

With mortgage rates on the rise, the housing market is showing signs of cooling. What does that mean for housing prices — and how could it affect individual homebuyers and real estate investors?

THERE'S NO PLACE LIKE HOME

Real estate investors contributed to rising home prices over the past two years.

Overview

If you bought a house — or tried to buy one — in the past two years, you probably know firsthand how challenging the process has become. Inventory dwindled as demand skyrocketed, and potential buyers often found themselves pushed out of the running even before the race began.

What drove the demand? For one, remote work during the pandemic made it possible for families to live farther from work, pushing them from urban to suburban areas. And all that togetherness made some families realize they wanted — and needed — more space to spread out.

While the demand was pushed upward by individuals and families buying their forever (or for now) homes, real estate investors were a significant contributing factor in depleted inventory. Sure, real estate is usually an attractive investing opportunity, but low mortgage rates and easy access to capital made it even more appealing to investors during the pandemic. And according to a new report from Fortune, investors played a significant part in driving up home prices over the past two years.

An Attractive Investing Opportunity

Nationwide, investors bought 28% of the single-family homes in the first quarter of 2022. That number jumped to more than 32% in popular destinations such as Jacksonville, Florida (32.3%), Charlotte, North Carolina (32.2%) and Atlanta, Georgia (33.1%).¹ Not surprisingly, Florida, North Carolina and Georgia were also among the top 10 states where home prices have increased the most.²

28%

Percentage of single-family homes purchased by investors in Q1 2022, up from 16% between 2017 and 2019.³

The investors are as different as the properties they're purchasing. Individuals are adding properties to their portfolios with the intention of setting them up as rental properties or Airbnb listings. Others are buying fixer-uppers and flipping them. And then there are the corporations, companies that are buying up wide swaths of communities to sell for profit or keep as rentals.

Who are these corporate investors? They're companies like Blackstone Inc., a publicly traded alternative investment management



company. Blackstone owns Invitation Homes, the largest owner of single-family rental homes in the U.S.⁴

Internet-based real estate companies also fed the buying frenzy during the pandemic. Known as “iBuyers,” firms like RedfinNow and Zillow Offers made offers to homeowners around the country, then quickly put the homes back on the market. (The strategy eventually blew up in Zillow’s face, as their home-flipping business fell apart last year.)⁵

The investor rush into the housing market placed further strain on home inventories, leading to a 37% jump in home prices since 2020.⁶ For the first time ever, median prices on existing homes topped \$400,000 in May 2022. Existing-home sales also fell 3.4% that same month.⁷

The Housing Market Outlook

Does the drop in home sales foreshadow a cooling in housing prices? Possibly, according to the National Association of Realtors®. In mid-June, NAR Chief Economist Lawrence Yun said, “Home sales have essentially returned to the levels seen in 2019 ... after two years of gangbuster performance.”⁸

Rising mortgage rates will likely slow investors’ and homebuyers’ enthusiasm for purchasing new properties in the coming months. “Further sales declines should be expected in the coming months given housing affordability challenges from the sharp rise in mortgage rates this year,” Yun said.

Current market conditions have left some investors wondering if we’re headed toward a replay of the 2009-10 bursting of the housing bubble. Many economists say no because new federal rules have changed mortgage lending. “It’s natural for people to ask themselves if we’re in a housing bubble,” said Selma Hepp, an economist with CoreLogic. “Our index ... shows a very low probability or risk of decline.”⁹

Final Thoughts

Individual buyers and investors will continue to pay high prices for homes through the remainder of 2022. However, with mortgage rates nearing 6%¹⁰ and interest rates expected to rise even more in the coming months, the higher cost of borrowing should slow sales. And slower sales could result in stabilizing and potentially decreasing home prices in the next few months.

Whether you’re looking to purchase a home for your family or get into real estate investing, we recommend speaking with your financial advisor before buying a property. He or she can help you determine whether it’s the right move for you — and your portfolio.



¹ Lance Lambert. *Fortune*. June 26, 2022. "Investors — including Wall Street — helped to drive up home prices during the pandemic housing boom. Here's the proof." <https://fortune.com/2022/06/26/housing-market-and-home-price-boom-made-bigger-by-investors-and-wall-street/>. Accessed June 27, 2022.

² My Home by Freddie Mac. March 21, 2022. "Top 10 States Where Home Prices Increased the Most." <https://myhome.freddiemac.com/blog/research-and-analysis/top-10-states-where-home-prices-increased-most>. Accessed June 27, 2022.

^{3,4,5} Lance Lambert. *Fortune*. June 26, 2022. "Investors — including Wall Street — helped to drive up home prices during the pandemic housing boom. Here's the proof." <https://fortune.com/2022/06/26/housing-market-and-home-price-boom-made-bigger-by-investors-and-wall-street/>. Accessed June 27, 2022.

⁶ Lance Lambert. *Fortune*. June 23, 2022. "Housing markets labeled 'high' risk of a home price drop just spiked 73% - find your local market using this interactive map." <https://fortune.com/2022/06/23/housing-markets-labeled-high-risk-of-a-home-price-drop-just-spiked-housing-chart/>. Accessed June 27, 2022.

^{7,8} National Association of Realtors®. June 21, 2022. "Existing-Home Sales Fell 3.4% in May; Median Sales Price Surpasses \$400,000 for the First Time." <https://www.nar.realtor/newsroom/existing-home-sales-fell-3-4-in-may-median-sales-price-surpasses-400000-for-the-first-time>. Accessed June 27, 2022.

⁹ Chris Arnold. *NPR*. May 12, 2022. "Home prices could fall in some U.S. cities. Here's where and why." <https://www.npr.org/2022/05/12/1097979009/home-prices-could-fall-in-some-u-s-cities-heres-where-and-why>. Accessed June 27, 2022.

¹⁰ Jeff Ostrowski. *Bankrate*. June 24, 2022. "Today's mortgage and refinance rates, June 24, 2022 | Most rates fall." <https://www.bankrate.com/mortgages/todays-rates/mortgage-rates-for-friday-june-24-2022/#:~:text=30%2Dyear%20mortgage%20eases%2C%20%2D,was%20lower%2C%20at%205.29%20percent>. Accessed June 27, 2022.

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