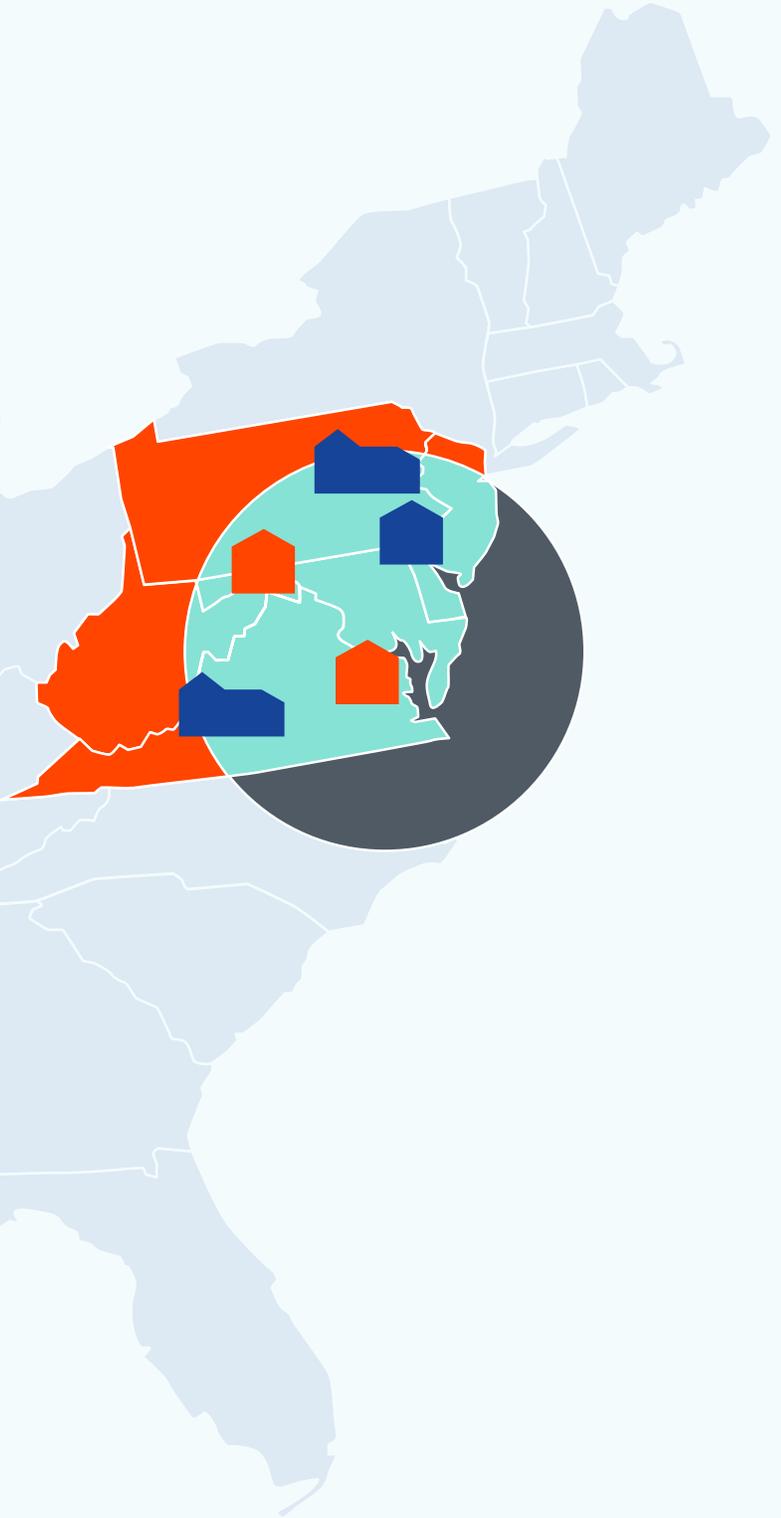


2022 Housing Market Review





2022 was a very unusual housing market.

As we began to recover from the economic effects of the global pandemic, housing was on the minds of not only buyers, sellers, and real estate professionals, but also economy watchers who know how important residential real estate is to the overall economic picture. Uncertainty in the housing market last year—and some hyperbole in reporting on the market—made it very difficult to look beyond short-term trends and focus on the fundamentals of the market.

