



flip the side

An Outlook for Residential
Real Estate Investing in 2023

BY

NEW WESTERN®

Despite negative real estate headlines that have persisted throughout the past year, **did you know that 2022 actually was a *strong year* for single-family home investors?**



These solopreneurs and career-rehabbers continue to buy outdated properties and bring a fresh supply of homes back into the market.

In this report, we reveal how these SFR investors do it and the variance that exists between the investment market and the traditional real estate market.



Born out of the 2008 housing crisis, New Western leveraged data to help identify investment opportunities.

Today, New Western is the largest private marketplace for fix-and-flip and fix-and-rent residential investment properties in the U.S.

Garnering \$15 plus billion in transactions in over 40 markets with 150,000 investors in its marketplace.

New Western has exclusive insight and proprietary data into how the real estate investment market performs and co-mingles with the retail real estate market.

HOW DID THE MARKET CHANGE IN 2022?



The 2022 real estate market was all about rising interest rates, Fed-effect on inflation, lack of inventory, sellers staying put, buyers exiting, large-scale brokerage downsizing, rental price increases, Airbnb algorithm changes; and institutional investors, iBuyers, and tech companies exiting the business.

And this change began in 2021 - an outlier year historically - with a large increase in real estate transactions because people were moving and taking advantage of historically low mortgage rates. As a result, home prices skyrocketed.

The market activity in 2021 made it difficult for investors to not only get offers accepted but to even find a property to purchase.

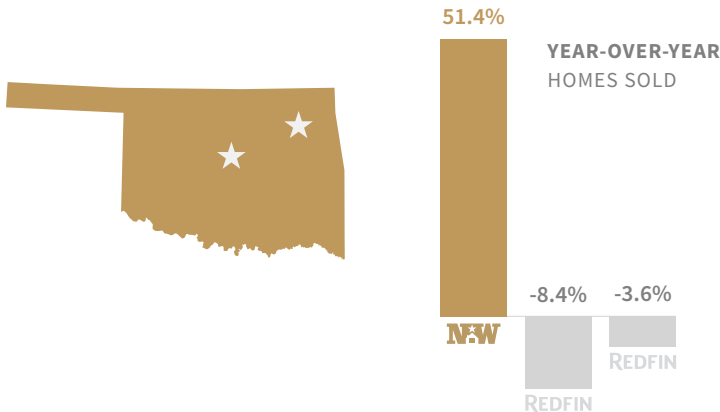
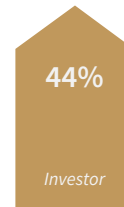
The numbers weren't making sense.

The housing market shifted across the country.

Demand rises in new markets.

Raleigh, NC, continues to show increased housing demand year-over-year across both the investor and retail market landscapes.

(Data source: New Western (44.1%) Investor Redfin (35.2%) Retail)



Demand rises for investor properties and decreases for the traditional market.

According to New Western data, **Oklahoma City** and **Tulsa** are ripe areas for growth in 2023 with an increase of 51.4% each in year-over-year homes sold, even though Redfin shows a decline of 3.6% and 8.4% in homes sold.

Data source: New Western and Redfin

Major declines across both investor and traditional markets.

Denver, Nashville, and Austin were pandemic hotspots. Since Q2 2022 all three markets experienced a major decline in volume of homes sold, signaling cooling that will continue into 2023.

Data source: New Western and Redfin

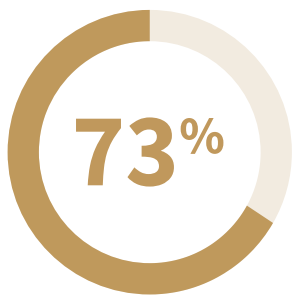


INVESTORS ARE LEANING INTO THE MARKET IN 2023.

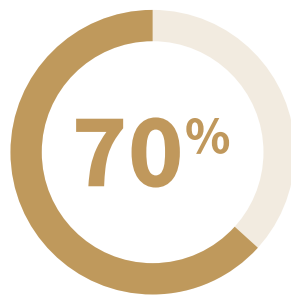
The experienced rehabbers with local expertise who fix-and-flip for a living and have the resources to continue doing business will lean into the investor market.

Knowing that 2021 was an outlier, the pros understand that they need to adjust their strategy, know their neighborhoods and stay in the market.

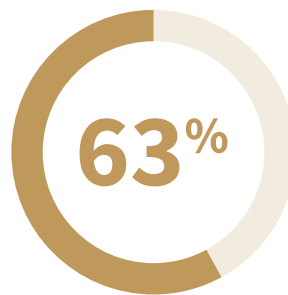
In a survey of 886 New Western investors, the results show that investor confidence remains strong both in 2022 and into 2023 and beyond.



said their business grew from 2021 to 2022



said they plan to invest in 2023



of investors who are interested in purchasing for the first time said interest rates are not too high



plan to use cash or private money

THERE IS A YOUTH MOVEMENT DEVELOPING.

It turns out, Gen Zers are not the forever renters you thought they were, and this generation is poised to impact the near-future of the housing market.

