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Redfin Reports Housing Markets in West Coast Hubs and Zoom Towns Cooling Fastest

Seattle, San Jose, Austin and Phoenix are among the metros with the fastest-cooling housing markets as high mortgage rates, tech turmoil and the lack of homes for sale deter buyers

SEATTLE--(BUSINESS WIRE)-- (NASDAQ: RDFN) — Housing markets in tech hubs and pandemic migration hotspots are cooling more rapidly than other parts of the U.S as the tech sector falters and mortgage rates remain elevated, according to a new report from Redfin (redfin.com), the technology-powered real estate brokerage.

Austin, TX cooled fastest over the last year as the U.S. housing market descended from its pandemic-era boom. The Fed started hiking interest rates to combat inflation—leading to an increase in mortgage rates—one year ago. Austin is followed by Seattle, Phoenix, Tacoma, WA and Denver. Las Vegas, Stockton, CA, San Jose, CA, Sacramento, CA and Oakland, CA round out the top 10.

High rates, low supply, tech layoffs dampening demand in West Coast hubs

Measures of homebuying demand and competition dropped off quickly in tech centers including Seattle, San Jose and Oakland.

The typical San Jose home sold for just 0.6% above its asking price in February, compared with 12% above asking price a year earlier—the biggest percentage-point dropoff in the U.S. Seattle had the third-biggest dropoff, going from 8% above asking price to 1% below during the last year. Pending home sales declined 40% year over year in Seattle, and they were down 38% in San Jose.

Redfin asked its agents to share how big a role the surge in tech layoffs, the shaky stock market and banking turmoil are playing in the cooldown, and found that coastal hubs are cooling quickly for a combination of reasons. Some reported that layoffs and precarious tech stocks are deterring buyers. Others attribute the slowdown mainly to other factors, including super-low inventory; San Jose and Oakland are among the five U.S. metros where new listings are dropping off fastest.

Housing markets in tech hubs are cooling quickly for several reasons:

- **Topsy-turvy tech stocks.** Tech stocks fell more than 30% in 2022, though they have ticked up a bit since then. Shaky tech stocks hit the Bay Area and Seattle hard because buyers employed in the tech industry often use stock proceeds for down payments.

- **Tech layoffs.** Layoffs in the tech industry, concentrated largely in the Bay Area and Seattle area, are widespread. Shelley Rocha, a Redfin manager in the Bay Area, said some buyers have bowed out of their search or canceled contracts because they've lost their job or are worried about losing it. Other agents say layoffs and dwindling tech job prospects are preventing some first-time buyers from entering the market at all.
- **Low inventory.** There are plenty of Bay Area and Seattle residents who aren't put off by the prospect of layoffs and a rocky stock market. But the limited number of homes coming on the market is tamping down demand from them, too.
- **Pandemic home-price increases are unsustainable.** Home prices in tech hubs rose quickly for many years, especially during the pandemic, pricing out residents who *didn't* work at Google, Meta, Amazon, Microsoft or another tech company. Now that tech is struggling and mortgage rates are high, an even bigger portion of local residents are unable to afford homes.
- **High mortgage rates.** Mortgage rates are sitting around 6.4%, more than double the record low of ~3% that was common in late 2020 and early 2021. That has driven up monthly housing payments substantially in expensive markets. The typical Seattle homebuyer pays $4,210 per month with today's 6.4% rate, versus around $3,200 a year ago at a 3.5% rate.
- **Still-high home prices.** Home prices are falling in the Bay Area and Seattle, but they're still high, largely because of limited inventory. The typical San Jose and Seattle homes sell for $1,250,000 and $710,000, respectively, compared with the $386,000 national median. High mortgage rates are exacerbating the expense, pushing out many would-be buyers.

It's worth noting that while these markets cooled quickly from February 2022 to February 2023, some agents are now noticing competition on fairly priced homes as mortgage rates decline from their peak and supply remains low.

