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Pandemic-related Impacts on Housing Market

Will the Housing Market still Perform Conspicuously during the Pandemic?

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ABSTRACT
Globally, there are almost no countries unaffected by the pandemic. As governments struggle with new lockdown measures to combat the spread of the virus, the economies have to pay the price. The real estate cannot escape from this damage. This article explores why and what housing market is influenced by the declining backdrop of economies and unveils how people react to this dramatic change. Unmatched demand and supply bring about that housing prices are dragged to a sky-high level, and the relationship between home buyers and sellers becomes imbalanced. Based on the analysis, housing investors can predict the future trend: factors, such as mortgage rates, that increase the demand for housing will be less significant in 2-3 years; the accelerated construction process will spur the supply to grow in order to meet the housing demand. This study also includes uncounted viewpoints from experts and technical data. It should be suggested that people can get the advice about what is happening and going to happen after reading it.

Keywords: *Real Estate, Price Fluctuation, People's Response, Market Prediction*

1. INTRODUCTION

1.1. Background

The COVID-19 pandemic has overwhelmed healthcare systems worldwide, which has a knock-on effect on diagnosing and treating other diseases. It is also unimaginable for many people how their lives would change owing to the epidemic. The old ways of meeting, working, eating, shopping, and socializing are no longer available. In the workplace, business, as usual, has been replaced with cautious travel policies, office closures, and work-at-home expectations. Consumers worldwide are cutting down on spending on travel and eating out in restaurants in favor of essentials such as food, medicine, and home supplies. In addition, they are getting these items delivered more frequently. Currently, COVID-19 is an urgent threat that the public must address immediately. There will be a greater sense of urgency than before for some players to digitize and offer better and more distinctive tenant and customer experiences. Because tenants will be unable to make lease payments due to the crisis, many operators have to make thousands of rigorous decisions instead of a few portfolio-wide decisions.

Therefore, it was a good thing that most real-estate players guard the health and safety of employees and tenants at every stage of the construction process. In addition, the savviest will now contemplate how the landscape of real estate might permanently change and will change their strategy accordingly. Property investment has generated steady cash flows and increased returns significantly above previous yield tools with much lower risk over the past several years. However, this reality has changed since the virus outbreak, and real estate is being impacted throughout the chain.

1.2. Related Research

COVID-19 had a significant impact on housing market because of the change in supply and demand. Stlouisfed points out that, in 2020, when the pandemic hit, fewer sellers allowed strangers to enter their homes due to health concerns. Stlouisfed insists that home sales fell to their lowest levels since the beginning of the housing and financial crisis in 2007. The number of new listings last April was almost 40% lower than it was two years ago. The housing supply fell to a new low due to a lack of new listings. As a result, homeowners were reluctant to sell during the pandemic. The number of homebuyers decreased as well. A drop-in home price typically accompanies a significant drop in new home sales. Coronavirus turmoil, however, was not accompanied by a substantial fall in prices. Due to historically low mortgage rates and low supply, prices were able to remain stable last year. After experiencing a considerable drop in sales due to the pandemic, real estate activity began to improve in the late spring of this year, returning to pre-pandemic levels by the summer [1]. When counting the enormous number of jobs that can be done at home, Nber thinks there is significant variation among cities and industries regarding the percentage of jobs that can be performed entirely from home in the United States. The majority of these jobs pay more than those that cannot be performed from home and makeup 46 percent of all US wages. Nber finds that fewer jobs can be performed at home in lower-income economies based on the occupation classifications applied to 85 countries worldwide [2]. Forbes also points out that the increased demand for housing and the active housing market are often indicators of an improving economy, especially in newer, smaller cities with low unemployment. A housing market bubble, a concept that has potentially ominous connotations, is not apparent due to the pent-up demand and soaring prices, as economists struggle to assess. Forbes believes that this analysis is particularly relevant due to the global crisis caused by a worldwide pandemic. Nonetheless, the next couple of months and perhaps years will mark a turning point for the housing market, for those in need to buy, for those in the market to build, and indeed for those looking on the sidelines, trying to navigate an unprecedented situation [3].

