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REAL ESTATE

Fewer investments being made in US high-priced real estate as economic uncertainty takes toll

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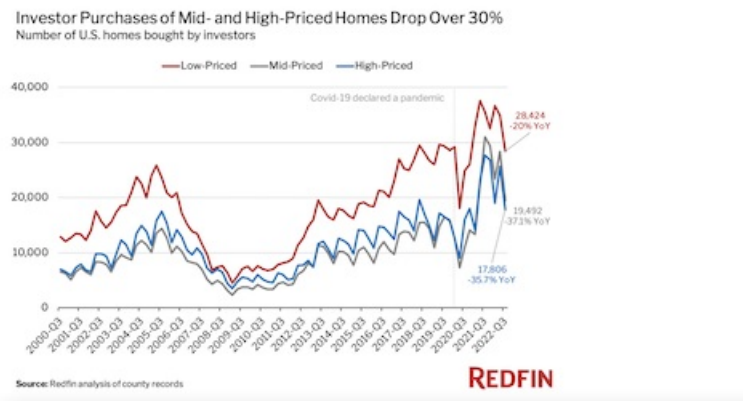

Number of U.S, homes bought by investors. Source: Redfin

By LUXURY DAILY NEWS SERVICE

Amidst an overall decline in U.S. real estate purchases, high-end investor homes make up the smallest number in the third-quarter portfolio, according to a new report by real estate brokerage Redfin.

Investors typically focus on the more modest end of the real estate spectrum, as that is where more profits are generated. High-end homes made up only 27.1 percent of investor purchases for the most recent quarter, per Redfin.

"It's unlikely that investors will return to the market in a big way anytime soon," said Sheharyar Bokhari, senior economist at Redfin, in a statement. "Home prices would need to fall significantly for that to happen.

"This means that regular buyers who are still in the market are no longer facing fierce competition from hordes of cash-rich investors like they were last year," he said.

"The housing markets that investors are backing out of fastest are those that rose rapidly during the pandemic and are now falling rapidly. That volatility creates a lot of uncertainty, which raises the risk of investors losing money."

Investor purchases of mid-priced homes dropped 37.1 percent year over year in the third quarter, while investor purchases of high-priced homes fell 35.7 percent.

By contrast, investor purchases of low-priced homes only fell 20 percent.

Second thoughts on second homes

Investors tend to gravitate toward lower-priced homes, which offer more room to generate profits.

Not surprisingly, low-priced homes made up 43.2 percent of investor home purchases in the third quarter, while mid-priced homes made up 29.7 percent and high-priced homes represented 27.1 percent.

As such, investors had the highest market share in the low-priced market: they bought 23.6 percent of low-priced homes that sold in the third quarter, compared with 15.3 percent of mid-priced homes and 13.9 percent of highpriced

homes, per Redfin.

The second quarter of 2020 notwithstanding, this marks the largest decline in real estate purchases since the Great Recession of 2008.

Overall, investors bought only $42 billion worth of homes during this period as opposed to nearly $58 billion in the year-ago period, according to Redfin.

In general, in times of economic instability and hardship, the demand for exclusive goods wanes.

With inflation, rising interest, a lukewarm stock market and anxiety over an uncertain future, fewer consumers can make high-end purchases, including real estate.

Only five of the major metro areas analyzed by Redfin saw an increase in purchases.

Philadelphia was at the top end at 11.2 percent, and Newark brought up the rear at less than 1 percent.

"Almost all of my listings right now are people looking to sell investment properties or second homes," said Heather Kruayai, a local Redfin real estate agent, in a statement.

"They want to get rid of them now while they still have some value because they're scared there's going to be another big crash," she said.