



What Does a Cooling Real Estate Market Really Mean?

BERKSHIRE HATHAWAY
HomeServices

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Introduction

Understanding Real Estate's New Reality

What a difference a few months can make. At the start of 2022, the majority of the U.S. real estate markets were leaning heavily in favor of the seller. That has drastically changed as we near the close of the year. Rising interest rates and economic uncertainty are reshaping the real estate landscape in real time. Suddenly, buyers who were confident they could afford a new home feel priced out of the market. On the other end of the spectrum, sellers who expected bidding wars and no contingency offers are seeing less interest in their homes than expected.

With so much written in the media lately about the “cooling” markets, it’s natural for anyone buying or selling a home to feel uneasy. That’s why it’s absolutely critical for those in the housing market to understand what these shifts *really* mean—and how they can use informed strategies to make the best decisions possible

In the pages that follow are insights from Berkshire Hathaway HomeServices experts that should act as a guide in these rapidly changing times. I hope the information is a first step toward many important conversations between you and your Berkshire Hathaway HomeServices network agent.

Best,
Christy Budnick
CEO, Berkshire Hathaway HomeServices



What Does a Cooling Real Estate Market Really Mean?

Interest rates are up, and prices are dropping. But is this shifting market really cooling down or just leveling off?

As mortgage rates climbed in October 2022 to their highest point in 20 years, those actively buying or selling a home were left to wonder how they should move forward. In a matter of months, buyers were priced out of markets they previously could have afforded, while sellers saw a drop in offers and an uptick in contingency asks.

Where will the market go from here? And is this “cooling” really cause for alarm? We sat down with Berkshire Hathaway HomeServices network agents and advisors to get their take on this shifting market and what it really means for homebuyers and sellers moving forward.

Q: Many buyers—particularly first-time buyers—feel defeated as interest rates rise. Should these buyers assume they’re being priced out of the market?

Nationally, the median mortgage payment is about

**77%
higher**

than a year ago in 2021.

Source: “Realtor.com” <https://www.realtor.com/news/trends/home-prices-would-need-to-fall-this-much-for-buyers-to-get-a-break/>

Ginger Holmes, Partner and Principal Broker, Berkshire Hathaway HomeServices Woodmont Realty:

I can understand why a buyer would feel that way, but I’d encourage them to look at the big picture and get creative with their financing. We’ve been talking to our lending partners here in Nashville about new products that can make these rates more palatable and affordable for buyers. Buyers should consider adjustable-rate mortgages (ARMs), which are loans with an interest rate that adjusts over time based on the market. Two-to-one buydown programs are also something worth exploring, which involve the seller helping to offset the cost of the higher interest rate for the first two years of the loan, with the loan rate

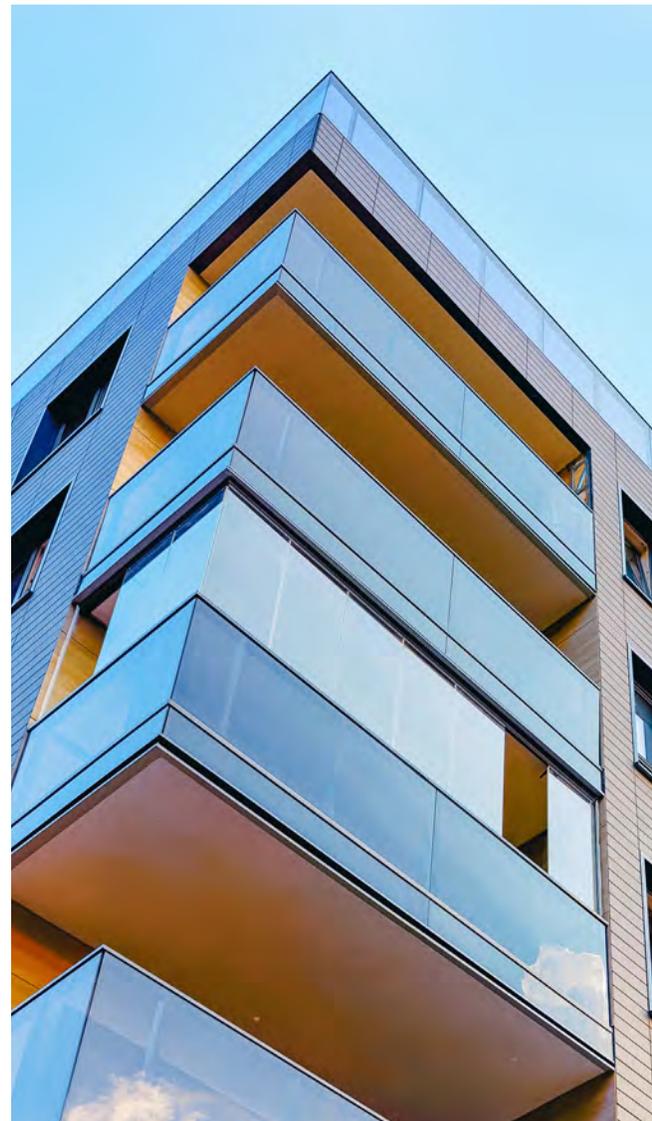
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increasing in the third year. This can reduce a mortgage interest rate by at least a percentage point, if not more. Oftentimes, when that third year rolls around, the lender will be willing to work with the buyer to refinance at that point. We in real estate always say, “Marry the home and date the interest rate,” because there’s typically an option to refinance. Finally, I’d say buyers should also consider the tax benefits of owning a home. Mortgage interest and property taxes are deductible, though subject to certain limits, so they should be factoring that into their holistic budget.

