The New York Times

Goldman Sachs makes a bold housing market call

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The U.S. housing market *might* finally be nearing the bottom. At least that's according to Goldman Sachs.

Just two weeks after Goldman Sachs downgraded its outlook for the U.S. housing market in a paper titled *Getting Worse Before Getting Better*, the investment bank reversed course on Jan. 23 in a paper titled *2023 Housing Outlook: Finding a Trough.*

Instead of U.S. home prices falling 6.1% in 2023, which was their Jan. 10 prediction, researchers at the investment bank now expect national home prices to end 2023 down just 2.6%.

By the time U.S. home prices bottom out this summer, Goldman Sachs says, national home prices will be down around 6% from its June 2022 peak. Previously, Goldman Sachs researchers were expecting that peak-to-trough decline to come in closer to 10%.

"We expect a peak-to-trough decline in national home prices of roughly 6% and for prices to stop declining around midyear. On a regional basis, we project larger declines across the Pacific Coast and Southwest regions—which have seen the largest increases in inventory on average—and more modest declines across the Mid-Atlantic and Midwest—which have maintained greater affordability over the past couple years," wrote the researchers.

Why the upward revision? Recent data, Goldman Sachs says, points to an uptick in homebuyer demand.

"Home sales appear set to turn higher. Mortgage purchase applications have averaged 9% above their October trough so far in January, and survey-based measures of purchasing intentions have rebounded sharply," wrote Goldman Sachs researchers.

To get a better idea of where both national and regional home prices might be headed, *Fortune* asked Goldman Sachs to provide us with its full forecast.

Let's take a look.

View this interactive chart on Fortune.com

Unlike KPMG, Goldman Sachs does not expect a double-digit home price correction. The investment bank says there are three reasons why a steeper correction won't happen this cycle.

"First, the rapid buildup of untapped home equity over the last couple years means that even if prices declined more sharply than we expect, only a small share of mortgage borrowers would be underwater," wrote Goldman Sachs researchers. "Second, over 90% of outstanding mortgages are fixed rate, meaning that the rise in interest rates will not lead to a spike in debt service costs for most homeowners. And third, household balance sheets remain strong, with low aggregate leverage and considerable remaining pent-up savings from the COVID-19 pandemic."

Those three factors, Goldman Sachs says, should prevent the potential "for the cascading defaults that contributed to the post-GFC drawdown." That previous correction—after the 2007–2008 Global Financial Crisis (GFC), which saw U.S. home prices fall 26% between 2007 and 2012—is four times greater than the 6% peak-to-trough decline Goldman Sachs is predicting this time around.

While Goldman Sachs expects national home prices to fall 2.6% in 2023, not every market will be so lucky.

In 2023, Goldman Sachs expects double-digit home price declines only in (-16%), San Francisco (-14%), San Diego (-13%), Phoenix (-13%), Denver (-11%), Seattle (-11%), Tampa (-11%), and Las Vegas (-11%). On the positive side, Goldman Sachs expects home prices will rise in markets like Baltimore (+0.5%) and Miami (+0.8%).

"Metro-level trends will be dictated by a tug-of-war between housing demand and supply. MSAs [metros] with stronger affordability like Chicago and Philadelphia—for which payments on new mortgages only cost roughly a quarter of monthly income—should see smaller home price declines than metros with poor affordability like many cities in the West—some of which are seeing mortgage payments claim three-quarters of monthly income," wrote Goldman Sachs researchers in their latest note.

On the mortgage rate front, Goldman Sachs says buyers shouldn't expect much relief. By the end of 2023, the investment bank expects the average 30-year fixed mortgage rate will tick back up to 6.5%. As of Thursday, sits at 6.09%.