COVID-19 has affected both supply and demand. Vox believes, in general, the collapse of fixed mortgage rates to record high levels was behind the surge of prices. Homebuyers typically buy as much home as their mortgage payment allows, so lower mortgage rates accelerate house price growth, especially when there is a shortage of homes. The pandemic-driven phenomenon of working anywhere also drives up house prices in the suburbs, exurbs, and small towns and cities. From Vox's perspective, this has driven apartment-dwelling households to relocate. Moreover, 73% of consumers say initial stay-at-home orders helped them save more money. In this manner, many people came to realize the significance of houses, which led to further increases in demand. In response to Covid-19, long-standing preferences for more space have intensified. In addition, outdoor gatherings, cultural exhibitions, and restaurants that once nearby became inaccessible. Consequently, people have moved to suburban environments, opting for more space and yards to accommodate both work and school [4] simultaneously. Mortgage played an important role. Mckinsey claims that with mortgage rates eventually rising, overvalued housing markets may be vulnerable to a significant price correction. And that is what will happen. Accordingly, the Federal Reserve expects the economy to recover quickly, which will begin to normalize interest rates soon. Additionally, work from anywhere is on its way out as companies ask their employees to return to the office as the foreclosure moratorium and mortgage and student loan forbearances come to an end. As the adjustment from the policy, the housing demand will weaken [5]. In July 2020, the housing market began to rebound after undergoing drastic changes. Although the market has recovered quite well, there have been some challenging side effects. Lewis insists that a solid seller's market has resulted from the continuing increase of home prices in the metro area despite low inventory. The metro area reduced its supply of single-family homes from an eight-month supply to 2.8 months after the pandemic. Some homeowners have been hesitant to list their homes due to limited choices and higher prices. The number of homes for sale is at a historic low. Still, the number of buyers has increased due to low interest rates on mortgages, migration from northern cities, and first-time homebuyers. Price appreciation in the market continues to be driven by dense demand and a limited supply. According to statistics, the housing supply amount dropped 53 percent compared to last year [6].

The pandemic will inevitably impact real estate investment. Nationally, CoreLogic analyzes the price of houses has increased double-digits over the past year, a substantial price gain dating back to the end of the financial crisis. The median existing-home price — the half that sells for more and the half that sells for less — is currently approaching $350,000, almost double what it was ten years ago. Including distressed sales, home prices nationwide increased year over year by 17.2% in June 2021 compared with June 2020; prices increased month over month by 2.3% in June 2021 compared with May 2021. Based on CoreLogic's estimates, home prices will increase on a month-over-month basis by 0.7% from June 2021 to July 2021 and on a year-over-year basis by 3.2% from June 2021 to June 2022. CoreLogic believes that as organic market pressures suffer development costs, in June, home value arrived at the most elevated yearly development since 1979. While practical challenges increase, low home loan rates, rising reserve funds, and a further developing work market assisted with saving homeownership accessible for some planned purchasers [7]. On the fortune, "Affordability will work against the housing market in 2021," says Wolf. "We have seen home prices have gone up double digits in some markets year over year, and at a certain point that home price appreciation offsets the savings from the mortgage rate." As the pandemic progresses or the economy weakens, a more significant gap will widen between those who can afford to buy a home and those for whom homeownership will become less achievable [8]. The economy is grinding to a halt. Curbed respectively analyzes change of real estate depends on states. In its conclusion, the Northeast housing market and Florida housing market are most at risk. In New York City, the housing market has come to a near standstill as stay-at-home orders approach their third month. But in Boston, in contrast to the pandemic, home sales have remained steady in the single-family market. In Los Angeles, in-person showings of homes have been banned, and much of the industry is turning to digital solutions to keep the market moving. In addition, as the stock market drops, investors look for safer places to park their wealth, resulting in the bond market's rise. A drop in the stock market can have the same effect on the housing market. When people are trying to figure out the way to recover the market price, Dr. Anthony Fauci says, "You do not make the timeline, the virus determines the timeline" when it comes to when shelter-in-place orders can be lifted. As for the housing recovery, the same applies. Once the virus threat has diminished, the housing market will start functioning normally because the only problem is the housing supply that cannot be controlled by citizens [9].

