The Housing Market Before & After the Coronavirus Crisis

How is COVID-19 impacting the economy and housing market?
Zillow Economic Research
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- External Research
- Behavioral Science
- Data & Product
- Forecasting
- Policy
- Population Science
- Engineering
- Causal Economics
Pre-crisis market was on strong footing

First look to the fundamentals - the housing market conditions right before the crisis.
Home values had begun to speed up again

Low interest rates boosted buying power this winter
For-Sale Housing Volumes Pre-crisis: Solid

Sales and construction activity were all trending upward heading into crisis

Annual change

Sales of Existing Homes (SFR, Condo, Co-op) & New Homes (SFR) and New Construction Starts (SFR, Condo, Co-op). Annual Changes in Seasonally-Adjusted Annualized Rates, 3-month moving average. Source: U.S. HUD (New sales and Starts) and N.A.R (Existing Sales)
Rents were steady as well

With the bulk of millennials active in rental markets ...
Housing demand powered by a demographic wave

Hitting the market during a record long expansion.

Tipping point age for moving out: 26
Median age of first-time home buyer: 34
Housing demand powered by a demographic wave

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Homebuilding: lackluster for over a decade

Without enough truly new supply, active inventory driven down by strong demand

**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
Reform after crisis cut predatory lending

Borrowers now have reliable fixed monthly payments

Purchase Mortgage Originations by Type

Source: CoreLogic, eMBS, HMDA, SIFMA and Urban Institute.
Homeownership became more exclusive

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

Homeownership rate

![Homeownership rate chart](chart_image)
Rental vacancy rates lowest since mid 80s
Driven down by expansion + big Millennial gen + rising barriers to homeownership

Source: U.S. Census Bureau, Housing Vacancies and Homeownership, 2019 Q4 release
Affordability of housing worse for renters

Due to pressure on supply + slow income growth + no ability to harness low rates

Share of income spent on rent

- Rent affordability: 31.2%
- Mortgage affordability: 16.4%
And then... this

The scale of this crisis and impacts to the economy at large
Economic impact has been stunning, unprecedented

26.9 million initial claims for unemployment insurance in March and April

Initial claims for unemployment
Major economic indicators also show drop
Both consumers and producers are taking a deep breath

- Advance real retail and food service sales
  - Largest one-month decline in retail sales series history

- Number of applications for businesses with planned wages
  - Business applications across the U.S. have plummeted

Source: U.S. Census Bureau, Advance Retail Sales: Retail and Food Services
Source: U.S. Census Bureau, Department of Commerce
Buying activity faces serious logistical challenges

Having plummeted, mortgage applications and active-to-pending listings appear to have stabilized slightly at less than two-thirds 2019 volumes.

For-purchase mortgage applications have fallen sharply

**Annual change**

- Week ending 4/17: Down 31% year-over-year

**Daily Measure of Active -> Pending Listings Falling but Showing Faint Signs of Stabilization**

**Annual Change in Active -> Pending Listings (% measured daily)**

- Week ending 4/17: Down 36% year-over-year

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

Source: Zillow data.
Supply side also walloped

Builders stop projects and lose confidence - disappointing what would have been golden year

Homebuilder sentiment more than halved in April

March housing starts fell 25% from Jan high

Jan starts numbers reached levels not seen since late 2006 before the Global Financial Crisis

Value higher than 50 means more builders view conditions as good than bad
Would-be sellers are missing - homeowners wait

New listings drop 37 percent year-over-year. As pendings fall, active inventory rises.
So, now what?!  
What is already being done, what impact might it have and when might we get back to “normal”??
Supply and demand impact
Opposing effect on prices, reinforcing impact on quantities (leases or sales)
Ultimate price and rent declines depend on...
...the relative size of the demand and supply shocks

How deep and drawn out is the COVID recession?

- Is joblessness or income loss levied more heavily on renters or homeowners?
- Are renters and homeowners able to withstand job loss and economic hardship?

Will government aid be sufficient to prevent distressed units from hitting the market?

- Rental market: vacancies due to eviction or increase in doubling-up
- For-sale market: foreclosures and short sales
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
CARES act and renter affordability

Gov’t support is necessary to prevent many renters from falling into housing insecurity

Rent burden of households where the majority of income comes from workers in food, arts, retail
Lack of savings keenly felt by renters
The longer this goes, the more support households, especially renters, will need

Renters struggle to pay rent this April
Due to the sheer scale of joblessness, income loss plus delays in government aid

Source: National Multifamily Housing Council (NMHC) survey, 11.5 million units of professionally managed apartments
Fix not as simple as eviction moratorium
Rent non-payment creates chain reactions for strained local government, rental industry

- Tenants → Rents → Landlords
- Landlords → Mortgage owner (bank or CMBS holder)
- Landlords → Local government (property taxes, utilities)
- Landlords → Insurer, property manager, handyman
Getting straight to the homeowner, easier

Extension of forbearance (up to ~3M) should keep distressed homes out of the market

Share of loans in forbearance

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<th>Total</th>
<th>Freddie Mac &amp; Fannie Mae</th>
<th>Ginnie Mae</th>
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<td>March 2</td>
<td>0.3%</td>
<td>0.1%</td>
<td>0.2%</td>
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<td>March 30</td>
<td>2.7%</td>
<td>1.7%</td>
<td>4.3%</td>
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<tr>
<td>April 5</td>
<td>3.7%</td>
<td>2.4%</td>
<td>5.9%</td>
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<tr>
<td>April 12</td>
<td>6.0%</td>
<td>4.6%</td>
<td>8.3%</td>
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Source: Mortgage Bankers Association
Refinance can provide affordability to owners
But the sheer volume of applications can impact access

Fixed 30-year mortgage rate

Refinance Mortgage Loan Application Index

Source: Mortgage Bankers Association, Evercore ISI Research
Sellers and property managers - making it work

Creation of 3D Home tours soared as stay-at-home orders expanded

% change from 30 days ago in number of completed 3D Home tours nationwide created through Zillow

April 2, 2020
599.8%
Search on for-sale homes: a sign of hope?

Search activity on homes bottomed out mid-late March, since rose far beyond 2019 levels

Change in page views of for-sale homes on Zillow, 2019 vs 2020
Initially robust in China, recovery slowed

The growing scale of the global crisis puts expectations for recovery further out

Improvements in Chinese consumer activity has leveled off in recent days
Annual change in consumer activity in China (measures traffic congestion, box-office revenue, other metrics)

China's home sales recovery has wavered in recent weeks
Annual change in residential real estate transactions in China

Source: Goldman Sachs Economic Research