

Pricey Coastal Markets Show First Signs of Housing Slowdown

Redfin's deputy chief economist is taking note of early indicators that the housing market is cooling down in some pricey coastal areas—signaling the start of a national trend.

“When will it end?” This question has repeatedly flashed across my screen over the past several weeks, sent by Redfin colleagues via Slack, reporters on Twitter, my friends and family by text. They’re all referring to the housing market frenzy driven by historically low mortgage rates, which have shot up from 3% to almost 5% over the last few months. Yet prices keep soaring to new heights as qualified buyers keep getting outbid by all-cash offers well above list price.

I think of the 2022 housing market like a ship slowly changing course, rather than something that will come to an abrupt stop. The ship is still facing north, but some flags can be seen waving in the periphery, telling us that a cooldown is taking shape. In pricey coastal areas including Los Angeles, San Francisco, Seattle and Boston, fewer people are starting online home searches, touring homes with real estate agents and applying for mortgages than this time last year.

We’re taking note of the following early indicators, which suggest that a growing share of homebuyers in expensive coastal markets are getting priced out of the market—a sign that a nationwide cooldown is [beginning](#). They’re impacted by the one-two punch of soaring mortgage rates—which reached 4.67% by the end of March, a three-year high—and record-high prices:

1) Dip in Google searches for “home for sale” in certain coastal areas

The number of Google searches for “homes for sale” in Baltimore dropped about 16% year over year in the second week of March, the biggest dip of the markets we’re tracking, followed by a trio of pricey markets: Boston (-15%), San Francisco (-14%) and Los Angeles (-13%).

That’s compared with a 7.9% nationwide drop.

Although Google searches for “homes for sale” are dropping faster in pricey coastal metros, the growth rate has also declined nationwide since the beginning of the year. Searches for the term were unchanged year over year as of late January, then started dropping in February.

2) Home tours are down from the beginning of the year in California, but they're up nationwide

Tours of for-sale homes in California have dropped 21% as of March 31 from the first week of 2022, according to the home-tour technology company [ShowingTime](#). That's a major turnaround from the same timespan last year, when touring activity in California rose more than 76%.

Nationwide, home tours were up 23% since the first week of the year. That's down from last year's 37% growth, but not as steep of a drop as we're seeing in California.

3) Drop in homebuyers contacting Redfin agents in expensive coastal markets, compared with increase nationwide

Fewer buyers have requested service from Redfin agents in San Francisco, Los Angeles, Washington, D.C., Boston, and Seattle at the beginning of this year compared to the same time last year. Meanwhile, the number of buyers requesting our agents' services nationwide has *increased* by double digits.

Other measures also show that nationwide demand for homebuying services is up from a year ago. Redfin's Homebuyer Demand Index, a measure of requests for home tours and other services from Redfin agents across the U.S, was up 5% year over year during the week ending March 27. Still, that's the smallest gain since the week ending Jan. 30, 2022, signaling that nationwide demand is starting to slow down.

4) Decline in mortgage applications in pricey California metros

In both Los Angeles and Orange County, the number of homebuyers who applied for a mortgage dropped 18% year over year in February, and in both San Francisco and San Diego the drop was 13%. Boston (-7%) Seattle (-5%), and Washington, D.C. (-3%) were among the other pricey coastal metros with year-over-year declines in mortgage applications. That's according to a Redfin analysis of mortgage-rate lock data from real estate analytics firm [Optimal Blue](#).

Nationwide, mortgage applications in February were essentially unchanged from a year ago, also according to Optimal Blue.

The February dip in mortgage applications in California and other pricey coastal markets foreshadowed a nationwide drop in March. Mortgage applications were down 9% nationwide from a year ago during the week ending April 1, according to data from the Mortgage Bankers Association (MBA).

Those four early indicators aren't as comprehensive as the data from multiple listing services (MLS) we typically use to measure later-stage demand based on homes that have already been listed and sold. The MLS data still largely reveals a market that's

hotter than ever, even in California and other pricey coastal metros, with homes selling at their highest prices and fastest pace on record.

A notable exception is in the share of home sellers who are [dropping](#) their list price. For this time of year, the share of homes with price drops has been growing at its fastest pace in at least seven years. While price drops are still a rarity, the fact that they are quickly becoming more common tells us that sellers are reaching a limit on their ultimate control over the market as buyers reach a limit on how much they are willing to pay for a home. We're also seeing a cooldown in demand for vacation homes, with mortgage-rate locks for second homes up 13% from pre-pandemic levels in March—the lowest level in nearly two years and down significantly from the 88% increase a year earlier.

The decline in online real estate searches, tours and mortgage applications and increase in price drops will likely translate to slowing price growth and a decline in sales in those pricey coastal areas as we move from spring to summer. I expect that eventually, similar trends will start to take hold in affordable inland metros, but it may take a while before we start to see those early signals in hot migration destinations in the middle of the country because people moving in from places where homes are more expensive aren't as sensitive to soaring prices and mortgage rates. Plus, investors and other all-cash buyers are taking up a [bigger share](#) of the homebuying pool, edging out buyers with mortgages.

To homebuyers, sellers and agents, the market still feels really hot. It may take a few months for competition to ease

The market still looks and feels hot. A record share of homes are selling within one week and the average home in Los Angeles is selling for nearly 5% over its asking price.

But we expect that data to reflect a slowdown in the coming months as deals close for homes going under contract now. Redfin agents in California report that they are seeing fewer offers on each home, which will soon start to slow price growth.

Homebuyers in expensive coastal markets may want to be extra cautious about overpaying for a home, especially those who have a few months to wait. The selection of homes for sale will likely increase as homes stay on the market longer and fewer buyers compete for each home. But it's important to weigh that against the likelihood that mortgage rates continue to rise. We expect home prices to continue to grow too, but at a slower pace than they have been—and it may take months before we see that in the data.

Sellers should expect that the market is nearing the end of the era where homes regularly sell for hundreds of thousands of dollars over asking price. They'll still likely enjoy a small frenzy of hungry buyers—if they price it right. For those who aren't ready to list just yet, there will still be plenty of buyers this summer and fall, but buyers may be less exuberant. You might get five offers on your home instead of 15.

“Even though the market is still driven by huge demand and a lack of supply, we are seeing a slight slowdown,” said Los Angeles Redfin manager [John Underwood](#). “Rising rates have pushed a few folks out of the market. We’re starting to hear from sellers who want to get their home listed before summer because they feel like we’re nearing the peak of the market. It’s smart to list your home now as we do expect to market to level off sometime in the next year—but as of now, your average-priced Los Angeles home is still getting 5 to 7 offers.”