



# Initial Impact of Covid-19 on the Housing Market

## Current Covid-19 Situation

As of the first week of April, the number of confirmed Covid-19 cases worldwide has surpassed the 1 million mark. In the U.S., the health impact of the virus has already dwarfed the last pandemic, the H1N1 swine flu of 2009, which resulted in a total of 115,000 cases and 3,400 deaths across the country. Even under optimistic scenarios, Covid's trajectory in the U.S. currently points to an impact that's 30-60x the magnitude of that swine flu 2009 pandemic, and up to a third of the 1918 Spanish flu pandemic (though estimates there vary).

The U.S. have become the new epicenter of Covid spread and fatalities, with cases and deaths surpassing 350,000 and 10,000 respectively, and growing exponentially. While the first outbreaks occurred in Washington state, they rapidly spread through major cities. Currently, the top three states particularly affected on a per-capita basis are New York, New Jersey and Louisiana. The latest model estimates point to an eventual 100,000 to 240,000 deaths across the country during the pandemic.

## Assessing the Initial Impact of Covid19 on Real Estate

At the time of this analysis, 41 states had announced state-wide stay-at-home orders, applying social distancing measures and limiting movement to essential activities only. Most other remaining states had regionalized measures in place as well. The economy has reacted swiftly too, with most indicators pointing to a likely recession. The near-term impact to real estate activity (next 3 to 6 months) comes as open houses on new and existing homes are being halted, shifted to virtual channels, or drastically reduced and set on an appointment-basis only. The mid-term impact (next 6 to 18 months) comes from lower buyer and seller sentiment, sustained disruptions to new and existing supply and sales funnel, and further declines in affordability from job and income loss affecting consumers.

The following looks at the early readings of housing metrics and economic indicators surfacing post-Covid (these will continue to be updated on a weekly basis as the situation evolves):

## Home Sales

- Historical and seasonal context: Covid-19 hits the market during peak home-shopping season. Historically, demand for homes peaks and home sales accelerate particularly quickly at the end of March as the spring kicks into gear. Demand wise, March and April consistently rank as the top two months for online search activity relative to inventory in the last three years. Effectively, this time of the year typically is the most competitive for housing as buyer interest peaks and sellers slowly follow suit. Sales wise, March marks the biggest month-to-month increase in transactions by far, with monthly jumps of 30-50% over February in the last three years. Accordingly, home sales reach a peak at the start of the summer in late June or early July, with the second quarter of the calendar year typically representing 28% of all sales annually.

This section highlights initial movement to home sales post-Covid:

- **Current Readings:** public records data on home closings is inherently laggy as most jurisdictions take time to log home sales in their area. Also, closings themselves are a lagged indicator of activity, since sales completed today were lined up days/weeks ago (on average 30-60 days prior if a mortgage is used).
  - Our national estimate from a sample of 106 counties across six of the largest states shows hints of Covid-specific impact to sales volumes in the second half of March. In the 10 weeks prior to the Covid onset and through the week ending March 8, sales in this sample were **up 15%** year-over-year on average. In the subsequent two weeks (ending March 15 and March 22), sales were slightly down in the sample, 2.7 and 2.8% year-over-year for the weeks respectively. While still preliminary, the early reading of the last week of March ending March 29 showed home sales for this sample **down 30%** year-over-year. If preliminary figures hold, home sales in the sample composite could range from down 5 to 10% year-over-year in March. This yields a preview of the magnitude of slowdown expected in home sales around major markets in the country in the weeks to come. The full national April sales figures are likely to capture bigger and more widespread declines since April sales would typically have gone under contract in March, post-Covid.
  - More evidence of deceleration comes from the latest MBA survey for the week ending March 27, which showed mortgage purchase applications down 11% from the prior week, and **down 24%** over this time last year.
- **Home sales outlook scenarios:** Last year pre-Covid, the realtor.com housing forecast predicted home sales in 2020 to decrease to 5.25 million, down 1.8% over 2019. The estimates and underlying forces behind them will be materially shaken. Accordingly, our realtor.com home sales forecast will be revised upward to account for a strong start to 2020 pre-Covid, and downward to account for weaker economic indicators post-Covid, including employment, household formation, household incomes, and GDP. The ultimate economic impact and implications to housing activity will be a function of the economic stimulus and direct actions to combat spread itself. Estimates of the shape and length of the resulting recessionary landscape remain highly variable early on. However, two general post-Covid economic and home sales outlook scenarios can be considered:
  - **A V-shaped scenario** (deeper contraction, quicker recovery), which sees home sales in 2020 drop sharply during the second quarter, then quickly recover through the summer and into the fall and the end of the year.
  - **A U-shaped scenario** (extended contraction), which sees home sales in 2020 drop steadily with declines in the second quarter extending through the fall, then slowly recovering through the end of the year.
  - Neither scenario accounts for further impact of an economic slowdown nor the sustained impact of even lower levels supply, only lost activity due to near-term supply and demand disruptions. A recovery here refers to slower year-over-year declines as the year progresses, consisting of both resumed activity (new transactions occurring during usual months) and postponed activity (transactions delayed from earlier months). Health experts and simulations also present a 'double hump' Covid19 as a plausible scenario, with some impact extending into 2021.

