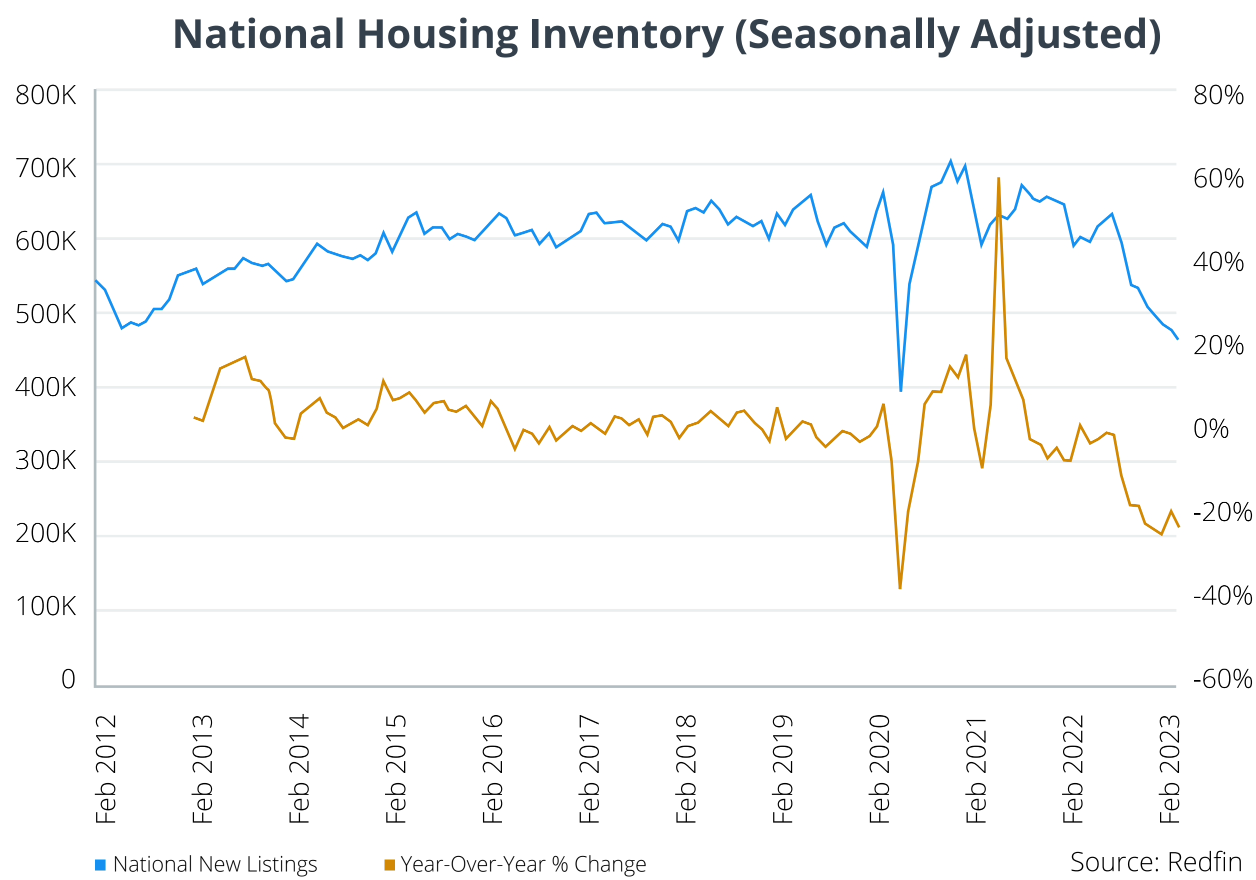
New Listings

I find the new listings data from Q1 2023 to be one of the most interesting parts of the 2023 housing market. Because inventory was so low, it's a common misconception that fewer people were selling homes during the pandemic—new listings were actually up during the pandemic! Demand was just so high that those listings were taken off the market quickly, suppressing inventory.

