

Research on U.S. Housing Prices and the Real Estate Industry

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ABSTRACT

The U.S. housing prices have increased continuously during 2020 and 2021. Although the U.S. economy has been affected by the Covid-19 pandemic greatly, the housing price shows an up-forward trend. This paper researches whether the increasing housing price is a sign of a housing bubble like the bubble in 2006. The research is based on the analysis of the U.S. macroeconomic factors and the historical data. This paper suggests that there is no bubble in the U.S. housing market although the housing price has been increased over the years. On the contrary, the increasing housing price shows the resilience of the U.S. real estate market, and the real estate market is still a strong support for the U.S. economy.

Keywords: *Housing bubble, existing home sales, new home sales, supply and demand*

1. INTRODUCTION

Real estate is a type of real property, which is permanently attached to the land, including houses and buildings. There are 5 major categories of real estate[1]. First, residential real estate is real property that is used for residential purposes, such as departments, condos, or townhouses. Second, commercial real estate is used for business purposes only, such as gas stations, hospitals, or supermarkets. Third, industrial real estate is used for production, storage, manufacturing or distribution. The fourth category of real estate is land, such as farm and timberland. The last category of real estate is a special purpose that is used by the public, including government buildings, parks and schools[2].

Real estate is known as one of the most important sectors of the economy. It contributes to balancing the economy of a country in as much as it boosts the income of people. It gives the space for businesses to operate and provide job opportunities, especially those who are in the construction industry, and it also provides living spaces for the general population. Real estate has been one of the best investments for a long time. Real estate does not simply exist. It can be improved, purchased or sold. It can be owned by a company, a government or a private party. Some certain components of real estate would make direct impacts on the economy, including the continuous improvement of land, and individuals and entities that facilitate the transfer of ownership.

Recently, the U.S. housing price has been increasing continuously even the Covid-19 pandemic strike the U.S. economy deeply. To examine whether the increasing housing price is a signal of bubble. This paper will examine macroeconomics indicators in this paper, including population, income. Furthermore, this paper will analyze historical data to find out the history trend of macroeconomy and the housing market of the U.S. to support my findings. My findings will suggest whether housing bubble exist in the current U.S. housing market. Since real estate contributes a significant proportion of the U.S. economy, it is meaningful for researchers to know the situation of the current U.S. housing market. Importantly, the health of the U.S. housing market is an essential indicator of the U.S. economy, which also influences the global economy as well.

2. ANALYSIS OF INCREASING HOUSING PRICES

2.1. Overall analysis of the U.S. housing market

The U.S. housing market is significantly strong across the country in 2021. Over the past years, housing prices have been increasing continuously[3]. During the Covid-19 pandemic, the housing market has become a good opportunity for sellers and a concern for buyers. Importantly, housing prices increase significantly

recently, which reflects great customer demand for housing and a persistently low supply. Housing prices increased a lot during the Covid-19 pandemic because of plenty of capital and low mortgage rate.

As we know, millennials are around 30 years old, which is a peak age for them to buy houses or departments. The customer demand for residential housing has increased greatly. However, the housing supply is the lowest since the 1970s because of increasing construction costs and many investors buy new houses for investment[4]. Additionally, the increasing opportunities of work-from-home during the Covid-19 pandemic and low mortgage rates also fueled the demand for housing, especially in suburbs.

The Pending Home Sales Index (PHS) is a leading indicator that is used to measure the health of the housing activity created by the National Association of Realtors (NAR), which is used to track the number of houses that are to be sold under contract. Pending home sales in the U.S. was peaked at 51.7% in April 2021, then it decreased continuously from April to July, and it fell to a negative 8.5% in July 2021[1]. Moreover, The West of the U.S. is the only region that has an increase in housing sales while the northeast experienced the largest decline compared to the same time last year. Housing sellers may have to lower prices and allow buyers to take more time when they buy houses if home sales keep falling[1].

2.2. Existing home sales

The existing home sales remain competitive although the U.S. housing market shows a cooling trend. It increased faster in July 2021 compared to June 2021, and each region of the U.S. has increased the prices of existing houses in July 2021[5]. The increase in existing housing sales is contributed to an increase in supply. According to the data from the National Association of Realtors, existing home sales keep increasing this year as more and more houses are listed on the market. The increasing sales would strengthen home builders' confidence and convince them that high demand for housing is not a temporary phenomenon. Furthermore, first-time buyers accounted for a lower proportion of all buyers in this year, and the proportion of all-cash sales has increased compared to last year. The National Association of Realtors estimated that the market needs 5.5 million to 6.8 million new houses to meet the customer demand[6]. Although sales of existing homes are expected to decline, the number remains high. Building permits and housing are at the highest levels since the last real estate boom in 2006. Many people think that it is still a good time to sell, which ultimately means that the number of sellers entering the market will continue to increase. Although house prices are still increasing, sellers need to set prices that are more competitive than the past few months. These latest

market trends also indicate changes in real estate activities, which is good news for buyers.

The market still benefits sellers more than buyers. However, after the most active sales period, the real estate market may become more balanced. As of today, the real estate market is still far from normal, and the supply of houses on the market is still at a historically low level. As the economy recovers, more and more buyers enter the real estate market. Moreover, due to the limited supply of housing, housing prices will continue to rise even if interest rates are low. As supply increases, housing price growth will gradually slow down, but it is unlikely that widespread price drops will occur.

