THE BIG COMEBACK IN THE HOUSING MARKET

Of all the parts of the US economy that have weathered the COVID-19 storm, none has been as resilient as the housing market. Homebuilders started homes at an annual rate of nearly 1.6 million units in December, January, and February, before the Coronavirus and government-mandated shutdowns put the brakes on building activity.

Those were the best three months since 2006 and showed that residential construction had finally fully recovered from the housing implosion that was at the center of the 2008 Financial Crisis. During the COVID shutdowns, homebuilding plummeted - housing starts bottomed at an annual pace of 934,000 units in April before gaining in May, June and July, hitting an annualized pace of almost 1.5 million last month.

Playing Catch-Up

Economists have predicted for the past several years that the fundamentals of the housing market suggest an underlying norm of 1.5 million housing starts per year. This estimate is based on a combination of population growth (more people mean more housing) and scrappage (homes don't last forever, either because of voluntary knockdowns, fires, floods, hurricanes, tornadoes…etc.).

However, in the ten years from March 2010 through February 2020 builders had only started approximately 1 million units per year. Part of this made sense - home builders started too many homes during the housing bubble and the only way to work off that excess inventory was to build fewer homes than normal. That said, analysts believe that in response to the shock of the Financial Crisis, the inventory correction went too far. In the 20 years from March 2000 through February 2020, housing starts only averaged 1.27 million.

As a result of this below-trend new homes growth, homebuilders have to play catch-up until the long-term average moves back to the supply / demand equilibrium of 1.5 million units per year – suggesting a required pace of 1.8 million housing starts for the next several years.

Existing Home Sales and Prices

Existing home sales have also rebounded. In February existing homes were sold at an annual rate of 5.76 million units in February, before bottoming out at an annualized rate of 3.91 million units in May. Since May, however, sales have soared, hitting a 5.86 million annualized pace in July, even beating the February level.

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In terms of prices, analysts expect national average home prices to continue to grow, but with a wide dispersion. Dense cities hit hard by COVID-19, or which have seen social unrest (or both), especially as more employees shift to working remotely, are going to be relative losers. Other metro areas will probably experience faster gains.

In short, housing is expected to be a significant tailwind for the US economy going forward. However, housing patterns will also probably shift, suggesting there will be winners and losers in the coming housing boom.

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