

# A Housing Market Breather May Be the Time to Buy

Seasoned fix-and-flip investors can find opportunities during the current cooldown

By Joseph Lydon



**T**here's no question that the U.S. housing market is shifting. After a COVID-19 pandemic-era boom defined by record-breaking loan activity and soaring home prices, mortgage originators are adapting to a new normal, one characterized by home prices that are flat or falling, and by loan volumes well below their peak levels.

As mortgage rates doubled in 2022, refinance originations all but disappeared. Americans weren't eager to replace their sub-3% loans with ones above 6%. Purchase loan volumes haven't been much help. The National Association of Realtors (NAR) reported that month-over-month home sales declined for 12 months in a row through January 2023.

Not that you need to be reminded of the dreary statistics, but Attom Data Solutions reported that mortgage volume fell to \$476 billion in fourth-quarter 2022, down 57% from the same period one year earlier. The drop-off was largely caused by the sharp rise in mortgage rates.

Where can mortgage originators find shelter from the storm? Fix-and-flip loans offer a compelling opportunity. True, the housing market has slowed to the point that many in the industry have called the situation a "housing recession." But this real estate slowdown isn't exactly a bust. Housing demand continues to be strong even as supply remains paltry and affordability challenges persist.

## Compelling opportunity

Real estate investors view the housing market breather as an opportunity. Monthly rents for residential properties are still high, but the drumbeat of negative news means that many builders have pulled back on construction starts. Their caution only exacerbates a housing shortage faced by millennials, a huge generation that's in their prime years for household formation and homebuying activity.

Given the demographic tailwinds, savvy investors love the idea of generating income by adding to their property portfolios. Another macro trend that favors investors is housing affordability — primarily the lack of it. While home prices have peaked and even retreated in some parts of the country, the jump in mortgage rates has squeezed affordability, which reached a record low in Q4 2022, according to an index maintained by Wells Fargo and the National Association of Home Builders (NAHB).

"Rising mortgage rates, supply chain disruptions, elevated construction costs and a lack of skilled workers and lots all contributed to a declining housing market and worsening affordability conditions going back to the second quarter of last year," NAHB Chairman Alicia Huey said earlier this year.

This reality has dampened demand among first-time homebuyers. Instead of moving into homeownership, many young adults are remaining renters for longer. While that's a challenge for the overall economy, it also makes real estate investment more attractive.

Finally, many housing economists say the real estate market is already pulling out of its recession of late 2022. Home values are holding steady and mortgage rates — after topping 7% last year — have fallen back into the 6% range, which bodes well for lenders, brokers and borrowers.

## New reality

Fix-and-flip loans are ideally suited for real estate investors who are adjusting to the new reality of the housing market. These products were created for investors who want to leverage the purchase and renovation of a property. They're short-term loans created for entrepreneurs who intend to exit by selling the property or refinancing into a long-term investment property loan.

With home flips still attractive to many investors, borrowers are looking for an outside-the-box solution for their unique needs. A typical fix-and-flip program might offer financing for up to 85% of the purchase price and as much as 100% of the construction costs on some projects. The total loan amount could fund up to 85% of the total cost.



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industry, including serving as president and chief operating officer at Accredited Home Lenders from 1997 to 2008. He has also worked at Ford Consumer Finance and Security Pacific Financial Services. Lydon earned a bachelor's degree in management from Pepperdine University and a master's degree from the University of San Diego. Reach Lydon at [jlydon@lendsure.com](mailto:jlydon@lendsure.com) or (888) 707-7858.



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Here's a common scenario: Say an investor pays \$275,000 for a property and expects to spend \$100,000 on renovations. A lender would approve financing for up to 85% of the acquisition costs, or \$233,750, and as much as 85% of the renovation costs, or up to \$85,000.

Borrowers typically do not need to have stellar credit. Fix-and-flip loans may be available to borrowers with credit scores below 700. Terms fluctuate depending on the experience of the investor. A veteran flipper — one who has a successful record with multiple deals — tends to qualify for higher loan-to-value ratios and lower interest rates.

### Sophisticated clients

Given the strange mix of a housing slowdown and a still-robust economy, entrepreneurs see opportunity in short-term rehabs. Attom Data Solutions found that more than 90,000 homes were flipped by investors in third-quarter 2022. While activity was down compared to earlier in the year, the period was still one of the most active quarters on record for fix-and-flip deals.

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In other words, there's plenty of demand from investors, but amateur hour is over. Savvy investors are the ones who are stepping up today. In the go-go period of the past few years, anyone could score on a rehab deal. Today's more challenging market is one better suited for professionals — and they're still out there rehabbing and repositioning homes.

The forecast for annualized home price appreciation had slowed to the 1% range as of this past January, according to NAR. Numbers like that reward skilled, sophisticated investors. On the bright side, the housing shortage continues to hover over the entire real estate market. That's why home prices held steady even as mortgage rates doubled in 2022.

Consider foreclosures. Attom Data Solutions reported more than 31,000 U.S. properties with foreclosure filings in January 2023, up 36% from a year earlier. That's a small number compared to the Great Recession, of course, but the upturn in default notices and repossessions indicates that the housing market is returning to historic norms.

This makes fix-and-flip loan programs ideal for the investors who are hanging in there during a leaner period. If you're an originator who is waiting out the storm clouds that have descended over the industry in recent months, these specialty products can help boost your business. ●