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Real estate investors are retreating from the housing market at a record pace

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Home purchases by real estate investors fell 48.6% in the first quarter from a year ago, the largest annual decline since Redfin began tracking records in 2000, the company reported.

The group's retreat surpassed the market's overall 40.7% decline in purchases, as elevated interest rates plus declining rents and home values pulled down profitability.

The conditions also prompted investors to focus on more affordable properties. Low-priced home purchases climbed to a two-year high, and a record 41.1% of investor purchases in the quarter were starter homes.

"While investors have pumped the brakes on home purchases, they're still scooping up a bigger share of homes than they were before the pandemic, which can create challenges for individual buyers at a time when there are so few homes for sale," Redfin Senior Economist Sheharyar Bokhari said in the report.

Investor purchases accounted for 17.6% of the market, down from last year's peak of 20% but still the second highest rate since data collection began as individual homebuyers are becoming priced out.

Mortgage rates shot up last year in the wake of the Federal Reserve's interest rate hikes and remain elevated, with the 30-year fixed rate at 6.63% after climbing past 7% earlier this month.

Despite often using cash, investors are also affected by higher rates, as they depend on non-mortgage loans to fund renovations and related expenses.

The downtrend may continue to extend into the second quarter, given that investors find it more costly to borrow. And as economic uncertainty persists, Redfin predicted that this may prompt some investors to move into other asset classes, such as stocks and bonds.

During the pandemic, investors were active in the housing market, taking advantage of low interest rates and immense demand.

But in March, 13.5% of homes sold by an investor sold at a loss, with the share rising to 20.8% for home flippers.