Covering six states and the District of Columbia, the Bright MLS service area encompasses a variety of housing markets, including large metropolitan areas, suburban markets, small towns, rural farmland, coastal areas, and mountain communities. The Mid-Atlantic region represented by Bright MLS tends to be a relatively steady housing market, typically more resistant to the big market swings that are evident in many other parts of the country.

While we will not have another year like 2022, it is helpful to look back in order to plan for the future. It is also important to understand conditions in our local market rather than focusing solely on what's going on in the national housing market.

1 A Tale of Two Markets

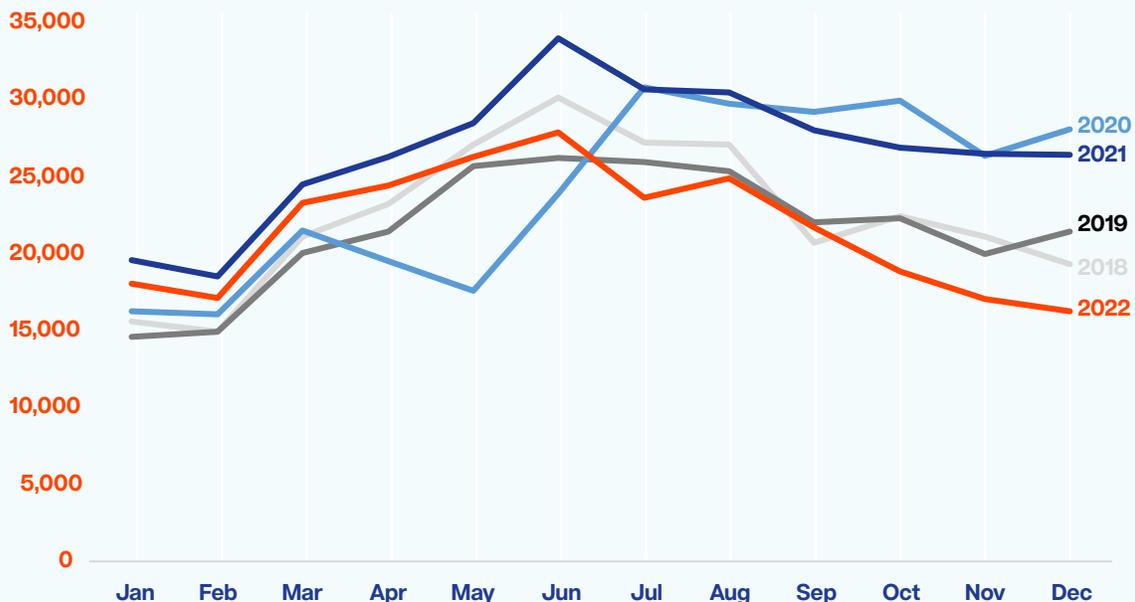
Overall, throughout the Bright MLS footprint, there were 269,036 total sales in 2022, the lowest annual sales total in the region since 2016. However, sold volume totaled more than \$121.6 billion, making 2022's total volume higher than any year with the exception of 2021.

But last year's housing market was really two separate markets. From frenzied to freezing. From multiple offers to withdrawn listings. During the first half of the year, home sales activity across the Bright MLS footprint was brisk, homes were selling quicker than ever, prices were rising at double-digit rates, and inventory hit rock-bottom levels. But then, over the

summer, the housing market did an about-face. Monthly sales activity fell to levels not seen since 2012. Prices began to drop sharply from their peaks.

The primary reason for the shift in the housing market was the fast rise in mortgage rates. There were other factors that led to a pullback in buyer demand in the second half of 2022, including high inflation, falling consumer confidence, and significant housing affordability challenges. Sellers were also impacted by economic uncertainty and began sitting on the sidelines.

Monthly Home Sales, Bright MLS Region



2 The Mortgage Rate Surge

At the end of 2022, the average rate on a 30-year fixed-rate mortgage was 6.42%, which was down from the November peak of 7.08%—but rates were still double what they had been at the beginning of the year. Mortgage rates rose faster than they had at any time since the early 1980s. Mortgage volumes hit a 26-year low in 2022. The rapid rise in rates severely eroded homebuyers' purchasing power, pricing many would-be buyers out of the market and making many others pause their home search to wait for rates to come down.

Upward pressure on mortgage rates came as the Federal Reserve raised the Federal funds rate to bring inflation down. Inflation had rocketed up over an 18-month period, going from 1.4% in January 2021 to 9.0% in June 2022. In an attempt to get inflation under control, the Federal Reserve hiked the short-term Federal funds rate seven times in 2022, moving from basically zero at the beginning of the year to around 4.5% by the end of the year.

