CHANGES IN THE US HOUSING MARKET BROUGHT ABOUT BY THE COVID-19 PANDEMIC

— SIGNS OF NEW TRENDS IN LIFESTYLES —

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SUMMARY

- During the COVID-19 crisis, housing prices in the US are soaring, marking growth rates well above averages registered over the past few years. The climb of prices has been triggered by lower mortgage rates and a housing supply shortage.
- A look at the change in housing ownership rates by generation shows that rates were generally declining in the pre-COVID-19 period, and the decline was especially conspicuous among young people. However, ownership rates have been rising since the pandemic hit, particularly among these young adults. It is thought that the expansion in working from home has created more options for moving to outlying areas and buying larger homes at lower prices.
- Looking at changes by region, before the COVID-19 pandemic, the population tended to be concentrated in urban areas, but after the pandemic hit, people moved from central urban areas to outlying areas. These lifestyle changes can also affect retail strategies and sales practices.

1. US NATIONWIDE HOUSING MARKET SITUATION

1-1. Housing prices skyrocketing due to COVID-19

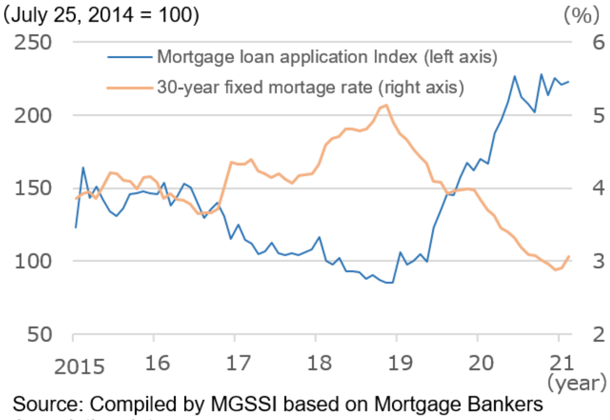
Sales prices of US detached homes began rising from around the summer of 2020, after lockdowns implemented in mid-March were gradually eased. In October-December 2020, prices were up by approximately 11% on average year on year, trending at levels far exceeding the average rise of 5-6% marked over the past few years. It was the first time in several years for prices to increase by more than 10% year on year.

1-2. Price increase triggered by lower interest rates and housing supply shortage

A review of historical data on mortgage interest rates and housing loan application volume shows the number of applications increases as interest rates fall (Figure 1). One of the reasons for the rise in housing prices is thought to be the increase in the number of housing loan applications due to the sharp drop of interest rates amid the COVID-19 pandemic.

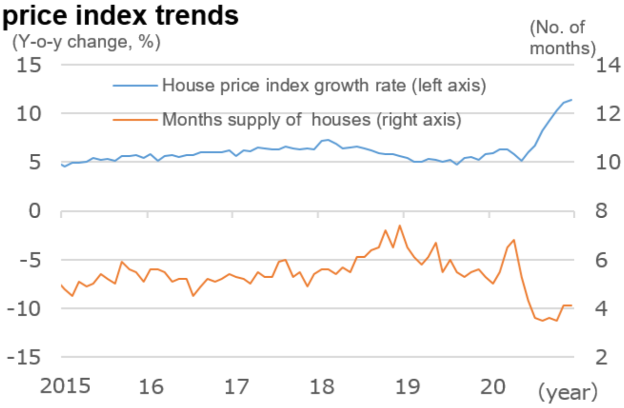
In addition, the housing supply shortage has also been a factor behind the climb of prices. The Months Supply of Houses is the lowest in the past few years, showing the tightness of supply and demand (Figure 2). The Month Supply refers to the number of months the current inventory would last if there were no new constructions, based on the number of units sold in that month. The lower the figure means, the tighter the supply and demand balance becomes.

