

June 22, 2021

Presented by Domonic D. Purviance, FRB Atlanta

Residential Real Estate Market

Growing Concerns about Housing Affordability



Federal Reserve
Bank *of* Atlanta



RRE Market Overview

Agenda

- ☐ Economic overview
- ☐ Mortgage rates
- ☐ Impact on inventory
- ☐ Upward pressure on prices
- ☐ Declining in affordability
- ☐ Impact on demand



14 million

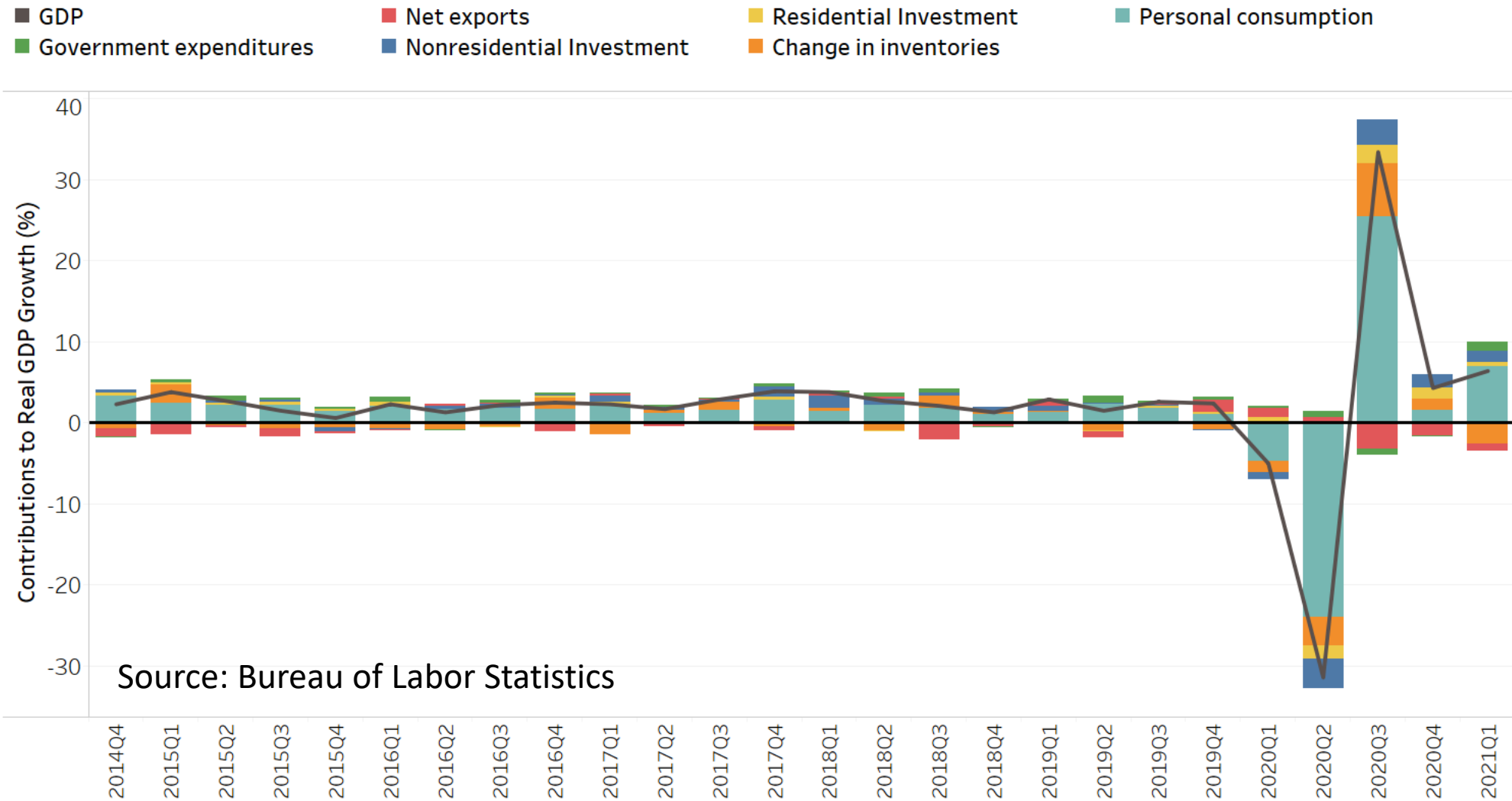
Number of jobs recovered since
the pandemic

(source: Bureau of Labor Statistics)

Economy

- ❑ The US economy lost over 20 million jobs as a result of the COVID-19 recession.
- ❑ As of April 2021, the economy has recovered 14 million jobs.
- ❑ Low-income sectors were impacted the most.
- ❑ Despite the pandemic related economic slow down, housing demand remained strong.

Contributions to Real GDP Growth



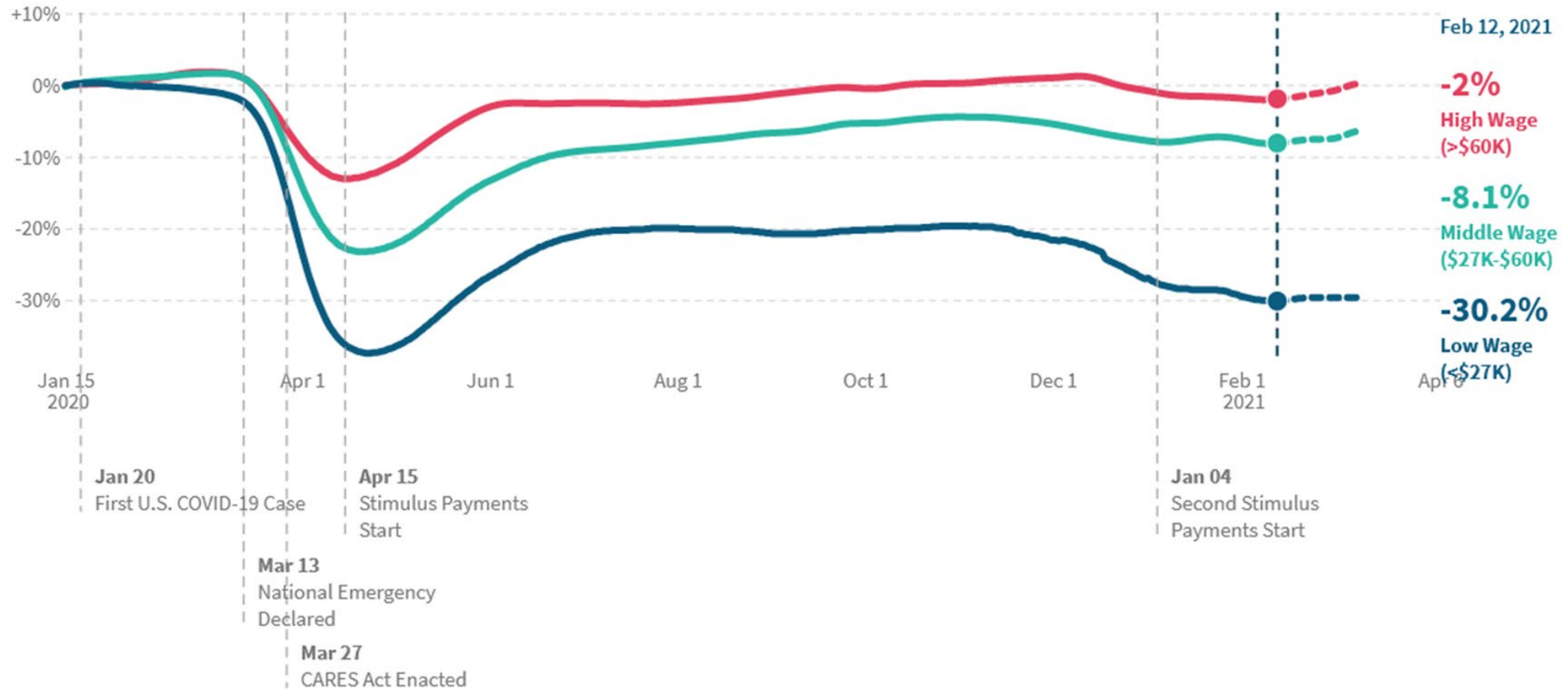
U.S. Monthly Employment Growth

Source: Bureau of Labor Statistics; Risk Analysis Unit



In **the United States**, as of February 12, 2021, employment rates among workers in the bottom wage quartile decreased by **30.2%** compared to January 2020 (not seasonally adjusted).

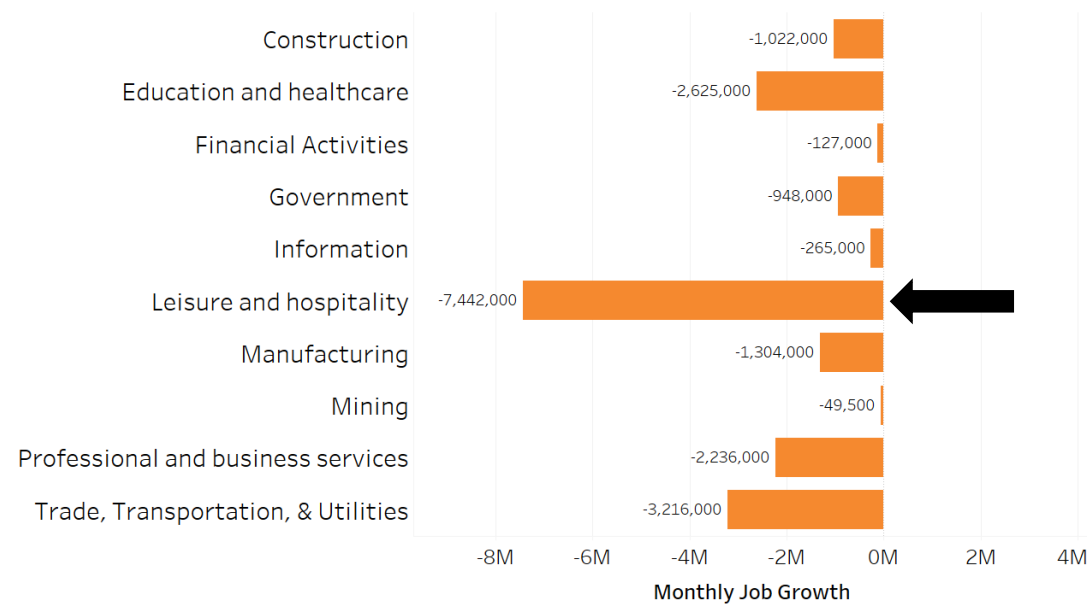
DOWNLOAD CHART



data source: **Earnin, Intuit, Kronos, Paychex**

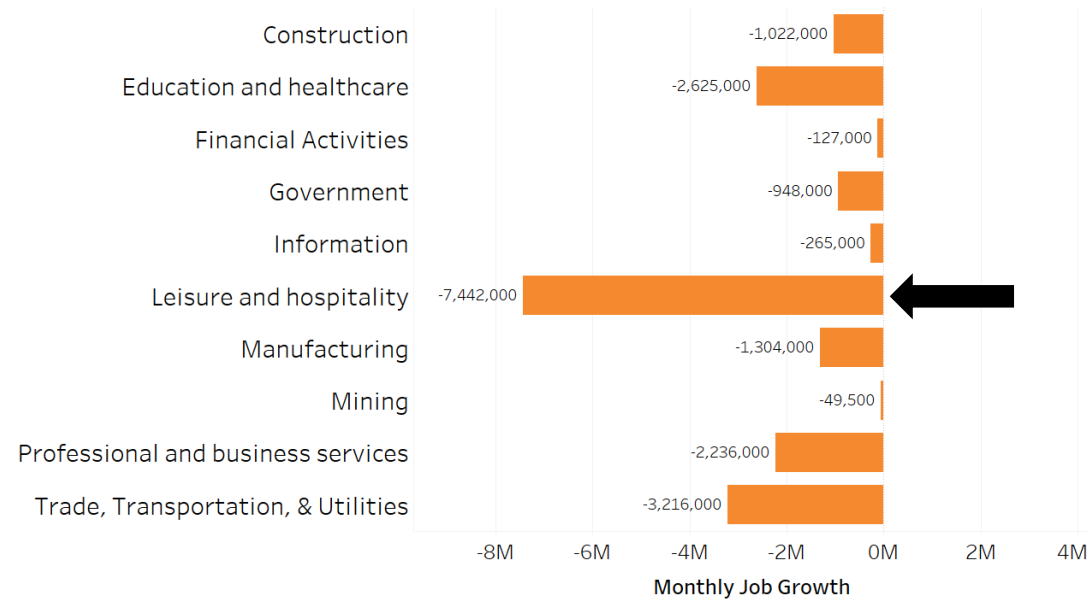
U.S. Employment Growth by Sector - April 2020

Source: Bureau of Labor Statistics; Risk Analysis Unit



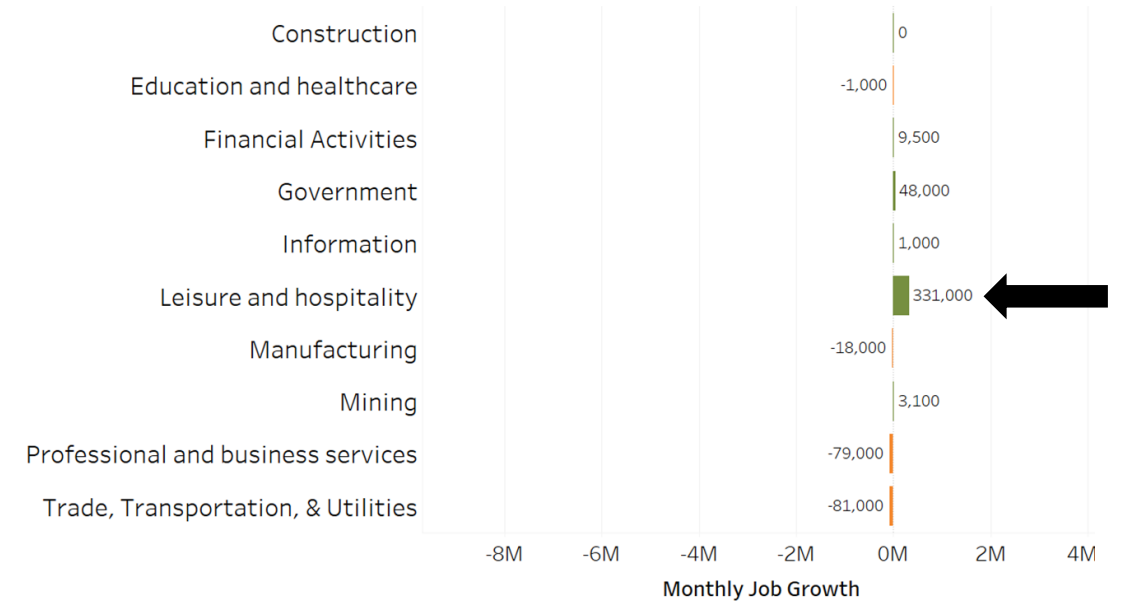
U.S. Employment Growth by Sector - April 2020

