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Why Fed's Rate Changes Are Always Measured in Quarters

How using a "blunt instrument" can help it achieve its goal of a "soft landing."

It's all eyes on the Federal Reserve for housing industry followers, analysts and participants as the waiting game on its fight against inflation should continue for at least another six months, according to managing partners Michael J. Romer and Pierre Debbas at Romer Debbas LLP.

The New York City-based firm, and one of the largest residential practices, forecasts that while transaction volume has plummeted, and the correction will lag, there's simply no sense of urgency.

"Buyers and sellers alike want to see how the market will shake out," the firm said, citing that "generally speaking, market cycles take six months."

Debbas tells GlobeSt.com that any correction and turnaround in the market is solely tied to what the Fed does with interest rates next year.

"Many are anticipating another rate increase in Q1 and are hopeful that inflation will subside and thus the fed will pause on further rate increases," he said.

"If this is in fact the case, then banks should lower interest rates on mortgages and thus we will see an uptick in activity in the residential and commercial markets towards the second half of 2023."

However, should the Fed continue in the manner that it has this year," then we will be in for a very ugly 2023 which will have a drastic decrease in transaction volume and a stagnant market," Debbas said.

Pricing Won't Substantially Decline

The firm also predicted that pricing will not substantially decline next year.

"Over the last three years, housing prices appreciated at an unsustainable rate of approximately 20% each year," it said in a release.

"Although aggressive interest rate hikes tempered further price appreciation, due to the nationwide lack of inventory, we will only see single digit declines.

Additionally, Romer Debbas does not expect a housing bubble burst and first-time homebuyers are expected to stay on the sidelines.

Meanwhile, well-qualified buyers “will be just fine because banks are still lending, and appraisals have not been an issue,” it said.

“These buyers are using the current environment to negotiate a better deal now, betting on the fact that they can refinance when interest rates decline in the next few years.”

Ready to Move On

Sales of new homes were down nearly 36% over last year in November, as consumer confidence remains low and mortgage rates continue to rise, GlobeSt.com reported Nov. 22.

According to Zonda, new home sales totaled 478,221 on a seasonally adjusted annualized rate in November, down 10.6% from the prior month and 35.9% lower than sales a year ago.

https://www.globest.com/sbm-gbst/2022/12/27/federal-reserve-controls-the-fate-of-2023-housing-market/