

# How large of a housing market correction might occur?

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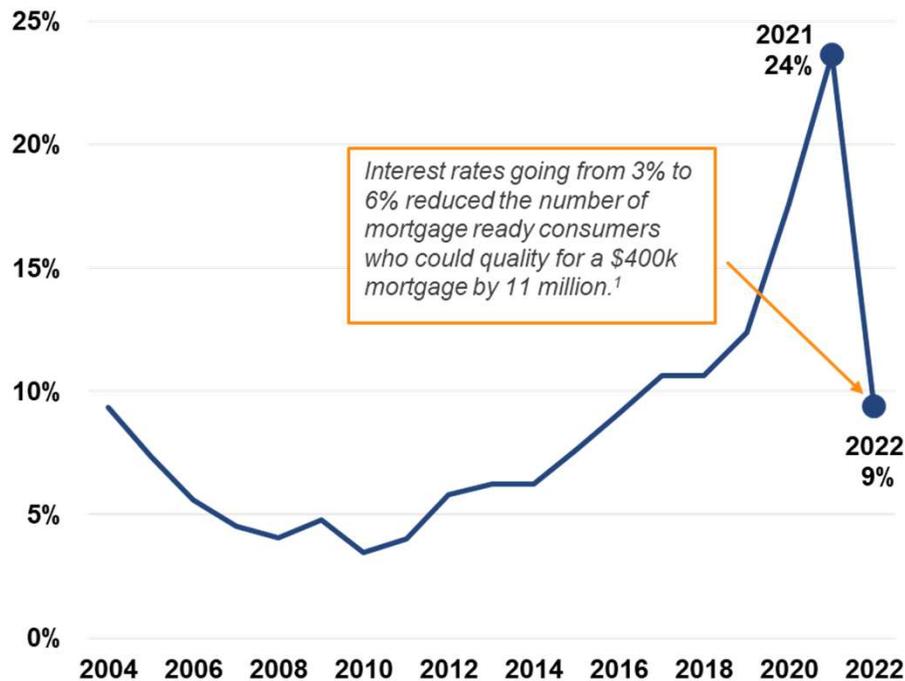
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# First-time homebuyer activity has been resilient despite the decline in affordability, and they will support the market the rest of the decade.

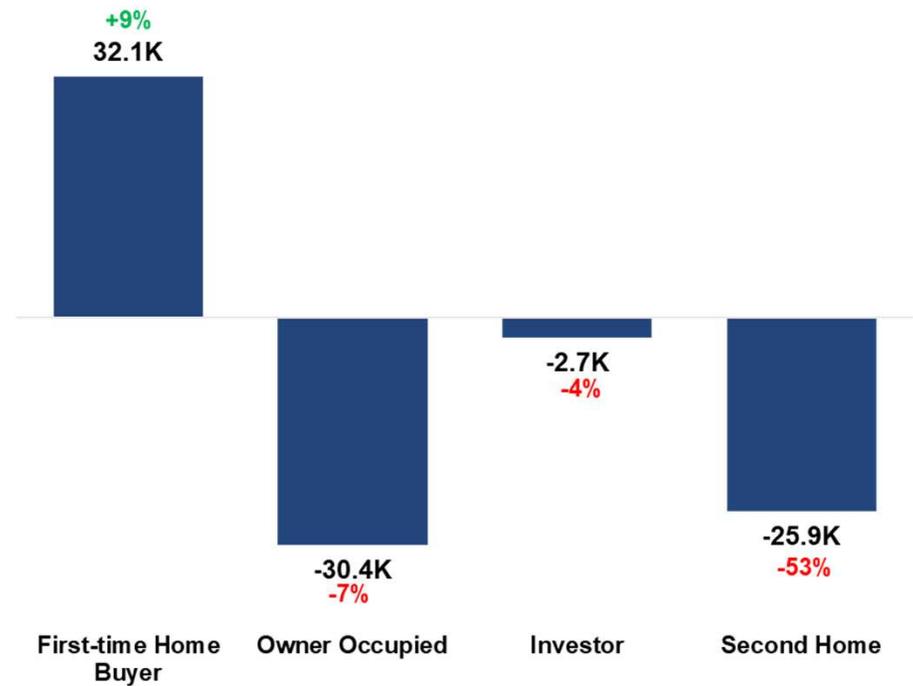


**Annual Average First-Time Home Buyers as % of Existing For Sale Inventory**



Source: FHFA National Mortgage Database FTHB home purchase loans / NAR Number of homes available for sale: Single-Family & Condo & Co-op

**Changes in Different Type of Buyers in Most Recent 12 Months Relative to 3-Years Pre-Pandemic Average**



Source: Freddie Mac Funded Purchase Loan Data through 2023Q1  
Non-FTHB counts include unknown FTHB status.

## Discussion: What drove recent increases in house prices? Do they need correcting? How much correcting?



- **Theory:** Liu, Wang, and Zha (2019), Kaplan, Mitman, and Violante (2020), Greenwald and Guren (2021)
- **Empirics:** Gupta, Mittal, Peeters, and Van Nieuwerburgh (2022), Loewenstein and Willen (2023)
- **Housing Demand Drivers:**
  - **Interest Rates:** Liu, Lucca, Parker, Rays-Wahba (2021) include summary of literature:
    - *“house prices increase by less than 5 percent for every 1 percentage point decrease in (long-term) interest rate”*
    - *30-yr FRM fell 2% 18Q4/20Q4 while nominal (real) house prices increased 50% (30%) 18Q4/22Q2*
  - **Remote Work:** Mondragon and Wieland (2022), Ozimek (2022)
  - **First-time Homebuyers:** Khater (2022), Lee and Tracy (2023)
  - **Fiscal Stimulus:** Lin (2023)

## Appendix 1: References



1“Do Rising Interest Rates Price Out Mortgage-Ready Borrowers?” <https://www.freddiemac.com/research/insight/20221121-do-rising-interest-rates-price-out-mortgage-ready>

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