Source: Bureau of Labor Statistics; Risk Analysis Unit



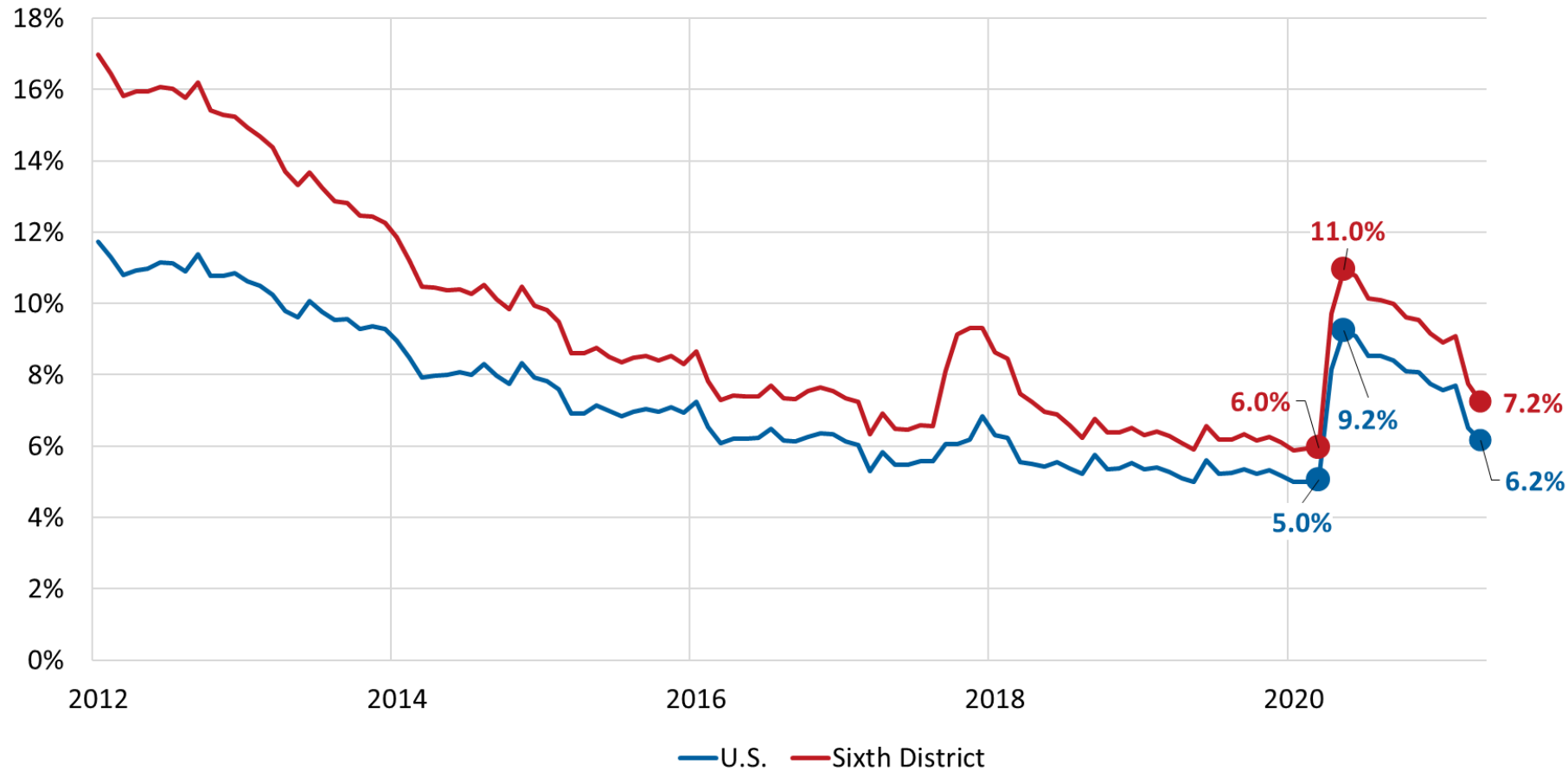
U.S. Employment Growth by Sector - April 2021

Source: Bureau of Labor Statistics; Risk Analysis Unit



Mortgage Delinquency Rates

Source: Black Knight McDash Data; SRC - Risk Analysis Unit





2.93%

30-year fixed mortgage interest
rate as of June 17, 2021

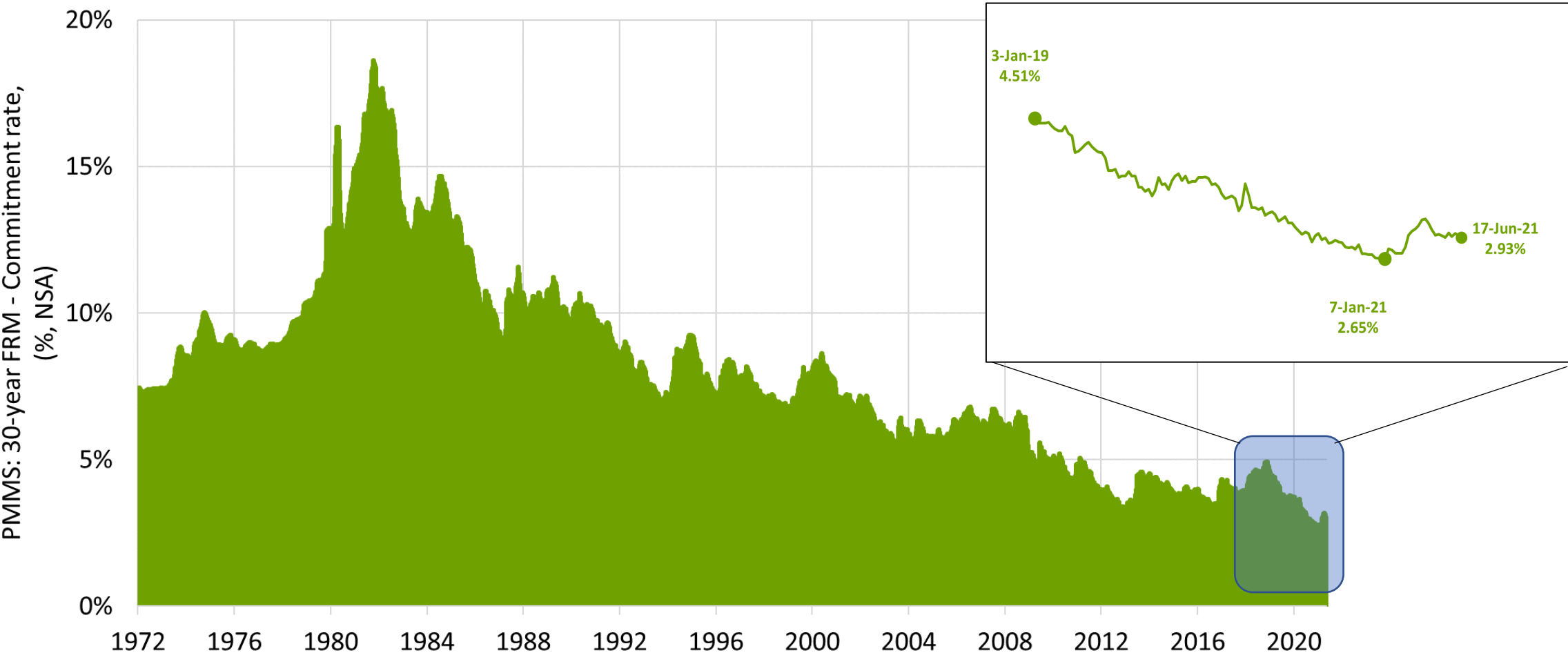
(source: Fannie Mae)

Mortgage Rates

- ❑ Historically low mortgage rates made homes more affordable, temporarily blunting the effect of higher prices.
- ❑ Low rates led to a surge in both refinance and purchase mortgage activity.
- ❑ As rates have inched up, purchase and refi activity has slowed.

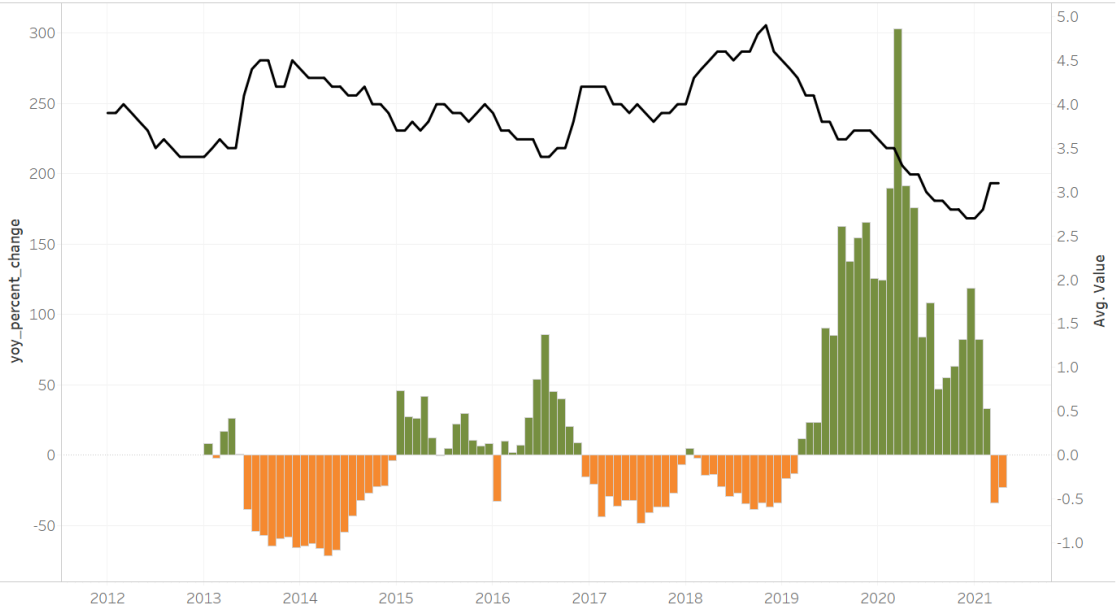
Mortgage Rates

Source: Fannie Mae; REIT/Federal Reserve Bank of Atlanta



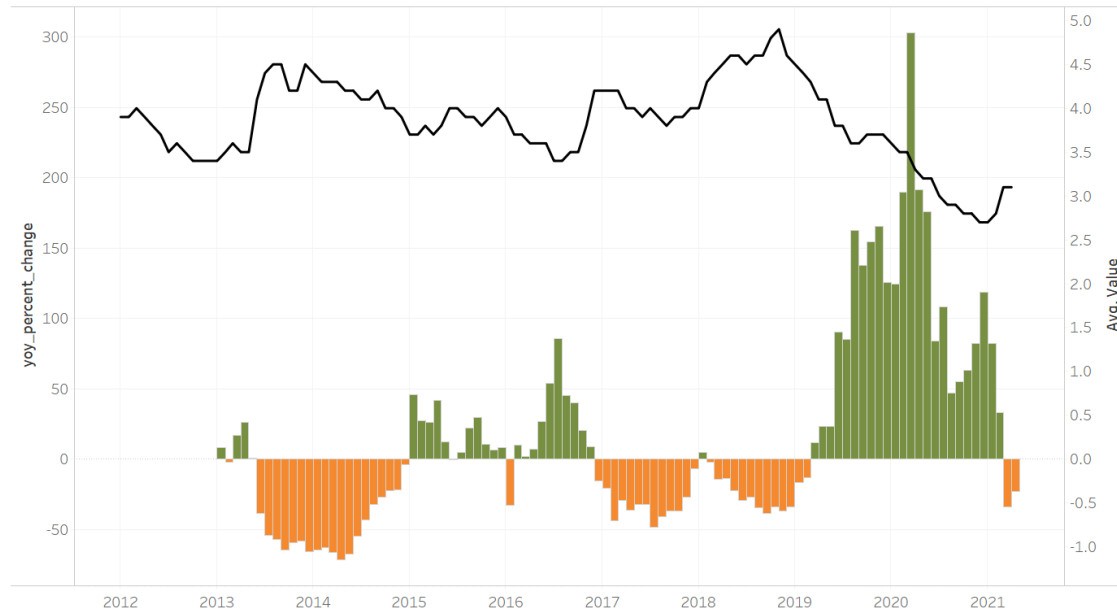
Mortgage Rates vs Change in Refinance Mortgages

Source: Mortgages Bankers Association



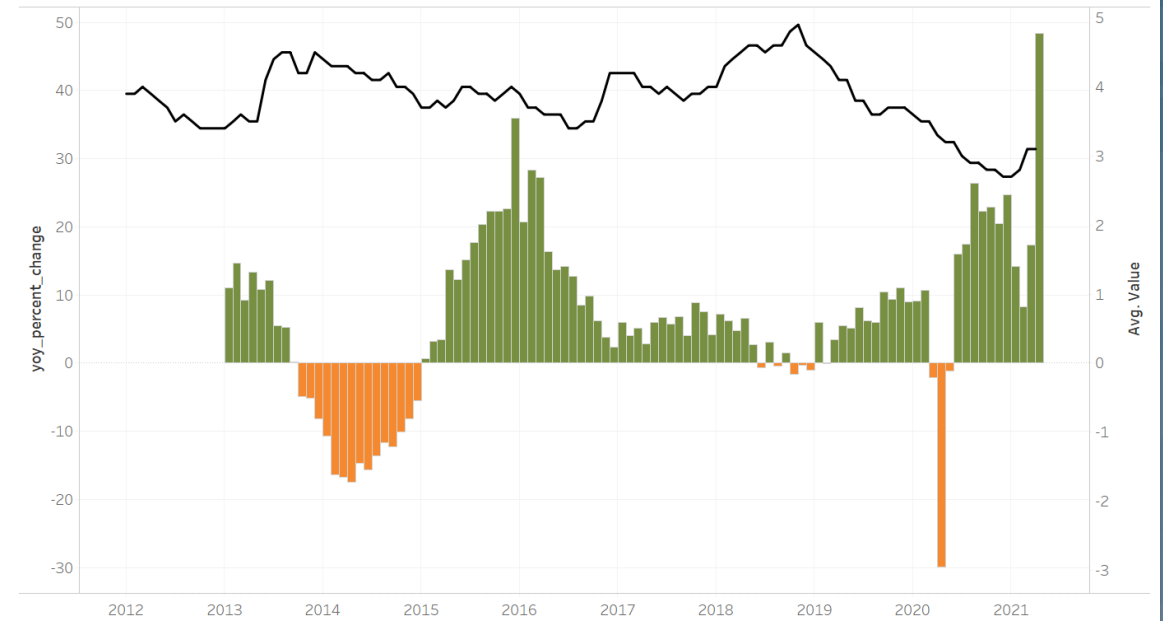
Mortgage Rates vs Change in Refinance Mortgages

Source: Mortgages Bankers Association



Mortgage Rates vs Change in Purchase Mortgages

Source: Mortgages Bankers Association





-20.5%

Year over Year decline in existing home inventory since March 2020

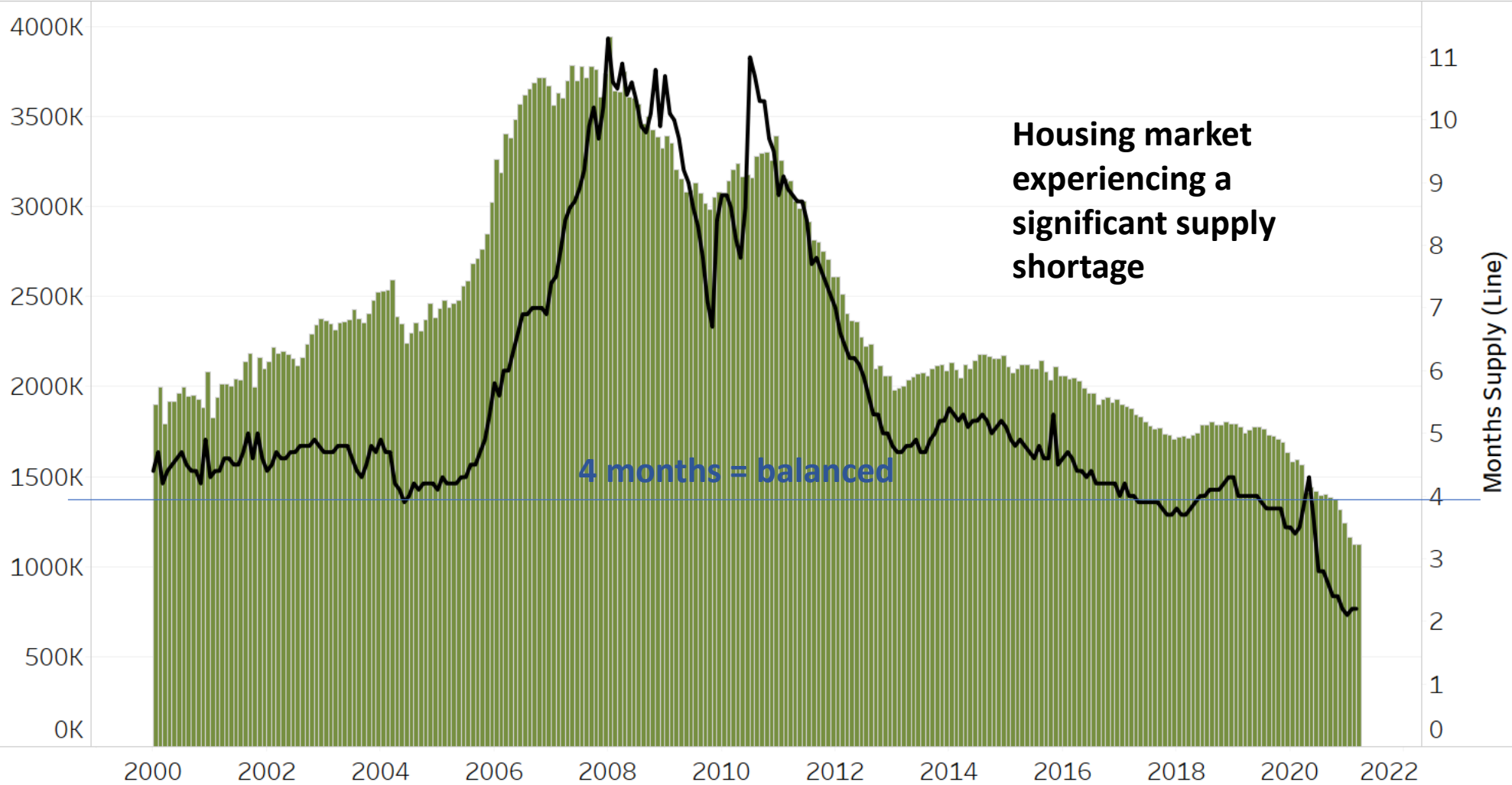
(source: National Association of Realtors)

Inventory

- ❑ A surge in refinance activity has created a disincentive for homeowners to sell.
- ❑ Existing home supply levels have not kept pace with demand.
- ❑ New home construction capacity has not returned to pre-pandemic levels, leading to limited supply, cost escalation, and the initial limit of sales.

