5 predictions for the second half of the 2022 housing market

CoreLogic's Selma Hepp gives an updated look at her forecast for the year

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While housing market trends in the first quarter of 2022 resembled the previous year's trend — buyer frenzy, homes selling over the asking price and continued home price appreciation — much has changed in the spring, which will impact some of the previously forecasted scenarios.

Deviations from economic predictions

Most significantly, the Federal Reserve evolved from a gradual removal of monetary accommodations in 2022 to an aggressive forward guidance on how it plans to reel in stubbornly elevated inflation measures. Currently, bets are on two, 50 basis-point hikes in May and June meetings, followed by 25 basis-point increases through the end of the year.

Similarly, balance sheet runoff is also likely to take a more aggressive timeline than initially anticipated. As a result, markets were quick to respond, driving mortgage spreads and rates much higher than most experts expected by this time of year. At over 5%, mortgage rates are now the highest they have been since 2010.

Looking ahead, the outlook for mortgage rates and the larger economy is uncertain, particularly as we consider the ongoing conflict in Ukraine, its rippling effect on the world economy and the faster removal of monetary accommodation. Mortgage rates should hover around 5%, but there may be more oscillation than we have seen recently.

The impact on housing markets

As a result of surging mortgage rates and more aggressive tactics from the Fed, buyers flocked to the housing market during the early months of the year, pulling spring home-buying demand forward. However, inventory of for-sale homes for sale continued to lag in prior years, and despite posting some seasonal increase, barely offered relief for frantic home buyers. Homebuyer competition and bidding wars peaked again, and the share of homes that sold over the asking price reached last summer's high, with 6 in 10 homes selling over the asking price in March.

Though widely anticipated, the inventory of for-sale homes, unfortunately, does not look promising for 2022, particularly given the surge in mortgage rates and the general sense of being "locked in" by existing homeowners. While we may see some increase in new listings in out-migration markets (such as those in Northeast and northern areas of the Midwest), markets that have experienced strong buyer demand (such as Mountain West and Sand States) are not likely to experience a similar relief.

While surging interest rates and lack of inventory are expected to have a dampening effect on demand, there are still many buyers who can afford the rising costs of homeownership and hence will compete for limited properties.

Additionally, after a decline at the end of 2021, we continue to see elevated levels of investor activity in 2022. In March, investors made up 28% of single-family home purchases. Motivated by the continued rise in single-family rents, investors were likely snapping up these homes to turn them into rentals. The CoreLogic Single-Family Rent Index increased to yet another high at the beginning of 2022 and registered a 13.1% annual increase in February.

Market considerations

Given the competing demand and historically low supplies, home price growth — which gained more steam in 2022 — is likely to remain robust and continue to clock in at a double-digit rate of growth through the remainder of the year. The CoreLogic Home Price Index Forecast is now predicting the annual average rise in the national index to be 17% in 2022, up from 15% in 2021. On the other hand, re-acceleration in home price growth, coupled with higher mortgage rates, will take a bite out of home sales activity. The previous forecast of a 1% rise in home sales for 2022 has been revised to a 3% decline.

Cash-out refinancing

Higher mortgage rates will also continue to impact refinance originations. Again, with much higher mortgage rates than previously expected for the year, refinance origination volume is likely to have a notable decline, possibly by more than 70% compared to 2021.

Refinance incentive has been largely removed with rates above 5%, given that 90% of current outstanding mortgages have a rate that is less than or equal to 5%. Nevertheless, the share of borrowers who are looking to cash out will continue to increase. This is due to homeowners tapping into the record amount of home equity wealth they've accumulated during the recent years of double-digit home price growth.

The cash-out share of total origination dollar volume has already reached the highest level since the late 1990s, with the latest March 2022 reading at 22%. At the 2004 pre-Great Recession peak, the cash-out share of volume originations reached 17.7%. As we've noted before, refinance borrowers will likely have slightly lower average credit scores, as borrowers with Federal Housing Administration loans refinance into conventional loans with a loan-to-value ratio of 80% or less to eliminate the mortgage insurance premium.

Additionally, these borrowers will also have a longer average loan term to keep the monthly payment low. The availability of home equity wealth will also likely lead to an increase in home equity line of credit (HELOC) loans, which will allow owners to borrow against the available equity in their home without giving up the low mortgage rate.

Employment and income

Lastly, strong employment and income growth have helped to keep new delinquencies at a very low level. The 30-day delinquency rate remains at its lowest in a generation, while foreclosure rates has ticked up slightly in January as foreclosure moratoria and the CARES Act forbearance program ended. Nevertheless, at 0.24%, the foreclosure rate remains at half of the average rate seen in a decade prior to the Great Recession. The areas that may see an uptick in distressed activity are along the Gulf Coast and some parts of the Northeast.

The road ahead

Taken together, 2022 will still be a strong year for housing, albeit more challenging than previously anticipated — particularly for potential buyers who aren't able to afford the increase in monthly mortgage expenditure due to higher mortgage rates and home prices.

Summary of predictions:

1. Interest rate on 30-year fixed-rate loans is projected to average 5% through the rest of 2022.
2. Home sales to decline in 2022 from 2021's 16-year high.
3. Single-family home price growth to remain robust, averaging 17% for the year.
4. Less refinance loans, but with a larger cash-out share and more HELOCs.
5. Loan delinquency remains low, but with some uptick in distressed sales.

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