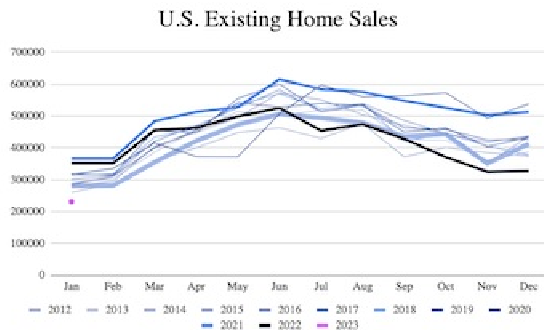
American Marketer

Business at its best

REAL ESTATE

5 reasons why the US will dodge a housing market crash soon

March 24, 2023



U.S. home inventory is tight after the COVID-19 pandemic. Image credit: Mike DelPrete

By Michael Gifford

It has been a housing market roller coaster the past few years with no shortage of news about record-high prices, outrageous negotiations such as all-cash deals and cars and questions about if there is a bubble and if it will burst.

The pendulum swung from a buyer's market to a seller's market as the effects of the pandemic changed consumer behavior. Families started feeling cramped after sheltering in place for more than a year, global supply chain issues picked up, and then-low interest rates began climbing.

While we have seen the stark rise in home prices flattening out a little from 2022, this downturn will not wholly correct itself to pre-pandemic levels.

The most recent Case-Schiller Home Price Index, one of the leading indicators of United States residential real estate prices, showed that home prices decreased quarter over quarter but are still 7.7 percent higher than a year ago.

It is worth noting that seasonality plays a role here, too, so we currently see some prices slightly lower given the time of year.

So yes, we are still in an affordability crisis and unlikely to see the complete housing market tumble in 2023. Here is why.

Homeowners are reluctant to sell
We have seen this anecdotally as homeowners access their home equity instead of selling.

Now the data is out: January 2023 U.S. Existing Home Sale volumes are down 34 percent compared to January 2022, according to the National Association of Realtors. This is the 12th straight monthly decline in existing home sales.

Homeowners have a low motivation to sell because many are locked into low-rate mortgages and do not want to give up that rate to sell and repurchase a more expensive home with a higher mortgage rate.

With affordability at an all-time low, homeowners are finding ways to access their home equity for renovation projects to suit their needs better.

Homeowners also use their increased equity to pad retirement and savings accounts, pay off high-interest credit card debt, and supplement living expenses as inflation grows.

Credit availability is exceptionally tight, and regulators removed faulty financial products
The housing market is expected to stay strong, mainly due to the current limited credit availability.

This is a significant contrast to the situation in 2008, where obtaining loans was considerably more accessible for borrowers.

During that time, several unsafe mortgage products enabled individuals with low credit scores to qualify for loans, but those have since been eliminated from the market.

The 30-year fixed mortgage is the primary product, providing a more stable option for borrowers and lenders.

Mortgage delinquency rates are low
Mortgage delinquency rates when a homeowner is late on a required mortgage payment are currently low. This is because lenders are not lending to borrowers with bad credit scores.

Banks and institutions are only lending to those with a pristine credit score, related to the previous point about less risky financial products on the market. This means the quality of the loans is better than before, which directly correlates to default rates.

Home equity is at an all-time high, which means foreclosures are not coming
Homeowners have an incredible amount of home equity compared to 2008, putting them in good financial shape and allowing them to sell their property for a profit.

According to CoreLogic's Home Equity Report, individuals with outstanding mortgages in the United States experienced a 15.8 percent rise in equity during the third quarter of 2022.

On average, borrowers saw a gain of $34,300 in equity over the same period.

Data from Yardeni Research shows a record amount of $29.6 trillion of home equity in the U.S.

This accumulated home equity is helping homeowners avert foreclosures.

Distressed sales foreclosures and short sales represented 1 percent of sales in January, identical to last month and one year ago, according to the NAR.

Housing market is starved for inventory
Over the last few years, the demand from lack of inventory has been one factor driving that home price appreciation.

Back in 2008, during the housing crisis, many tiny home builders went out of business, and new builds plummeted. New builds started to pick up again, but the global supply chain shortage increased the cost of construction materials such as wood and slowed the progress.

New home listings now are at a record low, according to Realtor.com's January Housing Trends Report, which showed new listings were down about 5 percent year-over-year in January.

Compared to the previous month's 21 percent decrease and November's 17.2 percent decline, the current rate of decline is significantly lower.

Despite this improvement, new listings still lag behind pre-pandemic levels between 2017 and 2019 by 25 percent.

However, we have seen builder sentiment rising.

Because of low inventory and high demand, a combination of things will need to happen for prices to plummet
Since the real estate market is starving for inventory, there is significant pent-up demand.

We will unlikely see home price appreciation slow with a single factor such as interest rates.

Inflation, affordability, interest rates, supply and other factors will likely need to combine over the year to make home prices drop.

WHAT WILL HAPPEN this year? The housing market sentiment is growing, especially in home equity investments.

We have seen cautious optimism from institutional REITs adding HEIs to their portfolios.

We will continue to see homeowners accessing their home equity to pay off high-interest debt, start renovation projects, or pad their savings and retirement accounts.

We are seeing homeowners looking to access their built-up home equity to gain financial freedom with no

additional monthly payments and no new debt while the housing market remains hotter than usual.

Michael Gifford

Michael Gifford is CEO of Splitero, a San Diego-based company that provides homeowners with options to access their home equity. Reach him at Michael@splitero.com.

MOST POPULAR

1. Brands should incentivize consumers to go green
2. Retailers expanding pickup options, facing staff shortages this holiday season: report
3. Owning the customer experience in an Amazon-disrupted market
4. Shifts in retail sales of women's designer bags
5. Macy's trademark decision confirms importance of surveys
6. Year of the Rooster luxury items: Hit or miss with Chinese consumers?
7. How luxury is the millennial's unlikely weapon to fight social inequality
8. Luxury brands need to change their marketing strategy for India
9. Green is the new black: Backing the Fashion Pact
10. How resale, rental and flex payments can put luxury within reach – especially now

© 2023 Napean LLC. All rights reserved.

American Marketer is published each business day. Thank you for reading us. Your feedback is welcome.