

# 2023

## Real Estate Outlook

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# Who Turned Off the Hose?



# **MARKET EXPECTATIONS FOR 2023**

**The Market “Clash” – Should I stay or Should I go?**

**Should I Sell?**

**Should I Buy?**

**Should I be dancing in the Streets**

**Should I hide in my Basement**

**Should I be dancing in my Basement?**

# Headlines Do More to Terrify than Clarify



U.S. home prices continued **their gradual free fall** in January, with the 5.5% annual gain down for the ninth straight month and the lowest recorded since June 2020.

[CoreLogic](#)

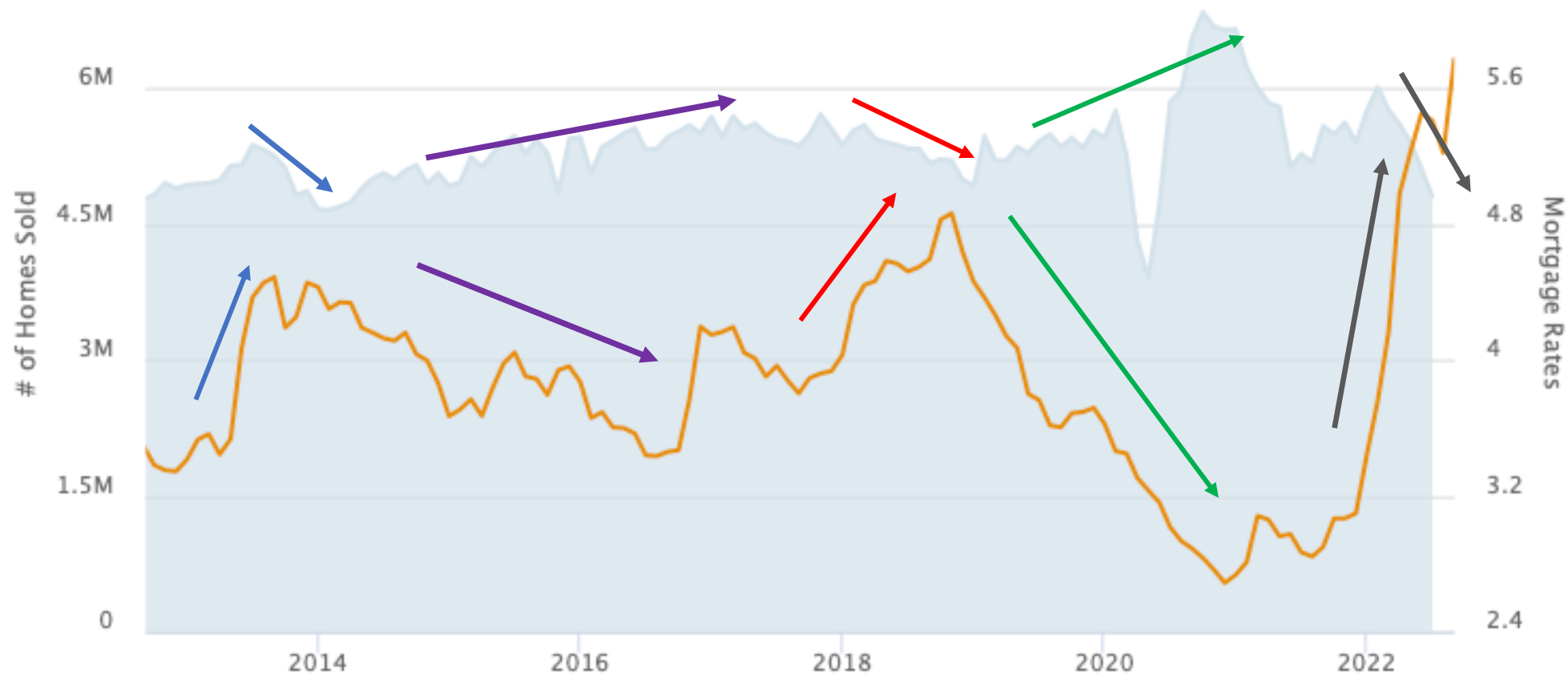
 Market Updates

## US foreclosure filings surged 115% in 2022

# Existing Home Sales vs. 30 YR Fixed Rate Mortgage

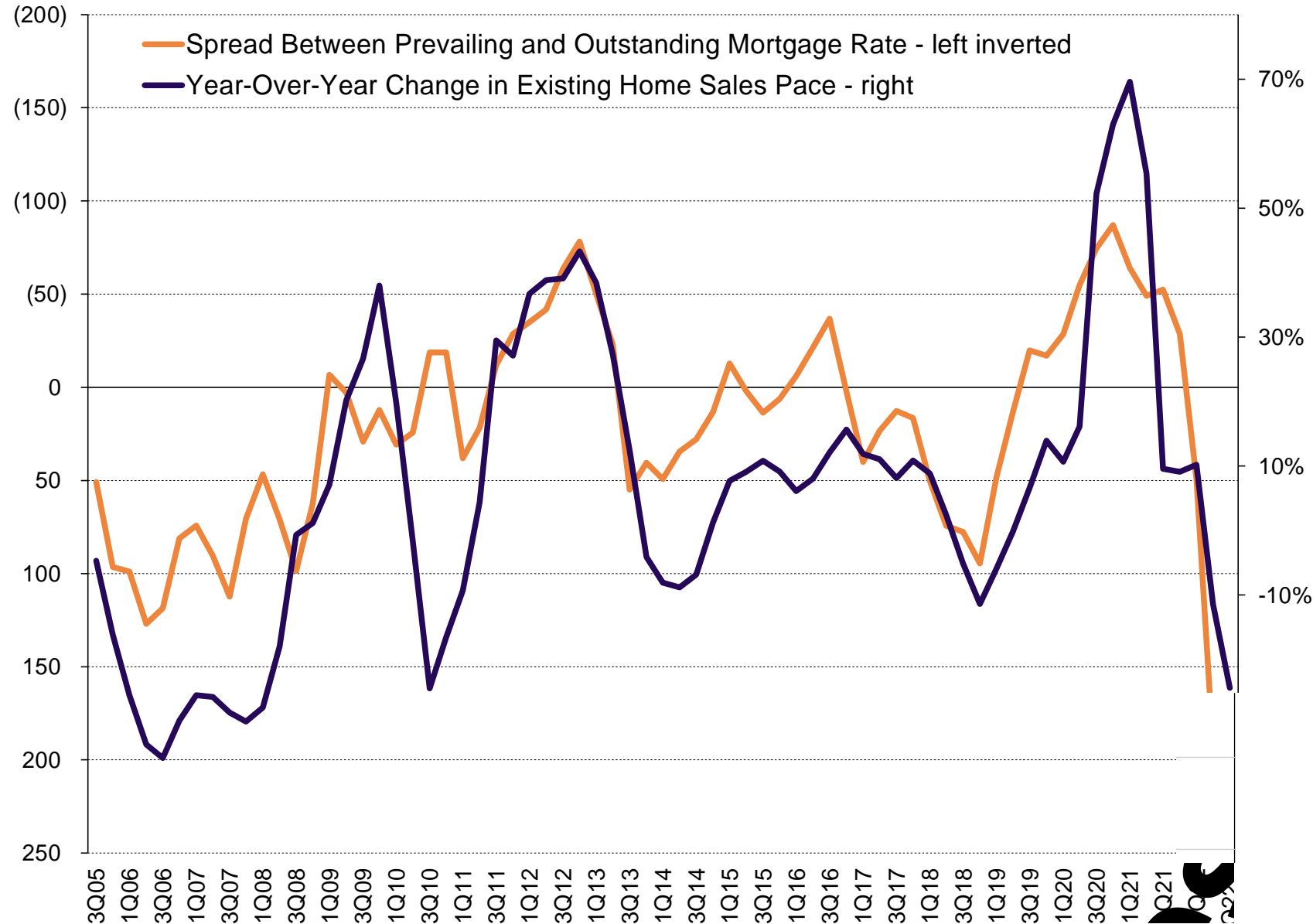
Zoom 1YR 5YR 10YR MAX

Sep 8, 2012 → Sep 8, 2022



Existing Home Sales 30 YR Fixed Mortgage Rate

Exhibit 6: Surge in Mortgage Rates an Unprecedented Headwind to Demand



Two for the Price of One

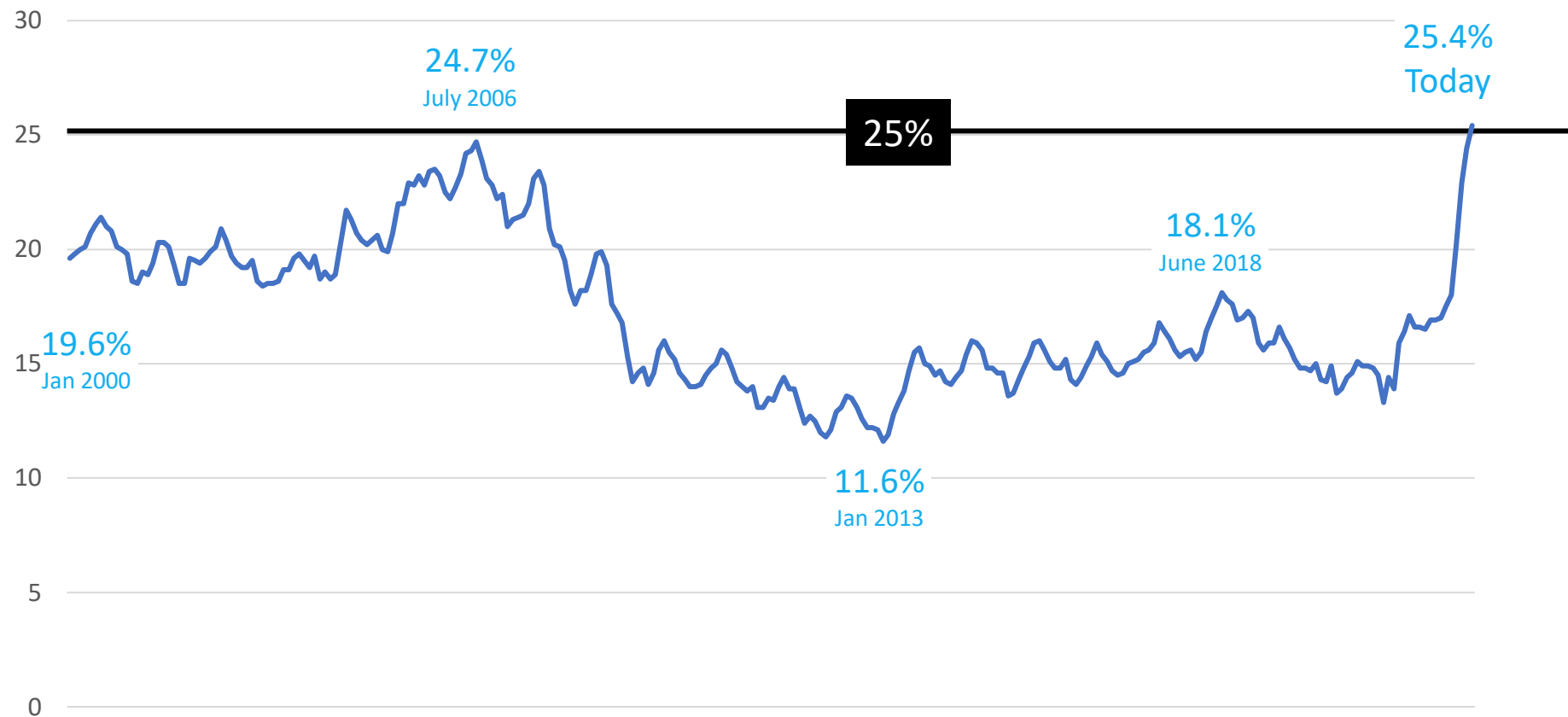
Rising rates cause:

- 1) Buyers to hold back
- 2) Sellers with low rates to sit tight