Figure 1: Mortgage rates and loan application index



Source: Compiled by MGSSI based on Mortgage Bankers Association data

Figure 2: Months supply of houses and house price index trends



Note: The MSI is calculated by dividing the total number of houses for sale by the number of houses sold in a given month. It indicates how many months it would take to sell off current inventories if no new inventories were to come on the market.
Source: Compiled by MGSSI based on data from the US Census Bureau, Federal Reserve Bank of St. Louis

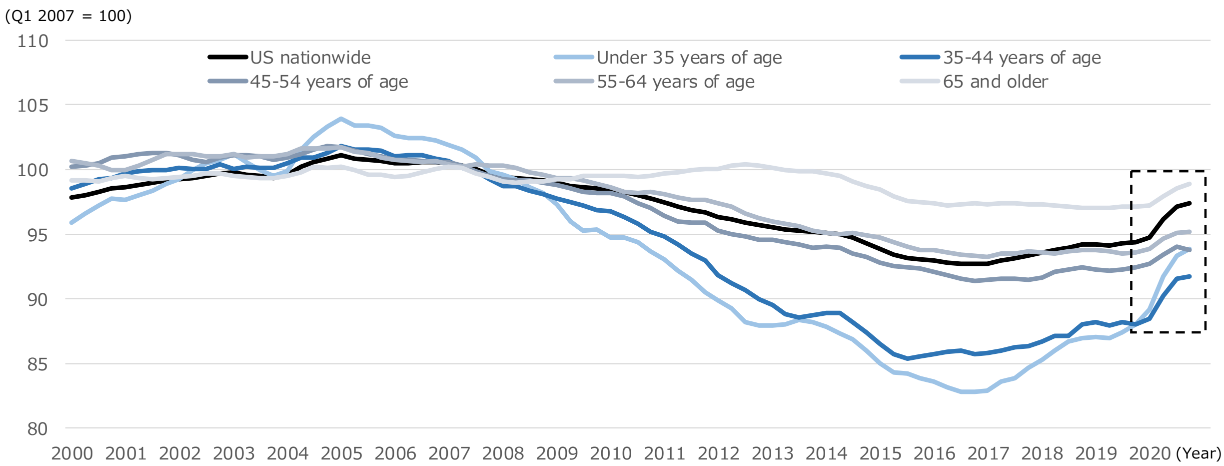
In the following sections, we examine how the COVID-19 pandemic is changing the US housing market from various perspectives, such as housing ownership rates by generation and the regional migration of people, in addition to rising home prices due to low interest rates and tight supply and demand.

2. COVID-19 LEADS TO SPIKE IN HOUSING OWNERSHIP RATES, WHICH WERE DECLINING, ESPECIALLY AMONG YOUNG PEOPLE

2-1. In the pre-COVID-19 era, housing ownership rates were down sharply, especially among young people

The housing ownership rate in the US had been on a downward trend until around 2017. A look at the changes in ownership rates by generation shows an especially pronounced decline for the younger generation under the age of 35 (Figure 3).

Figure 3: Homeownership rates by age of householder



Note: Home ownership rate for 1Q 2007 = 100. Quarterly moving average for the previous four quarters.
Source: Compiled by MGSSI based on US Census Bureau data

A previous study[1] analyzed the factors behind the decline in the younger generation's housing ownership rate from 2000 to 2016. The study found the decrease in affordability due to high housing costs was the most significant factor behind the decline in the ownership rate, contributing to about 50% of the decline. In addition,

[1]Freddie Mac, Sam Khater, Len Kiefer, Ajita Atreya, Venkataramana Yanamandra, "Locked Out? Are Rising Housing Costs Barring Young Adults from Buying their First Homes?" June 28, 2018
http://www.freddiemac.com/research/insight/20180628_rising_housing_costs.page

the declines in the marriage rate and birth rate contributed about 20%, and racial diversification contributed about 10%.

According to the US Census Bureau's statistics, as of 2019, the percentage of households living in purchased homes was 80% for married households and 46% for single-person households, a difference of about 30 percentage points between the two types of households. In addition, while the housing ownership rate among Non-Hispanic Whites households was approximately 70%, it was roughly 40% for Blacks and about 50% for Hispanics, showing differences of some 20 to 30 percentage points, depending on race. This means that there are differences in ownership rates, depending on the characteristics of the household.

