



THE STATE OF THE MARKET: WINTER 2023

*What You Need to Know &
the #1 Key to Success*

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THE STATE OF THE MARKET: WINTER 2023

WHAT YOU NEED TO KNOW & THE #1 KEY TO SUCCESS

Home buyers in the current housing market are facing fluctuating mortgage rates, rising home prices, and a recession. Many sellers are concerned with how they will buy a new home once they've sold, and if it's worth selling in an uncertain economy.

We'll break down the issues home buyers and sellers are facing, as well as the solutions being offered to find success in today's real estate market.

HOW DID WE GET HERE?

One of the biggest questions being asked is how did the housing market end up this way? With many people concerned about the possibility of repeating the housing crash of 2008, home buyers are trying to understand the difference in market difficulties in 2008 versus 2023.

In 2008, the housing crash was due largely in part to predatory lending practices and mortgages that couldn't be paid back, while 2023 is very different. Not only are there stricter standards in lending now, but people are better off financially than they were in 2008 (which allows them to afford the homes they live in more easily). The values of homes are also in a much better place than they were in 2008. Another thing that is very different in 2008 versus 2023 is the inventory of homes available.

Q: "Does entering a recession mean we are heading into a housing crisis?"

A: "No, a recession does not mean we are entering a housing crisis. In fact, in 4 of the last 6 recessions, home values actually went up! So if you are worried about the housing market because of the possible recession, let's chat."

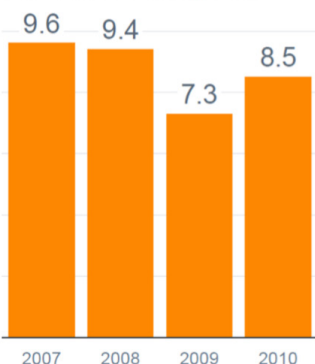
INVENTORY OF HOMES

Inventory in most housing markets of the country was limited in 2022. This resulted in bidding wars and people paying well over asking price to have their offer accepted. In 2023, buyers will have more room to negotiate as inventory widens slightly, with around 4.3 million homes sales expected this year. That being said, the difference in inventory between now and 2008 is astonishing.

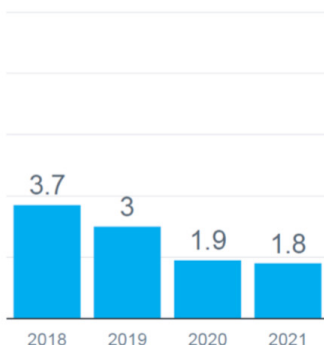
Inventory of Homes Nothing Like Last Time

Months Supply of Existing Homes for Sale in December of Each Year

Four Years of Housing Crash



Last Four Years



Source: NAR

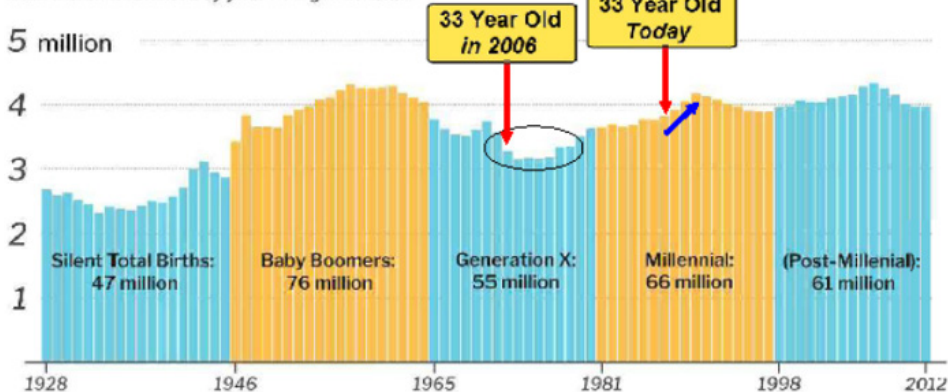
In December 2008 there were 9.4 million homes available for purchase. In December 2021, there were 1.8 million homes available for purchase. In fact, in 2021, there were 6.12 million homes sold. This is the highest level of existing home sales since 2006!

Part of this is due to the explosive growth we've seen in births. For example, in

2006 there were 55 million 33-year old's, known as Generation X. Comparing that to Millennials, or a 33-year-old in 2022, there are 66 million. Eleven million more people at the prime age for homeownership makes a big difference in availability.

