Investor Interest Levels Off

AFTER A FRENZIED MARKET DURING THE PEAK OF COVID, INVESTOR PURCHASES ARE FINALLY BEGINNING TO STABILIZE, NOT SLOW DOWN

By SARAH WOLAK, STAFF WRITER, ***MORTGAGE BANKER MAGAZINE***

After years of soaring property prices and a red-hot real estate market, property investors are now facing a new reality: what goes up, must come down. As the global economy faces unprecedented challenges, property investors are seeing a shift in the market, with prices beginning to cool and demand starting to wane.

Following a record spike in the middle of the COVID-19 pandemic, investor purchases have fallen the most on record at 45.8% – which beats the 45.1% slump in the middle of the 2008 housing crash. A recent Redfin report showed that one out of every seven homes an investor sold was sold for less than paid for – causing many to lose out on any gain potential.

But it's all about perspective. Redfin frames this data as being a red flag for the investor community, but others aren't worried about the seemingly abrupt drop in purchases. Melissa Deal, head of sales at Haus Lending, says that the drop in activity is merely investor purchases leveling off following a period of rapid activity between mid-2020 and early 2022. In 2021, investor home purchases grew by 64% over 2020 after being dampened by the onset of the pandemic but nevertheless grew by 39% compared to 2019, according to Realtor.com.

"While activity did drop, we have to look at that near-150% spike. But when you even out that huge spike with the gains and losses, it evens out," Deal said. "While there still is a loss, there wasn't a huge spike in 2006 or 2007 right before the 2008 investor activity crash."

Melissa Deal
Haus Lending

For Deal, this isn't anything to be concerned about, and it certainly isn't an indicator of a recession. After all, the too-good-to-be-true numbers needed to come down at some point. "Trees can't grow to the sky, the number couldn't keep going up," Deal laughed. "For a while, [investor home purchases] hovered around an average of thirty or forty thousand units pre-pandemic, spiked up to 150,000, and now it's down. But we're still on a gradual, stable trajectory."

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> Haus Lending

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> **Fred Matera**
Redwood Trust

Gregg Kennedy, Haus’ managing director of loan originations, says that investor activity is cyclical and that good, savvy investors know how to still be profitable.

Gregg Kennedy
Haus Lending

Fred Matera
Redwood Trust

‘SOMEWHAT HEALTHY’

“If anything, the market is finally normalizing after a frenzy during peak COVID times,” Kennedy said. “In terms of demand, we’re picking up but still seeing a somewhat healthy market. People are taking a bit longer to pay off loans and pay us back. … I think a lot of [investors] are faking it until they make it.”

Deal says that investors seemingly “pulling back” (according to the data) isn’t a message of panic. She pointed out that a lot of the market’s risk factors have dissipated, such as supply chain issues, labor shortages, and lumber prices.

“There will always be nervousness from investors about whether they’ll be successful in their flips or make a profit,” Deal said. “But, we’ve seen that home flippers are still making a profit of between $65,000 to $70,000, which is steady. And, their market share has remained on par.”

For Deal and Kennedy, it makes sense that markets and investor activity are cooling.

“Take a look at top pandemic spots like Scottsdale, Arizona, and Las Vegas. Those markets went crazy and so they’re bound to fall back as the market cools,” Deal said.

For experienced investors, this is just the correction that they’ve been expecting, according to Stephen Ballard, RCN Capital’s business development manager.

“While newer investors to the market are panicking, the experienced ones are looking at the bright side and noticing that today’s homes are more affordable than they were six months ago,” Ballard said. “We’re in a high interest rate environment, which you think would discourage investors. But the lower home prices are keeping them interested.”

Ballard says that as activity slows and investor purchases return to a normal level, RCN isn’t necessarily worried.