Source: BEA, Freddie Mac, NAR, Zelman & Associates analysis

# Mortgage Payment to Income Ratio (2000-2021)

Assumes a 30-Year Fixed Rate Mortgage with a 20% Down Payment on a Median-Priced Home with a Median Income (P&I payment to income)





## What will cause a housing crash?

- A significant increase in supply or decrease in demand or in the case of 2008, both.
- Demand has already dropped 25% (40% in 2008) but so has supply, keeping values stable
- Foreclosures are the most likely cause of a crash – which would require a significant economic downturn, not a mild recession – not happening



# Real Estate Market *Three Legged Stool*

Three core factors that effect home values and the number of homes sold in any given year.

- Household Income
- Home Values
- Interest Rates

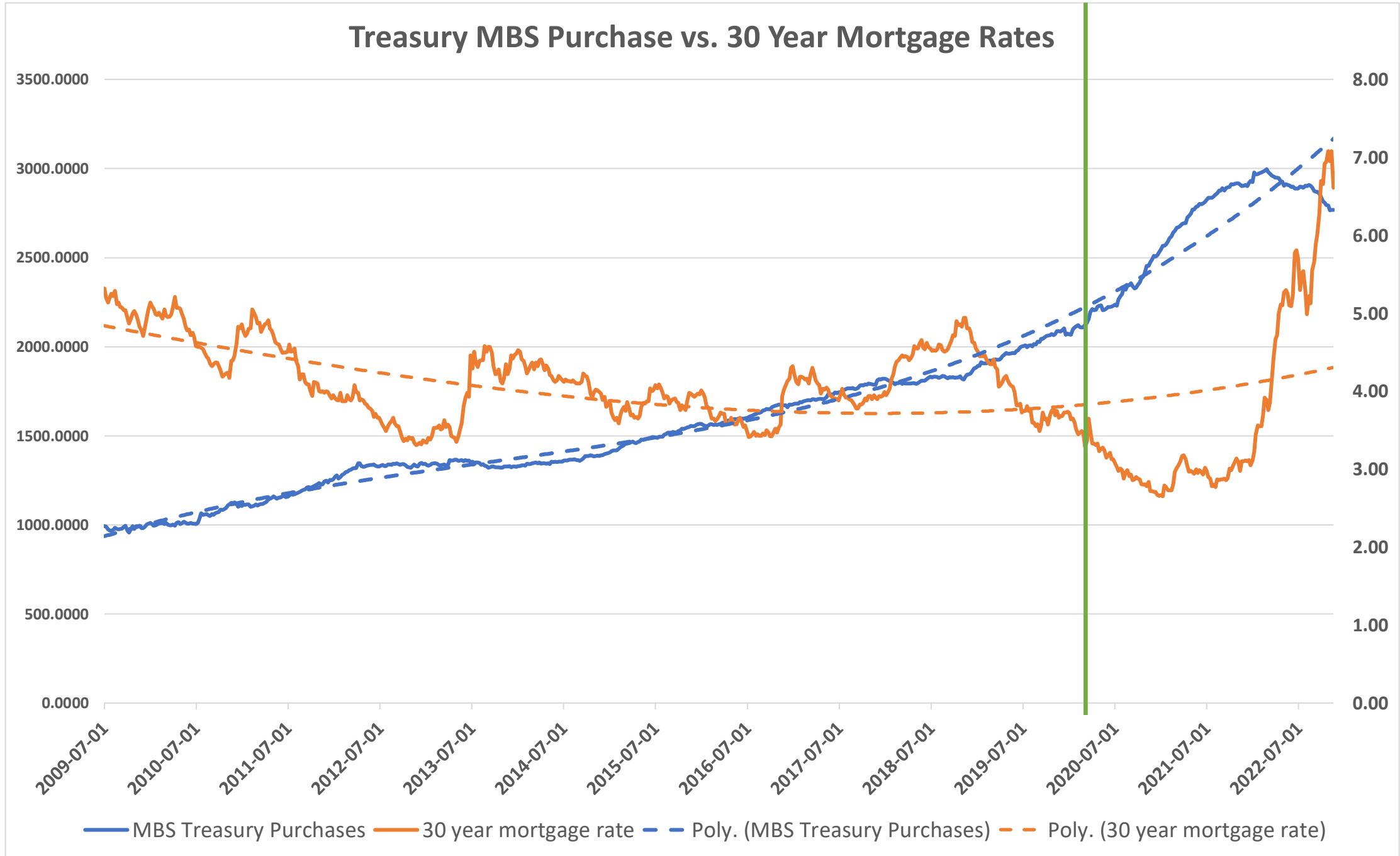
Home Affordability is at a 30 year low – the only way to increase affordability and therefore housing demand is to adjust one or all of the three legs.

Household Income is rising, which is good for housing but currently offset by inflation – slowing inflation will jump start housing demand.