US Existing Home Inventory

Source: National Association of Realtors (NAR); Moody's Analytics; Risk Analysis Unit





\$1,600

Peak per thousand board feet
costs of lumber (normal = \$400)

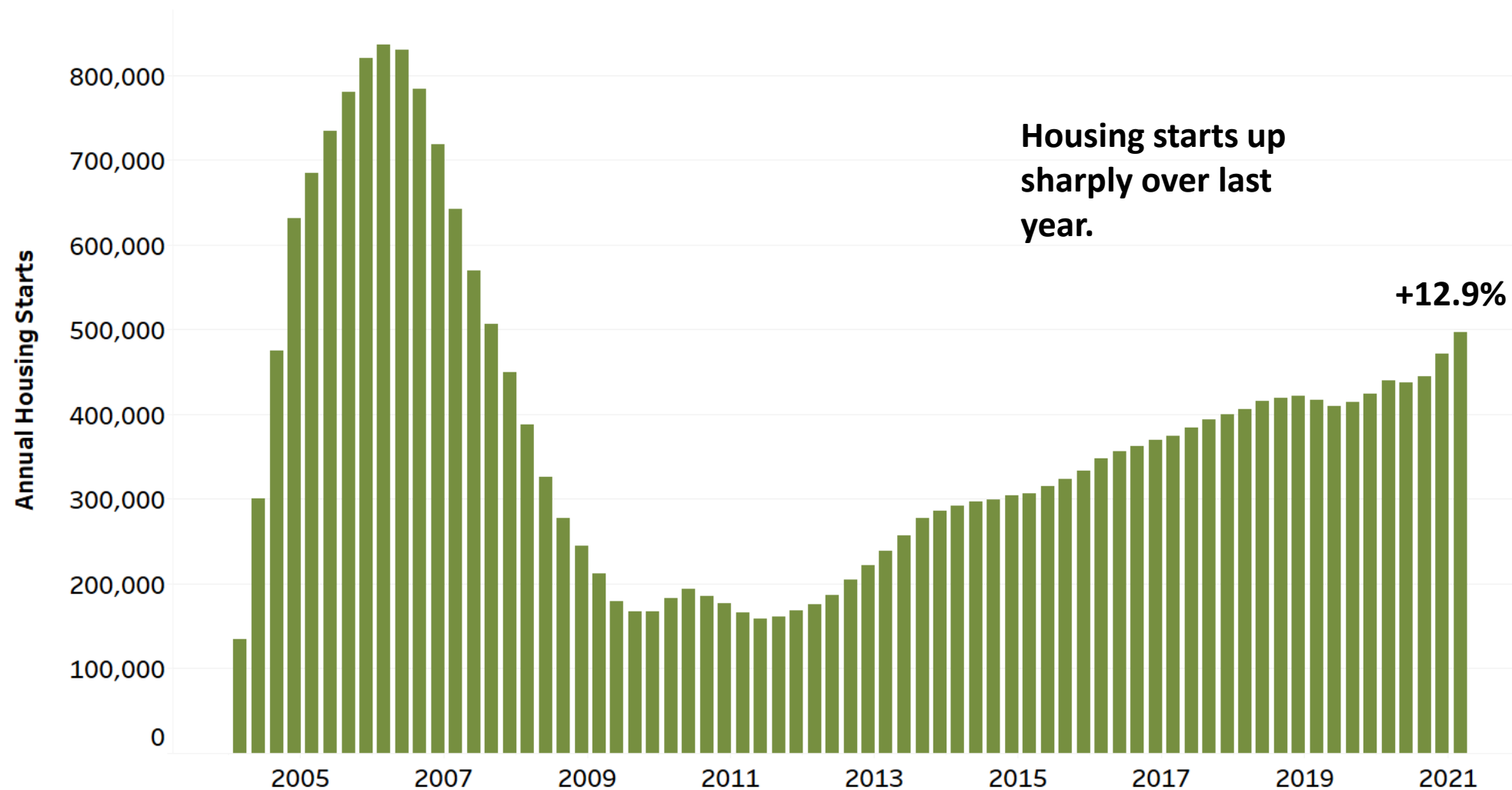
(source: New York Times)

Cost Escalation

- ❑ During the pandemic, new home construction costs reached peak levels.
- ❑ Builders responded by limiting home sales.
- ❑ Lumber cost pressures are declining, with prices down currently to around \$900 per thousand board feet.

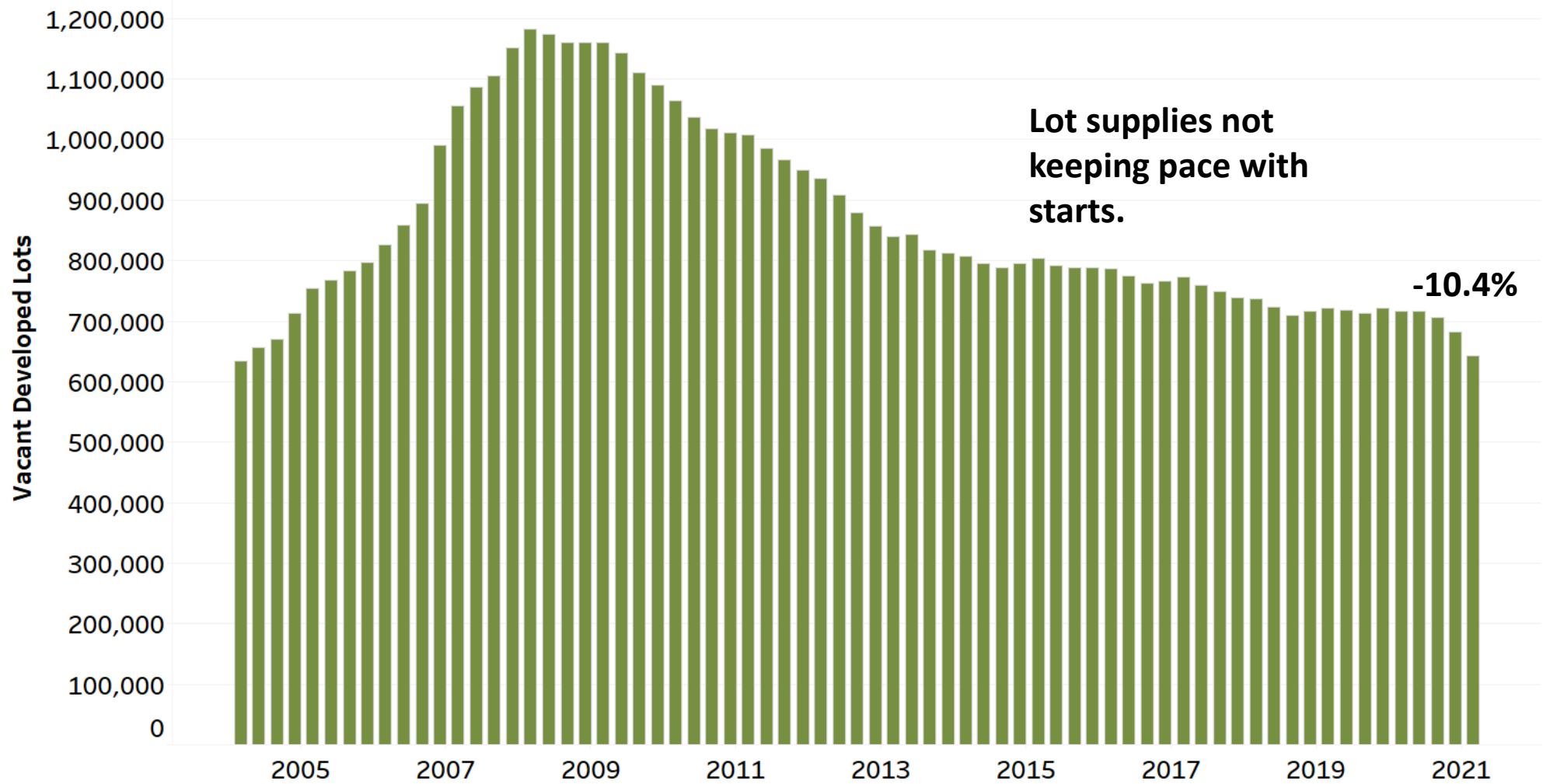
US New Home Starts

Source: Metrostudy: Risk Analysis Unit



US Vacant Developed Lots

Source: Metrostudy: Risk Analysis Unit

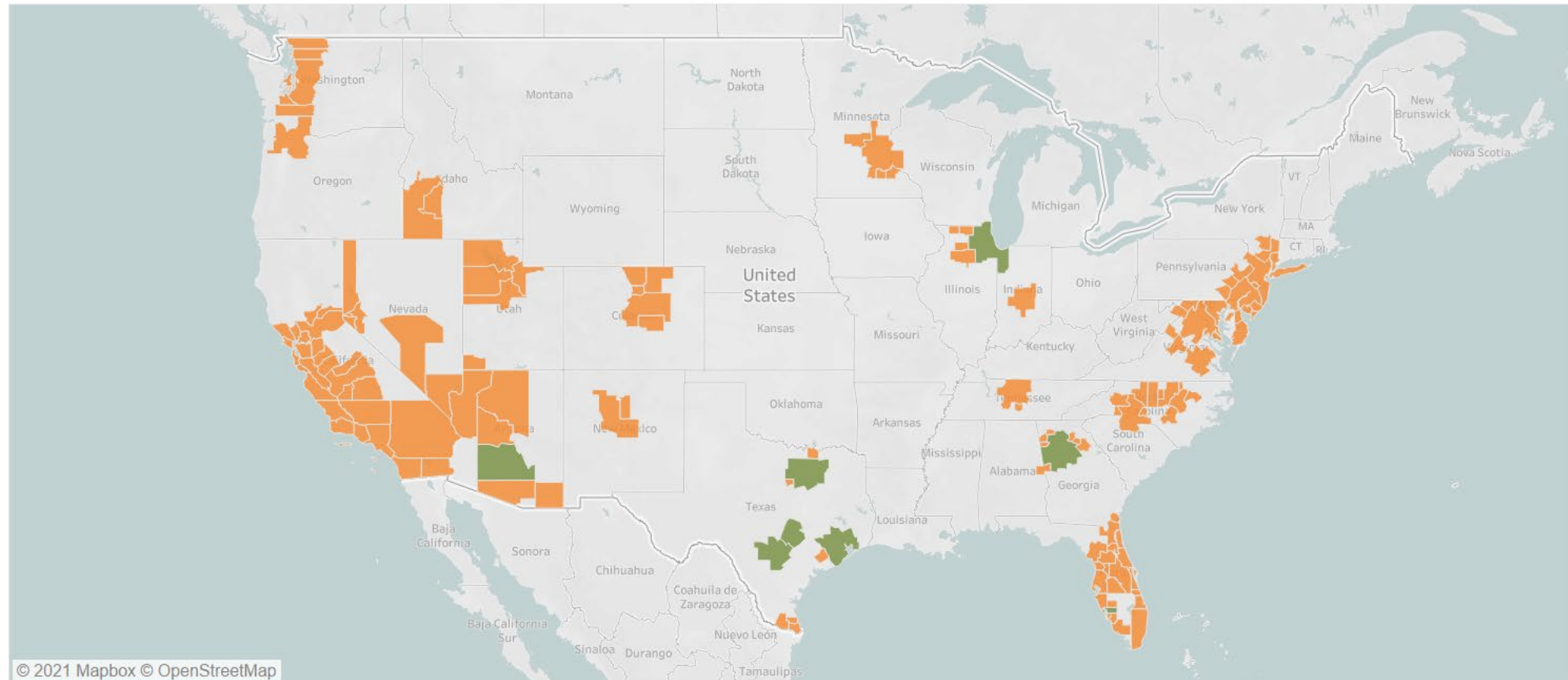


Metro Area: Vacant Developed Lot Supply

March 30, 2021

Source: MetroStudy; Risk Analysis Unit

NOTE: Green = Greater than 20,000 lots, Orange = Less than 20,000 lots





14.7%

Year over Year increase in home values since April 2020

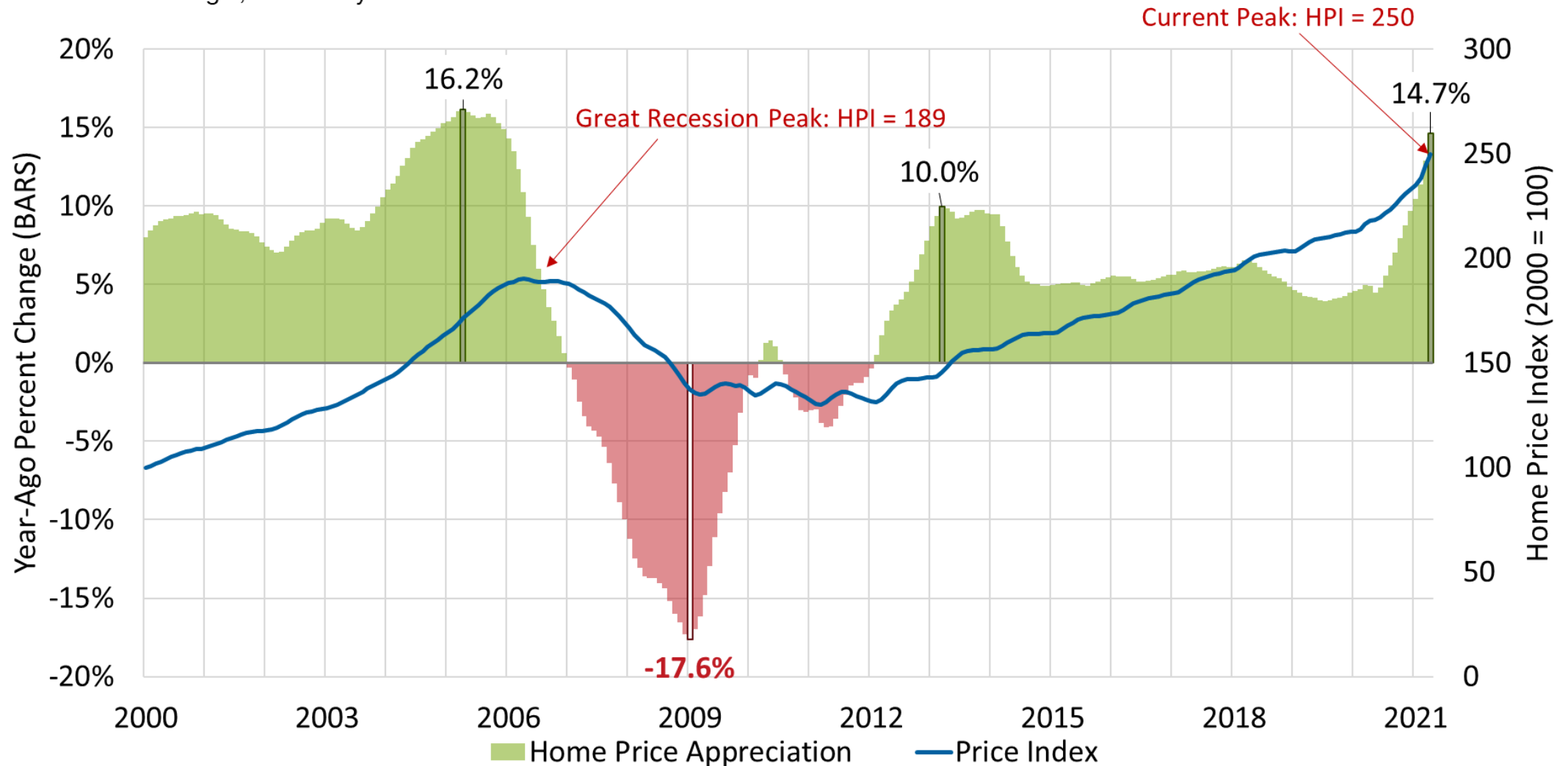
(source: Corelogic)

Home Prices

- ❑ The lack of inventory has led to steady upward pressure on home prices.
- ❑ Both existing and new home prices have reached peak levels.
- ❑ Affordable entry level product is becoming difficult to find.

