Housing market predictions: Six experts weigh in on the real estate outlook in 2023


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The pandemic housing market boom, which saw home prices go up by 40% over a two-year period, began slowing down in the second half of the year as mortgage rates doubled compared to the beginning of the year.

As the Federal Reserve sought to tamp down decades-high inflation with rate hikes throughout the year, rising mortgage rates contributed to the growing mismatched expectations between buyers and sellers. Homes sat on the market for months as sellers continued to price homes at rates buyers could no longer afford. Contracts were cancelled, asking prices were slashed and inventory levels dropped.

After crossing 7% in October, mortgage rates have been falling steadily over the last four weeks, which could offer some relief to buyers but might not offset still-high asking prices.

So, what's ahead for the housing market in 2023? We spoke to six experts for their predictions.

The Federal Reserve and mortgage rates

The Fed raised its key short-term interest rate by half a percentage point Wednesday, a smaller hike than its previous four, as inflation showed signs of easing.

The Fed also indicated that the economy would be grappling with slower growth, higher unemployment, and higher inflation in 2023.

Weaker growth typically leads to lower long-term interest rates, including mortgage rates, says Mike Fratantoni, chief economist for the Mortgage Bankers Association.

"The housing market has certainly welcomed the recent decline in mortgage rates," he said. "This decline is reflecting market expectations of being near the peak for short-term rates, as well as increased signs that the U.S. is headed for a recession next year."

Innovations in mortgage finance

Housing finance has reached an inflection point, says Janneke Ratcliffe, vice president, Housing Finance Policy Center at the Urban Institute.

She expects to see innovation to accelerate with lenders, startups, advocates, researchers, and policymakers actively pushing the envelope around what's possible in mortgage finance.

"We're seeing pilots and new programs around alternatives in credit scoring, artificial intelligence, climate adaptation, manufactured housing, and more," she says. "Not only does the industry see the problems of inequality, but many players are also actively voicing their commitments to close the racial homeownership gap."

Ratcliffe also expects to see increased use of adjustable-rate mortgages, which made up 12% of total applications in November, up from 3.3% in November 2021.

"Would-be homebuyers should not fear this financial instrument," she says. "Their use has always been common, and regulatory reforms instituted after the Great Recession have substantially mitigated their risk."

No ‘foreclosure tsunami’

Foreclosure is the result of two simultaneous triggers: the lack of ability to pay, which results in delinquency and the lack of equity in a home, says Odeta Kushi, deputy chief economist for First American Financial Corporation.

With enough equity, a homeowner has the option of selling the home or tapping into that equity to weather a temporary financial setback. The inverse — a lack of equity in the home without a financial setback that leads to delinquency — will again not end in a foreclosure.

Homeowners have very high levels of tappable home equity today, providing a cushion to withstand potential price declines, but also preventing housing distress from turning into a foreclosure, says Kushi.

“In fact, if distressed homeowners are required to resolve delinquency, given their equity buffers, involuntary sales are much more likely than foreclosures,” she says. “While we can expect the number of foreclosures to drift higher as the labor market slows and house prices fall from their peak, the result will likely be more of a foreclosure trickle.”

Housing inventory will remain low

The chronic lack of listing inventory has been the key driver of price gains during the pandemic-era housing boom, and it will be the key underpinning of prices during 2023, says real estate appraiser Jonathan Miller, who prepares the monthly Douglas Elliman Real Estate report for New York City.

“Listing inventory was piled to the sky in past housing downturns,” says Miller. "Consumers are wedded to the low rates they refinanced into or purchased homes during the boom. Excess supply is not the story for 2023 because, even with modest listing inventory growth, price declines should be kept to a minimum.”

Redfin forecasts about 4.3 million home sales in 2023, which is fewer home sales than in any year since 2011 and a decrease of 16% year over year.

Declining home prices

While there will be no wave of foreclosures, home prices will decline in 2023, says Taylor Marr, deputy chief economist for Redfin.

Marr expects the median U.S. home-sale price to drop by roughly 4% in 2023. Even with prices falling 4% year over year, homes will be much less affordable in 2023 than they were before the pandemic homebuying boom, he says.

“Taking next year’s projected prices and mortgage rates into account, the typical homebuyer’s monthly payment will be about 63% higher in 2023 than it was in 2019, just before the pandemic began.”

Home prices will decline the most in pandemic boomtowns while markets in the Midwest and Northeast will hold up best, says Marr.

Prices are expected to fall most in pandemic migration hotspots like Austin, Boise and Phoenix, as well as expensive West Coast cities. Meanwhile, housing markets in relatively affordable Midwest and East Coast metros, especially in the Chicago area and parts of Connecticut and upstate New York, will hold up relatively well.

“Those areas tend to be more stable than expensive coastal areas, and they didn’t heat up as much during the pandemic homebuying frenzy, meaning they also don’t have as far to fall,” he says.

New home construction

Single-family housing starts is set to post a calendar decline in 2022, the first such drop in 11 years, despite a persistent structural deficit of housing in the U.S, according to the National Association of Home Builders.

Home builder sentiment, as measured by the NAHB/Wells Fargo HMI, has declined for 11 straight months, signaling an ongoing contraction for home building in 2023.

“Single-family home building will ultimately lead a rebound for housing and the overall economy in 2024 as interest rates fall back on sustained basis, bringing demand back to the for-sale housing market,” says Robert Dietz, chief economist for the National Association of Home Builders.

Dietz also expects multifamily construction volume will fall back in 2023, after a very strong year in 2022. Multifamily home building, which is more than 95% built-for-rent, experienced strength in 2022 as mortgage interest rates increased and for-sale housing affordability conditions declined.

“However, there are nearly 930,000 apartments under construction, the highest total since January 1974,” he says. “A rising unemployment rate, increased apartment supply, rising vacancy rates and slowing rent growth will slow multifamily construction next year."

Building conversions?

Commercial to residential conversions will stay more talk than action, according to Marc Norman, associate dean of the NYU School of Professional Studies' Schack Institute of Real Estate.

"We've lived with the pandemic for almost three years, but that still is not enough time to shift ownership, financing, and regulatory systems for conversion of underutilized office space," he says. "We might see the beginnings of conversions, but most buildings will stay in limbo due to long term commercial leases and the continuing high cost of financing."

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