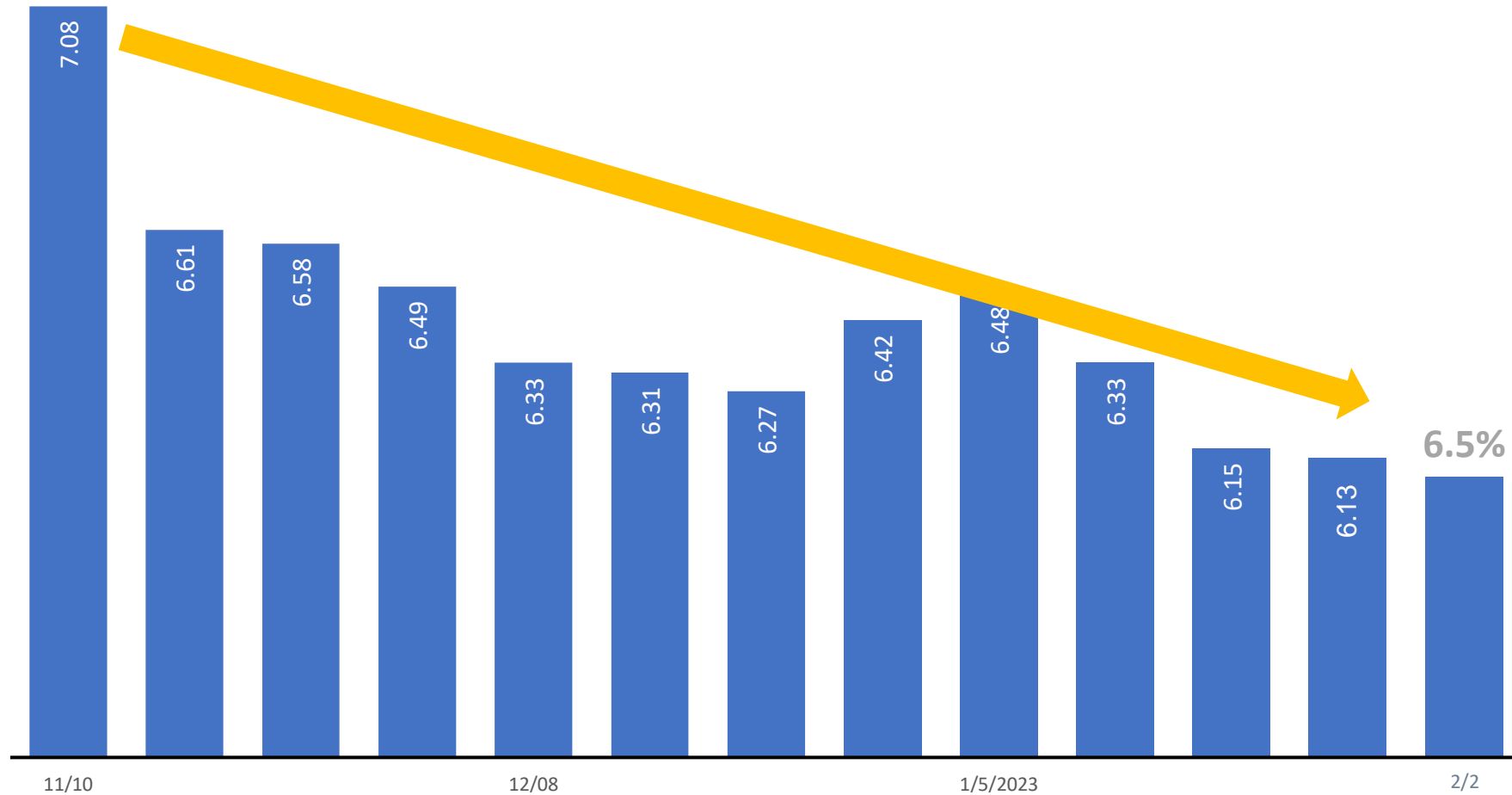
Home Values are at all time highs, in the short run, this will be the leg that will change first, falling prices should push up demand in 2023 but low inventories should limit large price drops and values will recover as interest rates fall and household incomes recover.

Interest Rates are expected to fall in later 23'-24' which will cause an activity jump, but not the rush we saw in 20'/21'.

# Treasury MBS Purchase vs. 30 Year Mortgage Rates



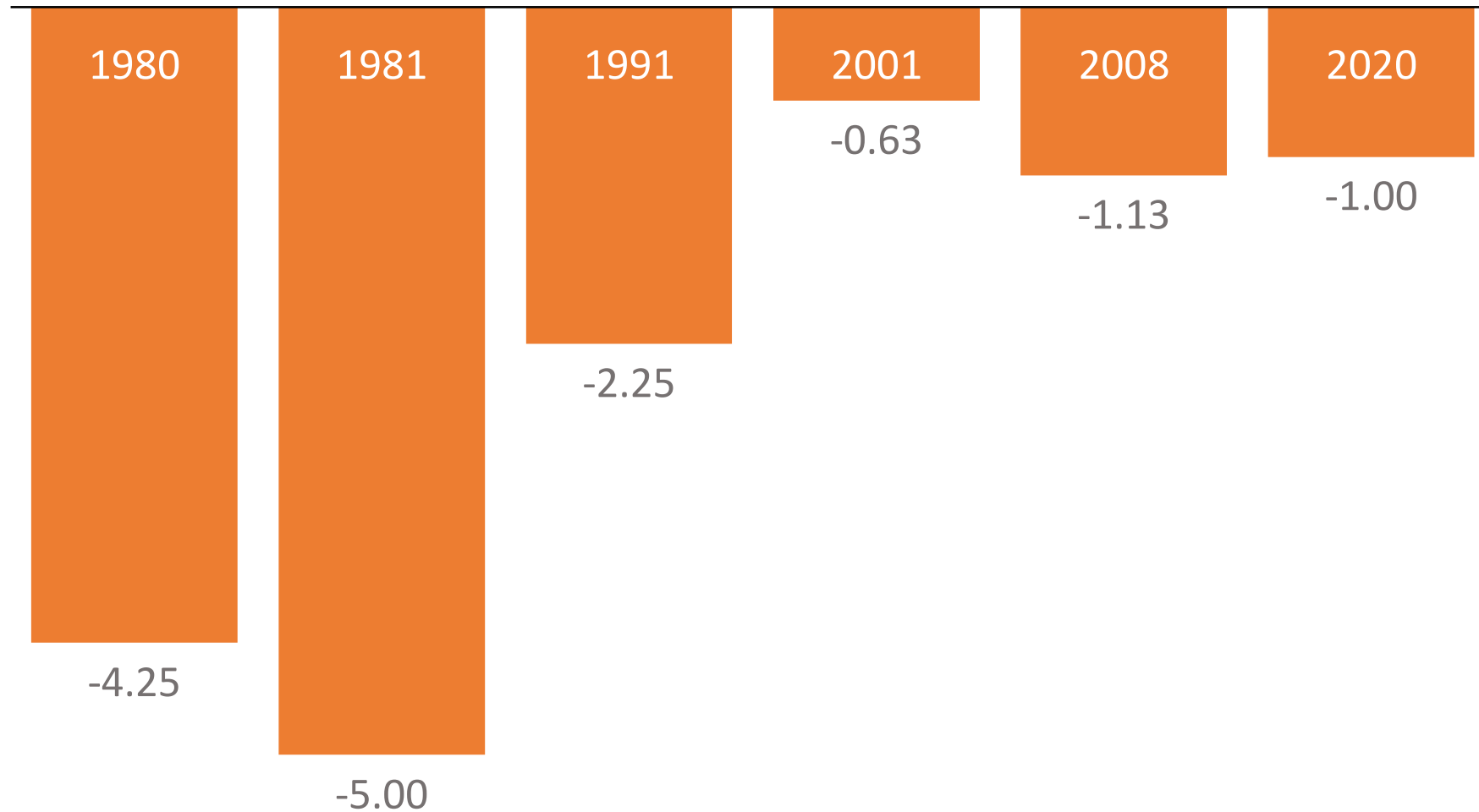
# MORTGAGE RATES TRENDING DOWNWARD



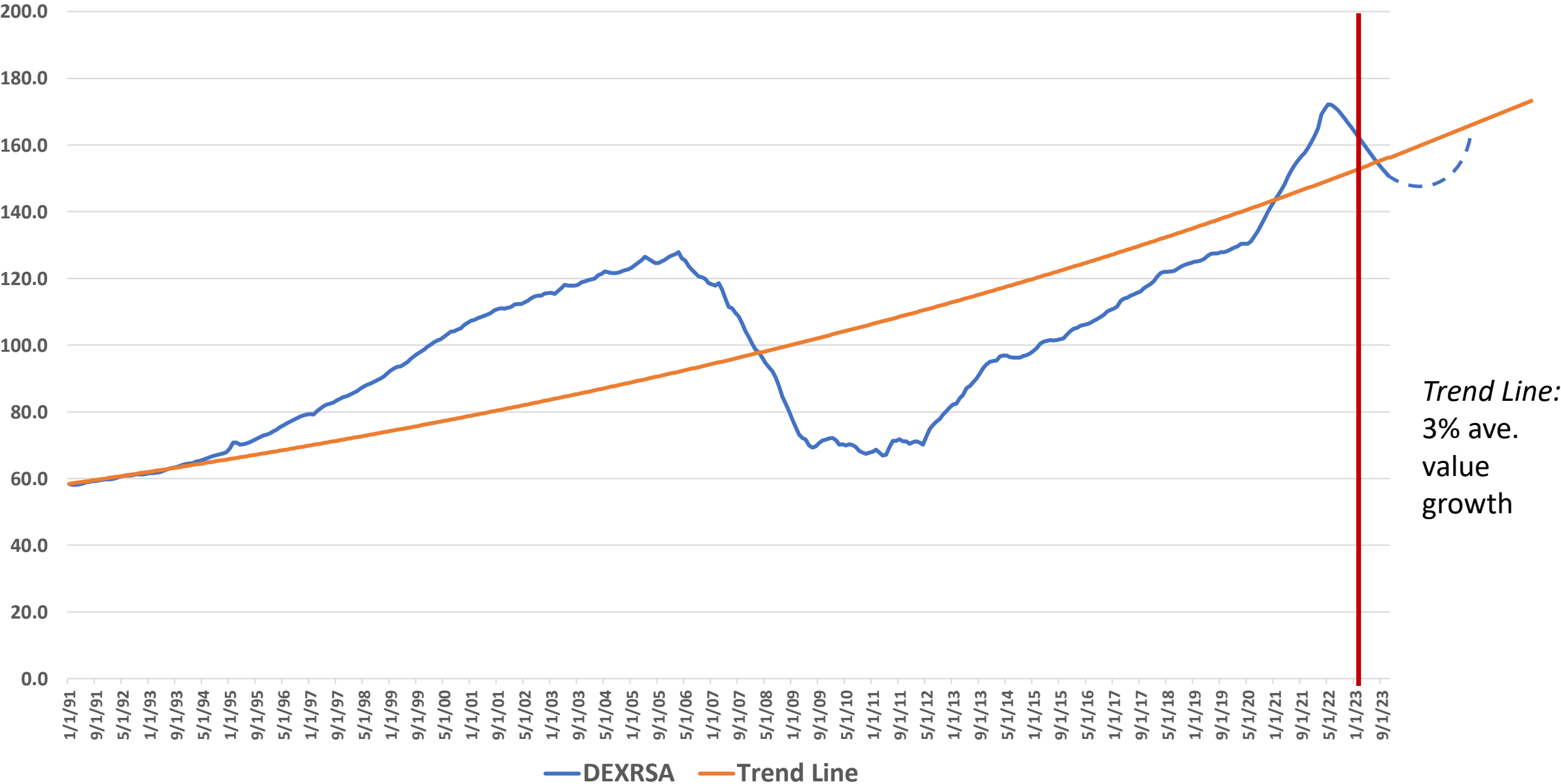
Freddie Mac 30-Year Fixed Rate, November 2022 – Today

