

THE PFS INVESTMENT COMMITTEE

U.S. HOUSING MARKET ANALYSIS

A white paper from the PFS Investment Committee on the state of the housing market in 2022 and a forecast for 2023

ABSTRACT

The housing market is a popular topic of discussion, both in the media and among individuals and communities. The housing market is an important aspect of the economy and can have significant effects on individuals and communities. Understanding the housing market can help individuals make informed decisions about buying or selling a home, as well as help them understand the factors that may impact the value of their home. It can also help policymakers and stakeholders make informed decisions about housing policy, such as policies related to affordable housing and housing finance.

Additionally, changes in the housing market can have broader economic implications, as the housing market is often seen as a bellwether for the overall economy. As a result, it is important for individuals, policymakers, and other stakeholders to have a basic understanding of the housing market and its impacts.

THESIS

In 2022, the rapid rise in mortgage rates and limited availability of homes caused a significant slowdown in home sales. This drop in sales has resulted in a decrease in the appreciation of home prices, shifting the balance of the housing market away from the sellers. It is expected that market prices will remain stable or potentially decrease slightly in 2023.

INTEREST RATE AND HOUSING MARKET CORRELATION

There is a strong correlation between interest rates and housing market prices. Generally, when interest rates are low, housing prices tend to rise, as low rates make

it easier for people to obtain mortgages and afford homes. On the other hand, when interest rates are high, housing prices tend to be more subdued, as high rates make it more difficult for people to afford mortgages and enter the housing market.

One reason for this correlation is that interest rates and housing prices both reflect the overall state of the economy. When the economy is strong and growing, interest rates tend to be higher, as there is more demand for borrowing and investing. This can lead to higher housing prices, as more people have the financial means to buy homes. Conversely, when the economy is weaker, interest rates tend to be lower, as there is less demand for borrowing and investing. This can lead to lower housing prices, as fewer people have the financial means to buy homes.

Another reason for the correlation between interest rates and housing prices is that interest rates play a key role in determining the affordability of homes. When interest rates are low, it is easier for people to afford the monthly payments on a mortgage, which can increase demand for homes and drive-up prices. When interest rates are high, it is more difficult for people to afford the monthly payments on a mortgage, which can decrease demand for homes and cause prices to drop.

BACKGROUND OF HOUSING MARKET PRICES

The history of housing market prices is a long and complex one, as it is influenced by a variety of economic, demographic, and political factors. In the 1990s, the housing market experienced strong growth because of low interest rates and a strong economy. This led to a surge in home ownership and the construction of new homes. However, the market cooled in the early 2000s due to a recession and the collapse of the dot-com bubble. The housing market rebounded in the mid-2000s, driven by low interest rates and relaxed lending standards. This led to a housing boom and a significant increase in home prices. However, the market eventually cooled because of the financial crisis of 2007-2008, which was triggered in part by the collapse of the subprime mortgage market. The crisis resulted in a significant drop in home prices and a rise in foreclosures.

In the years following the financial crisis, the housing market recovered slowly but steadily. Low interest rates and improving economic conditions helped to boost the market, and home prices began to rise again. However, the COVID-19 pandemic and related economic downturn in 2020 disrupted the housing market, leading to uncertainty and a slowdown in sales activity.

CURRENT STATE OF THE HOUSING MARKET

Today, the U.S. housing market has been experiencing record high home prices across the nation in recent months, with the national average home price climbing

29% since the start of the COVID-19 pandemic in 2020.¹ However, rising mortgage rates have put pressure on the market, causing some buyers to back off and slowing down home sales.² The average 30-year mortgage rate in 2022 reached a high of 7.37% in October, the highest level since 2002 and a significant increase from the record low of 3% in 2020 and 2021.³ The combination of high home prices and increased mortgage rates has made the already expensive housing market even less affordable for many buyers. As a result, existing home sales have declined for nine consecutive months, reaching their lowest level since 2011.⁴

Despite the slowdown in sales, the housing market is still expected to favor sellers, as there is currently an excess of demand for houses and not enough homes to sell. This has led to a slight decrease in housing prices, with the U.S. Price Index released by the Federal Housing Finance Agency showing a 0.7% drop in nationwide house prices in August.⁵ It is uncertain whether housing prices will continue to decline in the coming years, as it will depend on the Federal Reserve's ability to control inflation and ease up on its aggressive rate increases.⁶ Regardless of macroeconomic conditions, individual life events such as the birth of a child, marriage, or a job change will continue to drive millions of Americans to buy and sell homes.⁷

CONCLUSION

The housing market in 2022 was impacted by several factors, including a rapid rise in mortgage rates and limited availability of homes. This led to a slowdown in home sales and a decrease in the appreciation of home prices, which resulted in a shift in the balance of the market in favor of buyers. It is predicted that market prices will remain stable or potentially decrease slightly in 2023.

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¹ <https://www.noradarealestate.com/blog/housing-prices/>

² <https://www.bankrate.com/real-estate/housing-market-predictions-2023/#mortgage-rates>

³ <https://www.forbes.com/sites/qai/2022/12/20/is-the-real-estate-market-slowing-down-what-to-expect-in-2023by-the-numbers/?sh=4a1a30c9a582>

⁴ <https://themortgagereports.com/61853/30-year-mortgage-rates-chart>

⁵ <https://www.forbes.com/advisor/mortgages/real-estate/housing-market-predictions/>

⁶ <https://www.yahoo.com/now/mortgage-rates-down-1-125-223122092.html>

⁷ <https://www.goldmansachs.com/insights/pages/why-home-prices-are-poised-to-fall.html>