Births Underlying Each Generation

Number of U.S. births by year and generation



Source: MBS Highway

In fact, there were 12 million more households in 2020 than in 2007. However, this inventory shortage is nothing like the housing crash of the 2000's. In 2008 there were an average of 9.4 million homes available for sale in December. In the same month of 2022, we saw roughly 1.6 million homes available for sale. 12 million more people with almost 8 million less homes for sale doesn't make for easy home buying.



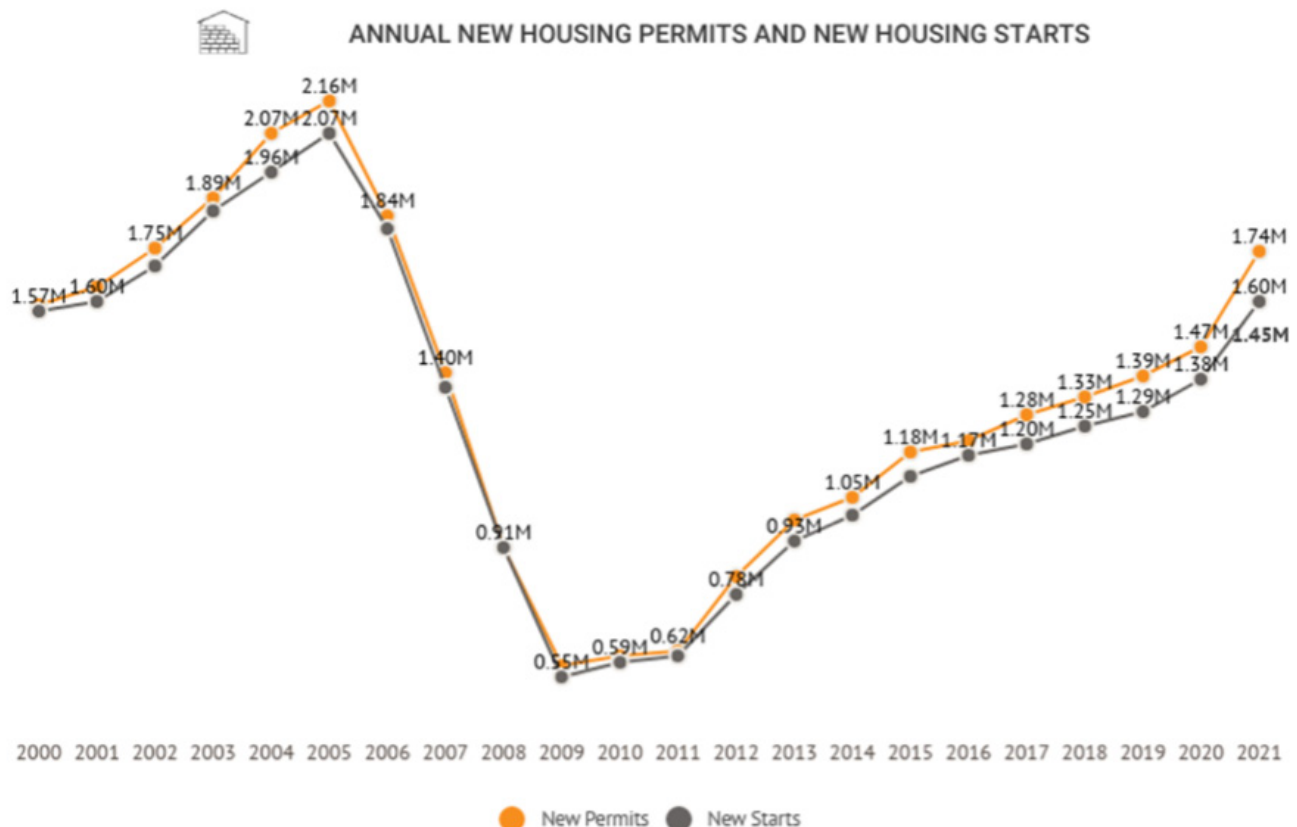
Source: FactSet

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It's important to note that there are many more home purchases being made by investors; 18% in fact. As investors buy homes to rent out, whether short-term or long-term, it lessens the purchase inventory for home buyers. This is only made worse with new construction builds not being able to keep up with demand.

