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Investors Are Fleeing the Home-Buying Market

Q4 saw the biggest slump since the pandemic, according to Redfin.

The high cost of borrowing continues to affect the single-family home purchase market with investors clearly fleeing the space, according to Redfin.

U.S. home sales fell a record 45.8% year over year in the fourth quarter and investor purchases slumped 27% on a quarter-over-quarter basis, the largest quarterly decline on record aside from the beginning of the pandemic. That's comparable with the 28.1% quarterly drop in overall home purchases.

Investors purchased 17.8% of all homes that were bought in the metros tracked by Redfin in the fourth quarter. That's comparable with 17.6% in the prior quarter and down from 19.4% a year earlier.

Investors Seek a 'Clear' Picture

The steep decline in investor demand for housing stems from the fact that interest rates more than doubled in less than nine months in 2022 and pricing across the country is being called into question, Pierre Debbas, managing partner at real estate law firm Romer Debbas, tells GlobeSt.com.

"Such a drastic change in the market will drive capital to the sidelines until investors can have a clear picture of what the new interest rate environment will be and what the real impact this will have on pricing, which the latter has yet to be determined in most markets in the country," Debbas said.

In addition, David Auerbach, managing director, Armada ETF Advisors, tells GlobeSt.com that investors are still seeing negative leverage on acquisitions. "With no moderation in sight combined with rising construction costs, we could be in this long runway of declining home sales throughout the entire year.

"Until the Fed starts cutting interest rates which lead to mortgage rates coming down significantly, it will continue to benefit the rental products on the market."

Indeed, the rental market remains strong "as homeowners locked into low interest rates are holding onto their prior properties and converting them to rentals," Dana Dunford, CEO at Hemlane tells GlobeSt.com.

"We've seen an increase in these accidental landlords over the past 12 months. They're looking for great service and full transparency at a great price."

Vegas Home Purchases Fell Most

Redfin senior economist Sheharyar Bokhari said in prepared remarks that it's possible that investors will start to wade back into the market this year given that mortgage rates have ticked down from their 2022 high—especially if home prices show signs of bottoming.

"But it's unlikely that investors will return with the same vigor they had in 2021," Bokhari said. "That's good news for individual buyers, who are still grappling with high housing costs but no longer losing bidding war after bidding war to investors."

Las Vegas investor home purchases fell most in the US, down 67% year over year in the fourth quarter. It was followed by Phoenix (-66.7%), Nassau County, NY (-63%), Atlanta (-62.8%), and Charlotte, NC (-61.9%).

Meanwhile demand across the Sunbelt continues to prevail. Carolina Gerdts, executive vice president, RelatedISG Realty tells GlobeSt.com that Florida, for example, has a unique real estate scenario. "In fact, demand across all Sunbelt states continues to prevail, home prices are rising, and inventory remains tight.

"Investors' eyes have been looking for every opportunity to make a purchase because they know the history of appreciation in the area. Additionally, the cost of borrowing is around 6% today on a 30-year fixed mortgage rate (the rate moved to 6.75% on Tuesday), which is still considered historically low and presents opportunities for those trying to start or increase their portfolio."

Investor Space is Less Crowded

Kurt Carlton, president and co-founder of New Western, a private marketplace for residential investment properties, tells GlobeSt.com that it's important to understand why transactions were down in Q4.

"We saw a somewhat significant decrease in activity from both iBuyers and institutional buyers, while local independent investors saw lower declines, all contributing to an overall slowdown in market activity," Carlton said.

"What we saw in Q4 was better deals and less competition for the local independent investors and the beginning of an upswing. Since the start of Q1, we're seeing a lift in activity – about a 10% increase from Q4 in units sold [in some cases]."

Redfin's report considers an investor to be anyone that is listed in the county record as an owner of an LLC, which casts a large net with a broad perspective, Carlton said.

"Another factor to consider is the large exit and current absence of iBuyers in the market," he said. "Those institutional investors like Zillow Offers and Opendoor have retreated, making the space less crowded and actually opening up opportunities for the local independent investors. In a lot of ways, they've just given back the market to the local flippers, investors, and solopreneurs who have the expertise, down the block, in their markets.

“Local independent investors are nimble and can pivot strategies, so they’re buying more properties to fix and rent and hold for the long term while mortgages continue to be more expensive than rent in markets across the country.”

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