Q: When experts say real estate is “cooling down,” what does that really mean in this market?

Tonya Hamilton, Partner and Vice President, Business Development & Relocation Services, Berkshire Hathaway HomeServices Woodmont Realty:

Here in Nashville, we’ve historically had a strong market over the past few years, and even as recently as March 2022, we saw single-digit increases in the number of single-family home and townhouse pending sales. But by September of this year, pending sales of single-family homes dropped 32%. The interesting data point here—and it’s something buyers and sellers should remember—is that median prices are still increasing. The median sales price for single-family homes increased 14.8% in September. So as our market is still appreciating, we’re hoping to see about an 8% to 10% appreciation in the value of single-family homes, as the market adjusts. I believe—and I think I speak for a lot of real estate professionals when I say this—that what the market is doing right now is stabilizing after a few unusual years, which is normal and necessary.



Median list price on a U.S. single-family home in:

June 2022

\$450,000

October 2022

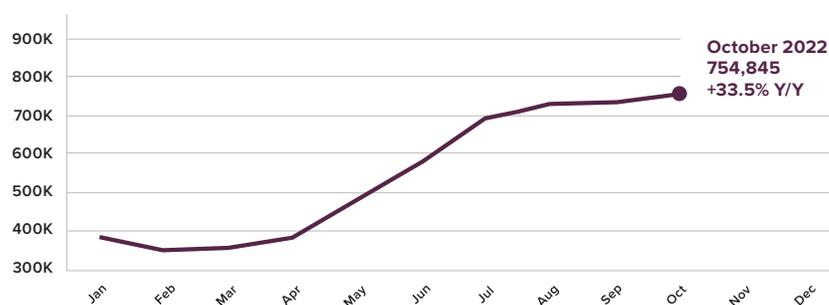
\$425,000

Source: “Realtor.com” <https://www.realtor.com/news/trends/just-how-low-will-home-prices-go-this-year-our-chief-economists-bold-prediction/>

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The national inventory of active listings in October 2022 increased by 33.5% over last year.



Source: Source: October 2022 Monthly Housing Market Trends Report: <https://www.realtor.com/research/october-2022-data/>

Q: Sellers have had the upper hand over the past few years, getting top dollar on offers with no contingencies. What realities should today's sellers be aware of in order to optimally price and market their homes?

Maryann Vitale Alles, President and CEO, Berkshire

Hathaway HomeServices Select Properties: Getting the price right is critical. Sellers should expect their agents to be working harder than ever to understand the current market conditions and apply those real-time analytics into the pricing model of their home. What worked six months ago is not applicable today, so agents need to be able to educate their sellers on what is truly a fair price in this market. Sellers should also know they can sweeten the deal on a home by relying on age-old practices that fell by the wayside when the market was hot. Instead of lowering the price of your home, why not offer to pay closing costs or contribute to a two-to-one buydown so the buyer's monthly mortgage payment goes down? A good agent can help you get creative to avoid price reductions.

Q: What other things can sellers do to help their homes get top dollar in this market?

Ginger Holmes, Partner and Principal Broker, Berkshire

Hathaway HomeServices Woodmont Realty: In many ways, I feel like real estate is getting back to basics, and practices we always recommended to sellers are important to consider again. Sellers should be prepared to accept contingencies with an offer, such as home inspections with the potential to

The median list price of a U.S. home was up

13.3%

in October 2022 compared to the same time in 2021.

Source: October 2022 Monthly Housing Market Trends Report: <https://www.realtor.com/research/october-2022-data/>

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repair items as well as appraisal contingencies. They should also be prepared to receive an offer asking for the seller to pay closing costs in some instances. Over the past couple of years, sellers didn't have to worry about putting much thought into sprucing up their home before it hit the market, but now, they need to make that home as competitive as possible. We tell clients curb appeal goes a long way. When someone pulls up to a home that is neat and tidy on the outside with nice landscaping, they may be more interested to take a look inside. For older homes, doing repairs or updates such as new lighting and fixtures, fresh paint and even refacing the cabinets helps to modernize the home without doing a full remodel. The goal is to make it enticing so a buyer can walk in and say, "OK, I can move right in without having to do a ton of work right away."

Q: While markets may be "cooling" in the U.S., that's not the case for parts of Europe. What are opportunities for American buyers in places like Italy?

Marcus Benussi, Managing Partner and General Counsel, Berkshire Hathaway HomeServices MAGGI Properties:

While there may be some "cooling" in low-level markets, the mid-level and luxury markets in Italy are still quite hot. We've actually seen an uptick in foreign buyers in Italy, particularly Americans and Germans. The phenomenon started during the first year of the pandemic and it's not slowing down, despite the war in Ukraine and general global financial uncertainty. International buyers should understand that sales happen quickly with almost no bargaining going on. That being said, real estate here is a solid investment. In Rome, the prices are growing every year by 10% to 15%. High rents compared to affordable purchase prices have turned Rome into a very interesting area for foreign investors. There are great opportunities, especially for high-net-worth individuals, to take advantage of a \$100,000-per-year flat tax by transferring their permanent residence to Italy. This, combined with many fiscal advantages, makes Italy even more attractive. The key for these types of buyers is to work with a team of knowledgeable real estate professionals who understand the taxes and legal implications so there will be no surprises during the process.





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