

## Pending Home Sales Collapse

December 30, 2022 - Year over year, pending home sales have collapsed. They are down 38.6% when compared to last year. That's the largest decline in history, but it likely isn't as bad as things will look a few months from now.

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The driving factor in home sales has been an increase in mortgage interest rates. They have risen from around 3% at the beginning of this year to well over 6% now. When compared to January, 2022, the monthly cost of ownership on a median priced home is about \$1,200 higher now. That's driving potential buyers out of the market and causing potential sellers to think seriously about staying put; either that or to contemplate a price reduction.

But that's now. Later in the year, things are looking like they are going to get downright ugly. That's because layoffs are coming. And they aren't confined to any specific industry or region.

Wal-Mart's CEO has talked about potential store closings in the near future. Not because the company isn't doing well but because of high rates of theft in certain areas of the country. Goldman Sacks is getting ready to lay off large numbers of workers. This past week there were estimates that the company may lay off as much as 8% of its work force. That amounts to more than 3,000 jobs. And of course there have already been thousands of tech sector jobs that have disappeared like Cisco, Meta and DoorDash.

Other companies, such as Amazon, have announced hiring freezes.

None of this bodes well for growth in real estate markets. Anyone who remembers what happened in 2008 knows that once the layoffs begin, people need to sell their homes. It becomes a rush for the exits as homeowners begin to put their houses on the market. While the conditions are a little different right now, the outcome is likely to be the same.

In 2008, credit markets froze up and buyers couldn't qualify for a loan. That resulted in a glut of property on the market and forced prices to drop. In the end, thousands of people lost their homes to foreclosure or were forced to sell in a short sale - meaning that they received virtually no proceeds from the sale.

This time around, mortgage rates have risen quickly and from a buyer's perspective it is 2008 all over again. They can't qualify for a loan. The reason may be different from 2008 but it is ridiculous to think that the outcome will also be different. 2023 is shaping up to be a tough year for homeowners.

by Jim Malmberg

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