Housing under COVID-19

Watching the recovery happen or waiting for the other shoe to drop? Unprecedented times bring wild uncertainty and a touch of hope.
Coronavirus pandemic pushes U.S. into deepest “recession” since Great Depression
Search on Zillow shows housing is top of mind

Zillow.com FOR-SALE visits, 7-day moving average versus baseline
Unprecedented crisis meets for-sale market is resilience
The pull back was huge, activity returns as we speak

Buyers return faster than sellers, pushing inventory down to historic lows.
Supply side also walloped
Builder confidence recovers some, but still down significantly from early season highs

Homebuilder sentiment more than halved in April

- Value higher than 50 means more builders view conditions as good than bad

March housing starts fell 25% from Jan high
Jan starts numbers reached levels not seen since late 2006 before the Global Financial Crisis

Source: National Association of Homebuilders Market Index
Source: U.S. Census, Survey of New Residential Construction
Simultaneous supply and demand shock
Opposing effect on prices, reinforcing impact on quantities (leases or sales)
Inventory loss helps stabilize home prices

Buyers expecting to find a discount aren’t finding it. The mortgage rate is the deal.
Zillow’s formal home price and sales forecast

Estimated Monthly Home Prices, by Scenario (normalized relative to Feb 2020 = 100)

Source: Zillow Economic Data

Estimated Pending Sales Volume, by Scenario (normalized relative to Feb 2020 = 100)

Source: Zillow Economic Data

Some softness in house prices through rest of 2020, with upswing depending on scenario

Sharp initial recovery in pending sales volume but some weakness stretching into 2021 (in medium and pessimistic scenarios)

Current Probabilities

20% Optimistic (4A)
60% Medium (4B)
20% Pessimistic (4C)
Tight credit could slow the recovery

For-purchase mortgage applications fell sharply in April but have improved very strongly since

Annual change (%)

Week ending 5/29: Up 18% year-over-year

MBA Purchase Index (Measure of weekly mortgage application activity), SA
Source: Mortgage Bankers Association Weekly Applications Survey

Mortgage Credit Availability Index, Index Level by Month
( NSA, 3/2012=100)

Lending standards have tightened significantly in the last two months

Mortgage Credit Availability Index
Measured monthly
Source: Mortgage Bankers Association
The government support is record breaking
$2.48 trillion in aid, up to $2.3 trillion in Fed loans

Mar 27: CARES act providing $2T in aid signed into law
- Direct cash payments ($1200/adult or $2400 married + $500/kid)
- Extra $600/WEEK of unemployment benefit (39 week max and only available April 1- July 31)
- Small business loans: $350B (gone in 2 weeks)

Apr 9: Fed announces $2.3T in loans to support recovery

April 23: $480B for small business support, hospitals, and virus testing capabilities
Creditworthiness of recent buyers high

Tight credit, tight inventory, and prohibitive down payments were major barriers

Homeownership rate

- 69%
- 68%
- 67%
- 66%
- 65%
- 64%
- 63%


64.8%
Reform after GFC reduced predatory lending

Strong home value appreciation drive by fundamentals, not excess credit.

Figure 7: Purchase Mortgage Originations by Type

Source: CoreLogic, eMBS, HMDA, SIFMA and Urban Institute.
Last time we had too much inventory at the start

Leading up to this cycle, inventory was at record lows

Housing starts only JUST recovered to average

*Single-family housing starts*

Inventory driven down by strong demand + anemic building

*For-sale, existing inventory*

Source: NAR Existing Inventory
Keeping our minds on the future
Widespread adoption of remote work could bring many moves in coming years

- About two-thirds of Zillow survey respondents say they're working from a room that's not a dedicated home office.
- Two-thirds say they would consider moving if working from home at least a few days a week in the future.
- Listings mentioning a home office have jumped about 10% YOY.
- Search on New Construction listings up 73% YOY (All for-sale 42%).
Contrary to popular imagination, share of search heading to the suburbs is falling.
Housing adult children delays downsizing
And so was another dynamic we use to explain low inventory pre-crisis. Now....

More young adults live with mom – in her house
Share of young adults living with mom and share of young adults that have mom living with them

The number of adults living with a parent or grandparent is at an all-time high
Annual change in number of adults living in a parent's or grandparent's home
Trouble in the rental market
Rent softening reflects vulnerability of renters. Implications for homeowner pipeline.
Affordability pre-crisis worse for renters
Rent softness means fewer apartment projects. Long-run rent burdens could get worse.

Share of income spent on rent
Housing demand powered by demographic waves

Record long expansion: gone. Demographics: still there. Tipping point ages: more delay?

Tipping point age for moving out: 26
Median age of first-time home buyer: 34
Median age of new construction buyer: 42
Median age to exit for-sale market: 80