U.S. Home Price Trends

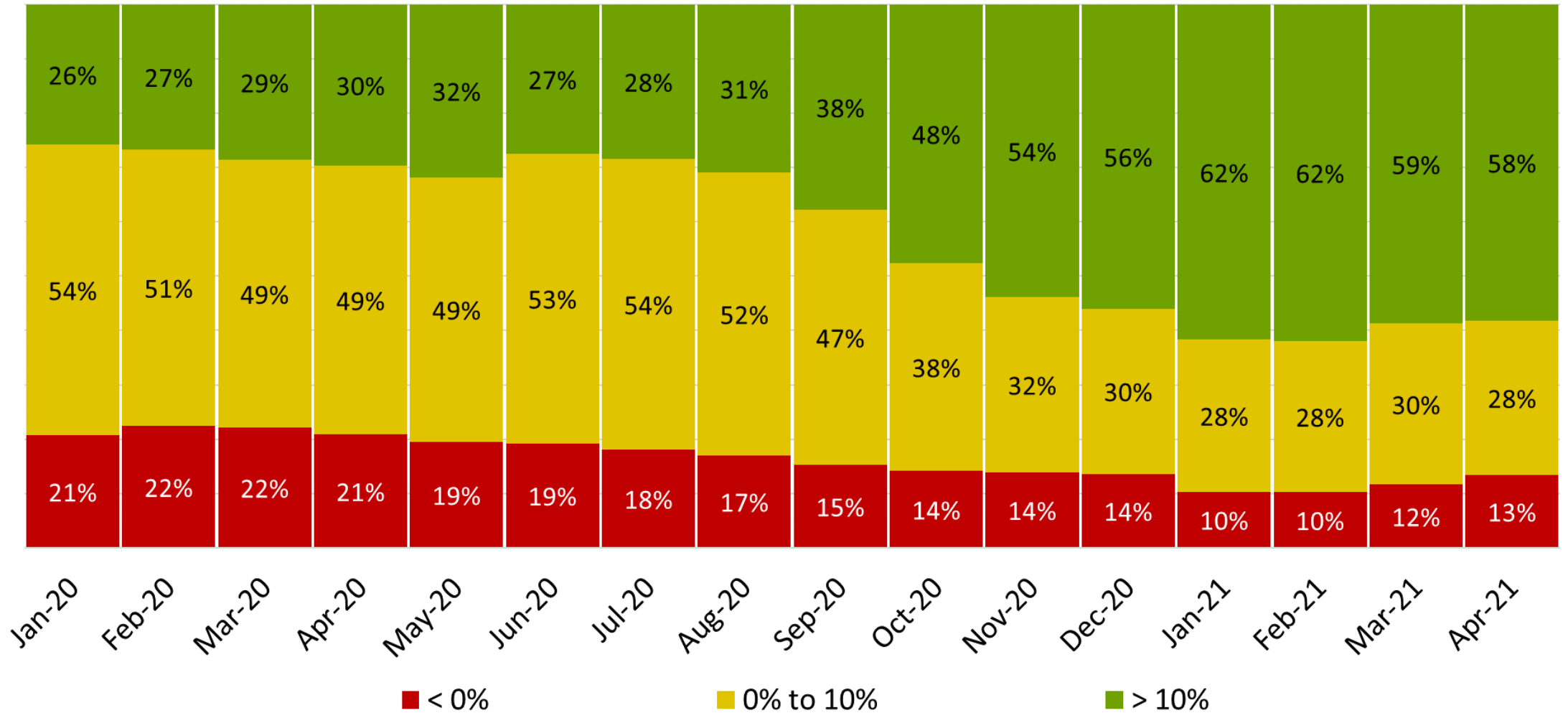
Source: CoreLogic; Risk Analysis Unit/Federal Reserve Bank of Atlanta



Share of US Metros by Price Growth

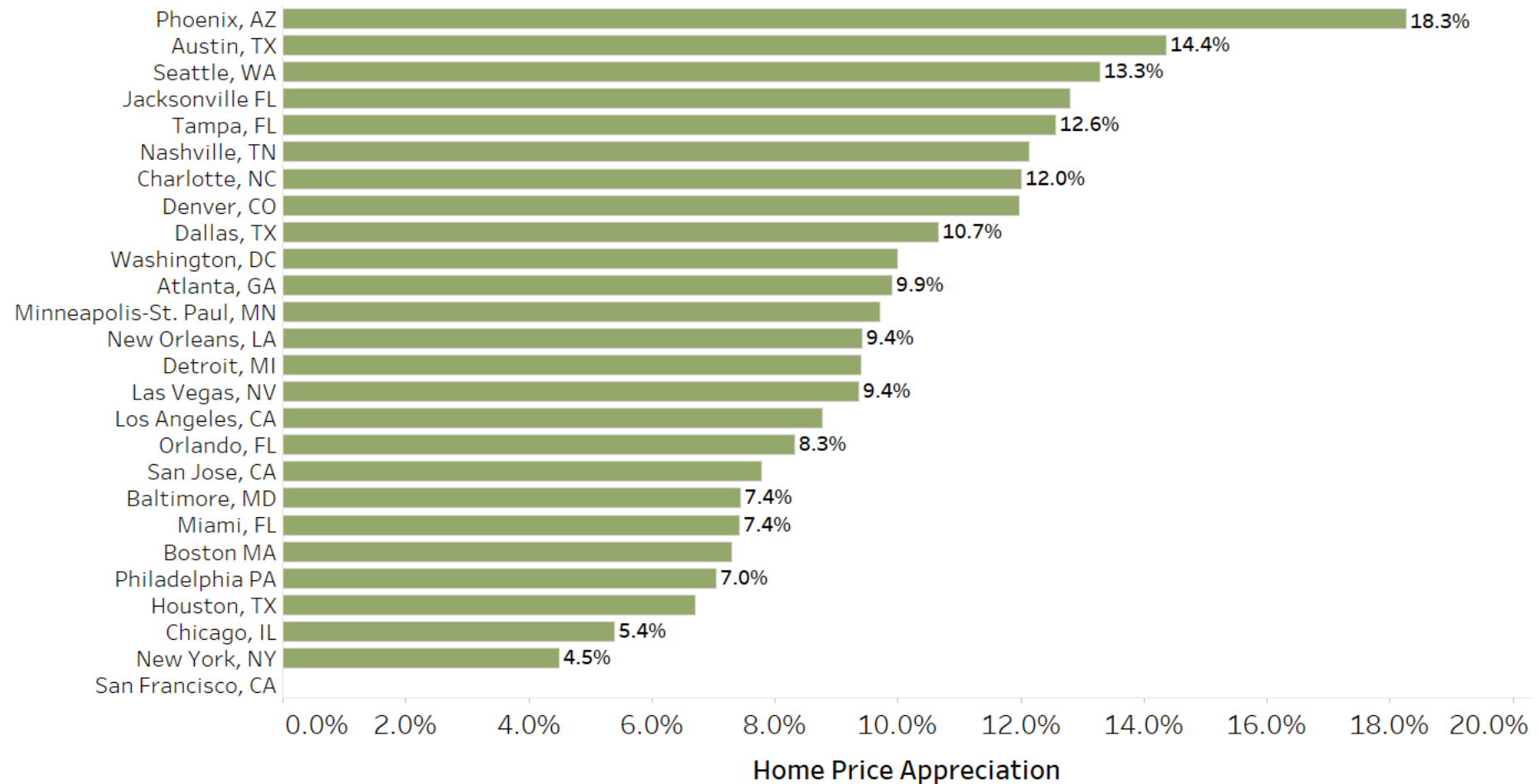
Source: CoreLogic; Risk Analysis Unit/Federal Reserve Bank of Atlanta

Note: Growth rates = Year-ago percent change of 3M moving average



Metro Area: Home Price Appreciation Rank - As of 3/31/2021

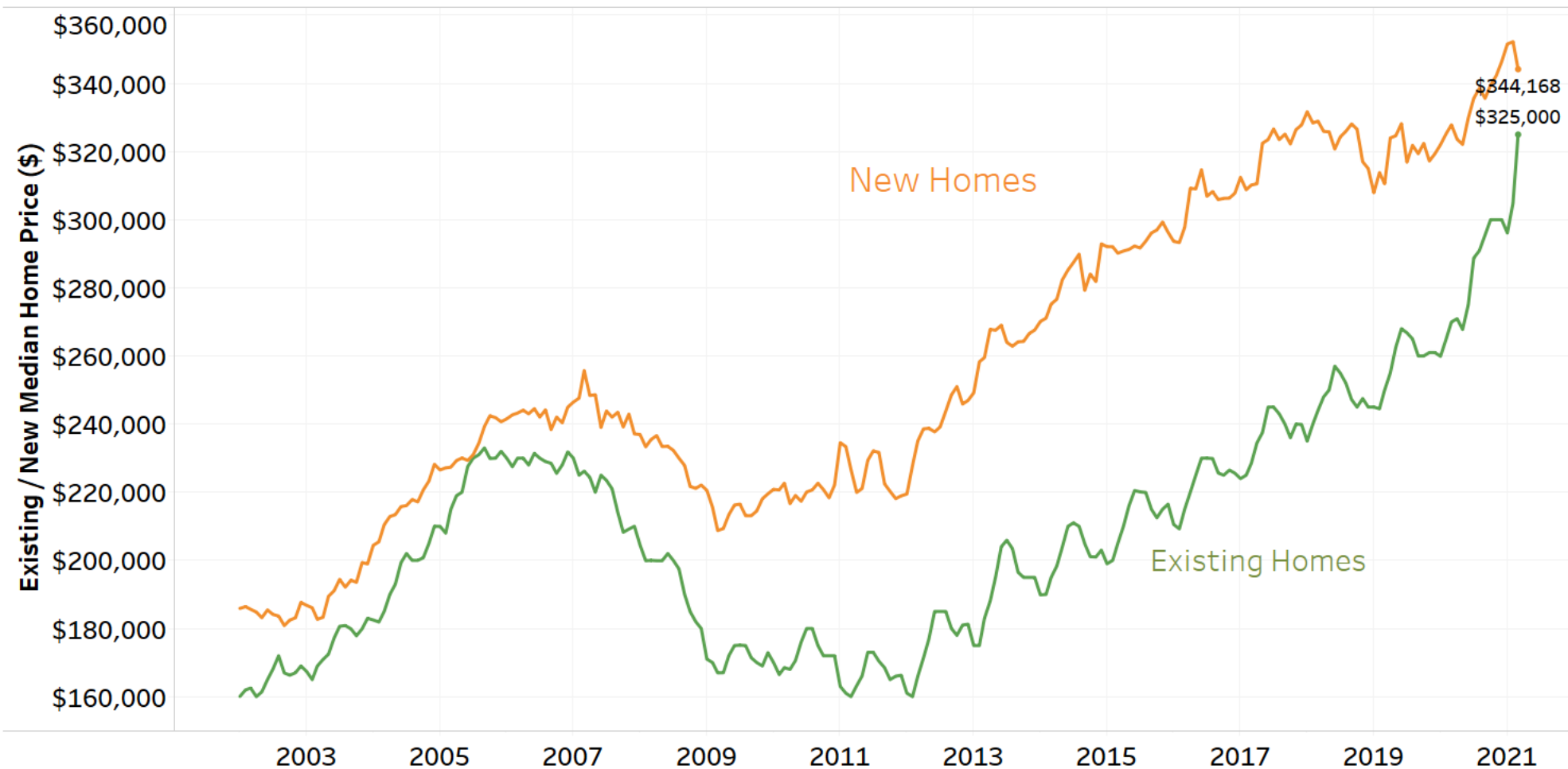
Source: CoreLogic; Risk Analysis Unit



US Existing vs New* Median Home Price

* New home prices depicted are a 3-month moving average to reduce monthly volatility.

Source: U.S. Census Bureau; Risk Analysis Unit

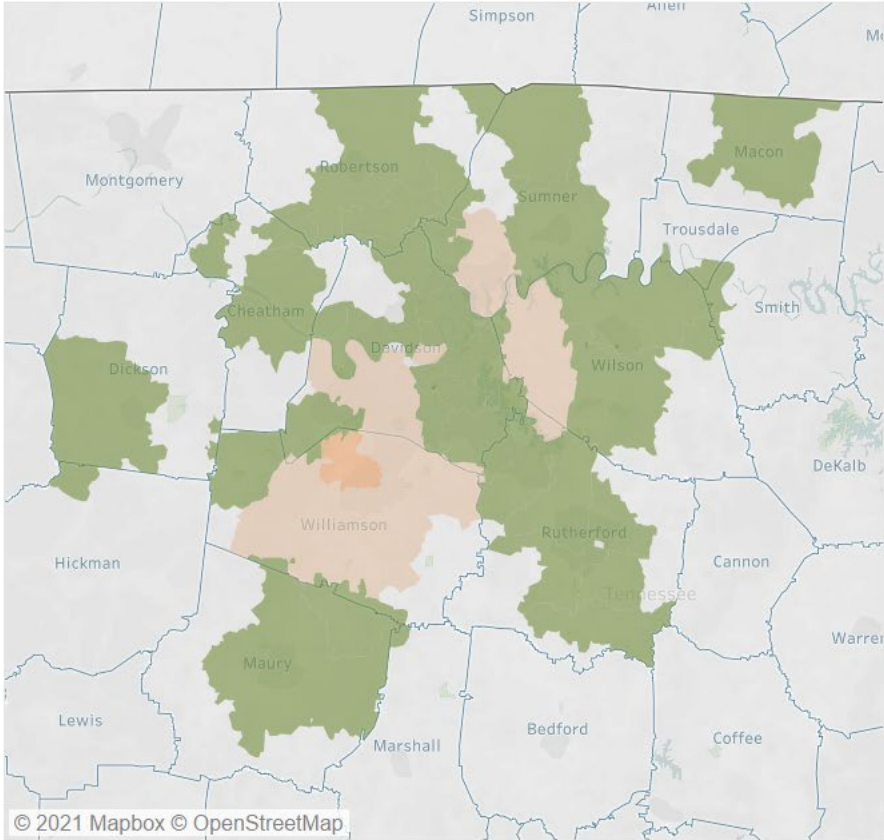


Median Home Price by Zip Code

Nashville, TN - July 2015

Source: Corelogic; Risk Analysis Unit

Green = Zip Code Median Home Price is Less Than \$250,000

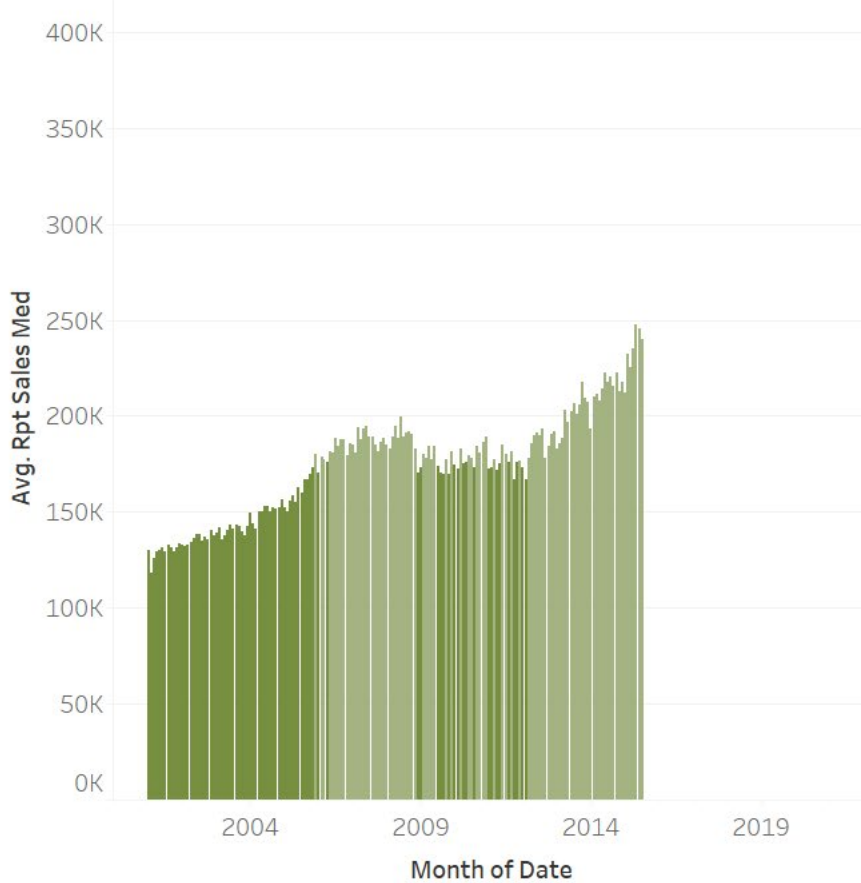


Metro Area: Median Home Price

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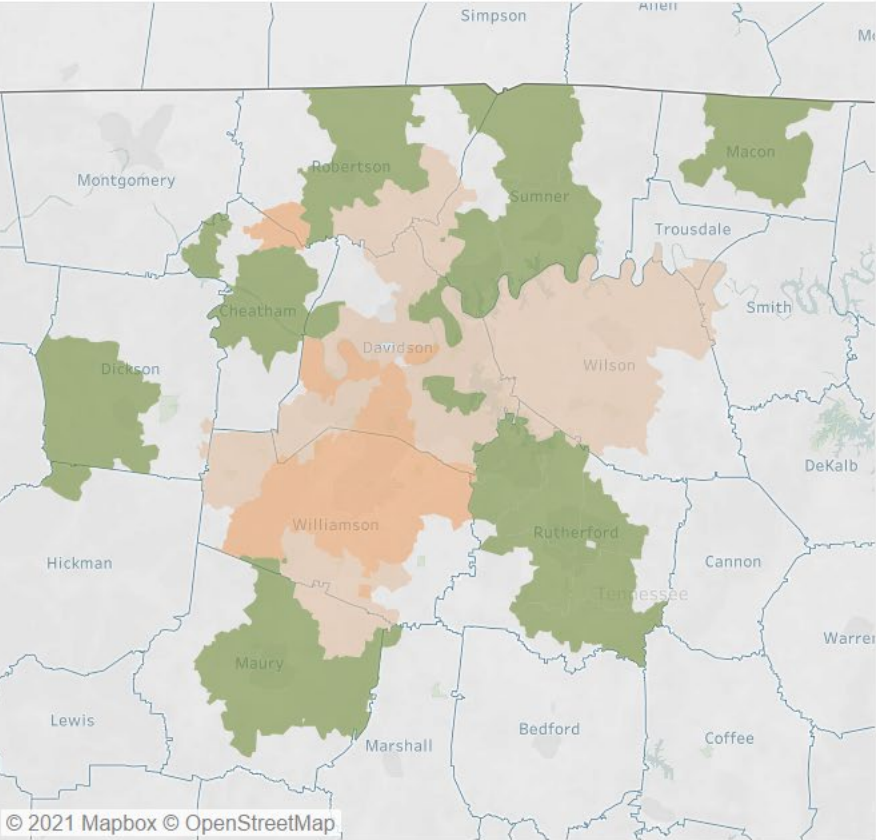