Now, new listings are falling off dramatically both in absolute and year-over-year terms. According to Redfin, the number of new listings is lower now than at any point since 2012 (except for the very first few months of COVID). As of February 2023, new listings are down almost 20 percent year-over-year.

"New listings were actually up during the pandemic! Demand was just so high that those listings were taken off the market quickly, suppressing inventory.

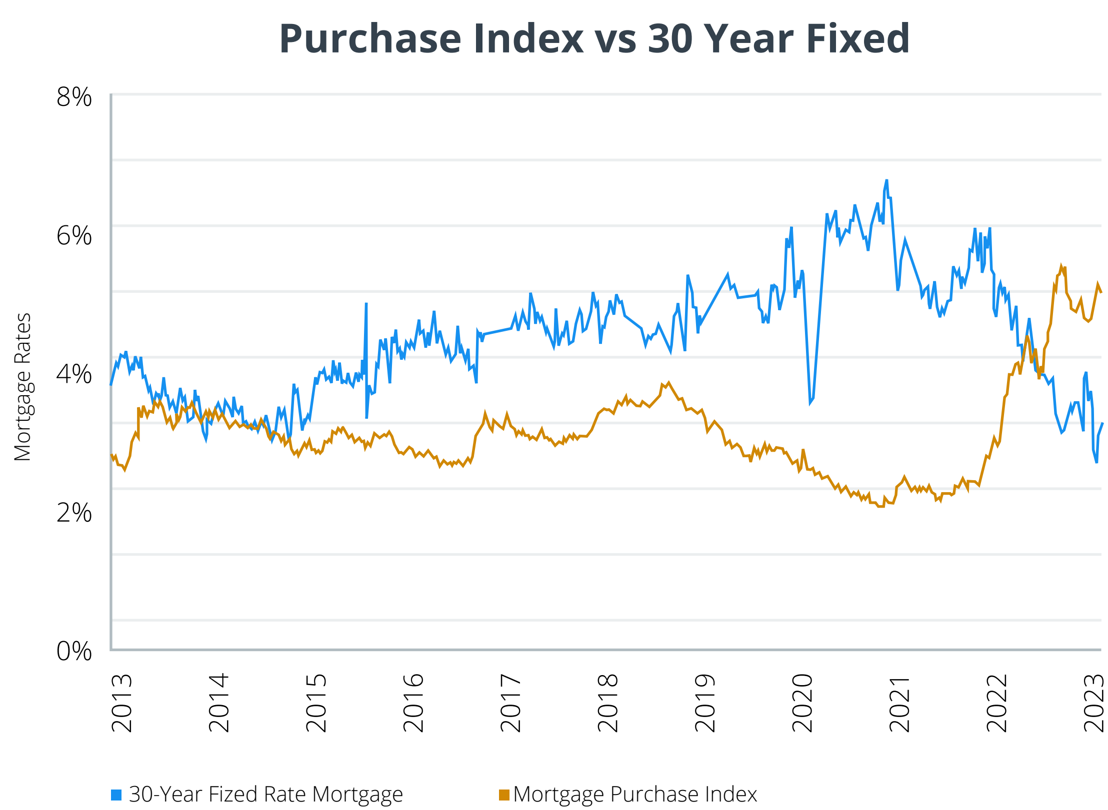
A lot is being said about why new listings are down so much, but it all comes down to a simple point: Sellers don't want to sell! One of the unique attributes of the housing market (as compared to, say, the bond or stock market) is that sellers are typically also buyers. And right now, it seems that many sellers would rather stick with the home they have, which likely has a very low interest rate, than get into the high-priced, high-mortgage-rate environment they would be buying into.



Demand

As expected during a rising-interest-rate environment, demand in the housing market has declined rapidly. Real estate is a highly leveraged asset (people use loans to buy houses), so it is highly sensitive to rising interest rates, which everyone knows is happening right now.

The accompanying chart overlays two critical data points: the rate on a thirty-year fixed rate mortgage (orange line) and the mortgage purchase index (blue line), which measures how many people apply for a mortgage in a given week.