- **Historical context for full range:** the outlined scenarios could yield full sales estimates for 2020 as low as those seen during the 2008-09 recession. Then, existing home sales reached a recession low annual run-rate of 3.45 million in July 2010, not far from the initial drop to 3.77 million in November 2008. Home sales remained at or below 4 million for 12 of the 25 months thereafter (with homebuyer credit program lifting sales temporarily). The recovery was slow, and sales remained below 5.3M for 98 months (over 8 years) until May 2015. The volume of closings in 2020 were already set to face headwinds in the second half of the year, but they were still on track to remain near the 20-year average at 5.3 million. While sales could temporarily drop to similar levels seen in the last recession, many aspects of the economic extent of the virus have yet to evolve, and the new Covid inspired recession may be shorter and less pronounced.

## Housing Inventory

Movement to home sales is largely a function of the availability of homes for sale (supply) and homebuyers ability and willingness to purchase (demand). Covid measures and reactions have had a direct impact on both. Our realtor.com inventory data for the second half of March detected signs of price deceleration and new listing declines on a year-over-year basis. If continued these could signal further and more sustained drops in buyer and seller sentiment. This section highlights initial movement to housing inventory metrics post-Covid:

- **New listings:** weekly data shows evidence of changes to inventory volumes that could be linked to the Covid-19 spread in the U.S.. In the first two weeks in March pre-Covid, new listings were increasing 5% year-over-year on average. In the most recent two weeks ending March 29 and April 5, the volume of newly listed properties decreased by 34 and 31% year-over-year respectively, the biggest declines this year. While still an early measurement, the drop in the last week falls outside the bounds of normal spring activity. Hence, the declines in newly listed homes are highly indicative of initial seller response to Covid restrictions, with more potential sellers reevaluating or postponing sales. If continued, this could mark the start of further declines in new inventory in April.
- **Asking prices:** weekly data shows signs of deceleration that could be linked to Covid-19. In the first two weeks of March pre-Covid, median listing prices were increasing 4.4% year-over-year on average. In the most recent two weeks ending March 29 and April 5, the median U.S. listing price posted an increase of just 2.5 and 1.6% year-over-year, respectively, the latter marking the slowest pace of growth since 2013. While still short of foreshadowing price declines, the slower gains could be indicative of early market response to economic uncertainty and restrictions to industry activity, along with lower buyer and seller sentiment. If continued, this could mark the start of further deceleration in asking price growth in April.
- **Other inventory metrics:** measures of time on market and overall inventory tend to move slower in comparison to other metrics. Despite the March data not reflecting major shifts yet, we expect April to show stable double digit declines in active listings, as inventory is pulled in two directions: downward by the sharp drop in new listings and increase in delistings; and upward by the longer time on market of listings from sellers failing to get buyers through the door and waiting to see conditions evolve. Accordingly, it's possible we'll see the overall measure of time on market naturally grow as fewer fresh listings come on the market and more listings remain advertised but unable to process offers rapidly.

## Economic and Housing Indicators

The health and sanitary crisis and eventual ceases to activity and productivity have quickly translated into sudden economic slowdowns across sectors too. Crucially, the early picture of changes to the job market and overall near-term financial outlook has triggered initial concerns from consumers in most industries.

This section highlights initial movement to key economic indicators post-Covid:

- **Mortgage rates:** rates showed volatility toward the end of March, with some lenders quoting the 30 year fixed rate in relatively wide ranges between 3.5 and 4.2%. Even with the Federal Reserve's all-in monetary

moves, investors are more conservative about the housing outlook. With banks' and mortgage servicers' rising concerns about finances, mortgage rates are expected to be more volatile. Higher rates could impact buyers access into the housing market, particularly in the already high-priced, inventory tight areas.