Gen Z will make up 30% of the workforce in 2023.

From a traditional real estate perspective, Gen Z has location-flexibility because of remote-work options. Affordability is the key driver when it comes to purchasing a home and this generation is prioritizing lifestyle and weather when it comes to choosing a city to live in.

86% are ready to enter the market once mortgage rates show signs of stabilization.

On the Flip Side

Gen Z is participating in the investor market, looking for buy-and-hold rental income properties in affordable mid-metros and is not afraid to invest outside their own backyard.



7%

of investors who have purchased investment properties before are 18-29 years old.

15%

of investors looking to purchase for the first time in 2023 are 18-29.

From New Western's investor survey:

The Top Markets Where Gen Z is Buying

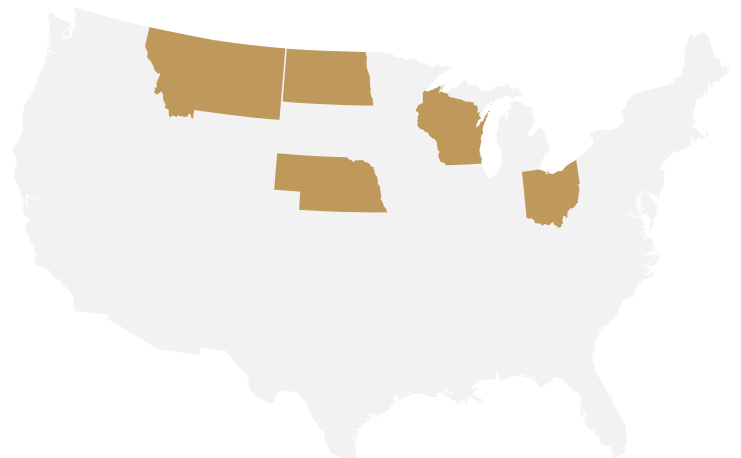
Madison
Wisconsin

Fargo
North Dakota

Columbus
Ohio

Lincoln
Nebraska

Missoula
Montana





STRATEGIES THAT WORK FOR THE PROS.

The New Western survey revealed that in 2022 investors used both fix-and-flip and fix-and-rent strategies.

Historically, fix-and-flip was the dominant strategy for New Western investors and it's now more balanced with the change in market.

The biggest challenges for investors in 2023

Finding Property

Funding

Cost of Labor

The top reasons investors give for buying investment property in 2023

Appreciation

Passive Income

Buyer's Market

The shortage of inventory for the first-time home buyer category will continue in 2023, and rents are becoming more affordable than monthly mortgage payments. This has caused investors to shift strategies and take advantage of opportunity.

In 2023 Investors will lean into fix-and-rent more often than fix-and-flip.

While many of the career-rehabbers, mom-and-pop, and semi-pros will take a somewhat conservative approach and look for even better deals, they won't make drastic changes to their strategies overall for 2023 and will remain in the market.

A MUCH-NEEDED CATEGORY OF HOMES WILL RE-ENTER THE MARKET.

Large-scale investors came into the market and identified communities where they could invest and profit on a large scale. But interest rates rose, creating a need for the big guys to pull back as they find it difficult to service new debt.

On the Flip Side

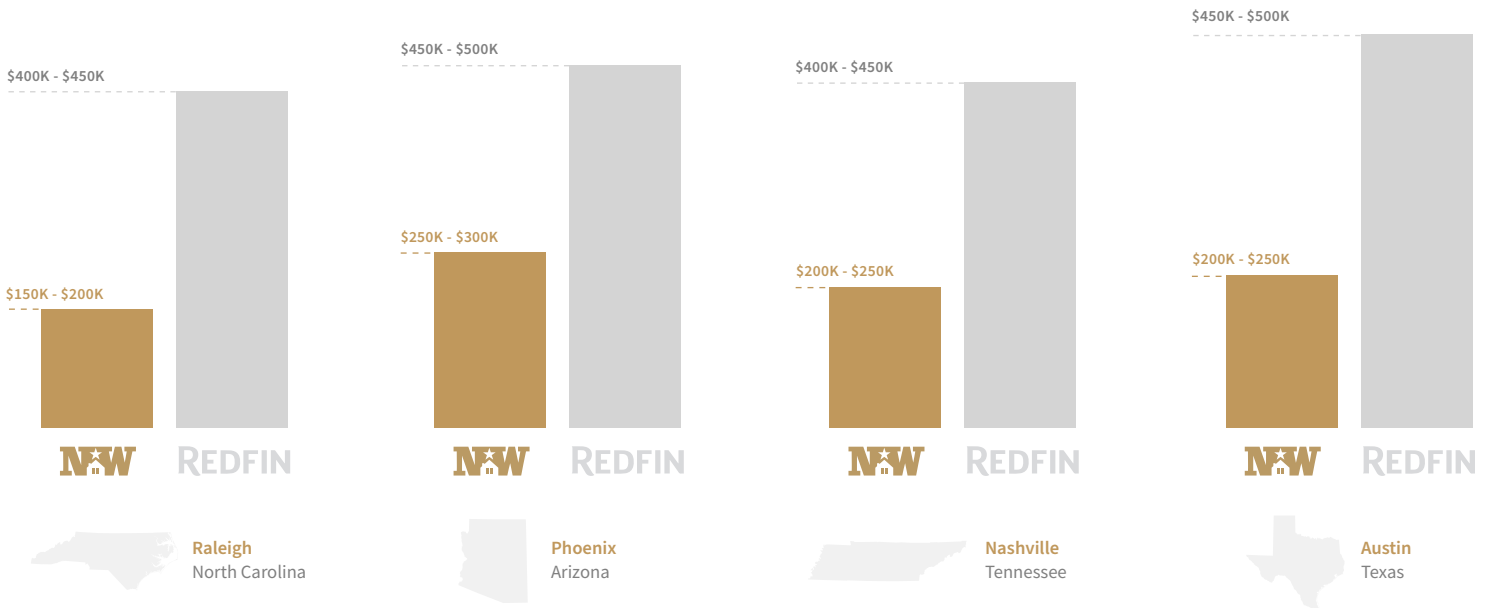
Enter the solopreneur, mom-and-pop, individual investors who now have access to the data the big guys use to evaluate deals.