Impact of Rising Mortgage Rates on a Buyer's Ability to Buy a Home

	Median Sales Price	Average Mortgage Rate	Monthly Payment	Income Needed to Qualify
Q4 2021	\$350,000	3.07%	\$1,414	\$60,600
Q4 2022	\$360,000	6.66%	\$2,184	\$93,600

Higher mortgage rates had a significant impact on the ability of individuals and families to qualify for a mortgage and buy a home. During the fourth quarter of 2022, the median home price in the Bright MLS footprint was up 2.9% compared to a year earlier. However, the slight rise in home prices coupled with escalating mortgage rates led to an increase of almost \$800 on the monthly payment for a median-priced home. This represents a jump of more than 50% over a 12-month period.

3 Prices Fall from Record Peaks

The median sales price across the Bright MLS footprint was \$372,500 in 2022, up 6.4% compared to 2021. The price gain in 2022 follows two years of double-digit price appreciation in the region. Home prices ran up quickly in 2020 and 2021 due to sub-3% mortgage rates, increased personal savings during the pandemic, and historically low inventory.

But the rapid increase in price growth had to slow in 2022. During the first half of last year, prices were still rising very quickly, but the year-over-year gains began to shrink. The median price in local markets across the Bright footprint fell from their summer peaks. While it is typical for home prices to be highest during the summer, the drop from peak levels was more

pronounced in 2022 than in previous years.

Overall, in the Bright MLS footprint, the median sales price at the end of the year was down 11.9% from the peak. Prices have fallen less in the Philadelphia and Baltimore metro areas, where the median prices are down 9.9% and 9.6%, respectively, from peak levels. The Washington metro area had the steepest price drop of the major metro areas, with the median price falling 15.2% from its summer high.

Despite the decline from peak levels, home prices across the Mid-Atlantic region are still much higher than they were prior to the pandemic. Overall, in the Mid-Atlantic, the median sales price at the end of 2022 was 23.4% higher compared to three years ago.

Monthly Median Home Price as a Percent of Peak Price



4 Both Sides Pulled Back

The 2022 market was unique in a lot of ways. One pattern that made the second half of the year particularly unusual was the dramatic pullback in both buyer and seller activity. It is not surprising to see rising mortgage rates cause buyers to sit on the sidelines, but sellers were increasingly sitting out the market, as well, as 2022 came to an end.

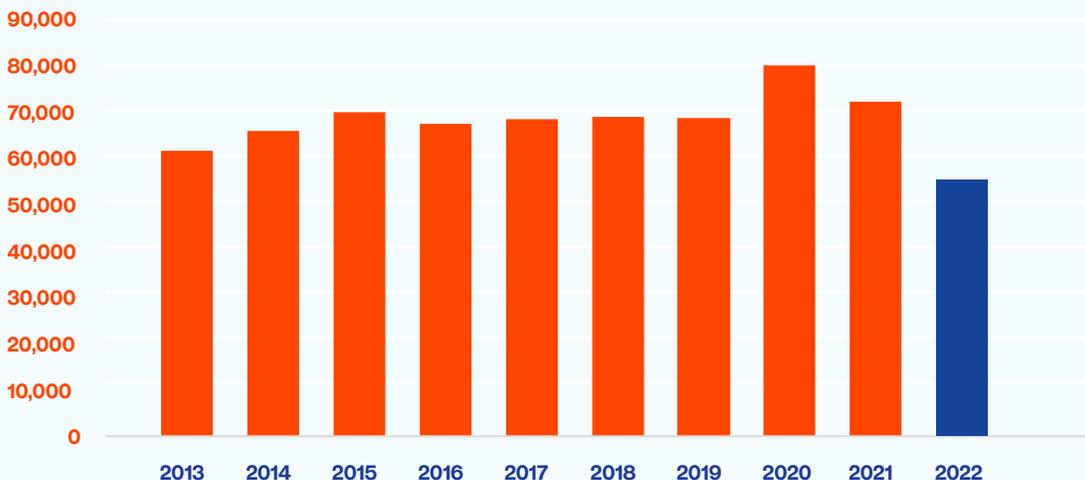
There are at least two reasons that sellers exited the market in the second half of 2022. First, most sellers are also buyers. Therefore, rising mortgage rates and low inventory caused homeowners to pause on listing their home if they were concerned they could not find a home to move into. Second, the historically low mortgage rates in 2020 and 2021 led many mortgage holders to refinance their loan.

