3 variables that will influence 2023's housing market

David Brooke shares indicators he's looking to this year

January 10, 2023, 10:00 am *By David Brooke* – HousingWire

Picture this – you're at a wedding, the crowd has taken to the dance floor and suddenly, Whitesnake takes over the speakers and a mass exodus commences. No offense to David Coverdale but no one is getting down to Whitesnake.

Just as you start to make eyes with the buffet, the sound of Nelly permeates the room, and you take a quick inventory to determine who will be the first to bring the dance floor back to life.

Now, you're at a crossroads. Are you going to resuscitate this shindig or wait until the crowd surge forces you toward the outskirts of the dance circle while the best man does the worm?

That's a critical moment, not much unlike the moment that today's property buyers and sellers are facing as we embark upon the housing market in the new year.

Will they continue to quietly peruse listings, hoping that the price on that perfect property starts cozying up to their budget? Will they sit idly while those with stronger stomachs continue to optimize the seller's need to sell? Will sellers assume that they've missed their window of opportunity and pull back? Or, will they take advantage of the lull, trusting that the right conditions will prevail?

It's not always easy to break from that herd mentality. This is the part of the year when most buyers and sellers have decided to venture back to their seats and wait for the spring housing market to gain traction. Come April, buyers and sellers alike will emerge from hibernation, flood the market and immerse themselves in negotiations and bidding wars. The players that will emerge victorious are the ones who mobilize now and leverage heightened home appreciation rates, shrinking inventory, normalizing interest rates, and discounted listing prices to their advantage.

Let's break it down.

It's easy to fall victim to "expert" housing market opinions and predictions made by sources around the industry. I'm not here to add to the confusion, but I am here to shine a light on the facts and variables that are most likely to influence what we see in 2023:

Steadying interest rates

The **Federal Reserve** commissioner has pledged to slow down interest rate increases in 2023.

The **Realtor.com** forecast tells us that by the end of the year, interest rates will settle at around 7.1%, as compared to today's rates which average 7.4%.

While you might be cringing over the number sitting at the front of that decimal point, think about the hike we saw in 2022. We kicked off the year at an average of 5.5% and rang in 2023 at 7.5%. The slowing of rate hikes will create space for more lucrative deals while making the market more accessible to more buyers who may not have otherwise qualified.

That said, back to our dance floor analogy, the change in tune will eventually reach the buyers who had ruled out the possibility of securing a loan in 2022 and 2021. Once lenders effectively spill those beans, the market will be oversaturated, and this window will close, likely long before spring.

In other words, we'll experience a cool down but not for long.

Motivated sellers in this housing market

Now, there is something to be said about the evergreen variables that motivate sellers to list their properties. Job changes, retirement, relationships, affordability — whatever the case, forces at play will influence a seller's decision to sell regardless of market conditions.

Couple those variables with the aftermath of the pandemic, a moment in time when people were selling and buying high, and you're left with a substantial group of folks who purchased homes in 2020-2022 who can not afford to maintain payments. That or the limited inventory forced them into a home that was less than optimal. They moved on the deal anticipating a similar return, but the economy had other plans.

What does this mean for those buyers turned potential sellers?

It means that now — a time when interest rates are expected to normalize and demand remains strong — is an ideal time to pull the trigger. While the market may not be saturated by overly motivated buyers at the top of the year, that crowded dance floor come spring could be detrimental to those who really need to close a deal now.

Sellers? Do not be defeated by what I just said. The days of multiple offers and bidding wars are not over. The buyers you see actively looking now are going to keep looking until they find the right property with the right conditions attached to it. We're also going to continue seeing an influx in home prices as inflation continues to steer investment decisions. Both can work in your favor when a listing is ideally positioned – now is not the time to take your foot off the gas.

A leveraging of the buydown mortgage

A buydown mortgage essentially enables today's buyers to play the long game, affordably but they also enable creativity among sellers. Just as it sounds, the loan allows purchasers to temporarily lower the interest rate upfront:

- **1-0 Buydown:** Buyer enjoys a 1% reduction in the interest rate during the first year of the loan.
- **2-1 Buydown:** Buyer enjoys a 2% reduction in the interest rate during the first year and a 1% reduction during the second year of the loan.
- **3-2-1 Buydown:** Buyer enjoys a 3% reduction in year one, 2% in year two, and 1% in year three.

Following the temporary reduction, the buyer will be responsible for the full interest rate for the lifetime of the mortgage. Now, there's no free lunch. While the Buydown is particularly appealing during times of rate hikes, there is an upfront cost due at closing known as a buydown fee.

I suspect that more and more buyers will succeed in placing that cost onto the seller, especially as those sellers continue to get creative with equations that appeal to today's motivated buyers.

In short? We'll likely see a bit of a lull in the housing market until around February then the principles of our typical spring market will take effect, this year earlier than years prior to the upheaval brought forth by the pandemic.

We're already seeing buyers return to the housing market, stronger than ever and eventually that will impact listing prices and seller motivation. While it can be nerve-racking to return to the dance floor while onlookers stare idly, there is a limited amount of time between contributing to the revival of a party and bearing witness to it from the outskirts.

My advice? Keep a pulse, ignore the hysteria, and consult a trusted expert who can guide you through the market nuances that are likely to impact your decision to buy and/or sell. I'd love nothing more than for that expert to be an agent here at Brooke Group. There's a lot of hype out there but our passion is rooted in helping people proactively navigate the ebbs and flows of this housing market. We're seeing some solid returns for our clients, and we are extremely optimistic about the year ahead.

David Brooke was a real estate appraiser for 11 years prior to becoming an agent, starting with Engel & Völkers in 2011, then joining Berkshire Hathaway in 2013, then Keller Williams in 2015 before becoming a part of eXp in 2020. Today, his team produces over $200 million in sales.