# A Recession Means Falling Mortgage Rates

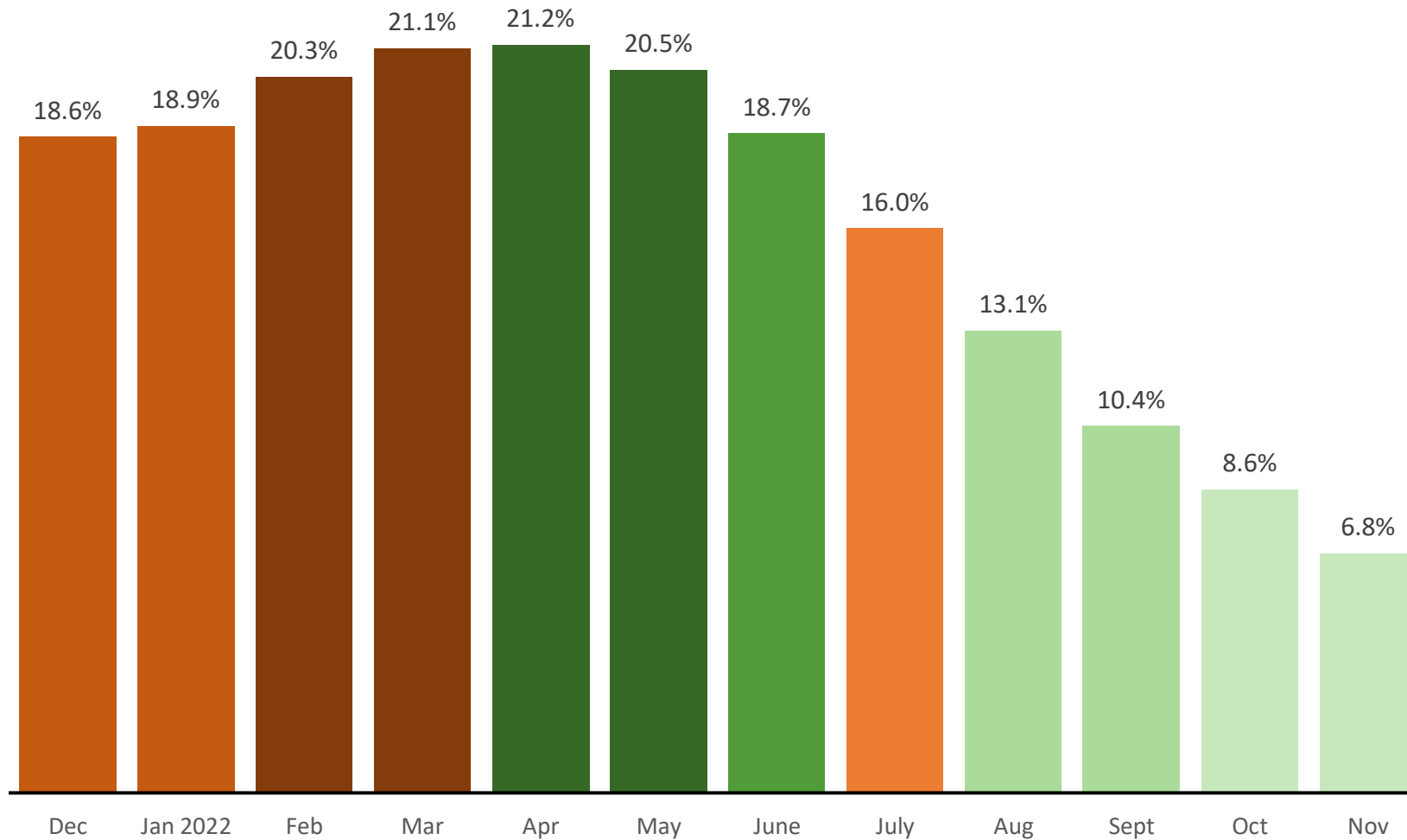
Mortgage Rate Changes During the Last 6 Recessions