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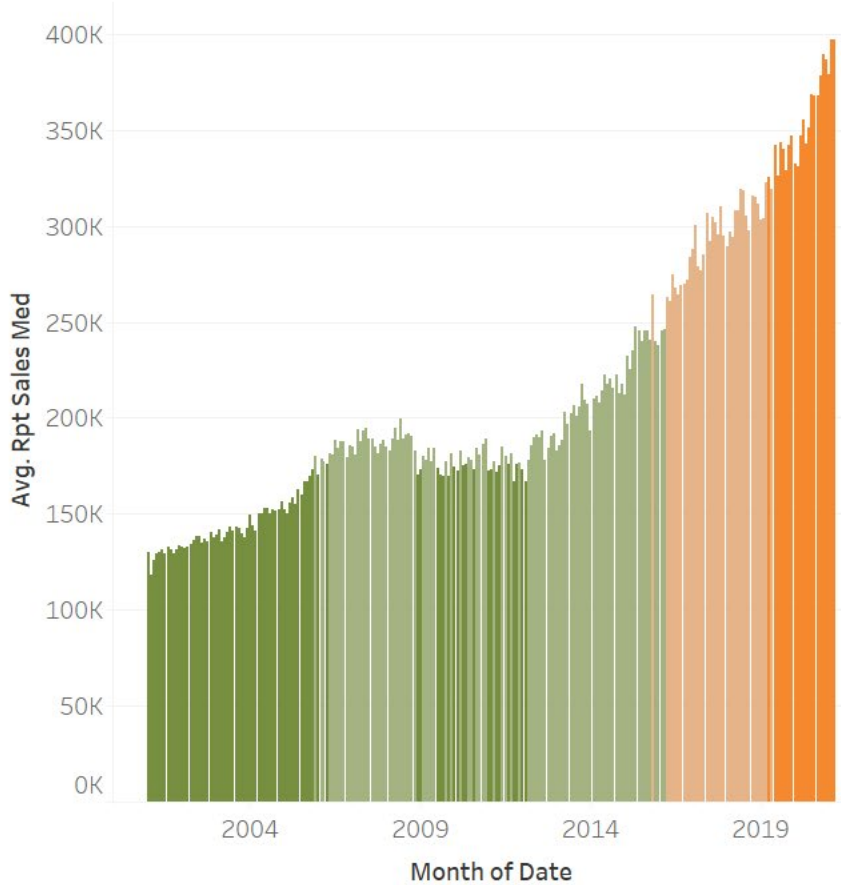


Metro Area: Median Home Price

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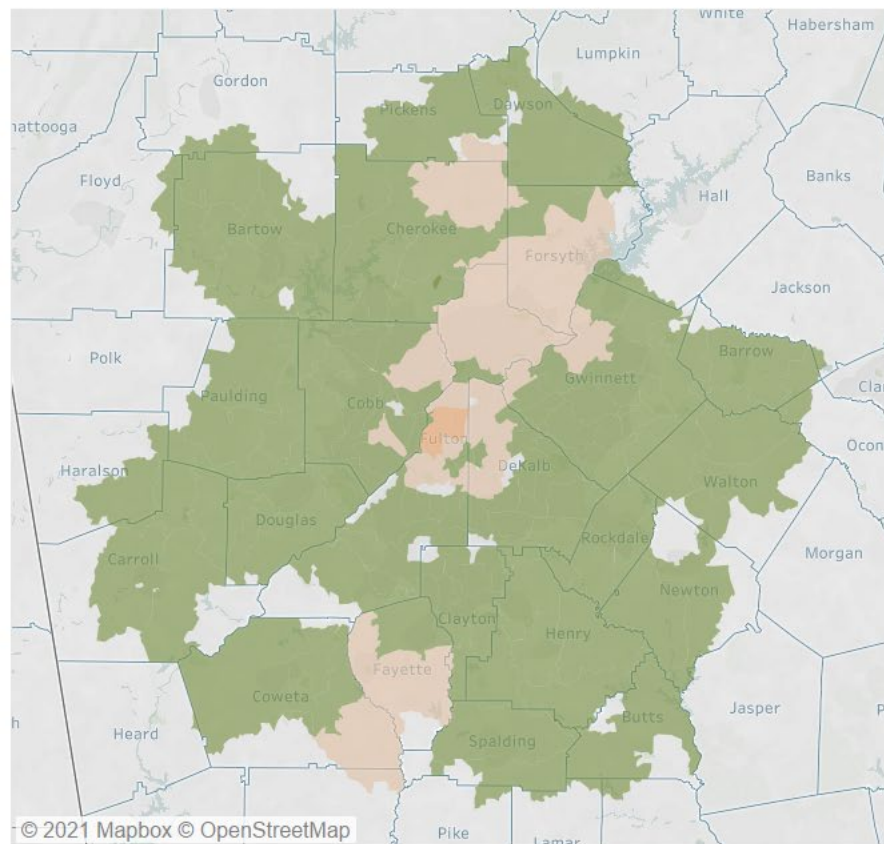


Median Home Price by Zip Code

Atlanta, GA - July 2015

Source: Corelogic; Risk Analysis Unit

Green = Zip Code Median Home Price is Less Than \$250,000

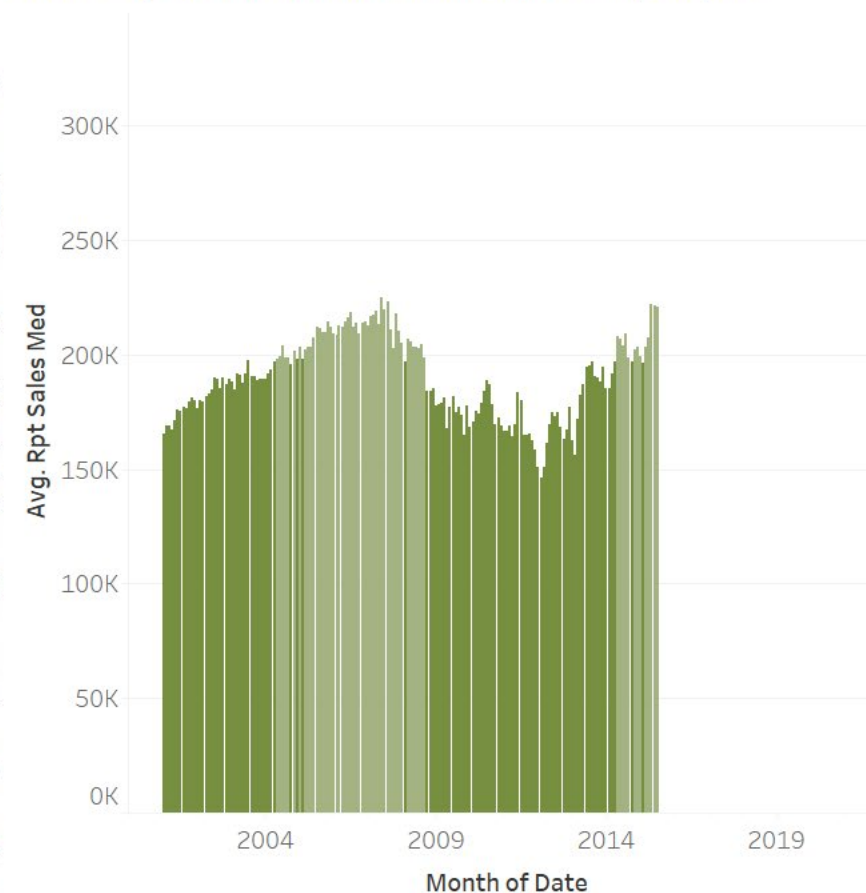


Metro Area: Median Home Price

Atlanta, GA - July 2015

Source: Corelogic; Risk Analysis Unit

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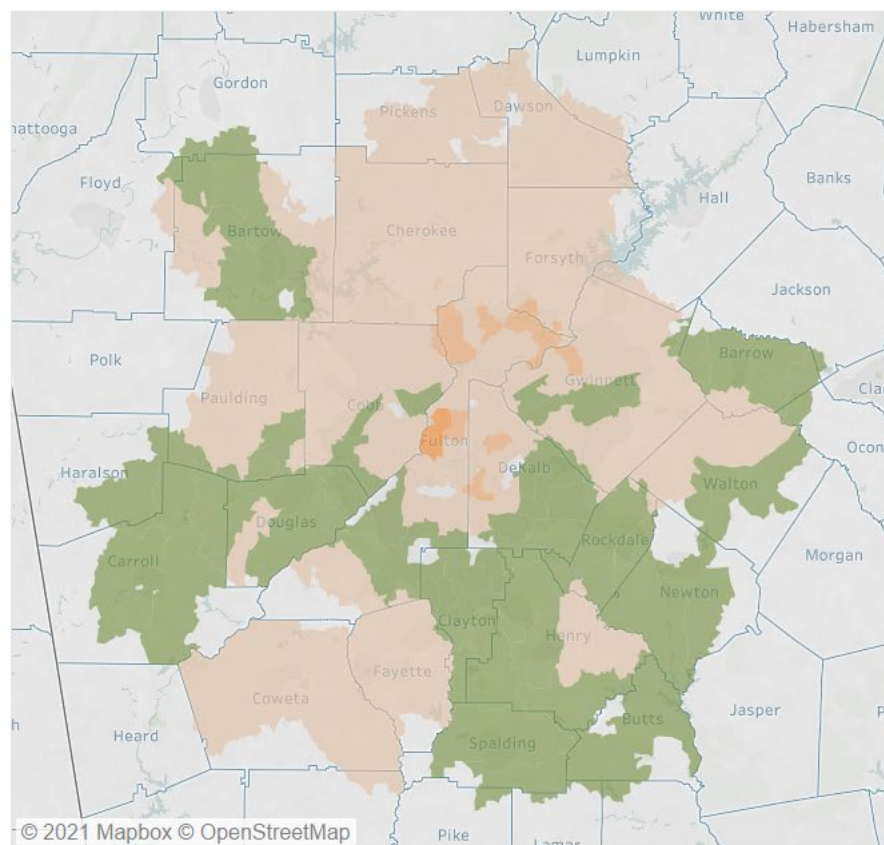


Median Home Price by Zip Code

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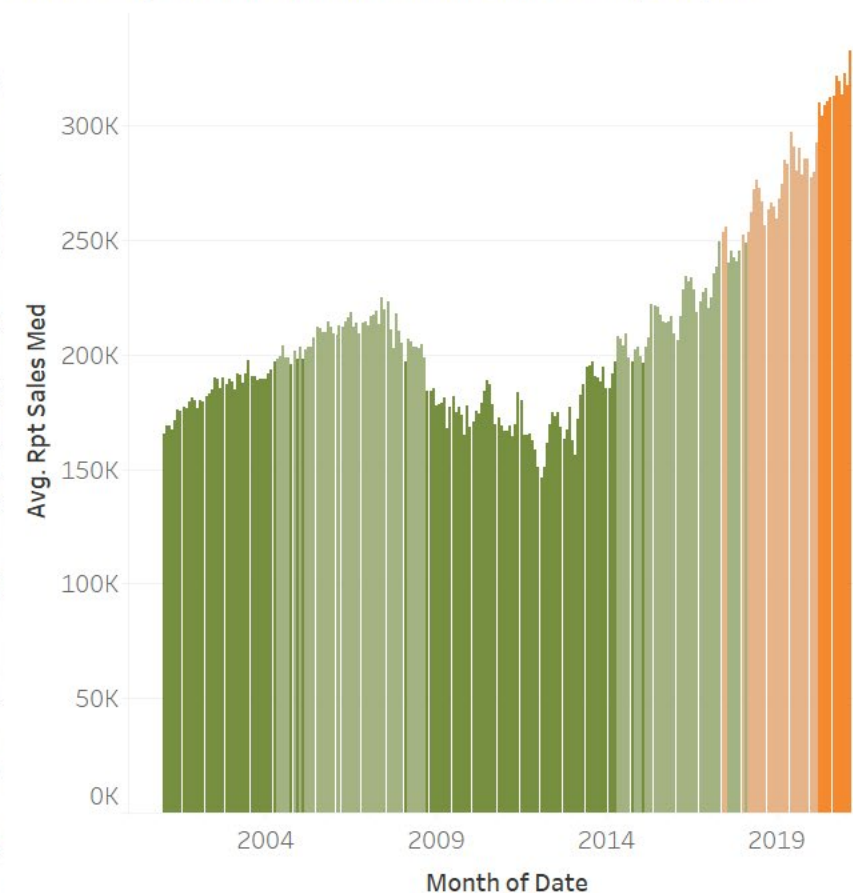


Metro Area: Median Home Price

Atlanta, GA - March 2021

Source: Corelogic; Risk Analysis Unit

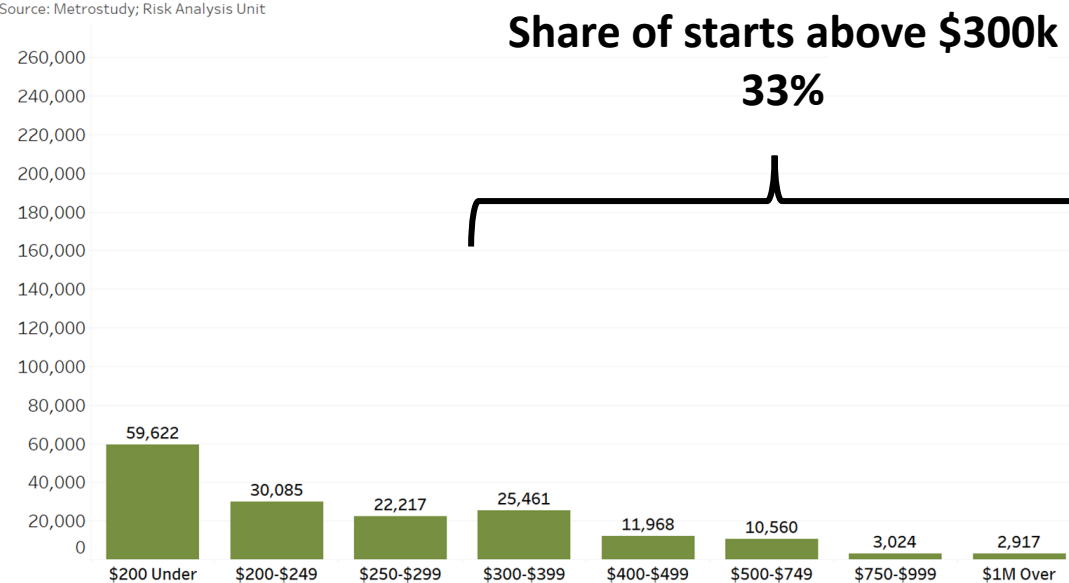
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US Starts by Price Point - March 2011