Current homeowners have little incentive to sell their home if it means moving from a sub-3% loan to one with a rate above 6%

In 2022, there were 341,330 homes listed for sale on Bright MLS. New listing activity ground to a halt toward the end of the year. In the fourth quarter of 2022, there was a total of 55,565 new listings that came onto the market across the Bright MLS footprint, the lowest fourth quarter total in more than a decade.

While overall inventory began to rise in the Bright MLS footprint, the increase in the number of active listings was driven solely by fewer new purchase contracts, not by more new listings coming onto the market. In fact, for several weeks at the end of the year, new listing activity slowed so much that in some local markets, there were two new contracts for every new listing coming onto the market.

Fourth Quarter New Listings, Bright MLS



A Look Ahead to 2023: The New Normal

The Mid-Atlantic housing market ran at a frenzied pace for two and a half years, but the shift is at hand. Rising mortgage rates and economic uncertainties caused both buyers and sellers to pull back, resulting in a significant contraction in housing market activity in the third and fourth quarters of last year. As demand cools and price expectations are re-set, home prices in most local markets will continue to drop from peak levels.

This is the first time since 2008 that we have seen a major contraction in the Mid-Atlantic housing market.

During the last housing market correction, home prices fell by 30% or more in some places. But 2023 is not 2008. There is no expectation that prices will fall significantly in the Bright MLS footprint. Prices will remain stable or rise in most local markets. The markets at greatest risk for price declines include places where the market boomed during the pandemic, such as second home or vacation markets and exurban “Zoom” towns. Even with a softening of prices in these markets, home prices will still be far

2023 Is Not 2008

2023

- Low inventory
- Very little new construction
- Virtually no subprime lending
- Low foreclosure rate
- Strong labor market conditions
- Prices up 10-15% in one year

2008

- Fast-rising inventory
- Lots of new construction
- Rampant subprime lending
- Flood of foreclosures and short sales
- Rising unemployment
- Prices up 50%+ in one year

What Should Buyers and Sellers Do in 2023?

above where they were prior to the pandemic.

Buyers and sellers will adjust to 2023's "new normal." The pace of market activity will increase from where it was in the last half of 2022, but expect market conditions to be much less frenzied than they were at the height

For Buyers:

- Mortgage rates will likely remain between 6% and 6.5% for much of 2023.
- Buyers should be sure to shop around for a loan since there will continue to be a lot of variability in rates and terms across lenders.
- In 2023, buyers will have more leverage both in terms of price and concessions. However, inventory will remain relatively low, and prospective buyers will still need to be prepared to act when they find a home they want to make an offer on.
- Affordability will still be a challenge in 2023, particularly for moderate-income and first-time buyers. However, these buyers should find less competition from investors and cash buyers, which will be a welcome change from the past few years.

For Sellers:

- Sellers who have been waiting on the sidelines should expect an uptick in buyer traffic in the first and second quarter of 2023.
- Pricing will be very important.
- Sellers who price their home appropriately, reflecting current market conditions, should find a ready buyer.
- Sellers should be prepared for buyers to negotiate and ask for help with closing costs.

Bright MLS Housing Market Activity

	2018	2019	2020	2021	2022
Closed Sales	270,083	280,328	299,833	331,298	269,036
Sold Volume	\$91.3B	\$99.4B	\$116.3B	\$141.5B	\$121.6B
Median Sold Price	\$275,000	\$287,000	\$315,000	\$350,000	\$372,500
Average Days on Market	61	46	38	22	22
Ratio of Avg Sold Price to Avg Original List Price	96.7%	96.7%	98.0%	100.6%	100.3%
Active Listings (end of year)	68,159	50,094	27,256	22,036	28,412

About Bright MLS

Bright is proud to be the source of truth for comprehensive real estate data in the Mid-Atlantic, with market intelligence currently covering six states (Delaware, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia) and the District of Columbia. Bright MLS's innovative tool library—both created and curated—provides services and award-winning support to well over 100K real estate professionals, enabling their delivery on the promise of home to over half a million home buyers and sellers monthly. In 2021, Bright subscribers facilitated \$141B in real estate transactions through the company's platform. Learn more at BrightMLS.com.

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