- **Employment:** the latter half of March has also seen the spikes in the number of unemployment insurance claims across most states in the country. There was an uptick in the week ending March 14 to 280,000, the highest level of claims since September 2017. However, in the weeks ending March 21 and March 28 claims surged to 3.28 and 6.65 million respectively, obliterating the previous record of 700,000. For comparison, in the worst part of the great recession, in 2009, it took 8 times longer (16 weeks) to hit 10 million jobless claims. For the week ending March 21, the top 5 states most affected by initial claims by volume were: Pennsylvania, Ohio, New Jersey, Massachusetts, and Texas, with weekly increases in initial claims ranging from 139,000 to 363,000. The top 5 states most affected by initial claims by rate of change were: New Hampshire, Maine, Louisiana, Rhode Island, and Minnesota, with an average weekly % increase in initial claims of 3100%.
  - The March jobs report from the Bureau of Labor Statistics shows total payrolls were down 701,000 in March, the biggest jump since 1983 while unemployment rose nearly a percentage point from 3.5 to 4.4 percent. Still, the March jobs report is based on a survey of households and businesses and asks about work and payrolls for the week that includes March 12. While some small businesses had reacted to Covid-19 before this time, statewide stay at home orders weren't put in place until much later in March, and 10 million unemployment insurance claims were filed in the last 2 weeks. Thus, the March jobs report isn't capturing what happened in the later half of March, which right now is materially different from the first half of the month.
  - During the 2008 recession, the unemployment rate hit a 10% high in October 2009, jumping from a pre-recession low of 4.4%. Importantly, jobs were slow to come back and unemployment remained above 9% for 30 months at the peak. Unemployment was persistent for individuals, too, lasting 26 weeks for the median unemployed person and nearly 41 weeks for the average unemployed person at peak. Some post-Covid scenarios have unemployment more than doubling in 2020 to 7-11%, up from the 3.5% pre-Covid baseline in February.
- **GDP estimates:** GDP forecasts continue to recalibrate as new data comes out, and the full year projections remain a function of estimated shape of the recession. As of the beginning of April, most sources point to yearly 2020 GDP declines in the range of -2 and -15%, with estimates converging around mid single-digit declines. Moody's Analytics scenarios released at the end of March, show a new baseline at -1.9% (down from 2.6% pre-Covid), but other scenarios range as low as -14%. The conference board (which tends to track slightly under consensus) expects -6% under the most likely scenario. The second quarter estimates are much more severe, with sources reporting declines in the range of -9 to -40%.
- **Overall Consumer sentiment:**
  - The University of Michigan consumer sentiment index, which tracks consumers' attitudes and expectations on the economy and their own finances, dropped 11.9 points in March. The index drop marks the fourth largest one-month decline in nearly a half century, and approaches the declines seen during the 2008 recession. Specifically, the seven day moving average of the consumer sentiment index averaged 101.0 in February, and declined to 89.1 in March. Notably, the progression toward the end of March showed even sharper declines. The index began declining the first week of March, taking the index below 90.0. The declines then accelerated in the later weeks in March, placing the end of month index below 70.0.
  - Similarly, the Morning Consult consumer sentiment index posted a decrease of around 25 points at the end of March, dropping below 90 from levels near 115 in February.
- **Housing Sentiment:**
  - The Fannie Mae Home Purchase Sentiment Index® (HPSI) for March fell 11.7 points to 80.8, the lowest level since December 2016. The drop largely reflected job market concerns and weaker expectations on home price growth. Seller sentiment took a bigger and quicker hit, with the net percentage of those who say it is a 'good time to sell' fell 29 percentage points from February. In

contrast, the net percentage of those who say it is a 'good time to buy' decreased by 7 percentage points.

- According to a realtor.com user panel survey at the end of March:
  - 49% of buyers report feeling less optimistic about home buying as a result of Covid19.
  - 37% of buyers looking to buy in the next 6 months report having to postpone their purchase as a result of Covid19.
  - 44% of sellers report looking to sell later as a result of Covid19.
  - 60% of buyers report feeling less optimistic about home selling as a result of Covid19.
- Additionally, our realtor.com home shopper/recession survey in March, showed attitudes were shifting more negatively about the impact of Covid-19 on the economy and the possibility of a recession. In fact, the share of consumers saying we were already in a recession more than doubled in the 2 weeks before compared to the 2 weeks on or after March 11.
- Finally, indicators of category wide online search activity for real estate dropped sharply mid March but seemed to be stabilizing thereafter. For the week ending March 21, the Google trends index for the search term 'homes for sale' dropped to 69, down 27 points from 96 a month earlier, and well below typical March levels. The following week, however, showed the same index remained largely unchanged at 70, pointing to some stability after the initial calibration.