WHY IS OPTIMISM DOWN FOR REAL ESTATE INVESTORS? - THE MORTGAGE NOTE

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Among real estate investors across the country, optimism has dropped.

Limited inventory, increasing home prices, high finance costs, and insurance issues are to blame. Investors also worry that tariffs and mass deportations could impact the market.

The Winter 2024 RCN Capital/CJ Patrick Company Investor Sentiment Index shows that in the fourth quarter, only 35% of investors viewed the market as better or much better than it was a year ago. In Q3 2024, that number was 68%.

The number of investors who felt conditions had worsened over the course of the year almost doubled, from 13% to 25%.

Rick Sharga, president and CEO of CJ Patrick Company, said the most pessimistic region of the country is the Pacific region, where 33% of investors felt that market conditions had worsened since last year, and 20% expected conditions to deteriorate over the next six months.

“The Pacific region contains some of the most expensive markets in the country and some of the most limited supply of housing stock to buy, and is also seeing a steady decline in population, so it may be a bit more difficult for investors in those states to run a robust real estate practice,” said Sharga.

Sharga spoke with The Mortgage Note about the concerns rental property and fix-and-flip investors have.

Sharga said with approximately one million new apartment units coming online in 2023 and 2024, landlords now face stiff competition in many markets.

Adding to a landlord’s operating costs, insurance premiums have risen across the country by 52% in recent years. This is less of a concern for flippers, who aren’t going to be holding a property any longer than they need to, he said.

Rental property and fix-and-flip investors share concerns that two of President Donald Trump’s priorities – imposing tariffs on imported goods and deporting undocumented immigrants – will make it more difficult and costly for them to do business.

“Investors who repair and remodel homes rely on an already-tight labor market where industry analysts estimate about 33% of workers are immigrants, and a relatively high percentage of those immigrants are undocumented,” said Sharga. “Removing those laborers from the workforce will probably result in less construction and could mean higher labor costs for the investors hoping to fix-and-flip or repair-and-rent homes."

On the other hand, Sharga said investors seem very interested in some of the other proposals that Trump has talked about.

Sharga said the idea of opening up land owned by the federal government for development, expanding Opportunity Zones launched during the first Trump administration, and removing unnecessary regulations are all ideas that resonated with investors.

Although optimism has dropped, investors aren't fearful about the future.

Sharga said investor sentiment dipped from the view that market conditions were better or were going to get better to the view that they were the same and likely to stay the same in the coming months.

So, while the drop in optimism was real, it wasn't because investors feared a dystopian future anytime soon.

"Anyone who takes on the risk of being a fix-and-flip investor must be an optimist to begin with, so there's probably something in a flipper's DNA that just makes them more optimistic than other investors," said Sharga.

Rental property investors, on the other hand, are less positive due to market conditions. Asking rents have flattened out over the last year as more rental inventory has come to market and vacancy rates have returned to normal – or slightly higher – levels.

According to a recent data from CoreLogic, single-family rent prices increased 1.5% year-over-year. That's lower than the rate of inflation.

Concerning the Pacific region, Chunyang Shen, cofounder of Jarsy, said investor sentiment has plummeted for the following reasons.

"The current and perhaps the most acute problem is the high costs of real estate, making it rather problematic for investors to achieve good returns," said Shen.

In the Pacific, there are also demographic changes that affect investor confidence.

"Ultimately, some of the markets that investors have long considered the hottest now show a steady decrease in population, and investors get less certain about the further demand for real estate there," said Shen.

For this year, in Shen's view, investors won't be interested in taking risks in this region.

"Investors will probably look at markets that offer a better value proposition; hence, they will focus on emerging suburban markets with relatively better affordability than the urban central business district markets and potentially higher rates of growth," said Shen.

"Moreover, we may experience more activities concentrated in changing forms of investment such as tokenized real estate facilities as new opportunities for both ordinary and foreign investors searching for more freedom during these problematic periods."

According to the RCN Capital/CJ Patrick Company Investor Sentiment Index, nationally there are notable differences in purchase plans for rental property and fix-and-flip investors.

Almost half of all respondents plan to buy the same number of properties in 2025 as they did in 2024. But 21% of rental investors plan to buy more properties, compared to only 7% of flippers.

45% of flippers plan to buy fewer homes, compared to 33% of rental investors.