# Case Shiller Value Index - SE Michigan



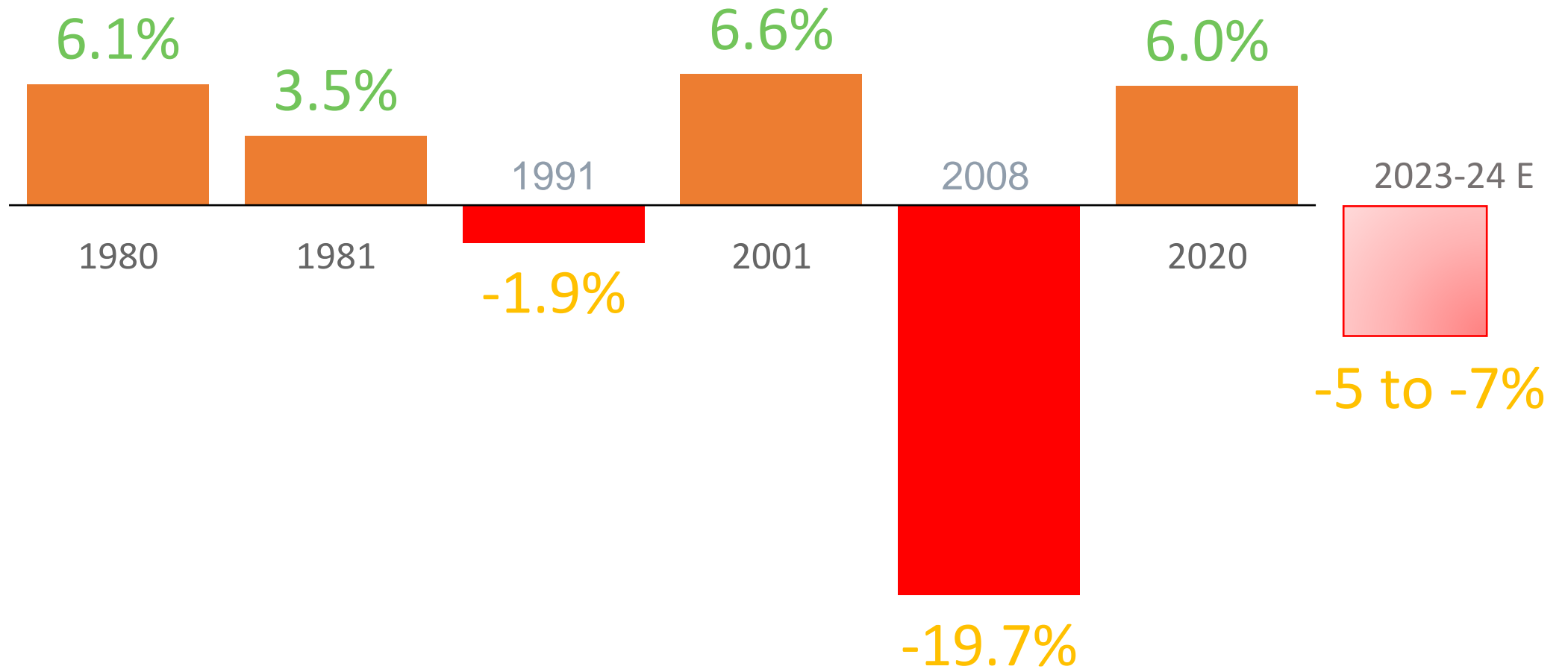
# CHANGE IN HOME PRICES



Year-Over-Year, 20 City Composite

# A Recession Does Not Mean Falling Prices

Home Price Change During Last 6 Recessions