18%
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investors.

Demand is expected to outpace supply for the next three to four years, although new construction builds will increase slightly in 2023. While the tight supply will be supportive of home prices, the overall costs of buying a home is still alarming.



Source: U.S. Housing Starts Data (2022): Historical Charts and Statistics ([ipropertymanagement.com](https://www.ipropertymanagement.com))

RISING COSTS

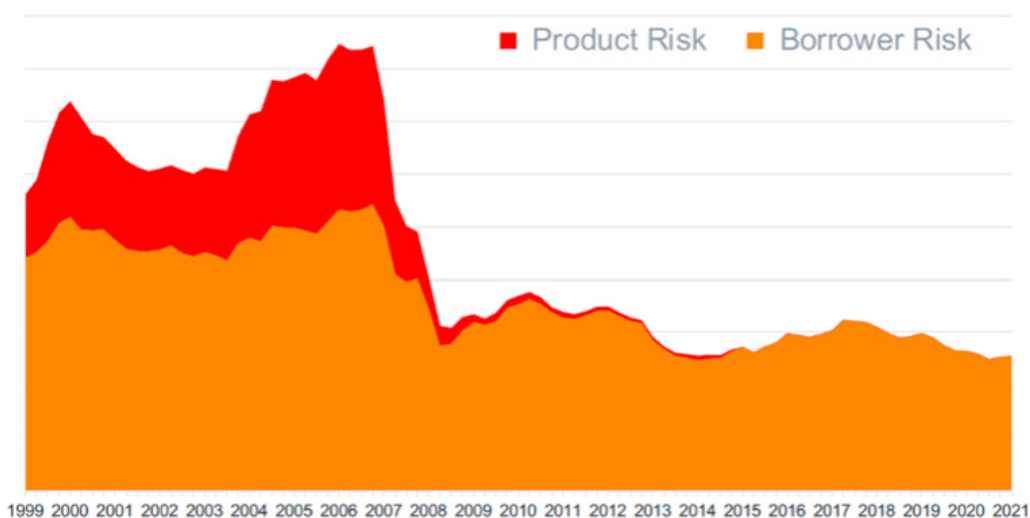
When the housing market crashed in 2008, there were many issues at hand. One of the biggest was predatory lending. Mortgage rates were lowered which caused home prices to jump up. (Before you think this sounds familiar, keep reading!) When these loans were sold, people were then sold sub-prime loans, which are loans for people who have been turned down by mainstream lenders due to their financial standing.

As this happened, the requirements and standards for many big banks were eased, allowing these financial institutions to take on more borrowed money. Coupling this change with rising interest rates caused many home prices to fall, which means people were losing money on their homes. As people filed bankruptcy, the banks that had taken on too much debt were losing money as well.

This was effectively known as the housing crash of 2008, which led to a bailout for Wall Street, but not homeowners.

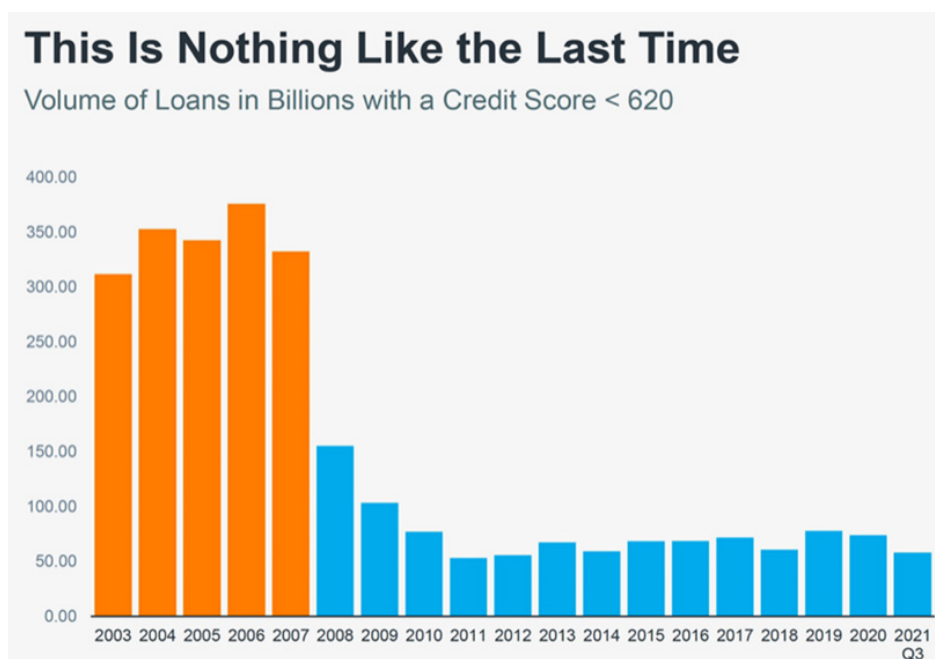
Lending Standards Nothing Like Early 2000s