Source: Mortgage Bankers Association

Notice how as mortgage rates have risen, purchase applications have declined—which is exactly what you would expect to see. But something interesting and noteworthy has happened in Q1 2023: Mortgage rates have been very volatile. As of this writing, they had peaked back in November of 2021, hit 6 percent in January, then went back up to 7 percent in early March before falling to the mid-6s at the end of March. This is not unexpected, but notice how responsive the purchase index is to these fluctuations. As soon as mortgage rates drop, mortgage applications increase. To me, this indicates there is a lot of demand waiting on the sidelines, and as soon as mortgage rates start declining in a consistent fashion (it's anyone's guess when it will happen), housing market activity will recover.

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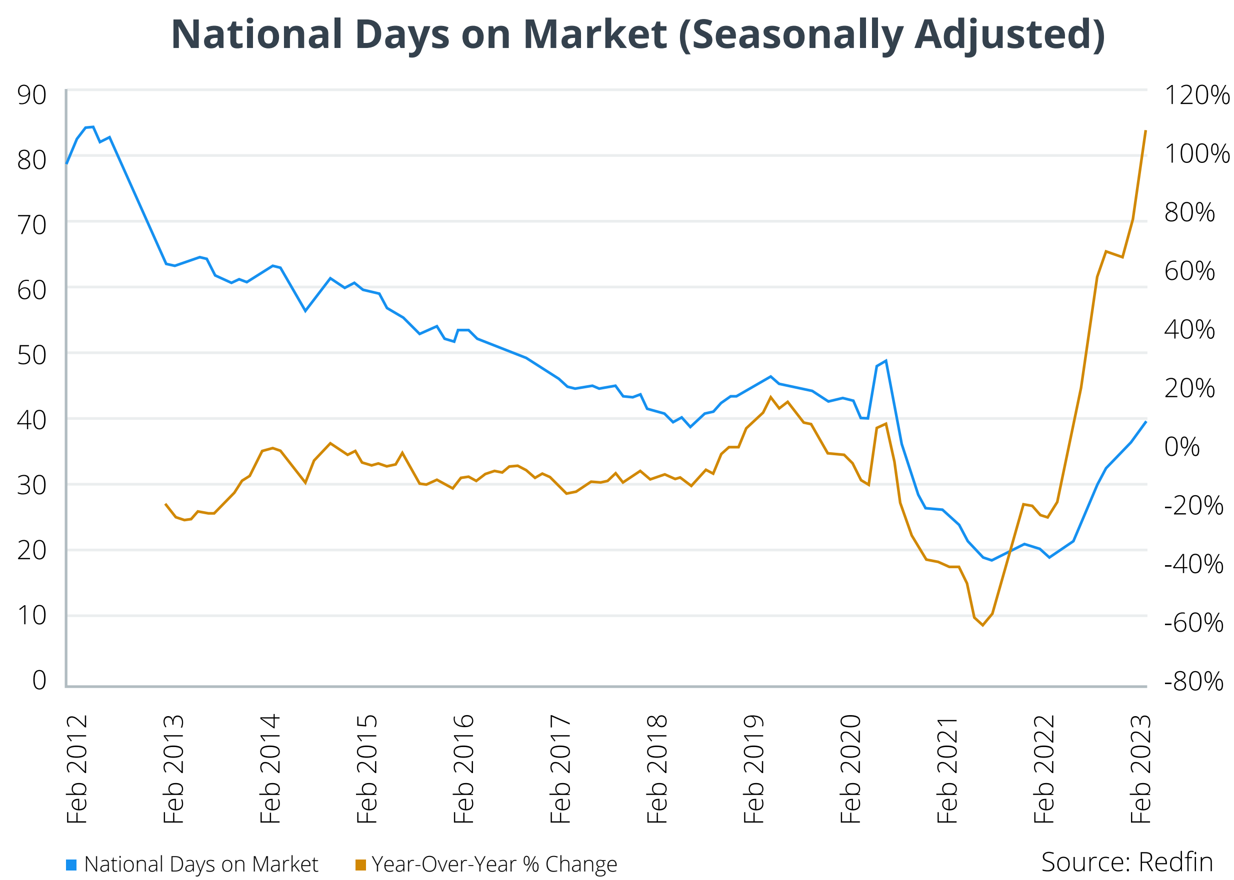
Days on Market

