RESEARCH BRIEF
HOUSING OUTLOOK

IPA INSTITUTIONAL PROPERTY ADVISORS

JANUARY 2023

New Year Brings Familiar Challenges for Prospective First-Time Homebuyers

Affordability constraints remain the key storyline in 2023. Prospective homebuyers are encountering the compounded effects of a pandemic price run-up and subsequent surge in mortgage rates. Adding to those challenges is a growing concern over a potential economic slowdown or recession. The possibility of stalled career advancement makes taking on sizable long-term debt unappealing. Residents that have been waiting for the opportune moment to buy a home will struggle to find much relief this year. The average 30-year fixed-rate mortgage entered 2023 above 6 percent, and could remain heightened as the Federal Reserve continues to fight inflation. At the same time, the cost of a single-family house remains roughly $100,000 higher than the pre-pandemic measure, even as buying activity cools, due to a still-low inventory count and limited incentive to relocate.

Less favorable labor market puts lid on home listings. The employment landscape is shifting as firms across various industries brace for economic headwinds by drawing back hiring activity and shrinking personnel counts. A softening labor market has implications for the housing sector. Many workers could feel more secure staying in their current role rather than relocating for a new position, reducing the incentive to list their home for sale. Additionally, fewer opportunities to advance one's career may keep homeowners in their existing dwelling, rather than moving up the quality scale. These factors will keep home listing activity relatively muted in 2023, which could shield the housing market from a significant price drop.

Multifamily serves as a vital outlet for young adults. Elevated inflation, combined with economic uncertainty, has strained household budgets, reflected in rising credit card debt. Shoring up personal obligations may take precedence over saving for a down payment in 2023 and beyond. This will likely push more young adults to rent for longer, taking advantage of apartment rents that significantly undercut monthly mortgage payments on average. These cost-saving factors reinforce the desirability of apartments.

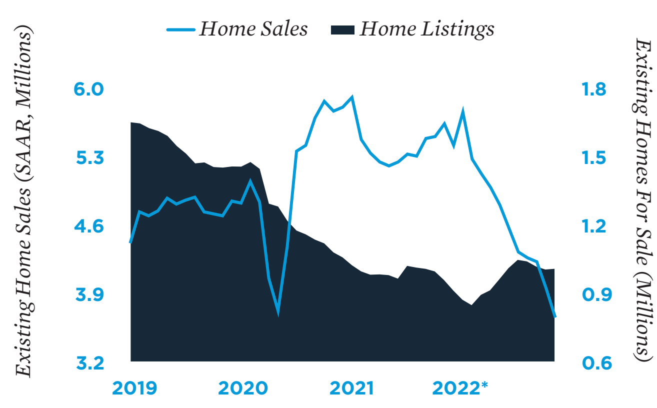
2023 Trends to Watch

Development deceleration could magnify housing shortages. In November of last year, the number of residential project permits fell to a 29-month low, including a near-30 percent year-over-year drop within the single-family segment. This downward trend could continue in 2023, as builders respond to softer buyer demand and higher borrowing costs. Decreasing home construction could exacerbate shortages and sustain headwinds for prospective homebuyers in the medium term, as a lack of for-sale inventory has been the primary driver behind the rapid home price elevation since the onset of the pandemic. This reiterates how apartments can help satisfy excess housing demand in the coming years.

Higher-income residents opting for luxury rentals. During the second half of last year, the average monthly income of a Class A renter was about $10,000, compared to $8,100 in the same period of 2019. Barriers to entering the single-family home market are encouraging more affluent residents to choose high-end apartments. This could produce longer-term tailwinds for Class A apartment demand, once the economy is back on solid ground.

-35.2%	*Year-Over-Year Change in Existing Home Sales*	**3.3**	*Months' Supply of Existing Homes at Current Sales Rate*

Listings Stay Low, Despite Big Drop in Purchases



** Through November*

Sources: IPA Research Services; Capital Economics; Freddie Mac; Moody's Analytics; Mortgage Bankers Association; National Association of Home Builders; National Association of Realtors; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau; Wells Fargo