“The only concern that we have is whether our clients have the same level of data that we do about the market,” he said. “For this reason, we’re shifting our focus as to what we’re looking for from an investor… the market’s tighter, so we have to be more careful, and we want our clients to be protected. We want to see a higher credit score than we would have preferred a year or two ago, someone who has more equity and is a bit more conservative with their money.”

INVESTORS AREN’T DISCOURAGED

While investors could be alarmed about Redfin’s raw data, Deal and Kennedy both reiterated that they haven't experienced any investors expressing concern.

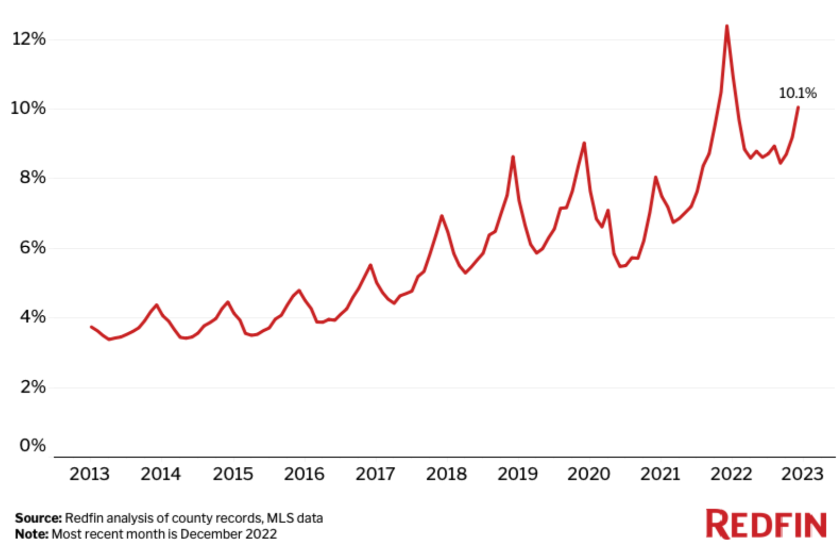
“They know that housing prices will only fall so far,” Deal said. “Yes, there was a crazy spike and a perfect storm for flippers last year, [which put them in] an entrepreneurial mindset. But despite a slowdown in the data, the percentages of houses that have been flipped keeps going up.”

Fred Matera, chief investment officer at Redwood Trust, says that the company’s subsidiary, CoreVest, hasn’t seen investors shy away.

“We deal primarily with small to mid-sized investors,” Matera explained. “Investors did step up their presence in residential mortgages over the last few years, but a lot of the larger purchases were done by institutional investors. So smaller investors that we handle have stayed relatively stable.”

While other investors have decided to slow down, Matera assures that this is cyclical and