There are tons of other relevant data points about the housing market I can show you, but the last one I will discuss is days on market (DOM) because it relates to some of my predictions and advice we'll get to in the next sections.



Like inventory, DOM (which is just the average number of days a listing is on the market before going under contract) is a great way to measure the balance between supply and demand in the housing market—and as you can see in the chart, DOM has been rising considerably in Q1. The YoY data is dramatic (up 110 percent in February), which is definitely noteworthy, but should be taken with a grain of salt, as DOM is still below pre-pandemic levels.

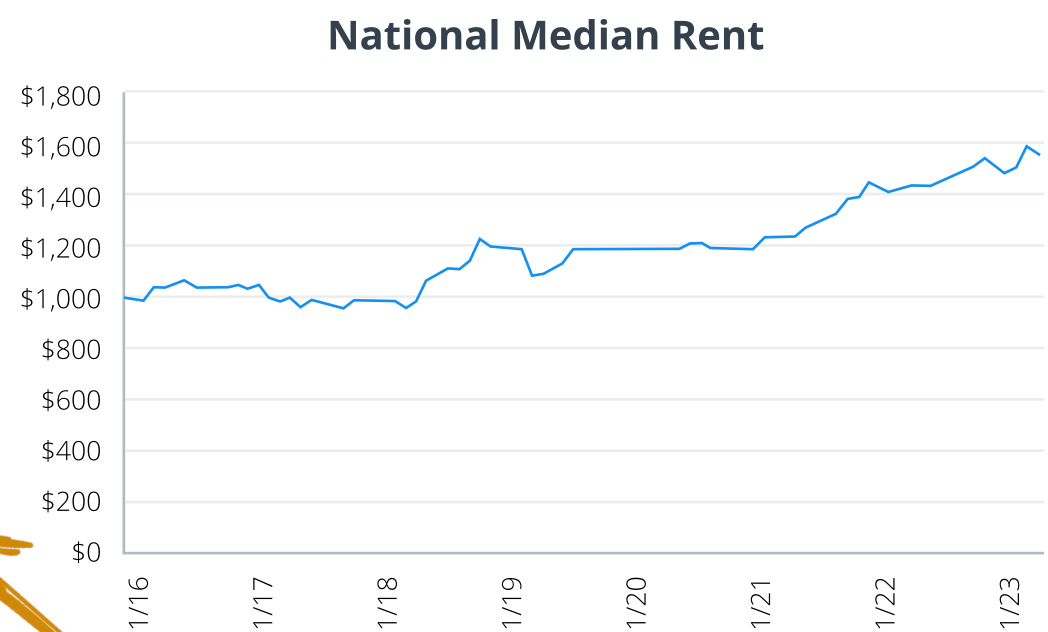
I bring this point up because higher DOM means that home buyers have more leverage. As homes sit on the market longer, sellers are typically more willing to negotiate with buyers. Remember this as we move into some of my recommendations later.

Rent

Before we move on to what this all means for the housing market, let's take a quick look at rent.

After several years of historic growth, rent growth rates have flattened out over the last several months; in absolute terms, rent even fell modestly from January to February of 2023. Year-over-year rent growth is still very high (around 7 percent, compared to a 3 percent to 4 percent average over the last decade), but is likely to decline over the coming months. Affordability is just too low to sustain growth rates this high.

The pace of rent growth is highly dependent on the individual market you're in (just like housing prices), and as such, you should research what is going on in your own market. To help you in that effort, I have put together a 2023 Q1 Rent Data spreadsheet that you can download for free here. It contains detailed rent data and trends for the top 100 largest metro areas in the U.S.