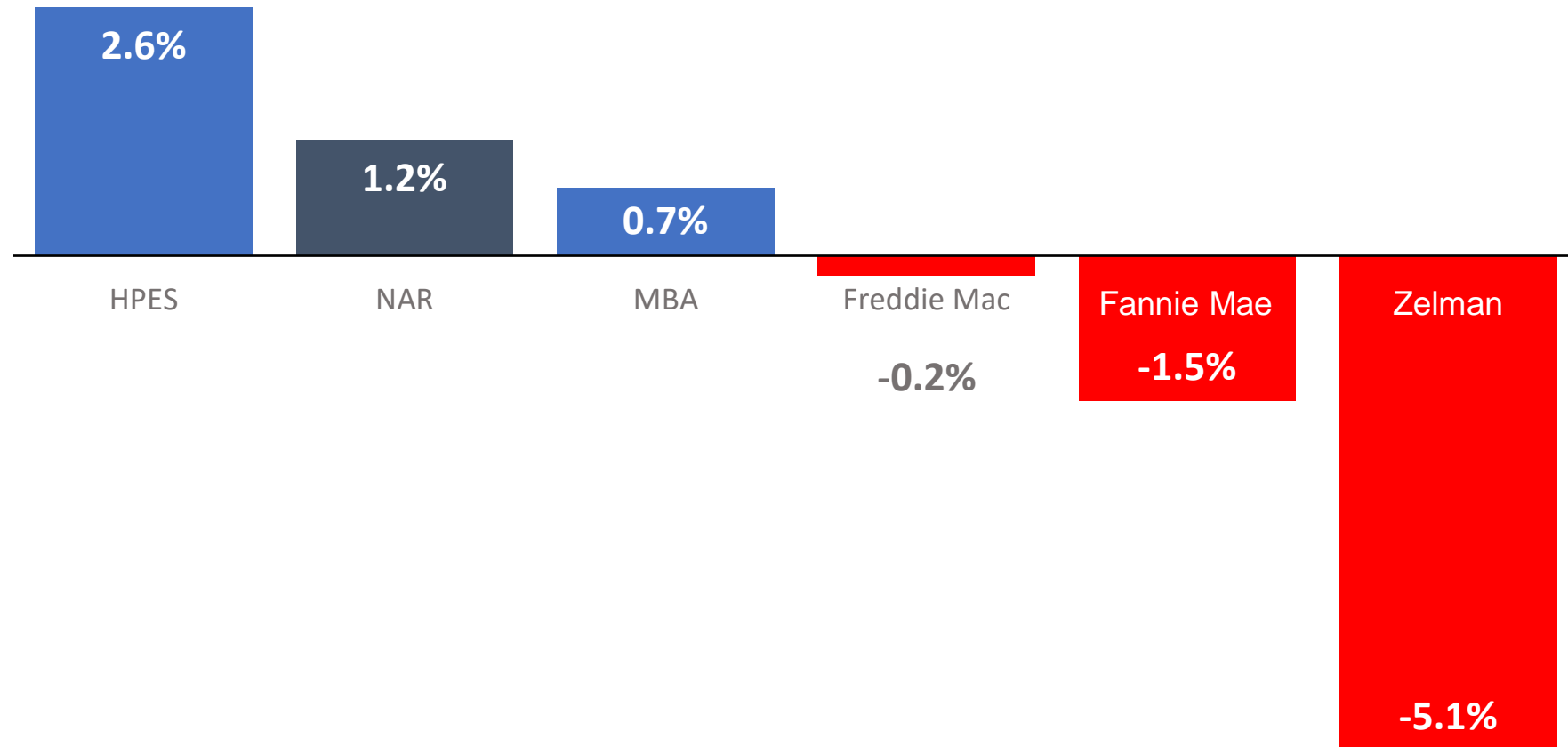


Sources: CoreLogic, The Balance

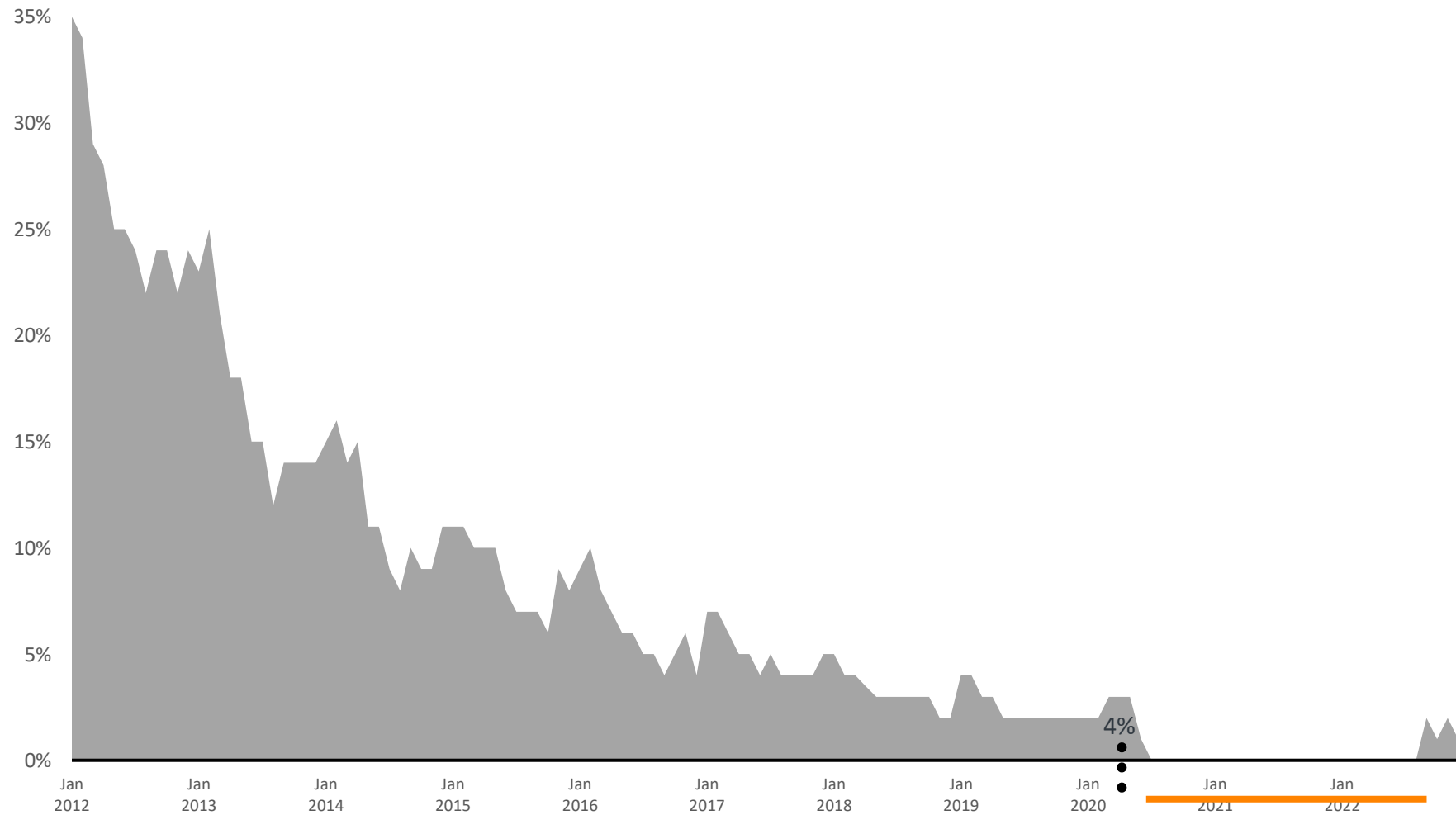


# Home Price Forecasts for 2023

Latest Forecasts from Each Entity



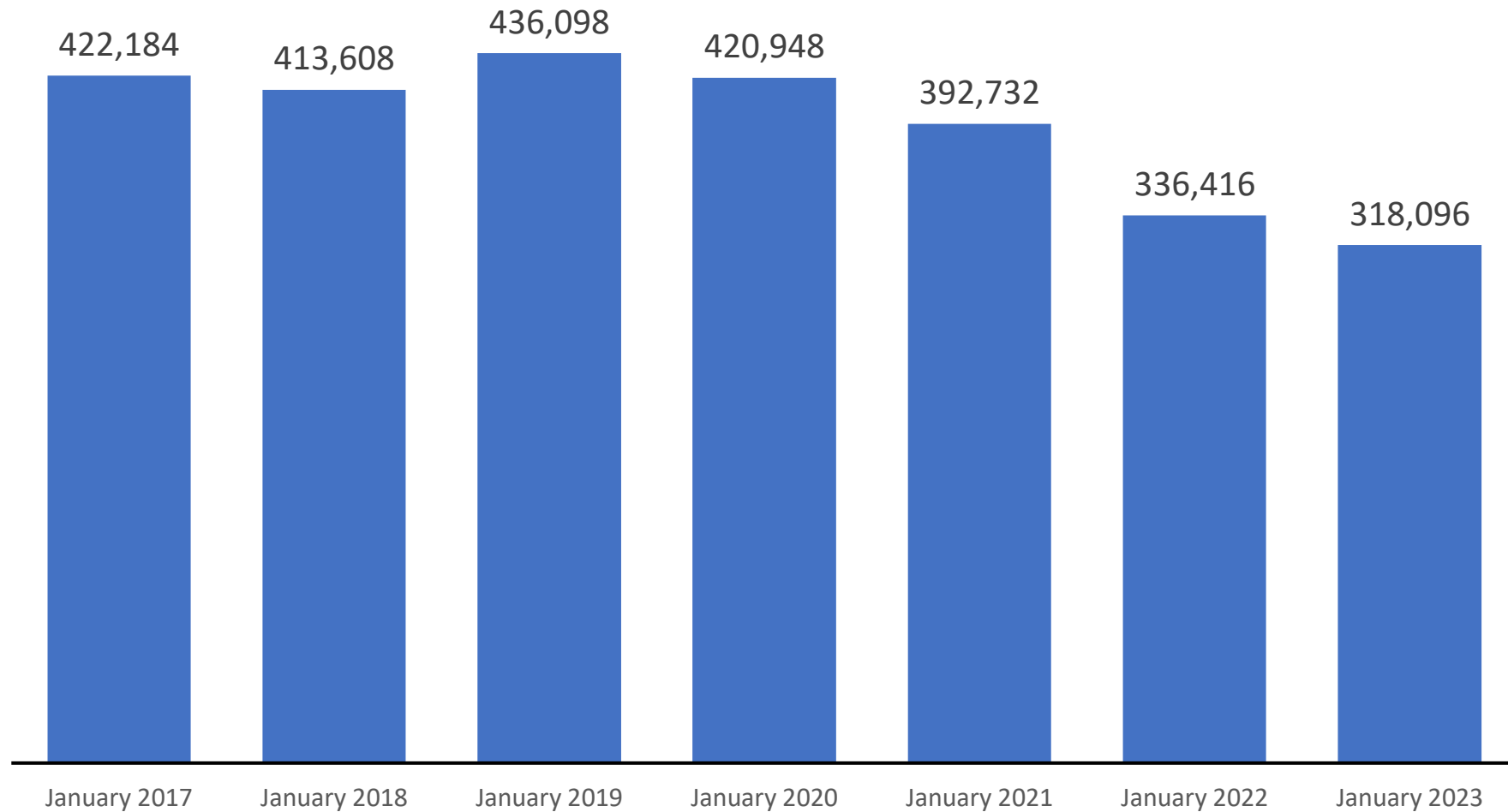
# PERCENTAGE OF DISTRESSED PROPERTY SALES