Source: Metrostudy; Risk Analysis Unit

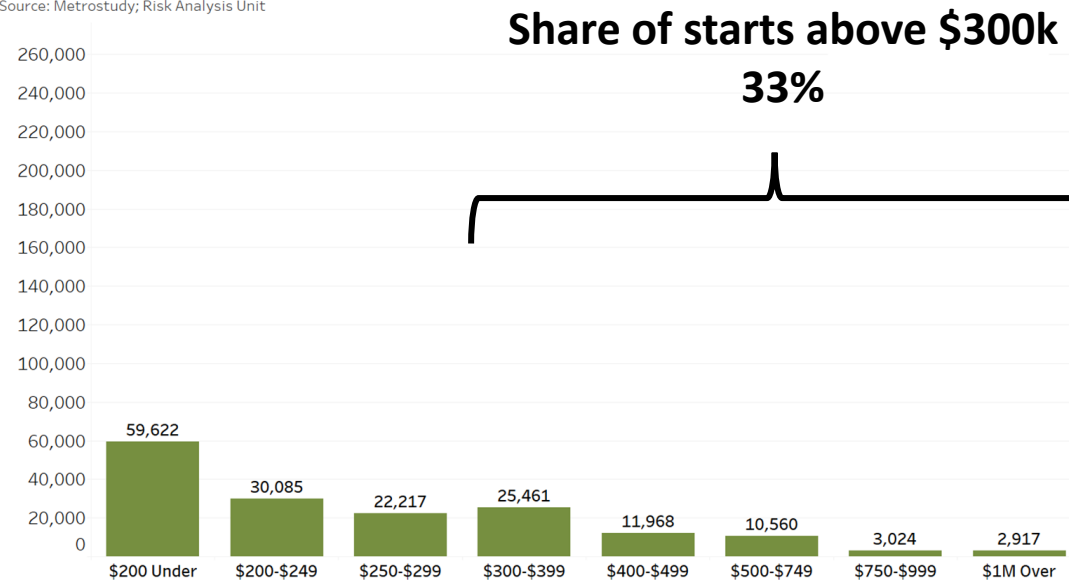
March 2011
☐ Show history



US Starts by Price Point - March 2011

Source: Metrostudy; Risk Analysis Unit

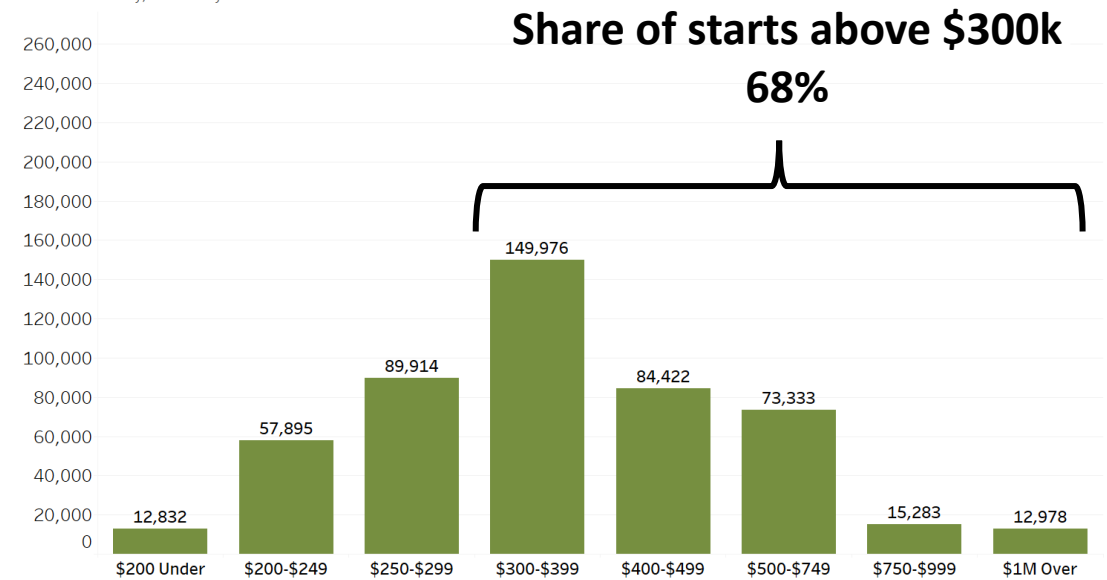
March 2011
☐ Show history



US Starts by Price Point - March 2021

Source: Metrostudy; Risk Analysis Unit

March 2021
☐ Show history



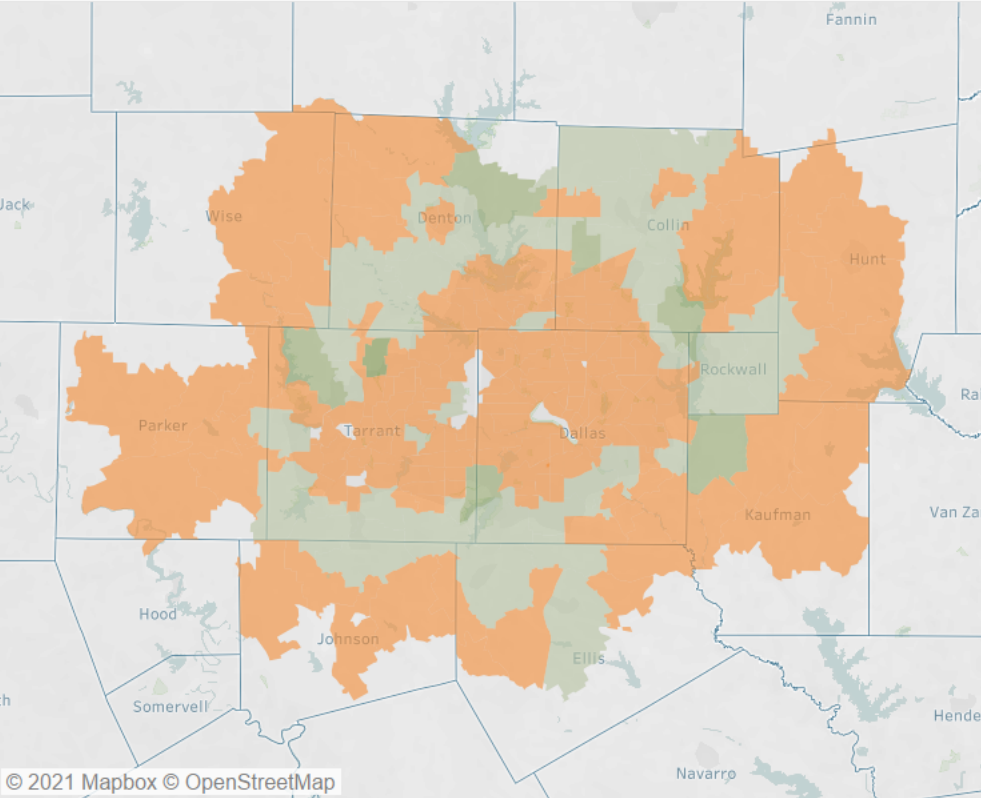
Metro Area: Starts Under \$250,000

March 2005

Dallas-Fort Worth-Arlington, TX

Source: Metrostudy; Risk Analysis Unit

Green Zip Codes have at least 175 new home starts Under \$250,000



Metro Area: Starts by Price Point

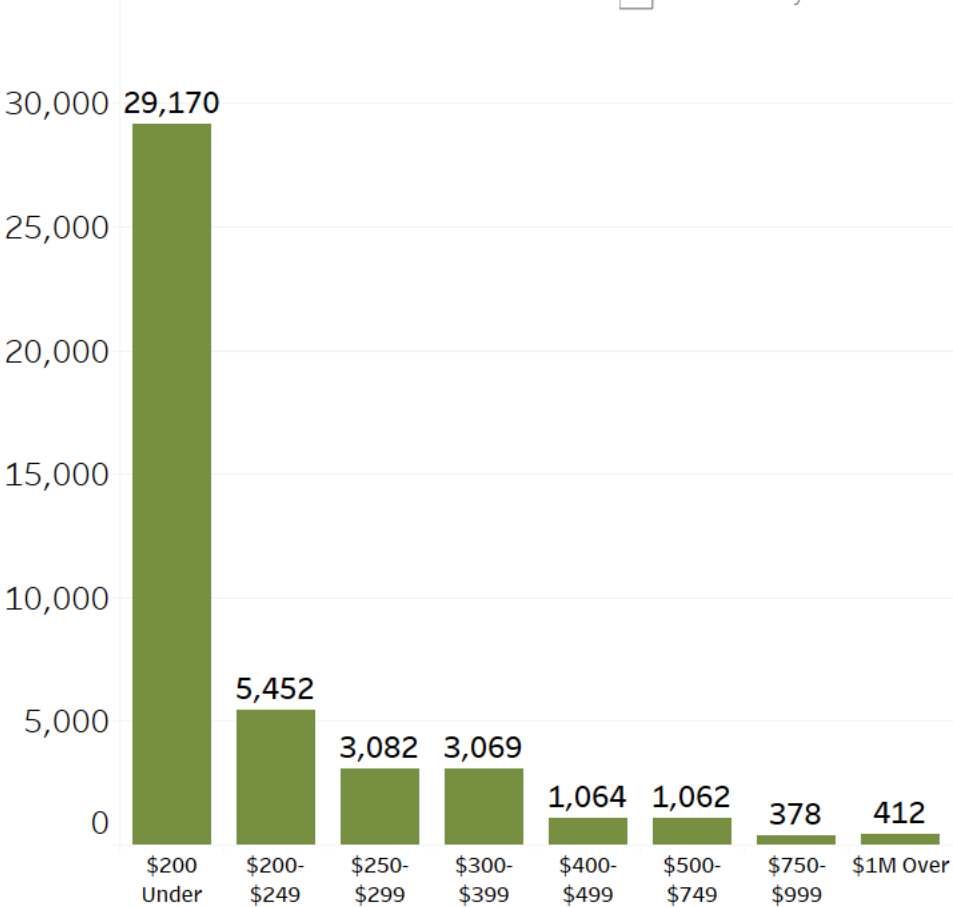
March 2005

Dallas-Fort Worth-Arlington, TX

Source: Metrostudy; Risk Analysis Unit

Market
Dallas, TX

Date
March 2005
[Show history](#)





25%

Share of all cash sales in April
2021 (up from 15% in April 2020)

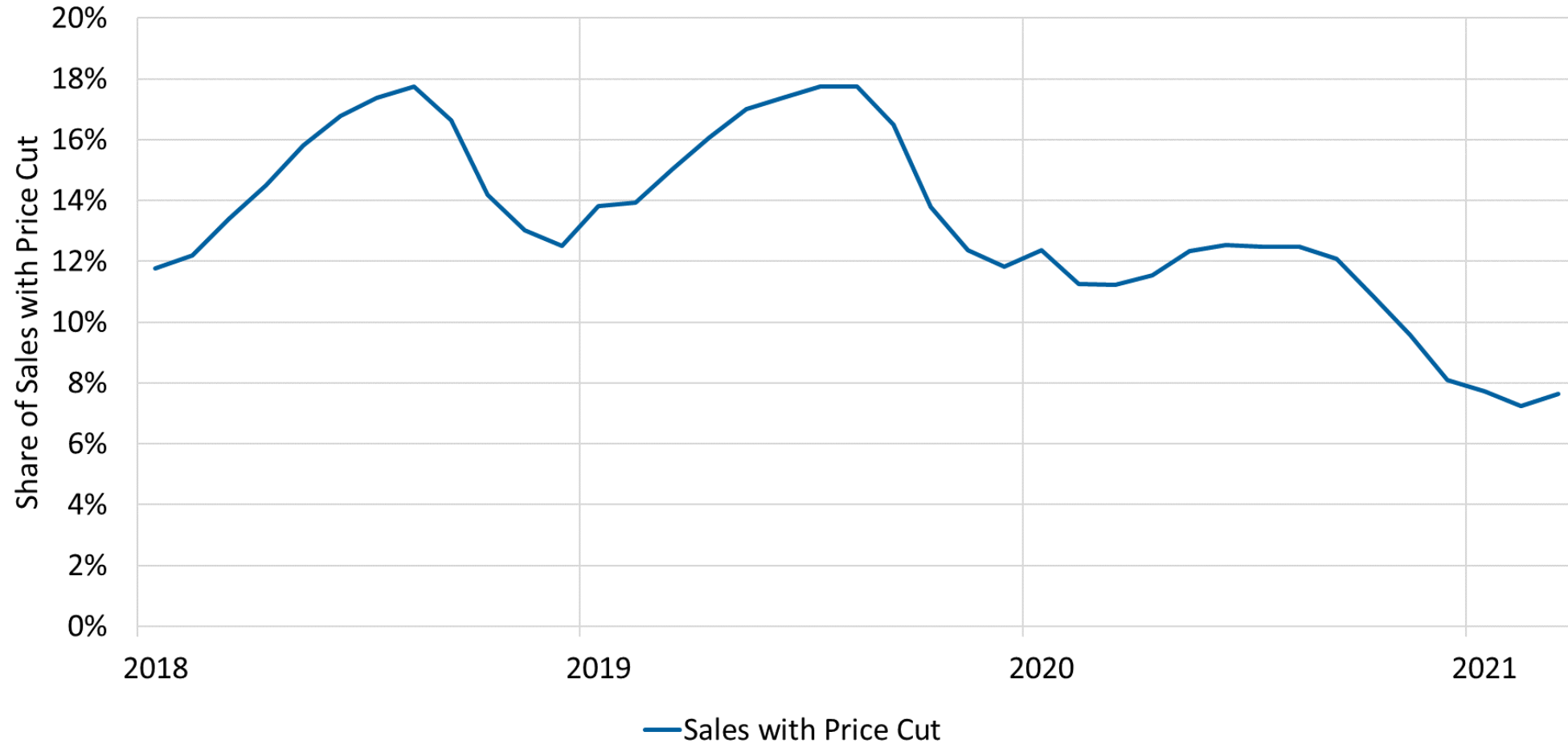
(source: National Realtors Association)

Cash Sales

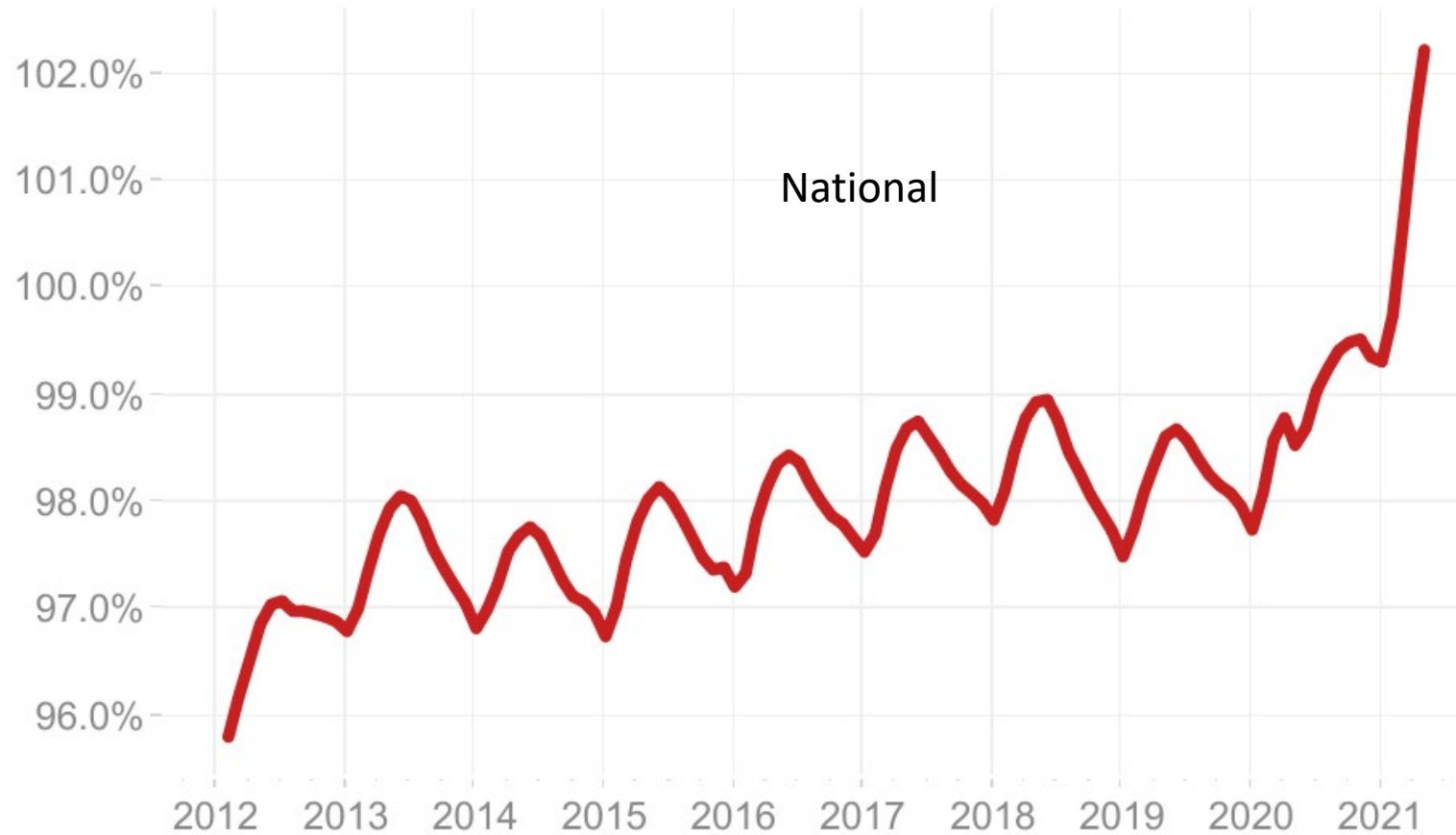
- ☐ There has been an increase in all cash purchases.
- ☐ Buyers tend to use equity from existing homes to either pay cash for a new home or to pay with cash above asking appraised price.
- ☐ Buyers with equity tend to come from high-cost markets.