Source: BiggerPockets Data

2023 Outlook

2023 Outlook

We're now moving on from the objective information that backward-looking data can provide to the much more subjective part of this report, where I offer my interpretations and opinions about the data. Of course, I don't know what will happen. Forecasting the housing market and economy is difficult in normal times, and we are not in normal times. The economic outlook is very murky. That said, I will share my current thoughts about the economy and housing market and provide some key things for you to watch over the coming months.

1. **Expect more of the same in Q2 2023.** Unfortunately for all of us, it's unlikely that we'll get any sort of economic clarity in the coming months. The trajectory of inflation, the labor market, and Fed policy are still unknown. Until we know what the Fed is going to do, how inflation is responding to current interest rate hikes, what happens with the labor market, and if the banking crisis spreads, we won't get any sort of economic stability. For the housing market, this means you should expect further mortgage rate volatiliy in Q2 (likely averaging somewhere in the mid-to-high 6s), and the continuation of the trends we saw above: slow sales, higher days on market, and relatively low inventory.

2. **The housing market is in a correction, but not in a freefall.** As of this writing, a 2.7 percent decline in national home prices from June 2022 to February 2023 is relatively modest. There is an old (obviously disproven) maxim that home prices decline 10 percent for every 100 basis-point hike in mortgage rates. Mortgage rates have gone up about 350 basis points over the last year, but prices have declined just 2.7 percent. The data we have so far supports my 2022 prediction that we'll see price declines between 3 percent and 8 percent in 2023, but of course that could change. If there is further banking turmoil, mortgage rates stay above 7 percent for long periods of time, or there are any geopolitical shocks, that could certainly upend my thinking.

3. **A recession seems probable, but not guaranteed.** Most economists have been predicting a recession in the latter half of 2023 or early 2024, and the recent emergence of a banking crisis is increasing that likelihood. A recession is bad for pretty much everyone, and it will likely mean that unemployment rises and many Americans will lose their jobs. But a recession is not guaranteed, and although I personally think one is more likely than not, it

seems there's a good chance a potential recession will be mild. If the labor market continues to perform better than expected, it could limit the severity of a recession. It's also worth pointing out that a recession can be (and historically has been) the first sign that the housing market has hit bottom. When a recession hits, global investors tend to seek the safety of U.S. Treasury bonds. This increased demand for bonds pushes down yields and takes mortgage rates down with them (mortgage rates are almost perfectly correlated with yields on a ten-year U.S. Treasury note). When mortgage rates fall, demand increases (as we showed), which can boost home sales activity and restore price appreciation to the market. There's no guarantee that will happen—but it's a pattern that has repeated itself in previous downturns.

Investor Recommendations

Investor Recommendations

The volatility and uncertainty in the housing market present investors with both risk and reward. Savvy investors continue to invest in corrections and transitionary markets, but they adapt their strategies to take advantage of current conditions. Here are some thoughts on today's investing climate, and some of the adjustments I have made that you may want to consider.

1. **Use Your Buying Power to Negotiate.** There is, without question, risk of housing prices falling further than they have so far. In fact, I would count on it. This scares most people out of the market, but it doesn't have to. Correcting markets have one advantage for buyers: They regain negotiating leverage. As I said in the Days on Market section, properties are sitting on the market longer—which, generally speaking, makes sellers uncomfortable and more willing to negotiate on price. This dynamic gives investors the opportunity to a) recognize that prices are likely to fall but also b) protect themselves by buying under current market rates. If you can buy 5 percent to 10 percent under current market value, it will likely protect you from much of the downside risk of price declines and allow you to get into a market when

there is very little competition. Almost every experienced investor I know is doing this right now, and people are getting some screaming good deals! Not all sellers are willing to sell far under list price or market value, so be patient and wait until you find a seller who acknowledges the current economic environment and is willing to find a mutually beneficial outcome.