The decrease in the housing ownership rate of young adults is attributable to the decline in the marriage rate among young people, as young adults are choosing to put off marriage until later, as well as the decline in the percentage of Non-Hispanic Whites and the increase in the percentages of Blacks and Hispanics in the young adult population. Between 2000 and 2019, the median age at which men married for the first time increased from 26.8 years to 29.8 years and that for women rose from 25.1 years to 28.0 years. During the same period, the proportion of Non-Hispanic Whites under the age of 35 decreased from 62% to 55%, while the proportion of Blacks in this age demographic increased from 15% to 16% and the proportion of Hispanics increased from 17% to 24%.

2-2. Housing ownership rates recovered sharply, especially among young people, despite the rise of housing prices nationwide due to the COVID-19 pandemic

During the COVID-19 pandemic in 2020, housing ownership rates rose sharply across all generations, and the increase was especially remarkable for young adults under the age of 35 (indicated by the dotted line in Figure 3). The situations pointed out in the aforementioned study regarding young people marrying later and racial diversification did not change significantly in 2020. At the same time, the unemployment rate rose from an average of 3.7% in 2019 to an average of 8.1% in 2020 as a consequence of the COVID-19 pandemic, and the employment environment is rather deteriorating, which is a factor unlikely to contribute to an increase in housing ownership rates. Working from home, however, has become widespread amid the COVID-19 pandemic, reducing the need for commuting. In view of these points, the need to reside in, or close to, urban centers for the sake of commuting convenience has been eliminated, and choosing to live in the suburbs is becoming more of an option. This is thought to be behind the rise in housing ownership rates. As pointed out in chapter 1, housing prices are rising nationwide in the US due to the COVID-19 pandemic, but housing prices vary widely between urban and suburban areas.

Based on a classification scheme[2], formulated by the U.S. Department of Health and Human Services, US counties are divided into six categories by population size, from large central metro counties located in the center of metropolitan areas (category 1) to non-core counties with a population of less than 10,000 people (category 6). A look at the distribution of housing prices in the six categories shows that housing prices are generally trending down from urban areas to the suburbs (Figure 4). With this trend, it is possible that people who had rented because they could not afford to buy in the place where they lived are now able to buy a home by changing their place of residence. In fact, Zillow, the operator of a real estate website, has identified some interesting findings[3]. The members of nearly 2 million households who are renting a home and who have jobs that allow them to work from home cannot afford to buy a home in the place where they currently live. However, they can buy a home in another place, such as a suburb a little farther out from central metro areas. Of these nearly 2 million households, close to half were young people 26-40 years of age.

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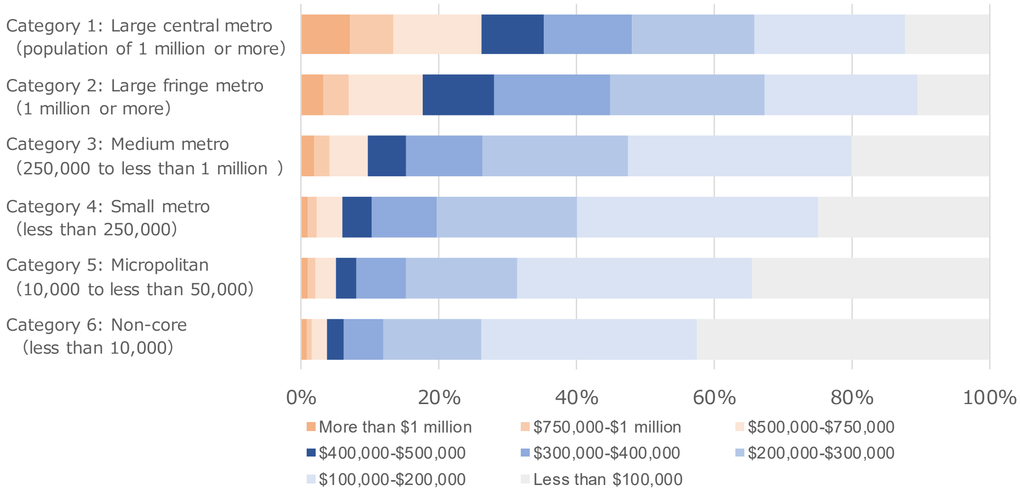
[2]U.S. Department of Health and Human Services, Centers for Disease Control and Prevention "2013 NCHS Urban–Rural Classification Scheme for Counties" https://www.cdc.gov/nchs/data_access/urban_rural.htm This classification scheme is commonly used in other studies as well. For example, Pew Research Center, "Prior to COVID-19, Urban Core Counties in the U.S. Were Gaining Vitality on Key Measures" https://www.pewresearch.org/social-trends/2020/07/29/prior-to-covid-19-urban-core-counties-in-the-u-s-were-gaining-vitality-on-key-measures/