Share of Sales with Price Cut

Source: Zillow; SRC - Risk Analysis Unit

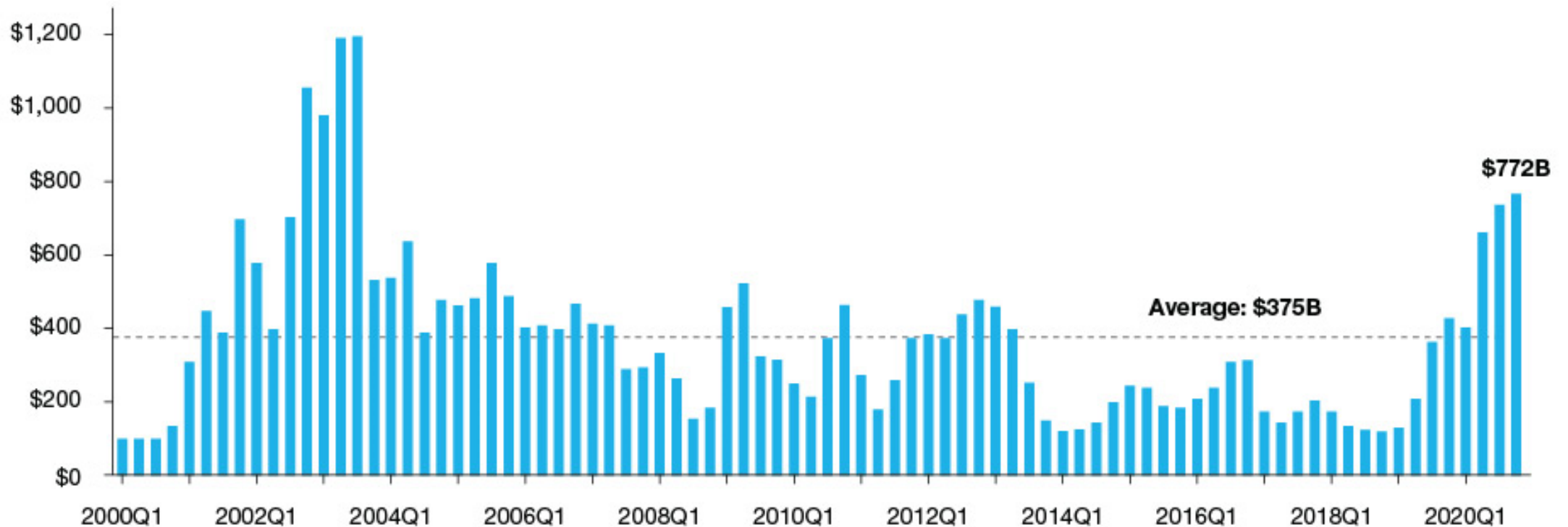


Average Sale-to-List Percentage



REDFIN

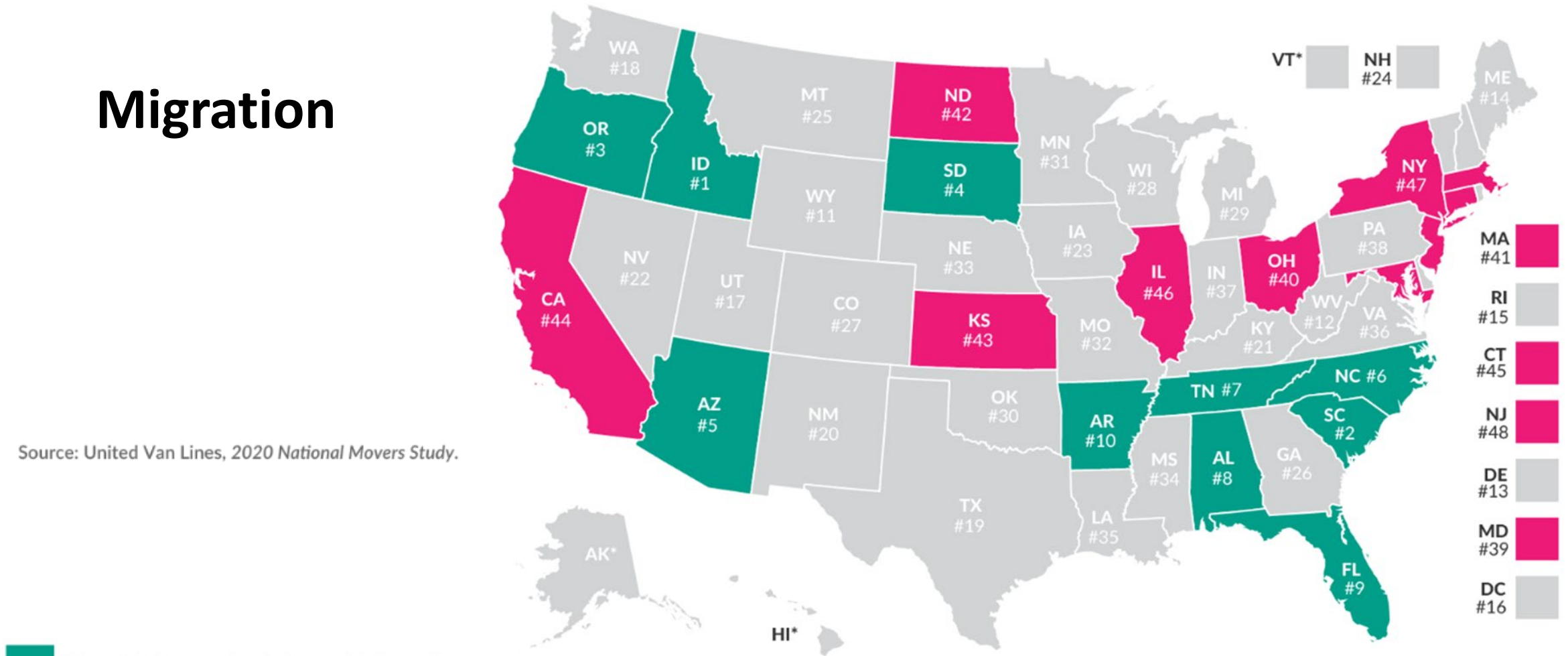
U.S. single-family mortgage refinance originations (2020 U.S. dollars, billions)



Source: Freddie Mac Economic and Housing Research Total Market Estimates, Originations deflated by U.S. Bureau of Labor Statistics CPI-U All Items

Migration

Source: United Van Lines, 2020 National Movers Study.



- Top 10 States for Inbound Migration
- Top 10 States for Outbound Migration

Note: Rankings are determined based on the number of inbound moves as a percentage of total moves in a state. DC is included in state rankings while Vermont is excluded because of its small sample size. Alaska and Hawaii are not included in the study.

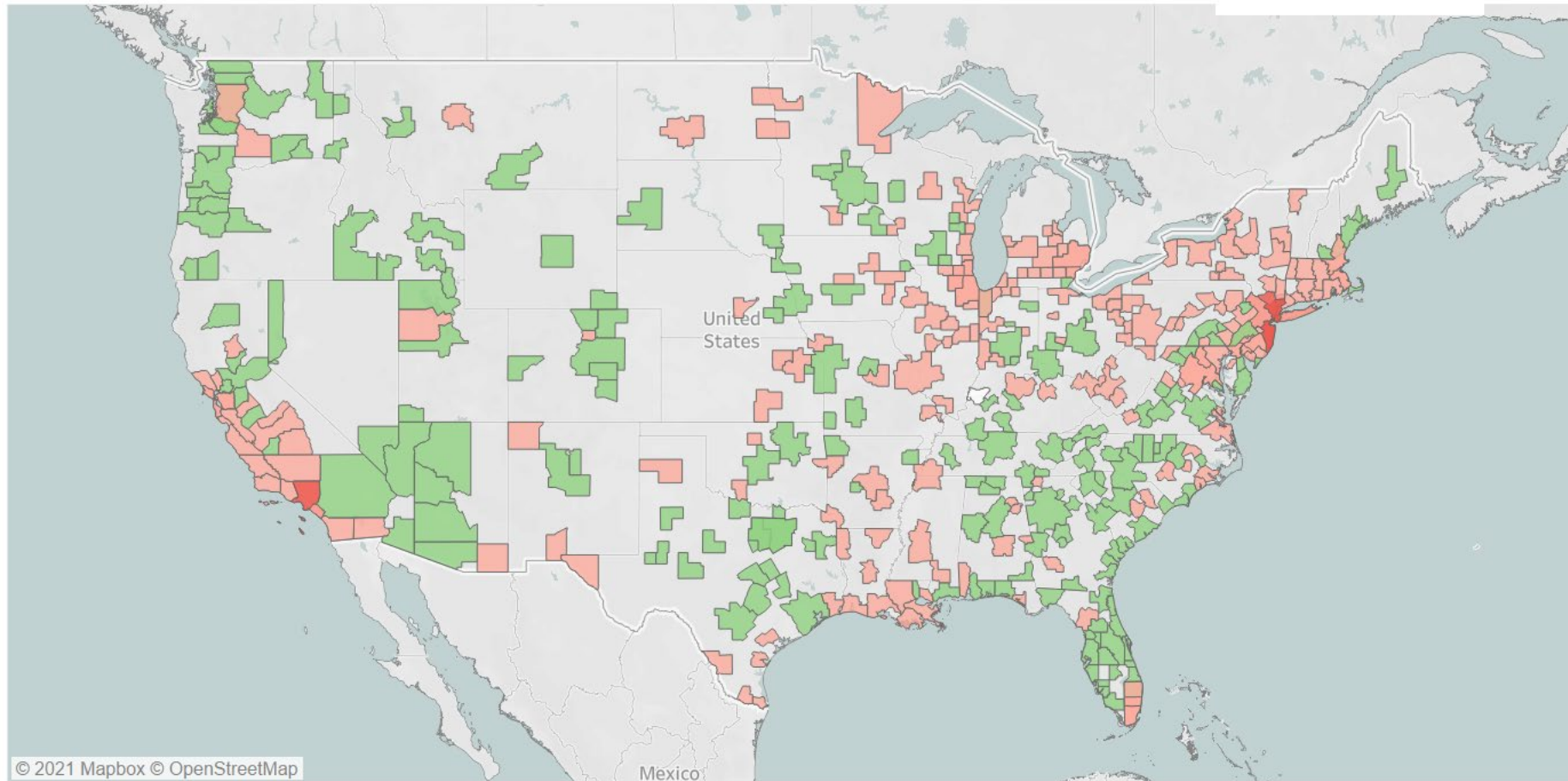
Metro - Domestic Migration

Source: US Census Bureau; Risk Analysis Unit

Year of Date

January 2019

☐ Show history



Net Domestic Migration

-348,242



116,081





-7.4%

Year over Year decline in home ownership affordability since April 2020

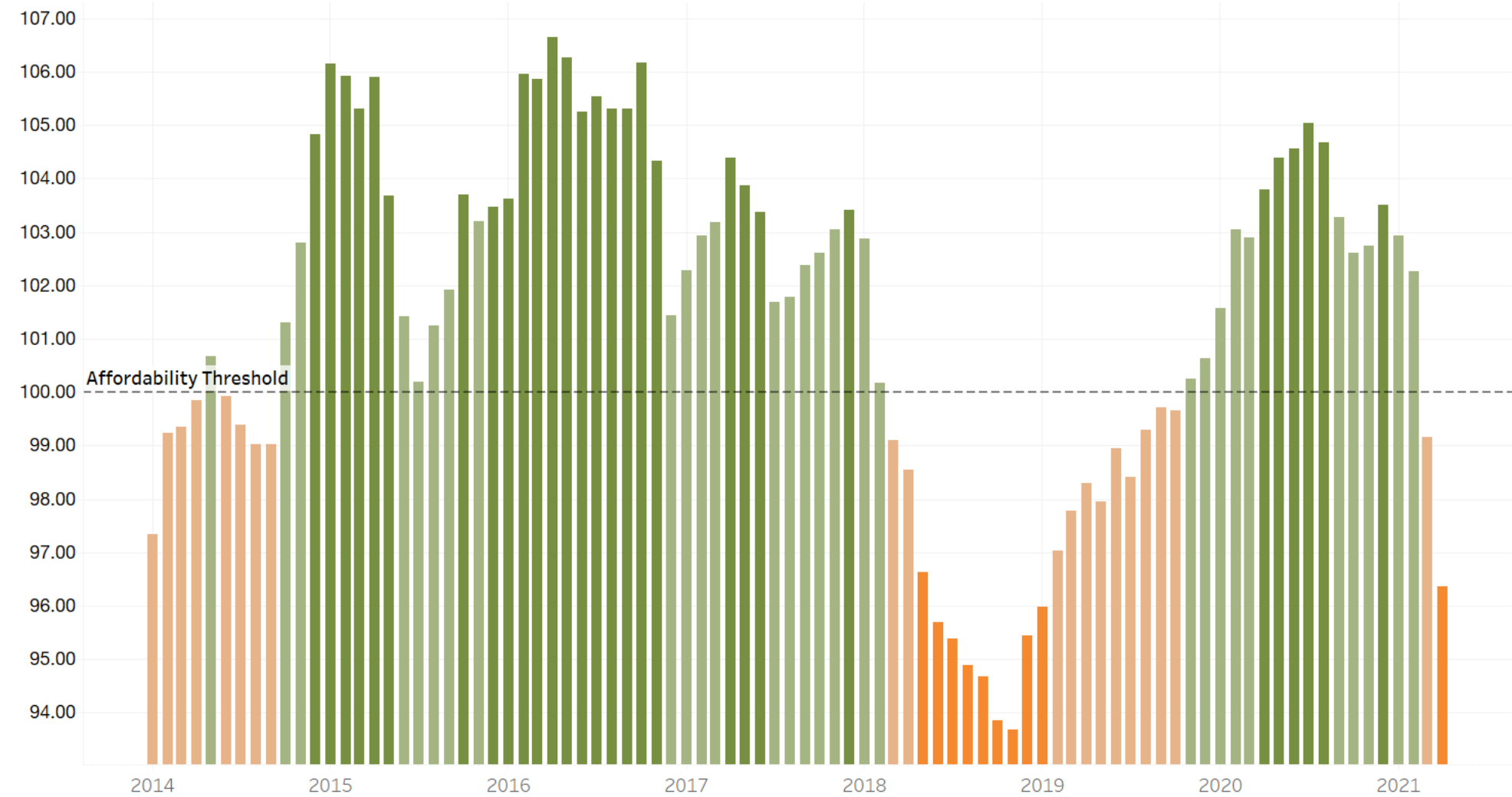
(source: FRB Atlanta)

Affordability

- ❑ Despite low interest rates, home ownership affordability has declined sharply.
- ❑ The declining in affordability is widespread, effecting 82 percent of metro areas.