2.3. New home Sales

According to the U.S. Census Bureau, sales of new homes in the U.S. increased by 1% in July 2021. New home sales are 27.2% lower than the same time in 2020[7]. After a year of frenzied purchases by buyers, new houses are now unable to meet market demand. Due to the increasing construction prices, builders cannot produce more affordable houses for buyers. The drop in sales of new homes indicates that demand for new homes is decreasing. There has been a certain decline in housing loan applications in 2021, and the number of potential buyers also declined as well. Overall, higher construction costs, longer delivery times, and the general unpredictability of the construction supply chain have had impacts on the price of new homes.

The National Association of Home Builders obtains information about the housing market from builders based on buyer behavior, sales, and forecasts. The number of building permits has recovered from the low point of the Covid-19 pandemic, and builders are trying to solve the problem of imbalance between supply and demand. Additionally, home builders still have an optimistic attitude although the Covid-19 pandemic affected the US economy deeply. As the current housing market continues to be affected by the low number of listings, we can see high demand from potential buyers. Due to the shortage of supply and rising material costs, it is difficult for sellers to meet this housing demand.

The Mortgage Bankers Association (MBA) predicted that there will be approximately over 1 million single-family homes in 2022 and more than 1 million single-family homes in 2023[8]. New home builders will increase production to alleviate the shortage of homes for sale in the U.S. Moreover, increase the number of homes for sale will help more buyers own their dream homes, and ease the nation's rising housing prices at the same time. According to data from the Urban Land Research Institute, the value of the real estate market in the United States will rebound in 2021. Furthermore, single-family homes will have better performance compared to other industries such as commerce, retail, hotels, and leasing.

According to a survey of leading real estate organizations, house prices will increase by 4.1% on average in the next three years, which is higher than the long-term average of 3.9%[9].

3. DISCUSSION

The impact of Covid-19 on the real estate market is likely to be the opposite of what people expected in the economic recession. We are unlikely to see a situation similar to the real estate crash that happened in 2008. Importantly, the economic factors that led to the real estate market crash were very different from today. The real estate market seemed likely to collapse at the beginning of the COVID-19 pandemic. However, the median house price increased by 24%. The number of severely defaulted loans at the end of 2020 is close to the highest level in history, but foreclosure activities are at a historically low level. Because of this suspension, there may be a backlog of foreclosures, and no one knows how big the backlog will be.

The foreclosure crisis after the real estate crash in 2008 was aggravated to a certain extent by the plight of a large number of financially difficult homeowners. But for homeowners who are heavily indebted, the situation this year is unlikely to be the same as in 2008. Most homeowners have a lot of equity, if they cannot repay their mortgage, they can sell their houses in the real estate market. Because buyers in most regions of the country still have great demand for houses, this is good news for these homeowners.

The real estate bubble is formed by artificially high prices in the already hot real estate market. Many market watchers are wondering is there a real estate bubble in the United States? Actually, the real estate industry greatly depends on supply and demand. When real estate demand rises and supply begins to decrease, there will be a bubble, which will cause prices to rise. When there are fewer homes for sale in the market, anxious buyers would pay more for housing that may far exceed the market value of the housing.

What is worrying now is that even if only a small proportion of homeowners currently protected by the Mortgage Tolerance Program decide to sell their houses instead of repaying their mortgage, this could have a major impact on the US housing market. The increase in housing inventory will have a direct impact on prices. However, the current inventory is at its lowest level in 40 years. Even if the suspension plan is stopped, housing prices will continue to increase dramatically.

Furthermore, the increased housing price also made a significant influence on the overall U.S. economy. The increased housing price influence the U.S. residential investment and the economic growth for a further step. Specifically, the increased housing price would encourage builders to take advantages of the increasing

price and spend more on construction, and banks would lend more to buyers to boost the economic growth.

4. CONCLUSION

This paper introduced the background of the U.S. housing market and analyzed the reasons that caused the U.S. housing price increased. Importantly, this paper researched whether there is a bubble existing in the housing market based on the macroeconomic data and index.

Housing prices in the United States are increasing at the highest rate in history in 2021, even higher than the rate of the real estate bubble before the Great Recession. However, this situation is probably not a bubble. Homebuilders are very cautious in adding new supplies because of the severe housing shortage. Currently, lenders are responsible for their actions, and mortgage underwriting is much better than it was during the Great Depression.

Although millions of people lost their jobs or reduced working hours due to the Covid-19 pandemic, this has not stopped home buyers from buying houses across the country. As a result, the real estate market has experienced the highest sales growth rate since the unprecedented peak of the real estate boom in 2005. Actually, the continued growth of housing prices represents the resilience of the real estate market in the situation of continued economic recession in the U.S.

The real estate market is still hot, leading to rising housing prices and rapid home sales. The only issue is that the supply of housing continues to fall short of demand. The US real estate market is not likely to collapse in 2021 or 2022. On the contrary, real estate still plays a significant role in the recovery of the US economy. According to a survey released by the Microeconomic Data Center of the Federal Reserve Bank, the median short-term inflation expectations have increased, while the medium-term inflation expectations remained unchanged. Since the income and expenditure growth of households in the coming year will continue the recent upward trend, it is expected that house prices will continue to increase.

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