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REDFIN

Redfin's 2023 Housing Outlook: A Post-Pandemic Sales Slump Will Push Home Prices Down For the First Time in a Decade

While Redfin expects high mortgage rates to keep housing costs up and prevent people from moving, high homeowner equity and a resilient job market will stave off a wave of foreclosures

SEATTLE--(BUSINESS WIRE)-- (NASDAQ: RDFN) — Mortgage rates will take center stage in 2023, with high rates likely to make it the slowest housing-market year since 2011, according to annual end-of-year predictions from Redfin (redfin.com), the technology-powered real estate brokerage.

Redfin's forecasts for mortgage rates, home sales and home-sale prices account for a range of outcomes for inflation, employment and other macroeconomic factors. As such, predictions for those key housing metrics lead with the most likely scenario, followed by other possible outcomes highlighted in the full report that could happen if, for instance, a better-than-expected inflation report results in an earlier or bigger-than-expected mortgage-rate drop.

Prediction #1: Home sales will fall to their lowest level since 2011, with a slow recovery in the second half of the year
Redfin expects about 16% fewer existing home sales in 2023 than 2022, landing at 4.3 million, with would-be buyers pressing pause due mostly to affordability challenges including high mortgage rates, still-high home prices, persistent inflation and a potential recession. People will only move if they need to.

Prediction #2: Mortgage rates will decline, ending the year below 6%
Redfin expects 30-year fixed mortgage rates to gradually decline to around 5.8% by the end of the year, with the average 2023 homebuyer's rate sitting at about 6.1%.

Mortgage rates dipping from around 6.5% to 5.8% would save a homebuyer purchasing a $400,000 home about $150 on their monthly mortgage payment. To look at it another way, a homebuyer on a $2,500 monthly budget can afford a $383,750 home with a 6.5% rate; that same buyer could afford a $406,250 home with a 5.8% rate. Still, that's much less affordable than a few years earlier. With a 3% rate, which was common in 2020 and 2021, that same buyer could afford a $517,000 home.

Prediction #3: Home prices will post their first year-over-year decline in a decade, but the U.S. will avoid a wave of foreclosures
Redfin predicts the median U.S. home-sale price to drop by roughly 4%—the first annual

drop since 2012—to $368,000 in 2023. That's due to elevated rates and final sale prices starting to reflect homes that went under contract in late 2022. Prices would fall more if not for a lack of homes for sale: Redfin expects new listings to continue declining through most of next year, keeping total inventory near historic lows and preventing prices from plummeting.

Very few homeowners are likely to see their mortgages fall underwater even with next year's anticipated price declines. That's because the homeowners who've had their home for at least a few years have fixed low mortgage payments and plentiful home equity after values skyrocketed during the pandemic.

Prediction #4: Midwest, Northeast will hold up best as overall market cools
Housing markets in relatively affordable Midwest and East Coast metros, especially in the Chicago area and parts of Connecticut and upstate New York, will hold up relatively well, even as the U.S. market cools. Those areas tend to be more stable than expensive coastal areas, and they didn't heat up as much during the pandemic homebuying frenzy.

Prediction #5: Rents will fall, and many Gen Zers and young millennials will continue renting indefinitely
Redfin expects U.S. asking rents to post a small year-over-year decline by mid-2023, with drops coming much sooner in some metros. Some large landlords are likely to offer concessions, such as a free month's rent or free parking, before dropping asking rents.

The rental price declines will be partly due to increasing supply, which has already led to an uptick in vacant units in apartment buildings. Increasing rental supply and declining prices—along with high mortgage rates, limited inventory and other affordability barriers—mean few renters will become buyers next year. Many prospective first-time homebuyers may instead become move-up renters, upgrading from a small urban apartment to a larger apartment or a single-family rental to fit their growing families.

Prediction #6: Builders will focus on multifamily rentals
Builders will continue to pull back on constructing new homes next year, with year-over-year declines of roughly 25% in building permits and housing starts continuing into 2023.

Builders will back off most from building new single-family homes. Construction of single-family homes surged during the pandemic, which means builders need to offload the homes they have on hand without adding more supply to limit their financial losses. They'll pull back dramatically in some markets like Phoenix and Dallas, where they built too many homes in anticipation of demand that's failing to materialize.

Constructing rental units, including apartment buildings and multifamily houses, will make more financial sense for builders next year, as rental demand won't fall off as much.

Prediction #7: Investor activity will bottom out in the spring, then rebound
Real estate investors will purchase about 25% fewer homes than a year earlier, with purchases likely to bottom out in the spring. Investors' business model is to buy low and sell–or rent–high, and the cash they borrow to buy homes outright is no longer cheap. Fewer iBuyers in the market is also a factor in slowing activity. Some investors, especially newer and smaller ones, will bow out of the housing market entirely and others will slow their activity. But if inflation slows and the Fed eases up on rate hikes as expected, investors will

likely start buying more homes in the second half of the year, taking advantage of slightly lower home prices.

Prediction #8: Gen Zers will seek jobs and apartments in relatively affordable mid-tier cities
Gen Zers are entering into a workforce with more remote-work opportunities than ever before, which means they'll have more flexibility in where they'll choose to start their careers than older generations. They can prioritize things like affordability, lifestyle, weather and proximity to family.

Prediction #9: Migration from one part of the country to another will ease from the pandemic boom
Redfin expects the share of Americans relocating from one metro to another will slow to about 20% in 2023, down from 24% this year. That's still above pre-pandemic levels of around 18%.

In 2023's slow market, there won't be a next Austin. Even Austin isn't Austin anymore: The wave of homebuyers moving into Austin has slowed to a trickle, as many people are now priced out and many remote workers who wanted to relocate have already done so.

Prediction #10: Rising disaster-insurance costs will make extremely climate-risky homes even more expensive
Some Americans will be priced out of climate-risky areas like beachfront Florida and the hills of California because of ballooning insurance costs. Redfin expects disaster-insurance rates to continue rising next year (and beyond), rendering housing in some areas more expensive.

Prediction #11: More cities will follow Minneapolis' YIMBY example to curb housing expenses
More U.S. cities will look to Minneapolis, which in 2019 became the first major city to eliminate single-family-only zoning, for inspiration in keeping rental and home prices under control. Earlier this year, Minneapolis became the first metro area to see rents decline.

Prediction #12: Buyers' agent commissions will rise slightly as fewer agents broker fewer deals at lower prices
Next year's slow housing market is likely to reverse or at least halt the downward trend in buyers' agent commissions.

The hot pandemic-era housing market pushed the typical U.S. buyers' agent commission down to 2.63% of the home's sale price in 2022, its lowest level since at least 2012. But declines in home prices and sales will prop up buyers' agent commissions next year. Sellers will also play a part, with some offering to pay higher commission for buyers' agents to attract bidders.

To view the full report, including charts and more detail on predictions, please visit: https://www.redfin.com/news/housing-market-predictions-2023/

About Redfin

Redfin (www.redfin.com) is a technology-powered real estate company. We help people find a place to live with brokerage, rentals, lending, title insurance, and renovations services. We sell homes for more money and charge half the fee. We also run the country's #1 real estate brokerage site. Our home-buying customers see homes first with on-demand tours, and our lending and title services help them close quickly. Customers selling a home can have our renovations crew fix up their home to sell for top dollar. Our rentals business empowers millions nationwide to find apartments and houses for rent. Since launching in 2006, we've saved customers more than $1 billion in commissions. We serve more than 100 markets across the U.S. and Canada and employ over 5,000 people.

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