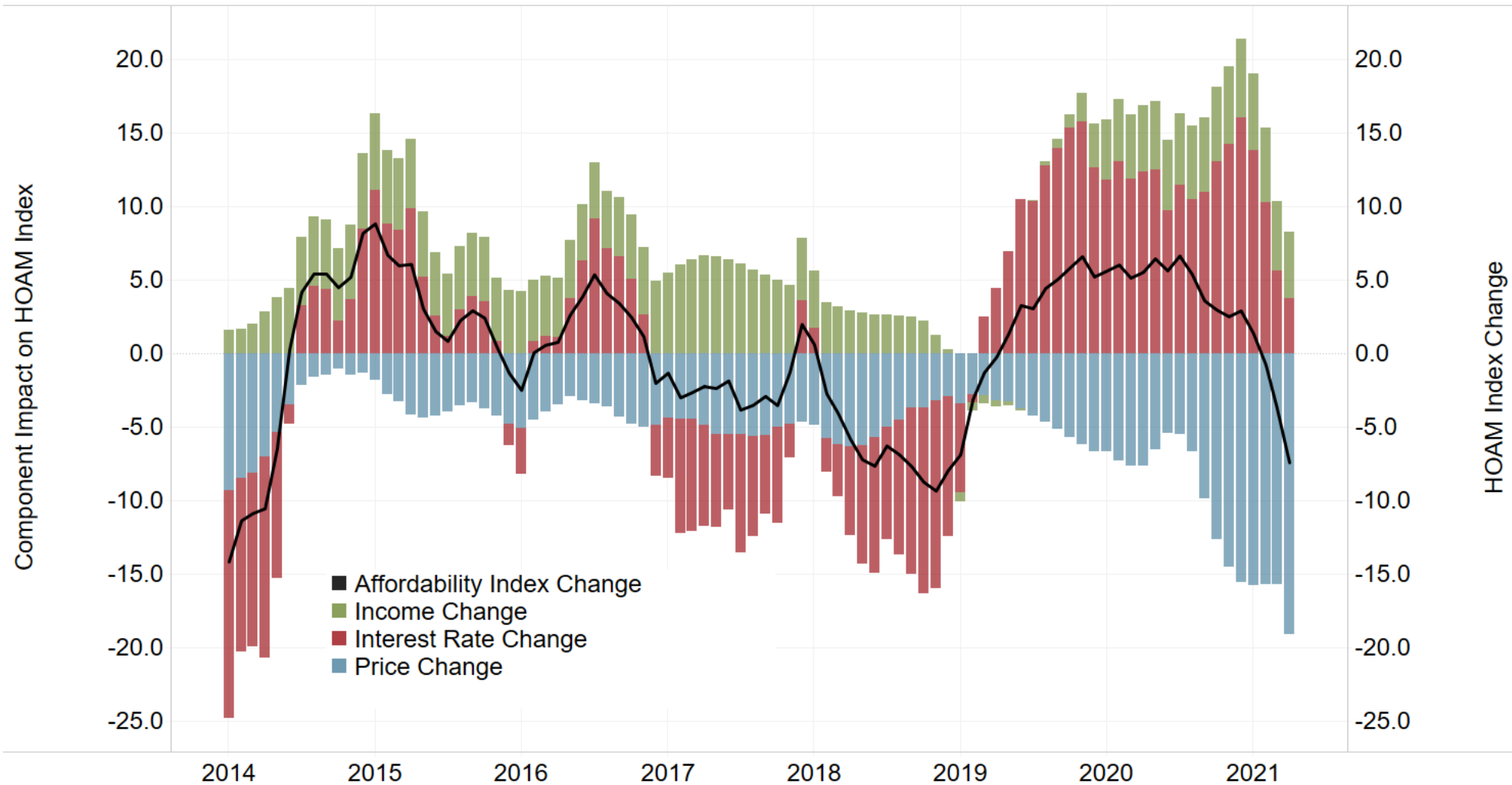
National Home Ownership Affordability Monitor (HOAM) Index

Source: REIT/Federal Reserve Bank of Atlanta



Drivers of Affordability

Note: Tracks actual (not percent) change. Does not sum to change in index as other components (taxes, insurance, PMI) not included.

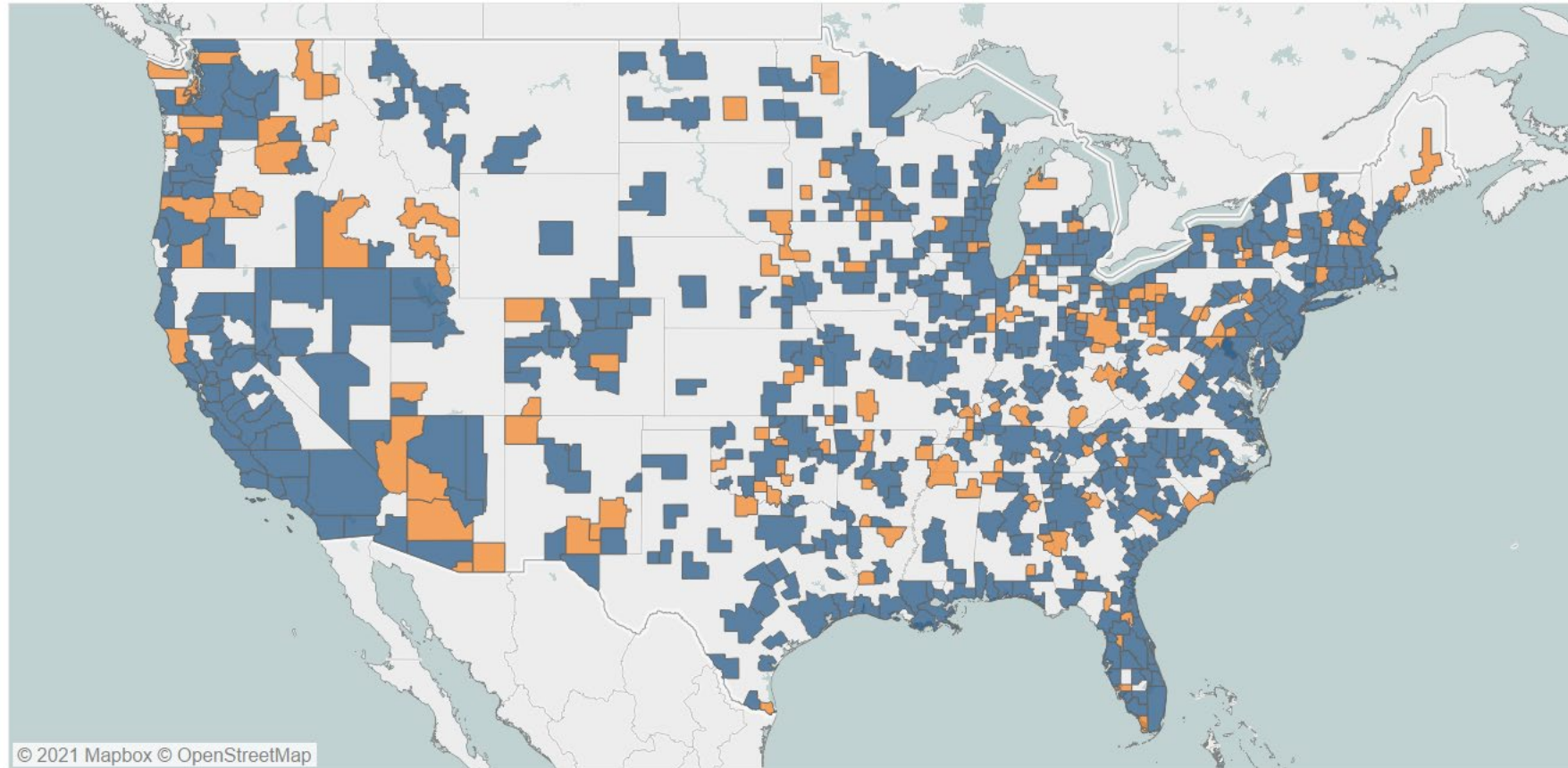


Federal Reserve Bank of Atlanta

Change in Home Ownership Affordability - Year over Year

April 2020

Orange = Decline in Affordability



Avg. Change in Affordability (YoY)

-117.59%

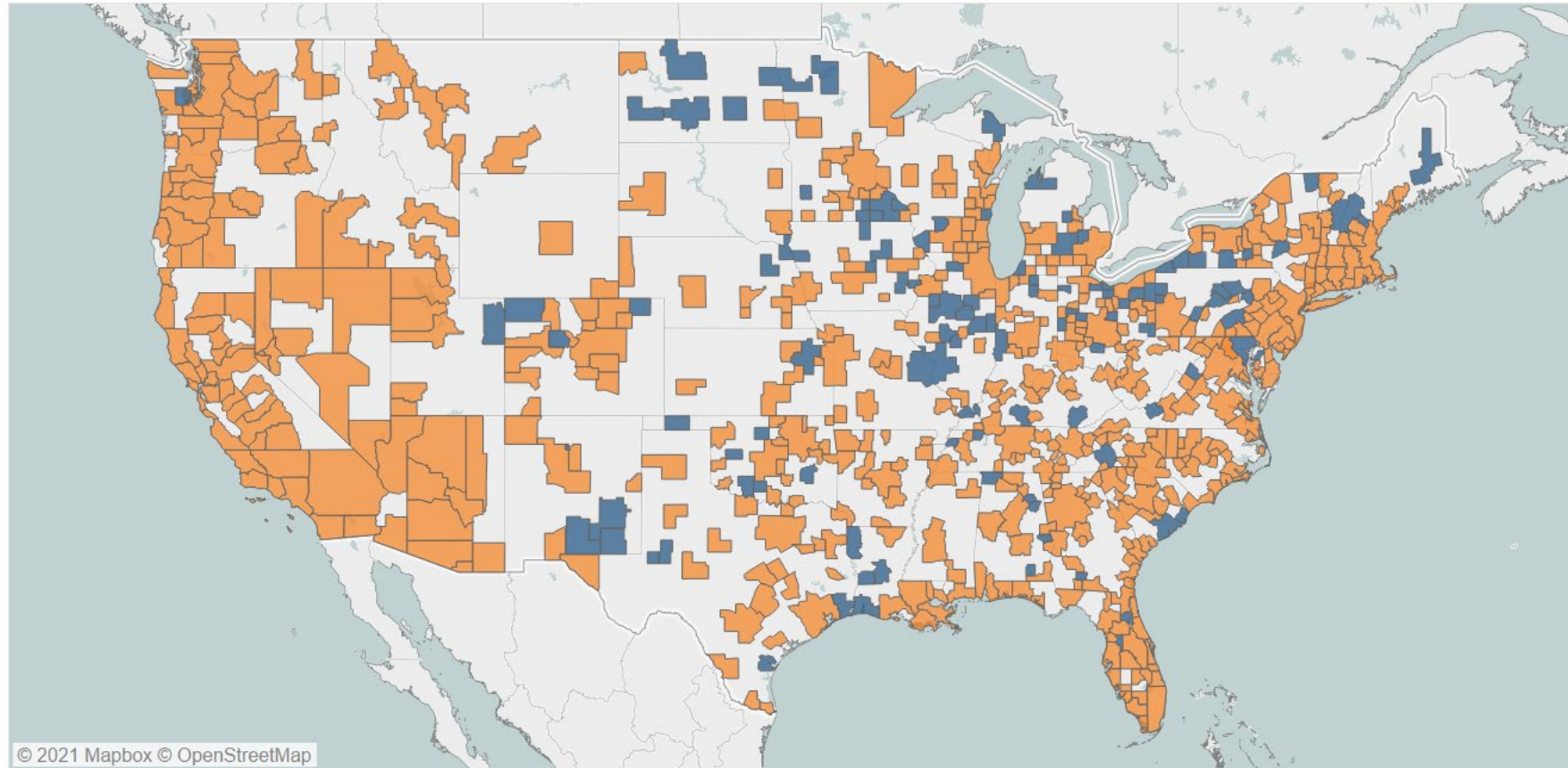


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Change in Home Ownership Affordability - Year over Year

April 2021

Orange = Decline in Affordability



Avg. Change in Affordability (YoY)



April 2021 Increase in Affordability - Ranked Year over Year <i>(Metro Divisions: Population > 500,000)</i>	
Metro Division	
Charleston, SC	5.92%
Harrisburg, PA	4.21%
Youngstown, OH-PA	2.96%
Akron, OH	2.75%
San Francisco, CA	1.77%
Baltimore, MD	1.04%
Urban Honolulu, HI	0.37%
St. Louis, MO-IL	0.30%
Pittsburgh, PA	-0.11%
Washington, DC	-0.27%

April 2021 Decrease in Affordability - Ranked Year over Year <i>(Metro Divisions: Population > 500,000)</i>	
Metro Division	
Boise City, ID	-17.41%
Spokane, WA	-12.24%
Suffolk County, NY	-12.07%
Phoenix, AZ	-11.80%
Ogden, UT	-11.51%
Jacksonville, FL	-10.97%
Provo-Orem, UT	-10.82%
Oxnard, CA	-10.59%
Riverside, CA	-10.46%
Tacoma, WA	-10.33%



-2.7%

Year over Year decline in existing
home sales since April 2020

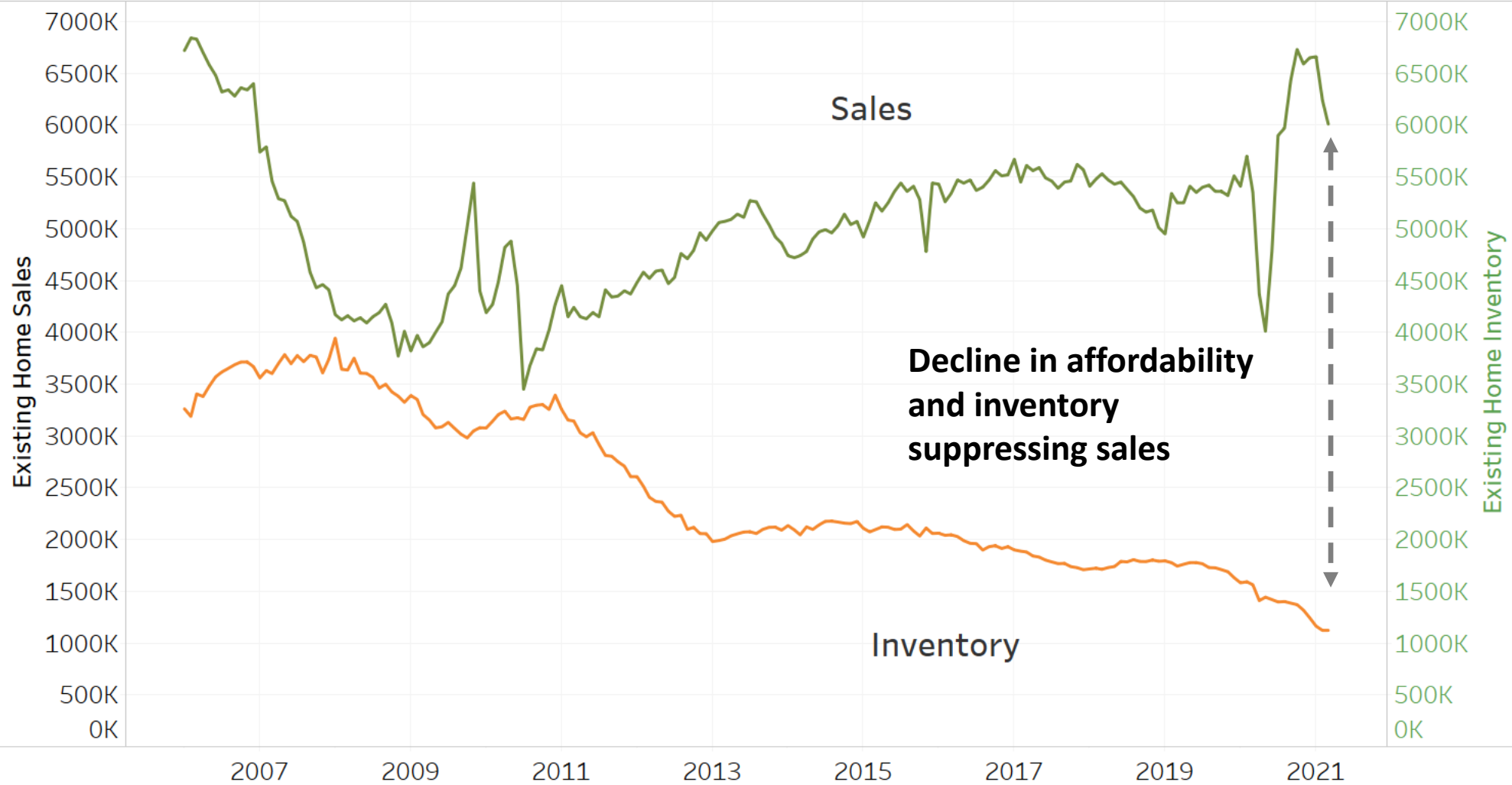
(source: National Association of Realtors)

Demand

- ❑ Mortgage originations and sales have begun to slow due to the decline in housing affordability.

US Existing Home Sales vs Inventory

Source: National Realtors Association; Risk Analysis Unit



Conclusions

- ❑ The housing market experienced a robust recovery due to strong demand and low interest rates.
- ❑ Both existing and new home inventory has not kept pace with demand.
- ❑ The lack of existing home inventory and cost escalation within the new home sector has led to steady upward pressure on home prices.
- ❑ Rising home prices has led to a sharp decline in home ownership affordability and a slow down in housing demand.



Federal Reserve
Bank of Atlanta





CRE Update

With Brian Bailey

Subject Matter Expert, FRB Atlanta

October 20, 2021

View HOAM Tool @
www.atlantafed.org/center-for-housing-and-policy



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