Distressed Sales (*Foreclosures and Short Sales*) represented 1% of Sales in December.

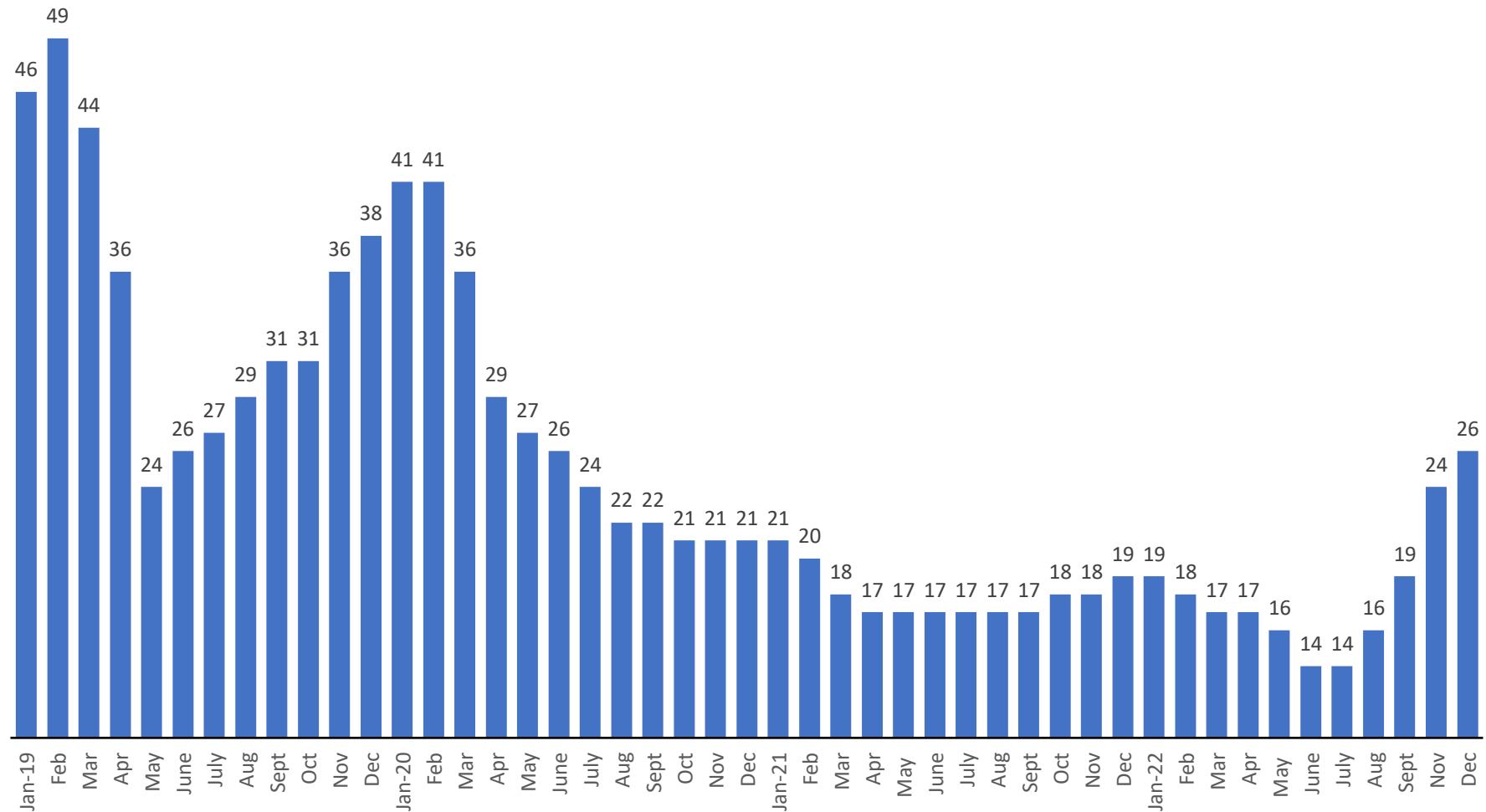
Source: NAR

## NEW LISTINGS NOW BELOW PREVIOUS YEARS



Since January 2017, Last 7 Januarys

# AVERAGE DAYS ON THE MARKET



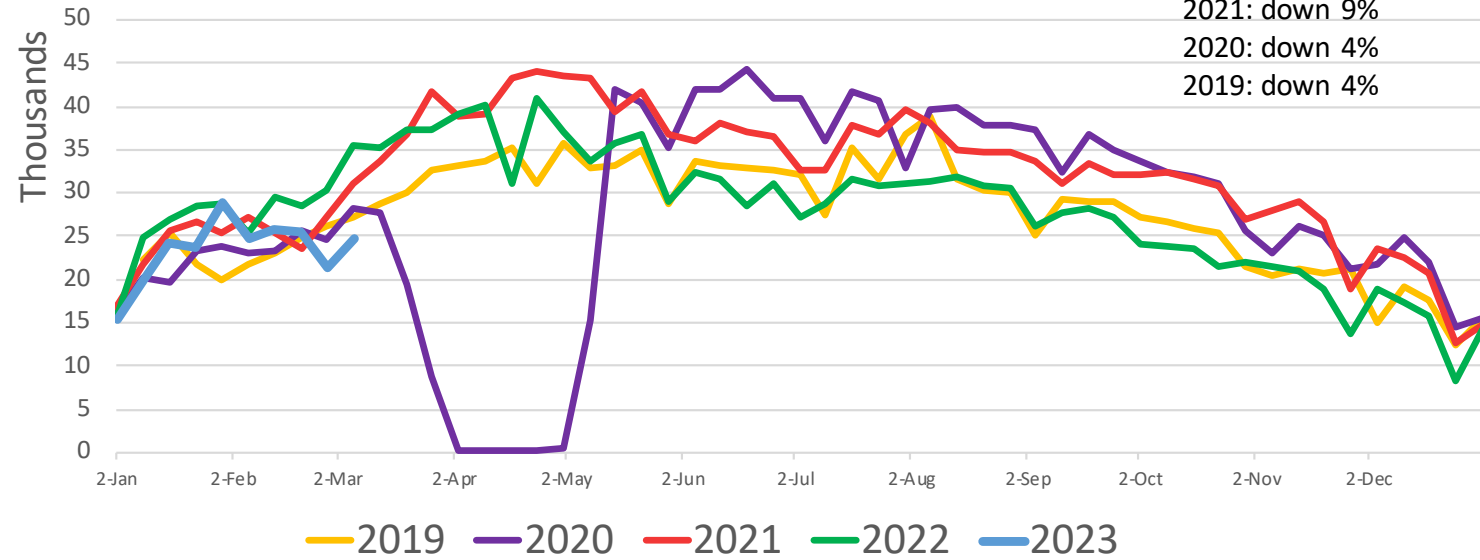
December 2022

# SHOWINGS

## 2019-FEB 2023

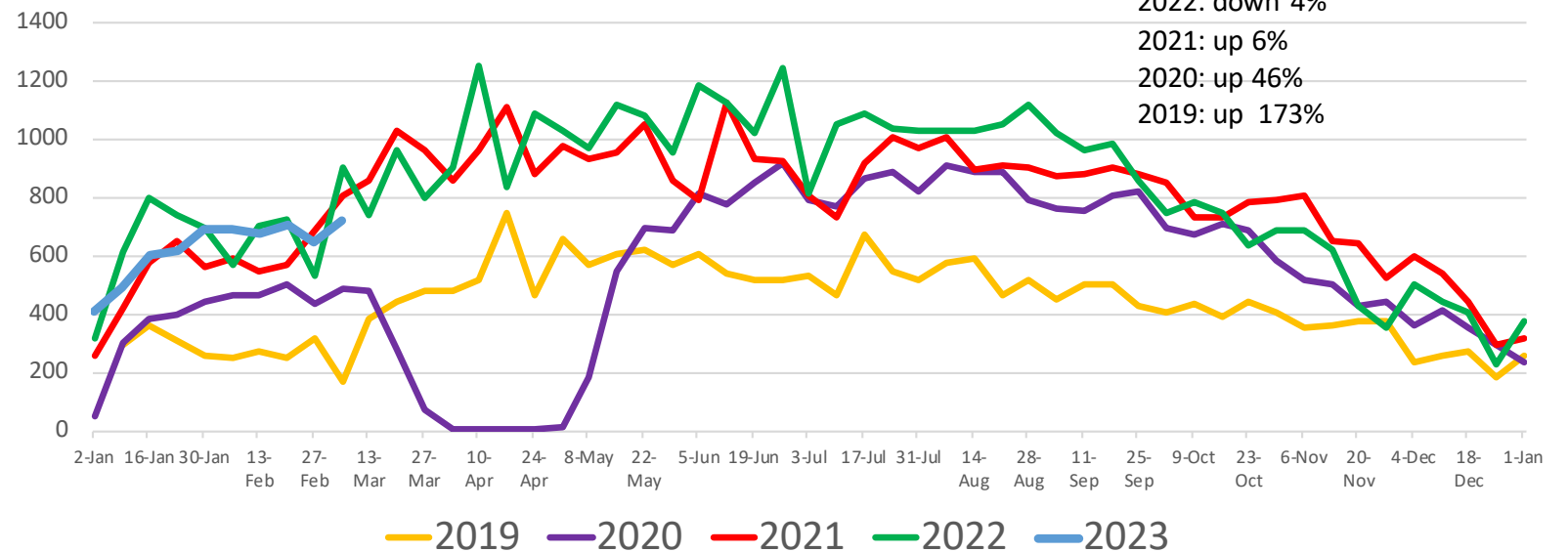
### Total Weekly Showings (all prices)

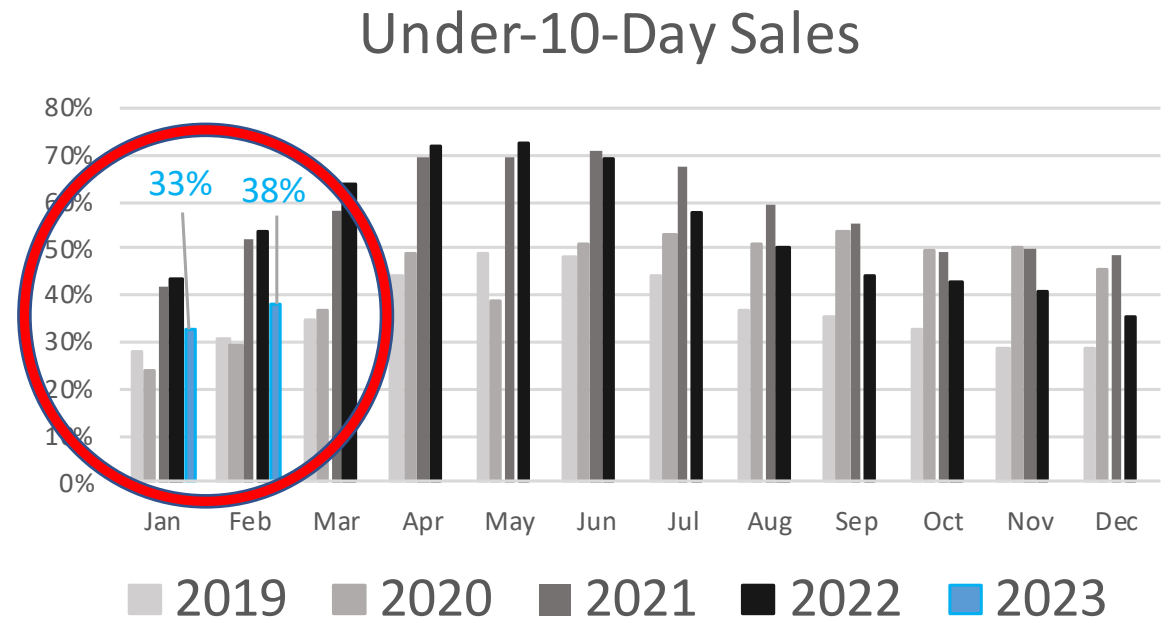
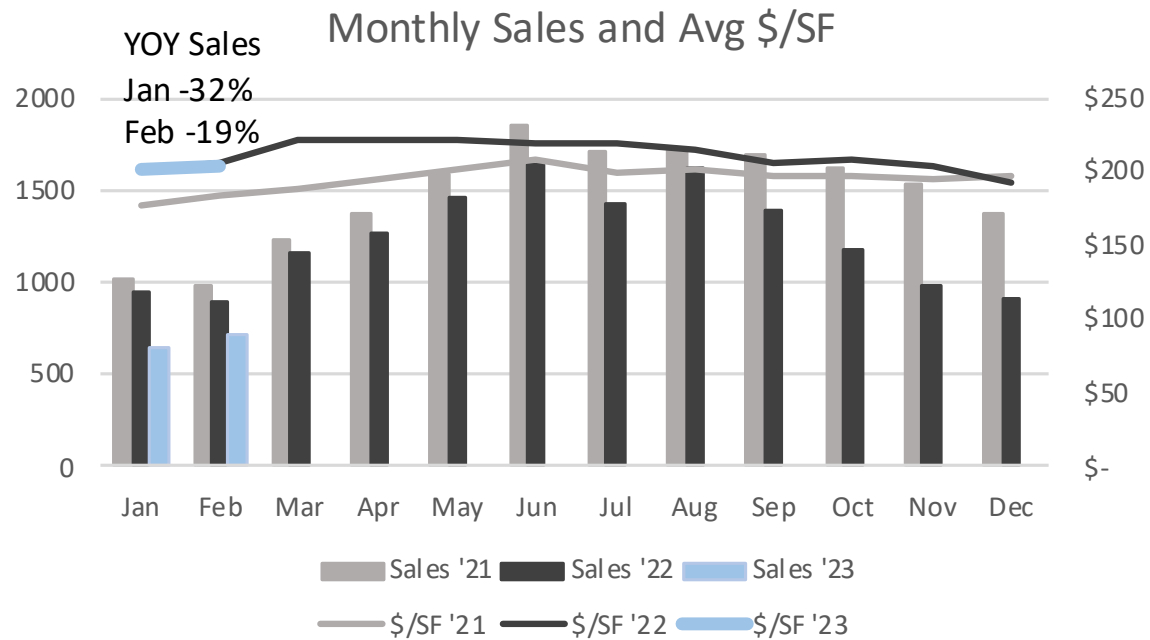
ShowingTime MI Marketwide thru Mar 6th