[3]Zillow, "Remote Work Could Open Homeownership to Nearly Two Million Renter Households" http://zillow.mediaroom.com/2020-09-08-Remote-Work-Could-Open-Homeownership-to-Nearly-Two-Million-Renter-Households

Figure 4: Distribution of housing prices by county category (2019)



Note: For properties owned at the time of the survey, the estimated selling prices of those properties when listed for sale

Source: Compiled by MGSSI based on US Census Bureau data

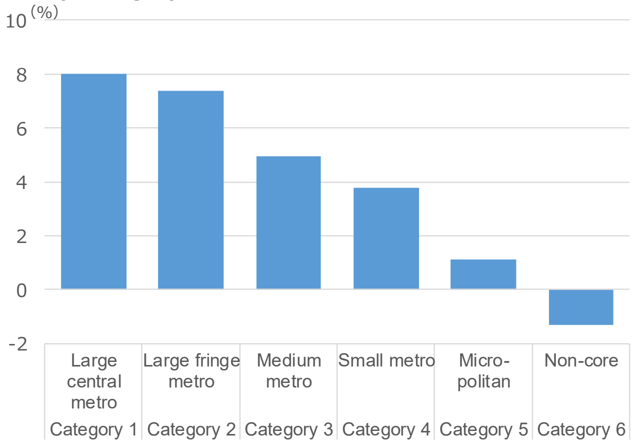
3. RELOCATION TRENDS AND CHANGES CAUSED BY COVID-19 PANDEMIC

3-1. Prior to COVID-19, the population was concentrated in urban areas and mobility was not high

First, let us confirm the population mobility trends in the US before the COVID-19 pandemic by reviewing the changes in the number of households between 2010 and 2019 for each of the county categories described in section 2-2 (Figure 5). The increase in the number of households was the highest for category 1, and the rate of increase diminishes all the more from category 2 toward more outlying areas. This illustrates that prior to the COVID-19 pandemic, the population tended to be concentrated in urban centers.

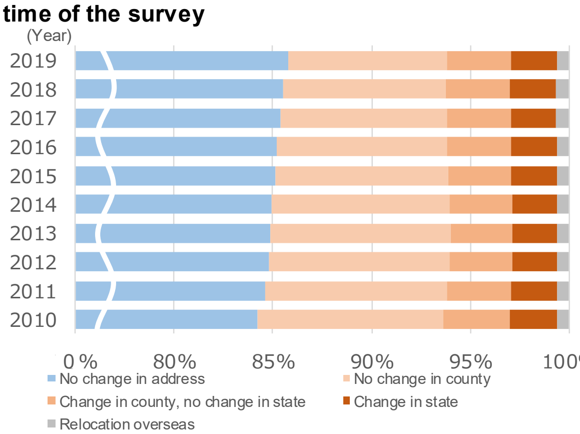
Furthermore, in the pre-COVID-19 era, not many people changed their address and the percentage of people who moved across states was low. A detailed examination of address changes over the past year reveals that the percentage of people living at the same address as one year ago was more than 80%, and the percentage gradually increased from 2010 to 2019 (Figure 6). In addition, approximately 8% of the population moved within the same county in the same state, approximately 3% moved across counties within the same state, and 2% moved to a different state.