Default Risk in the Mortgage Market (1999-2021)



Source: Urban Institute

Now, how is this different than what we're going to experience in 2023? While we did see lower mortgage rates in 2020 and 2021 and a rise in rates now, there has been mortgage reform that has stopped the predatory lending practices that caused some of the downfall in 2008. The quality of loans is very different. As you can see in the graph below, in 2007 there was over \$300 billion in loans for people with a credit score less than 620. In 2021, there was less than \$50 billion in loans for the same credit score demographic.

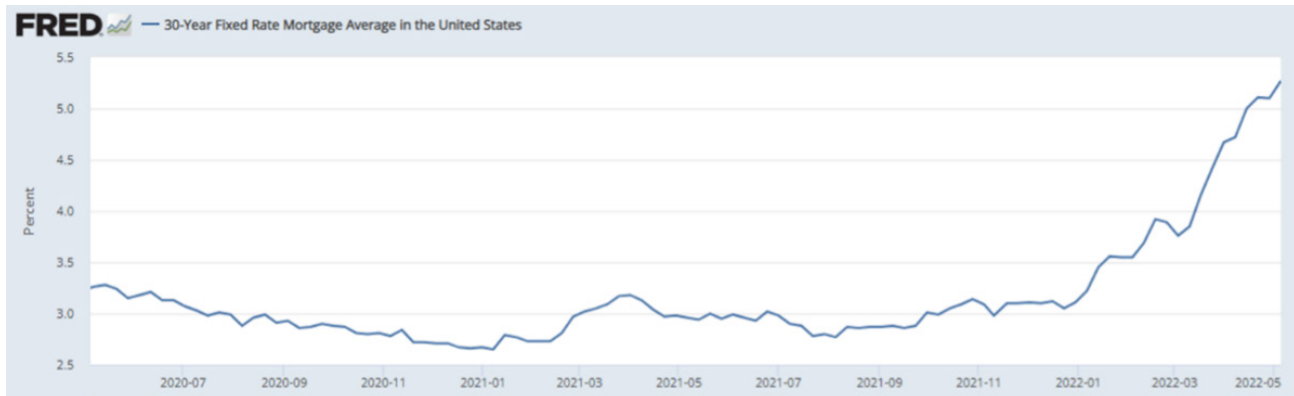


Source: Federal Reserve

The rising costs today are based on the amount of people in the market to buy, coupled with appreciation of homes. For the past century, there's been an average of four to five percent, but that changed in 2020. Homes have appreciated at 32% since 2020, 18% in 2021, and 8.6% in 2022. While that is expected to slow in 2023, the impact appreciation has had on home sales is huge.

Home values appreciated
32% since 2020, 18% in
2021, and 8.6% in 2022.

Rates have also increased in 2022. In December of 2020, mortgage rates were as low as 2.68%, with an average monthly payment of \$1,466. As of late 2022, rates have risen to over 7%, with an average monthly payment of over \$2,000. Coupling the selling prices for homes with the rise in rates, first-time home buyers are essentially being squeezed out of the home buying market.



Source: Freddie Mac

This puts home buyers in a difficult position as rent prices are increasing across the country, making buying a home even more important to build wealth. Nationally, rent has risen over 14% in 2022, putting many first-time home buyers in a precarious position to continue paying rent while saving for a home.

For sellers, the current real estate market is bittersweet. Many buyers are willing to forego contingencies and use the asking price for a home as a mere suggestion, allowing sellers to make far more off their home than they normally would, but will sellers be able to find a home to buy once they've sold? Another change from 2021 is that homes are staying on the market longer, with an average of 56 days as of November 2022. This shows that the pendulum is swinging (slightly) back in the favor of buyers as we head into 2023, and that sellers may not have quite as many offers to choose from.