They have the skills and local knowledge to take those significantly outdated homes in major cities across the country and renovate them and get them back onto the market, providing inventory to an underserved homebuyer.

These are the homes that the average homebuyer won't touch.

NEW WESTERN VS REDFIN

Investor-bought homes sell for **31% less** than retail homes for sale in the same market.



These numbers represent median home prices.

LOOKING AHEAD AT BOTH SIDES OF THE MARKET IN 2023.

Predictions for 2023 are on the table for the retail market– the challenges that arose in 2022 will filter into 2023. But, there is room to pivot and opportunity for investors.

“ ”

The reality is, we have a deficit of 5 million homes to meet family needs in the U.S.

Kurt Carlton, president and co-founder of New Western

LEADING INTO 2023

Demand will remain. And home prices will moderate to make room in buyer's budgets for rising rates.

The outlook for mortgage rates has changed since the peak of just over 7% in November 2022. With 85% of existing mortgages carrying a rate below 5%, expect homeowners to remain in place, limiting new listing inventory.

Mortgage applications will pick up but it will take time to educate consumers on the new rate environment. Useful tools like mortgage rate buy-downs will offer consumers more options when financing and allow lenders to become competitive.

We can expect traditional real estate market headlines to focus on the macro environment, which won't appear favorable.

BUT, THERE'S MORE TO THE STORY IN 2023.

SIX PREDICTIONS FOR 2023

- 1 Local investors should expect less competition and eventually a more predictable outcome. More opportunities will be available to investors who have the proper skills and diligence.
- 2 Long term investors should look to opportunistically acquire rentals at favorable price points due to unfavorable rates. If you're a cash buyer, you'll be in the driver's seat. If you can produce cash flow with a rate in the high, single digits you only have upside as the environment improves.
- 3 The exit of iBuyers from the investor market, like Redfin and Zillow, opens up options for individual investors to scoop up deals and provide inventory in their local neighborhoods by putting renovated, liveable homes back on the market. The mom-and-pop investors are uniquely positioned to thrive because they know their neighborhoods and have local expertise.
- 4 Gen Z and Millennials will impact the housing market in new ways as both lean into real estate as an investment strategy and hedge against inflation. Their mobility and interest in forming households in untapped, affordable markets will result in the growth of mid-metros.
- 5 As rent becomes more affordable than mortgages, the opportunity arises for investors who have chosen to lean into a fix-and-rent strategy in 2023.
- 6 And the prime remodel years for homes will continue to rise into 2027. Homes between 20-39 years old hit that stage in a home's lifecycle when major improvement projects are needed and this widens opportunity for the fix-and-flip investor.

The upside for both the traditional market and the investor market?

A much-needed category of homes will begin to re-enter the market in 2023 as local investors renovate homes in popular metros that can sell for less than traditional real estate. Their contribution will continue to help solve at least a portion of the housing shortage problem that continues to exist, filling a gap that satisfies a need on both sides.

Join 150,000 Investors Finding Deals Through New Western

APPENDIX

New Western's investor survey was conducted in November 2022. It consists of 886 real estate investors ages 18 and up from around the United States who have previously purchased property through New Western or plan to in the future.

New Western data represents a comparison of the year-over-year, daily average amount of deals from 2021 to 2022 and median acquisition prices were grouped by market.

About New Western

New Western makes real estate investing more accessible for more people. Operating in most major cities, our marketplace connects more than 150,000 local investors looking to rehab houses with sellers. As the largest private source of investment properties in the nation, we buy a home every 13 minutes. New Western delivers new opportunity for all—a fresh start for sellers and exclusive inventory for investors.

For more information, visit www.newwestern.com.

All Redfin data was obtained from their publicly available resources.

Redfin is a national real estate brokerage.