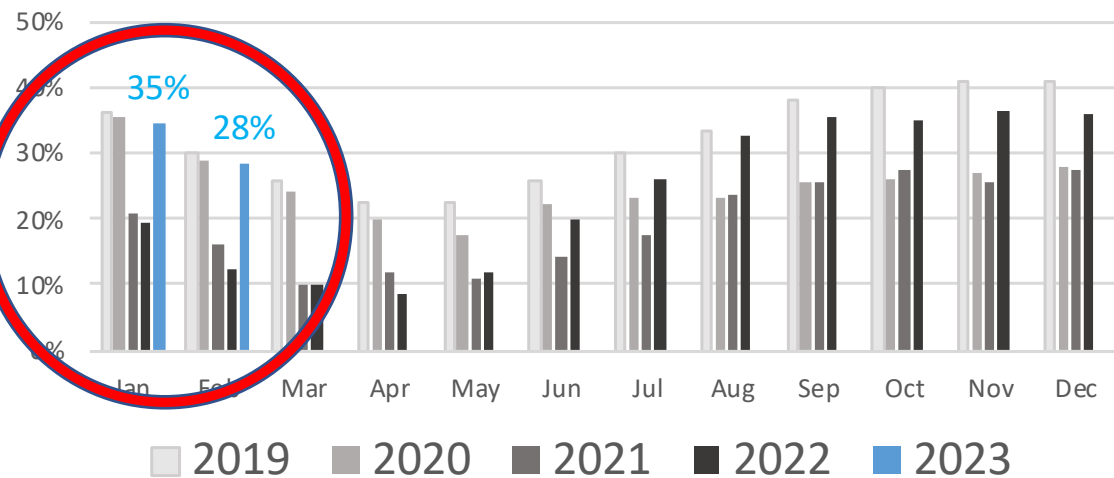
### Over \$750k Weekly Showings

ShowingTime MI Marketwide thru Mar 6th

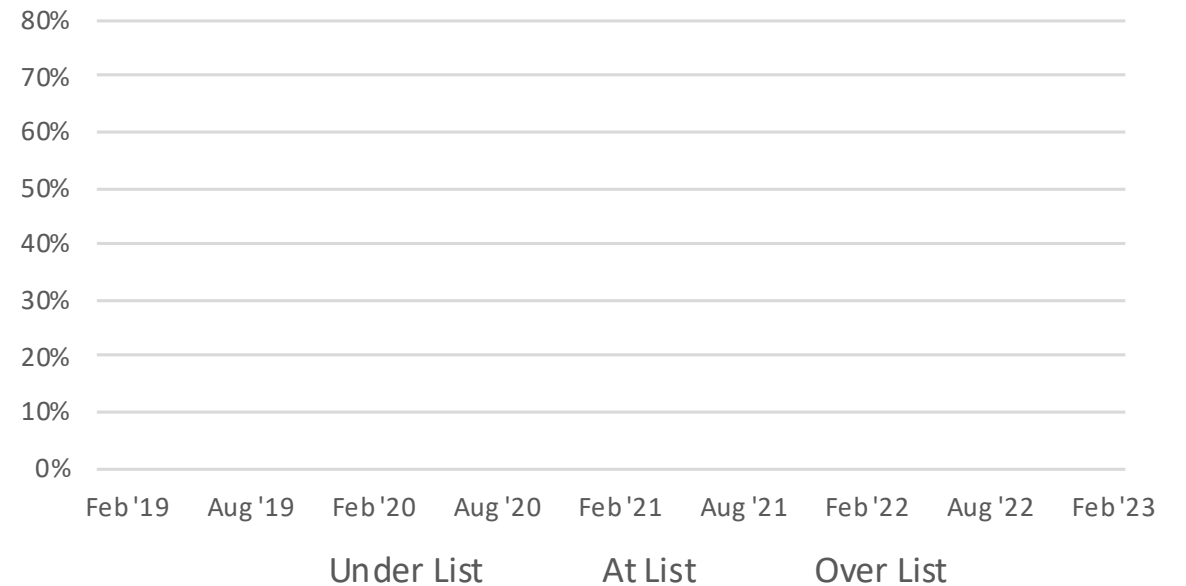




### Frequency of Price Reductions Prior to Pending



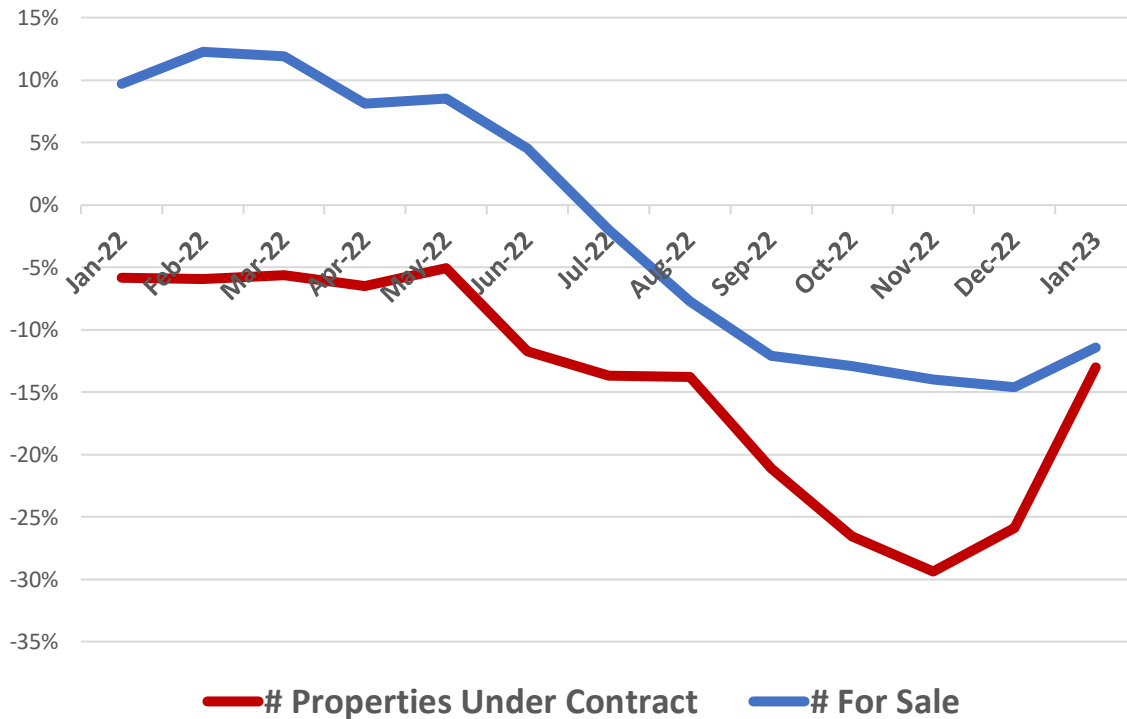
### Monthly "Under, At and Over List Price" Sales



# SUPPLY VS DEMAND

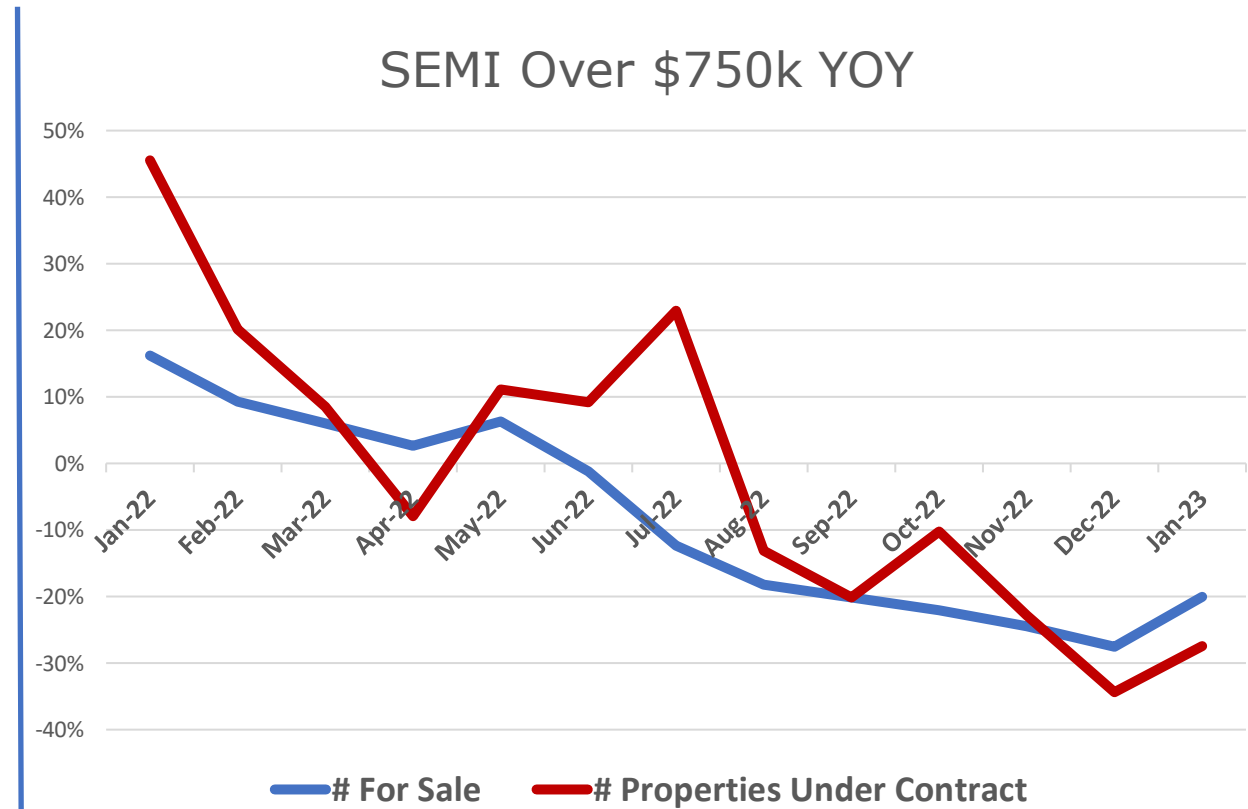
## HOMES FOR SALE VS HOMES SOLD

### SEMI Under \$750k YOY



Demand Slowing Faster Than Supply

### SEMI Over \$750k YOY



Demand and Supply declining at the same pace



# Market Summary – YTD 2023

## Oakland County

	Under \$300k	\$300 - \$800k	Over \$800K
New Listings	-22%	-11%	3%
Pending Sales	-17%	-4%	-26%
Price per SF	-2%	1%	0%

## Birmingham

	Under 700k	\$700k - \$1.4m	Over \$1.4m
New Listings	-3%	-42%	9%
Pending Sales	-23%	-48%	-15%
Price per SF	13%	7%	0%

# MARKET OPPORTUNITIES FOR 2023

- Value Gap Between Move-in-Ready and the rest of the market will grow.
- Be aware of the market velocity – Last spring is not this spring.
- Creative Financing Tools – Interest Rate Buydowns and Bridge Loans.
- Schizophrenic Market - Seller Concessions vs. Buyer Concessions –
- Don't Get lost in the finances - Financial Factors are only one of many in a housing decision

# MARKET EXPECTATIONS FOR 2023

**Homes Sold** -10-15%

**Home Values** +3% to -5%

**Inventories** Trending the same as 2022 or lower with new listing rising by mid year

**Interest Rates** Mid 5's to low 6's

**First Time Home Buyers** jump back into the market

**Move-Up Buyers** are still the clog in the wheel

# MARKET OBSERVATIONS

Majority of Homes Sell in weeks and months, not days

Sellers can expect Showing Activity will be lower than it has been in the past 3 years – but still steady from an historical standpoint

25% of Homes will still sell with multiple offers

Buyers can expect inventories to remain historically low, 60% of all listings come from move up buyers who are not moving up as fast

Demand is down 25% but so are listings so it is still a Sellers Market, just 25% smaller than in '20 or '21

Home values will decline temporarily and then rebound as interest rates decline and demand increases over the next 12-24 months

# Thank You

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