Figure 5: Changes in the number of households by county category (2010 to 2019)



Source: Compiled by MGSSI based on US Census Bureau data

Figure 6: Distribution of place of residence at the time of the survey



Source: Compiled by MGSSI based on US Census Bureau data

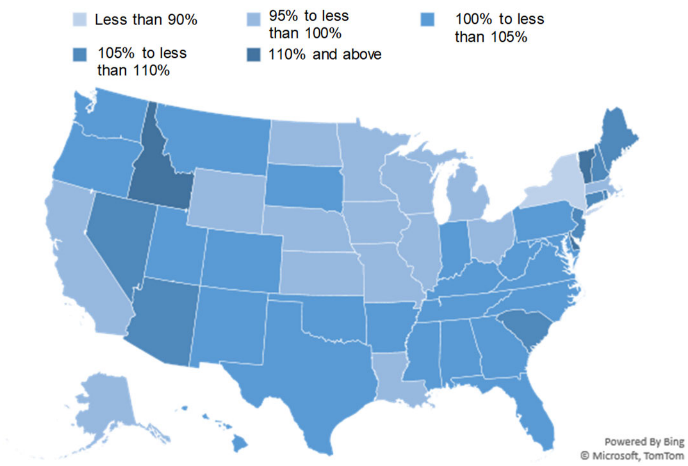
3-2. COVID-19 is a turning point for people to move to outlying areas

In the COVID-19 era, it is evident that people are moving from central urban areas to outlying areas, in contrast to the trends seen before the COVID-19 pandemic. Following is a review of population migration patterns between March and December 2020 by state and county, based on change-of-address data obtained from the United States Postal Service (USPS)[4].

The ratios of population inflows to outflows were calculated and multiplied by 100 to obtain percentage values that indicate population migration patterns. A percentage exceeding 100% indicates a net inflow, while a figure below 100% indicates a net outflow. First, by state, net outflows were seen in states with major metropolitan areas with populations of 10 to 20 million, such as New York (84%), California (96%), and Illinois (96%) (Figure 7). In contrast, net inflows were seen in states located on the periphery of such major metropolitan areas, and they included Idaho (111%), Vermont (110%), Nevada (106%), and New Jersey (106%).

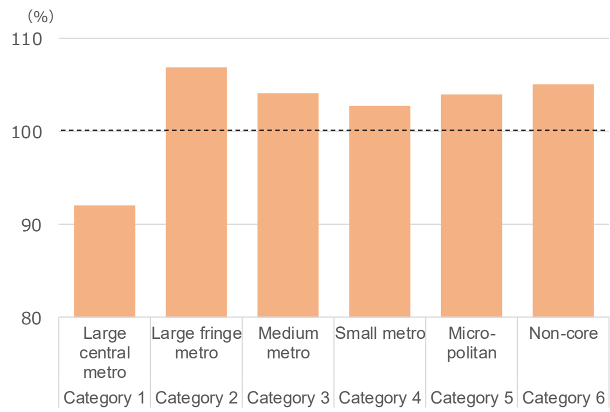
Next, a review of the migration between counties was carried out to analyze the situation in more detail. As explained in section 3-1, the counties are divided into six categories, and a verification of the inflow to outflow ratios showed net outflows in the large urban counties of category 1, and net inflows in the counties of categories 2 to 6. (Figure 8).

Figure 7: Ratio of population inflows to outflows by state (March to December 2020)



Note 1: Excludes outflow source and inflow destination combinations with less than 10 cases
Note 2: A figure above 100% indicates a net inflow, while a figure below 100% indicates a net outflow
Note 3: No states were included in the "90% to less than 95%" category
Source: Compiled by MGSSI based on USPS data

Figure 8: Ratios of population inflows to outflows by county category (March to December 2020)



Note 1: Excludes outflow source and inflow destination combinations with less than 10 cases
Note 2: A figure above 100% indicates a net inflow, while a figure below 100% indicates a net outflow
Source: Compiled by MGSSI based on USPS data

As mentioned above, there was a tendency for the population to be concentrated in central metropolitan areas before the COVID-19 crisis, but population mobility patterns changed completely due to the pandemic, with people migrating from urban centers to outlying areas, as can be understood from an examination of the data by state as well as by county population size.