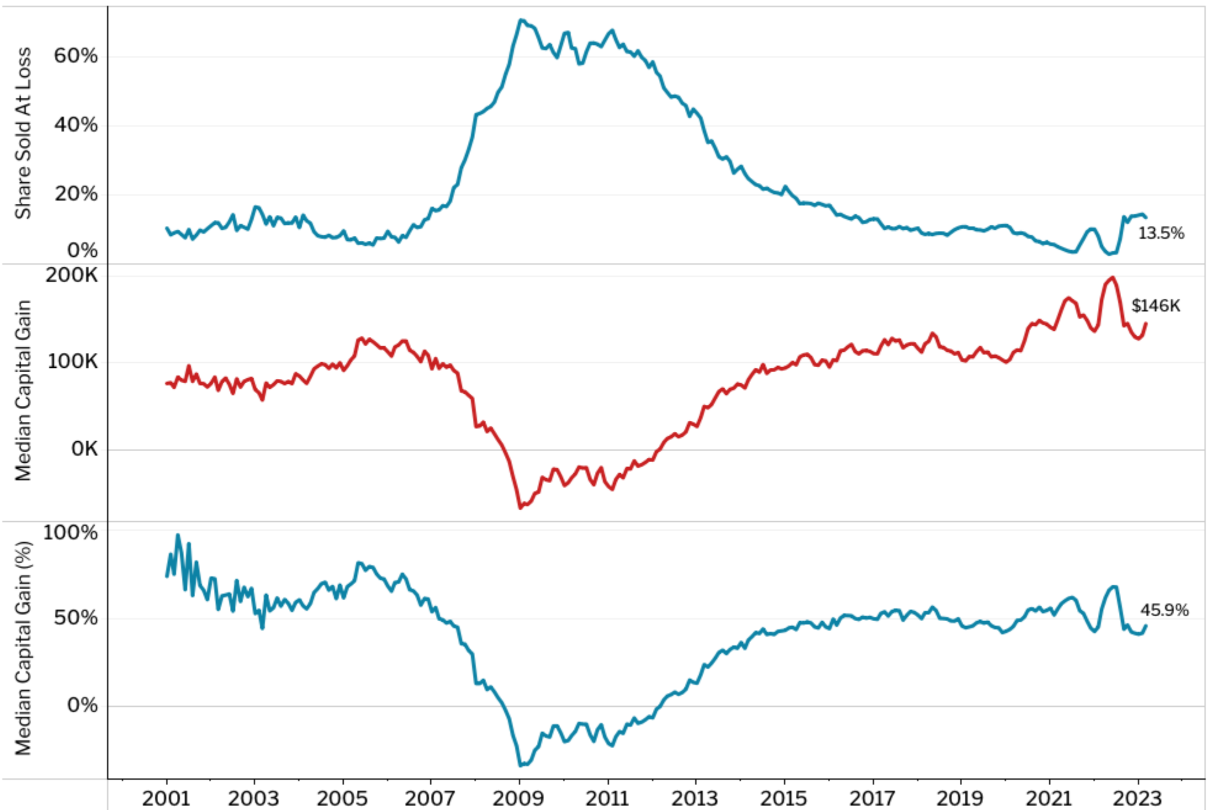
Investors Own 1 in 10 Homes for Sale
Share of new listings owned by investors



Source: Redfin analysis of county records, MLS data
Note: Most recent month is December 2022

U.S. Real Estate Investors Lost Money on Roughly 1 in 7 Homes They Sold in March

Investor home sales: share sold at a loss and median capital gain by month



Source: Redfin analysis of county records, MLS data
Note: Most recent month is March 2023

isn't anything to be concerned about in the meantime.

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Matera also says that in the meantime, he's seen investors with CoreVest have extra capital to play with.

"There's a tremendous amount of lending capacity and dry powder among our clients, meaning available capital, like accessible cash and stocks, that can be sold," he said. "It was pretty busy out of the gate this year, but now they're taking time to sit back and see what the best financial decisions are for them."

When rates jumped up last year, it was normal for experienced investors to take a step back and reevaluate what they wanted to spend their money on, Matera said. Charles Weinraub, a professional flipper, home investor, and owner of Handsome Homebuyer out of Long Island, N.Y., says that he's not pulling back altogether.

THE INVESTOR PERSPECTIVE

Charles Weinraub
Handsome Homebuyer

"In June [2022] I pulled back heavily waiting for the market to adjust. Since that time prices locally have dropped 5 to 10% ... I have since ramped up my marketing efforts to take advantage of less competition, but I've changed what I buy and how I buy," he said. "Many investors are taking losses from properties they purchased in 2022. Between interest rates almost tripling, construction costs through the roof, unstable market conditions, and the building departments taking forever to issue building permits, it's nearly impossible to do business."

However, Weinraub isn't discouraged by the seemingly impossible ways to do business. He says that he's been approaching first-time homebuyers for safe investment opportunities. "People will always buy houses. Interest rates at 2% or 20%, people will always buy houses. As a business owner you have to be willing and able to make adjustments to meet market demand," he said. "For the near future I'll concentrate on the first-time homebuyer market. That's where we see the biggest demand and the lowest supply. These are the safest investments." MB