Nationally, rent
has risen over

14%

HOW TO BE SMART WHEN YOU BUY

In 2023, owning a home is still one of the best ways to build wealth long-term.

None of this is meant to discourage buyers from purchasing a home. It's a matter of doing so in a smart way that allows you to make an investment on a home and then build wealth through it. If purchased properly, real estate is a proven way to protect oneself from some of the issues that come with inflation.

Looking at the affordability of homes, we are still in a much more affordable range than we were in 2007. 34.1% of a buyer's total income was needed to make the monthly principal and interest payment for an average-priced home with 20% down in 2007. In late 2021, we were at 31% of a buyer's total income. While that isn't as affordable as we'd prefer, it's not nearly as bad as it was in the housing crash of the 2000's.

To buy today, it will require discipline. The ideal down payment is 20%, but many first-time home buyers are putting between 5 and 10% down, all while finding innovative home loan solutions. One such mortgage plan is Rate Relief. This unique loan program allows the seller or builder to buy down the rate of the buyer for the first 24 months of payments. This means the buyer will lock in their original rate, pay 2% less the first year, 1% less the second, and the full rate the third year.

In addition, leveraging the exclusive Home Buyer Edge program by Churchill Mortgage can make all the difference. Designed to give buyers the competitive advantage needed to win in today's real estate market, Home Buyer Edge essentially supports the buyer from all angles to help get your offer accepted.



**Certified
Home Buyer**



**Rate
Secured**



**Seller
Guarantee**



**Rate
Reset**



This unique portion of the Home Buyer Edge program sets buyers up like you're making a cash offer. It's considered the gold standard of pre-approvals, with most of your paperwork going through underwriting well before closing. This makes things as stress free as possible while allowing you to close quickly, and helps your offer stand out to sellers.

With rates continuously fluctuating, locking in your interest rate has never been more important. Rate Secured allows buyers to cap your rate for 90 days while searching for a home. If rates go down, you get the lower rate.

And if rates go up, yours won't!



This offers the seller a \$5,000 incentive, in addition to the earnest money provided by buyer, if you are denied for any reason other than a home inspection, title, survey, appraisal, or breach of contract issues.

Don't miss out on the opportunity to build equity by waiting for rates to drop. With Rate Reset, you can buy now, start building equity, and refi later with a credit of up to \$1,000. You'll buy your home at today's interest rate. Our team will keep an eye on rates for you, looking for a lower rate than you currently have. If you refinance within two years, you'll receive up to \$1,000 toward your closing costs!



YOUR HOME BUYING TEAM MATTERS

While there are a few options here, your Churchill Home Loan Specialist will be the expert on what the best plan is for your unique situation.

More important than any program is working with a lender who's committed to doing what's right for you. The team of experts at Churchill Mortgage work with your long- and short-term goals to find the smartest mortgage plan possible for you.

Being a home buyer or seller in 2023 comes with many questions, but it doesn't have to be as difficult as the media makes it out to be. With the right financial plan, homeownership is possible, and a great investment in your future. It just takes a trusted team and good education. Your Home Loan Specialist from Churchill Mortgage can provide both.

**MORE QUESTIONS ABOUT THE MARKET?
REACH OUT TO YOUR LOCAL HOME
LOAN SPECIALIST TODAY!**



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In the initial 90-day period. Rate Secured is available on Conventional Conforming (primary and secondary homes), High Balance and No Score fixed-rate products. Not available on investment, government or jumbo. The Churchill Certified Home Buyer program is not a commitment to lend funds and is not an approval but is a conditional approval subject to your acceptance of the terms and the conditions being fully satisfied prior to closing. All conditions are subject to final underwriting and final investor approval. The certification is subject to the financial status and credit report(s) of everyone on the application remaining substantially the same until closing, an acceptable contract of sale on a suitable property, collateral (the appraisal, title, survey, condition, and insurance) satisfies the requirements of the lender and loan selected is still available in the market. All closing conditions of the lender must be satisfied including the clear transfer of the title, acceptable and adequate title and hazard insurance, flood certification, and any inspections that are required by the real estate contract. Seller Guarantee is for qualifying borrowers and select loan types only and are not available in all states or locations. Offer only valid on home loans closing on or before December 31st, 2023.

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