"I'm seeing bidding wars on homes that are priced fairly and accurately, and the overall market looks strong this week," said San Jose Redfin agent Laxmi Penupothula. "Overpriced listings are the ones sitting on the market."

The collapse of Silicon Valley Bank, which lent money to a lot of Bay Area startups, is having a mixed impact on the local housing market (the bank collapsed in March, after the timeframe of the data in this report). Redfin agents report that uncertainty around the stability of the banking and tech industries is exacerbating nerves in some buyers and sellers. But the bank's failure—along with turmoil surrounding other banks—caused the Fed to raise interest rates only modestly this week, which has already brought mortgage rates down and could help bring some buyers back.

The New York metro (ranked #66 in terms of markets cooling fastest) is also likely to feel the impact of banking turmoil because so many of its residents work in the financial sector. Nearly one in five U.S. finance jobs are located in New York and finance is the highest-paying industry in the city. Banking instability could dampen homebuying demand in the area as finance workers worry about their industry.

Pandemic boomtowns go from hotspots to not-so-hot spots

Austin soared in popularity in 2021 and early 2022 as an influx of out-of-town remote workers moved in from expensive coastal areas, taking advantage of historically low mortgage rates..

But now, measures of homebuying competition and demand in Austin are dropping off fast. Its total supply of for-sale homes rose 140% year over year in February, the second-biggest increase in the U.S. (only North Port, FL, had a bigger increase). Pending sales dropped 40%, and just 16% of homes went under contract within two weeks of hitting the market in February, down from 38% a year earlier.

The surge of affluent homebuyers pushed up local home prices, and the subsequent rise in mortgage rates priced out even more local residents. Even though Austin's median price per square foot fell 13% year over year in February, the biggest drop of any major U.S. metro, it's still higher than it was two years ago and the income needed to buy a home there remains far higher than what the typical local earns.

The story is similar in Phoenix, Las Vegas and Sacramento, also magnets for remote workers leaving expensive areas for more affordable homes and sunnier weather. Phoenix, Las Vegas and Sacramento are all mainstays on Redfin's list of most popular migration destinations and quickly went from relatively affordable to not-so-affordable—at least for existing residents—during the pandemic.

Now housing markets in those boomtowns are doing an about-face as rates rise. Tech troubles are also contributing to dampened demand in these areas because many remote workers are struggling with layoffs and the prospect of them. The Bay Area and/or Seattle are among the top origins for homebuyers moving to Austin, Phoenix, Las Vegas and Sacramento.

The increasing portion of home sellers dropping their asking price illustrates just how much some of these markets have cooled. In Phoenix, 70% of for-sale homes had a price drop in February, compared with 21% a year earlier—the second-biggest uptick in the U.S. It's followed closely by Denver, where 37% of homes had a price drop in February, compared with 13% a year earlier.

Las Vegas and Phoenix are also among the places that have seen the biggest upticks in sellers offering concessions to woo buyers over the last year.

Parts of Connecticut, upstate New York and Midwest holding up best amid shaky U.S. housing market

Relatively affordable housing markets in Connecticut, upstate New York and the Midwest are holding up best as the overall market falters.

Hartford, CT is holding up best, according to this analysis. In Hartford, the housing market isn't necessarily *hot*—pending sales dropped 16% year over year in February and new listings also dropped by double digits—but other metrics show that there's still competition for homes. Among the homes that are selling, more are going under contract within two weeks than a year earlier and the median price per square foot is up 8%.

Next comes Milwaukee, followed by two other Connecticut metros and two upstate New York metros: New Haven, Bridgeport, Albany and Rochester. Lake County, IL, McAllen, TX, Wilmington, DE and Chicago round out the top 10.

Homes in all those places are relatively affordable; nine of the 10 have a median sale price below the national median (Bridgeport is the exception). That means the uptick in mortgage rates doesn’t make as big of a dollar difference in monthly housing payments as it does in expensive areas.

To view the full report, including charts, please visit: https://www.redfin.com/news/housing-markets-cooling-fastest-february-2023

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