2. **Seek Out Value-Add Opportunities.** Value-add (or forced appreciation) is a good strategy to consider during a correction. Generally speaking, homes that are in need of repair fall in price faster and further than homes that are "stabilized" (in good condition). Good deals can be found on homes that need an upgrade. On top of that, material prices have flattened out or even come down in many cases, and labor is more available.

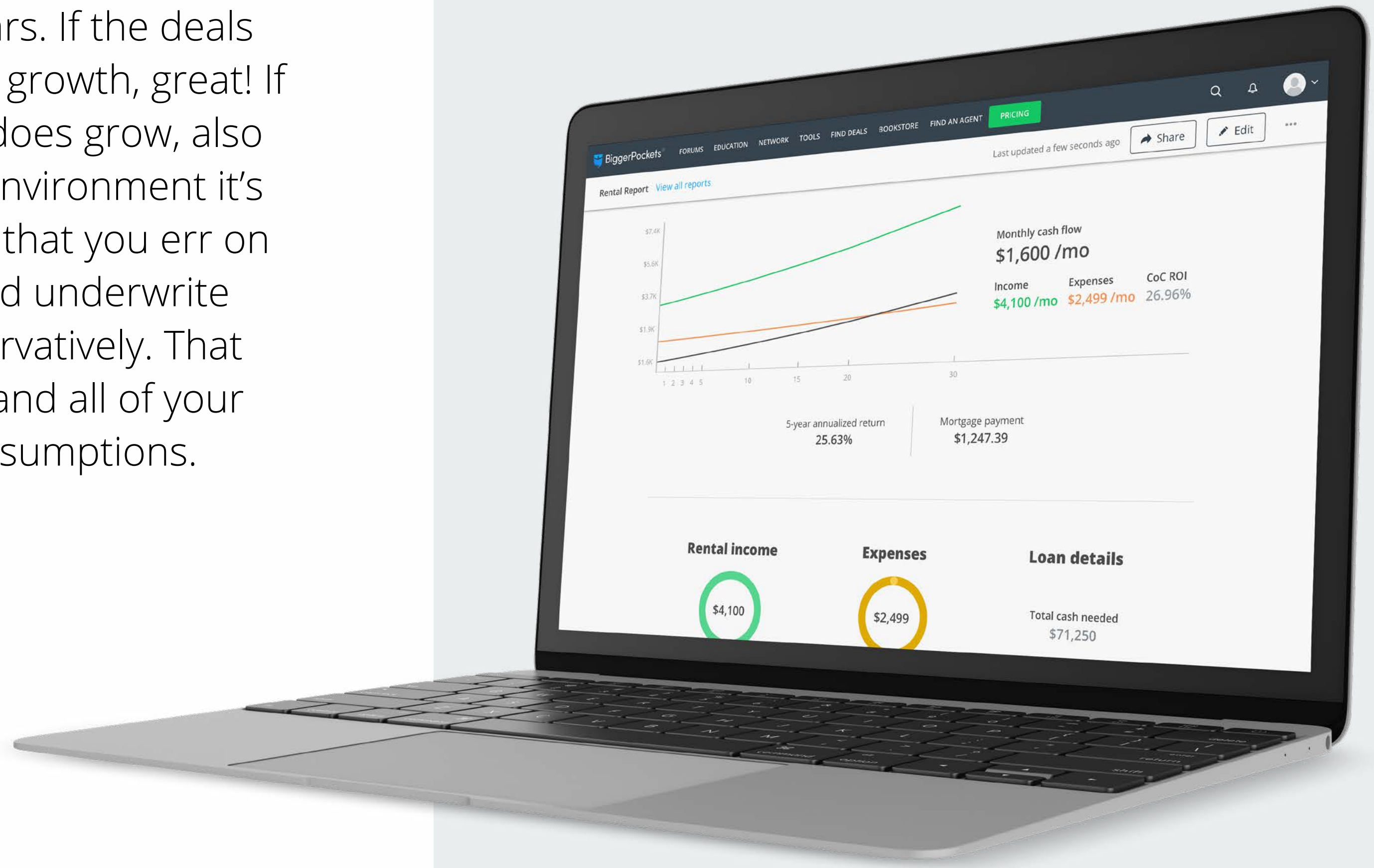
3. **Consider House Hacking to Get Started.** House hacking is always a good idea, but in a high-rent, high-interest-rate environment, it can be a great way to get into the housing market while significantly reducing your living expenses. House hacking lets you take advantage of owner-occupied loan terms, which are often lower rates, and allows you to put less money down on your purchases. If you're a new investor, I highly recommend looking into house hacking.