Next is a more concrete investigation of how people moved from central areas to outlying areas, based on the same USPS data. For example, it can be seen that 40% of those who migrated out of New York County, New York, which is a major metropolitan county of category 1, moved to a major metropolitan county of same category 1. Meanwhile, the percentage of people who moved to outlying counties of category 2 through 6 was 60%. Ulster County, New York, located about 150 km north of Manhattan near the midpoint of the Hudson River, is an outlying county that falls into category 4, but it is the 13th most popular destination for people migrating

[4]Previous research was used as reference for analyzing and obtaining data. National Association of REALTORS, Nadia Evangelou,"8.9 Million People Relocated Since the Beginning of the Pandemic" https://www.nar.realtor/blogs/economists-outlook/8-9-million-people-relocated-since-the-beginning-of-the-pandemic

out from New York County. According to media reports[5], the rise of real estate prices in the city of Kingston, in Ulster County, was the highest of the 181 major metropolitan areas in the US in April-June 2020, and the increase was attributed to the influx of people arising from the shift to remote work arrangements.

4. POPULATION MIGRATION CAN LEAD TO CHANGES IN LIFESTYLE AND RETAIL STRATEGY DEVELOPMENT

As discussed above, it is thought that the progression of working from home in the face of the COVID-19 pandemic has given people a wider range of choices for places to live, and that has encouraged people to relocate to outlying areas and led to an increase in housing ownership rates, especially among young people.

Purchasing behavior is changing in line with changes in people's places of residence and lifestyles, and retailers are tailoring store development and sales strategies accordingly. For example, Starbucks said US sales are shifting from dense urban areas to the suburbs and from cafes to drive-throughs, and as such, it is tailoring operations to adapt to customers' new behavior patterns[6]. Ron Coughlin, CEO of pet retailer Petco, noted that young people living in urban apartments are moving to the suburbs and countryside to buy homes, and he pointed out that this shift could lead to a pet-buying boom[7]. Moreover, this shift may also affect vehicle sales volume and automotive sales bases. According to the US Census Bureau's 2019 statistics, of homeowners in category 1 counties, 8% of households did not have a car, while this figure was lower at around 2-3% for counties in categories 2 to 6. As people relocate from the central urban areas to outlying regions, the role of automobiles as a means of transportation is expected to increase.

According to the Federal Reserve Bank of Atlanta's Survey of Business Uncertainty[8], 27% of companies said they expect their employees to work from home at least one day a week even after the COVID-19 crisis ends, which is nearly triple the corresponding response rate of approximately 10% before the pandemic hit. As the survey results suggest, companies are expected to continue with initiatives that enable their employees to work from home, and it is conceivable that some of the changes to the housing market and people's lifestyles brought about by the COVID-19 pandemic may continue going forward.

[5]Bloomberg, "The Rise of Work-From-Home Towns" https://www.bloomberg.com/opinion/articles/2020-08-27/scenic-towns-enjoy-boom-as-work-from-home-becomes-pandemic-norm, 6sqft,"This Hudson Valley town has the fastest-rising real estate prices in the country" https://www.6sqft.com/kingston-new-york-fastest-rising-real-estate-prices-in-the-country/
[6]Transcript of Starbuck's earnings release for Q4 2020, https://investor.starbucks.com/events-and-presentations/current-and-past-events/event-details/2020/Q4-and-Full-Year-Fiscal-2020-Starbucks-Earnings-Conference-Call--Tentative/default.aspx
[7]CNBC, "Petco CEO says shift to suburbs is fueling company growth" https://www.cnbc.com/2021/03/18/petco-ceo-says-shift-to-suburbs-is-fueling-company-growth.html
[8]Federal Reserve Bank of Atlanta, "Firms Expect Working from Home to Triple"https://www.frbatlanta.org/blogs/macroblog/2020/05/28/firms-expect-working-from-home-to-triple