4. **Explore Becoming a Lender.** If you have the funds and the experience, consider becoming a lender. I just invested into my first lending fund because I believe it's a great time to be on the lending side of the business. With high interest rates and tightening credit at traditional banks, getting into private lending has the potential to be very lucrative right now, and you can also help other investors finance deals they might not be able to finance otherwise.

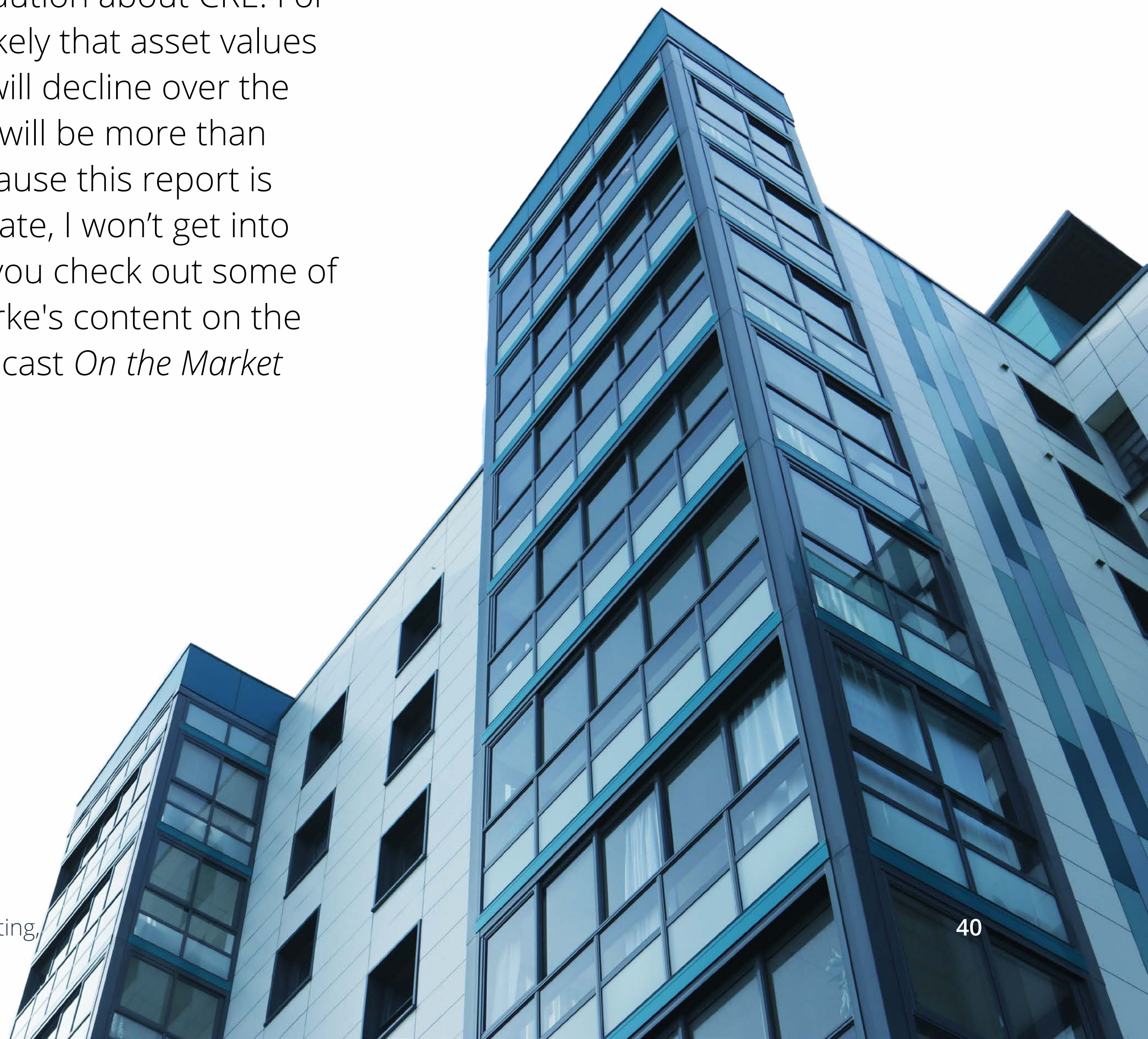
5. **Don't Plan on Near-Term Rent Growth.** Don't count on rent growth for the next 12 to 24 months. I am personally not convinced that rent will fall (or grow) over the next two years. I don't have a strong feeling about it. When I look at deals right now, I assume rent growth is going to stagnate for a few years. If the deals still work with no rent growth, great! If I am wrong and rent does grow, also great! In this type of environment it's highly recommended that you err on the side of caution and underwrite your deals very conservatively. That goes for rent growth and all of your other underwriting assumptions.

Determine the profitability of a potential investment with the BiggerPockets Rental Property Calculator. Take the guesswork out of your deal analysis!

CHECK IT OUT



6. **Beware of Declining Commercial Real Estate Values.** Be very wary of commercial real estate (CRE) deals right now. The data I shared above is all related to the residential real estate market, but I wanted to include a point of caution about CRE. For several reasons, I believe it's likely that asset values in CRE (including multifamily) will decline over the next year or so—and I think it will be more than residential values decline. Because this report is focused on residential real estate, I won't get into the details, but I recommend you check out some of my other content, or Brian Burke's content on the BiggerPockets blog, or my podcast *On the Market* to learn more.



Conclusion

Conclusion

The state of real estate investing at the outset of 2023 is mostly a continuation of the correction dynamics seen over the second half of 2022. Affordability is low, demand has left the market, but relatively low inventory has prevented the market from crashing. There are some (weak) signals that the market is thawing as mortgage rates drop down from their November highs, but in my opinion, it's unlikely that the market is going to gain any real momentum in the coming months. There is simply too much macroeconomic uncertainty.

Because real estate is a highly leveraged asset class, the impact of rising interest rates is felt swiftly. This is not the case with the remainder of the economy. It takes months, if not years, for the impact of rising interest rates to ripple through the economy—meaning we won't get a clear picture of the economic outlook until months after the Federal Reserve pauses raising the Federal Funds Rate. As of late March, they've raised rates once again. With a surprisingly resilient labor market and a nascent banking crisis, it's unclear where Fed policy will go in the coming months.

All this said, there are ways to invest successfully during a market correction. With higher inventory and days on market, buyers have gained leverage over sellers. There are more abundant deals available for investors who can successfully adapt their strategies to the economic environment. Yes, there is risk in the market right now, but risk and reward go together. Strong opportunities are present for investors who are patient, are willing to negotiate, and find ways to buy under market value. In addition to the time-tested and proven "buy and hold" approach, consider house hacking, value-add, or even lending as strong options for investors in today's market. I have done two deals in the first quarter of 2023 using these exact strategies.

My advice? Be careful and patient, but remain active. Continue to look for deals, because they will be more abundant in the coming months than they have been in years—but don't buy just anything. Make sure you buy under market value and underwrite conservatively to mitigate against further market risks.

Finally, if you want to stay on top of economic conditions, I invite you to listen to my podcast *On the Market*, which you can find on Apple or Spotify, or tune into my regular content on the BiggerPockets blog and YouTube channel.

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