Springer points out that the significance of pandemics on commercial real estate. Among the commercial real estate sectors directly affected by the shutdown and facing the most significant degree of uncertainty are hotels and retail properties. Businesses that occupy these buildings are usually in-person services or have their own sales points, so they have to close completely. As well as office buildings, exchange spaces for professionals remain vacant. The businesses that occupy these properties can often provide their services from their employees' homes, as they operate in industries that do not require as much personal contact. However, the majority of countries continue to use industrial production sites with additional safety measures and at lower capacities due to limited demand [10]. The benefit of owning a house is enlarged due to the pandemic. WSJ believes that today's boom is mainly benefitting those who already own homes. They increased their equity by $1.5 trillion a year from last year. WSJ says it is vital to notice that, in contrast to the building boom of the mid-2000s, the current increase in home prices is attributed mainly to a shortage of homes for sale. The construction of new homes has not kept up with demand because of the financial crisis. Builders have taken years to recover and are faced with land shortages and shortages of skilled labor. Builders continue to face poverty and a rise in material costs as production increases. According to Urban Institute projections, by 2040, each generation will have a lower homeownership rate than the preceding generation had at the same age. Compared to previous generations, younger Americans may find it more challenging to build household wealth [11].

1.3. Objective

The article mainly describes the way how the pandemic influences the housing market. Predictions regarding the future real estate market are made based on experience. It will be helpful for both home-buyers and home-sellers because they can then make an advanced decision of whether to keep their original plan.

2. THE AUTHENTIC REFLECTION OF PANDEMIC INFLUENCE

Since the pandemic struck in 2020, fewer buyers and sellers allowed strangers to enter their homes out of concern for the health of both parties. Since many homeowners were hesitant to sell due to the pandemic, home sales in April and May dropped to their lowest levels since 2007, just before the beginning of the housing and financial crisis. Last April, the number of new listings was almost 40% lower than two years ago. In the United States, the percentage of jobs performed entirely from home varies significantly by city and industry. Forty-six percent of all wages are earned by positions that employees can achieve from home. The majority of these jobs paid more than those that could not be performed from home. Besides, lots of construction projects of houses were delayed because of necessary social distance. Enormous housing agencies were forced to close, facing bankruptcy. Since fewer new listings, already low inventories, and the necessity of staying home led to a decline in housing supplies, homeowners were reluctant to sell during the pandemic. In light of the newness of COVID, it is difficult for people to be willing to spend money, especially on houses, due to the enormous cost. The number of homebuyers decreased as well. The damage to the supply and demand of houses is accomplished by a massive drop in new home sales in months. in July 2020, the housing market rebounded after drastic changes. Although the market has recovered quite well, there have been some challenging side effects. A solid seller's market has resulted from the continuing increase of home prices in the metro area with low inventory. The metro area reduced its supply of single-family homes from an eight-month supply to 2.8 months after the pandemic. Some homeowners have been hesitant to list their homes due to limited choices and higher prices. The number of homes for sale is at a historic low. Still, the number of buyers has increased due to low interest rates on mortgages, migration from northern cities, and first-time homebuyers. Price appreciation in the market continues to be driven by solid demand and a limited supply. According to statistics, the housing supply amount dropped 53 percent compared to what it was last year. At the end of May, potential buyers increased their housing search and purchase activity.

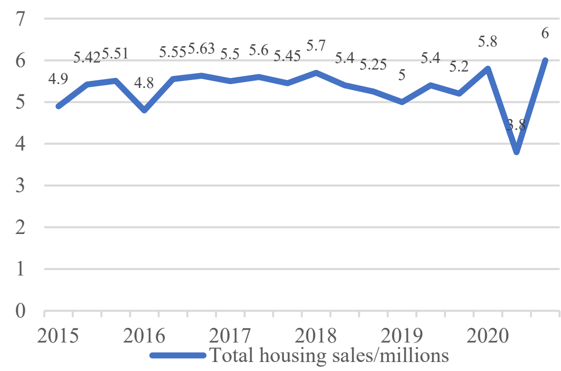

Figure 1. Total housing sales in U.S. from 2015 to 2020 (millions)

Everything seems to be going better. However, a new problem appears and curtails the ideal thought. Recent years have seen home prices rise by several digits. Exceptional demand and persistent low supply have converged in recent months to result in double-digit price increases. Prices are heading up, and affordability will become increasingly difficult over the foreseeable future due to a lack of cash on hand and low mortgage rates.

In the housing market, the housing price is determined by supply and demand: If fewer houses are available, prospective buyers will bid higher prices to get one; if fewer people are looking for homes, prices will drop as there are fewer competitions. According to CoreLogic, home prices nationwide increased year over year by 17.2% in June 2021 compared with June 2020; prices increased month over month by 2.3% in June 2021 compared with May 2021.

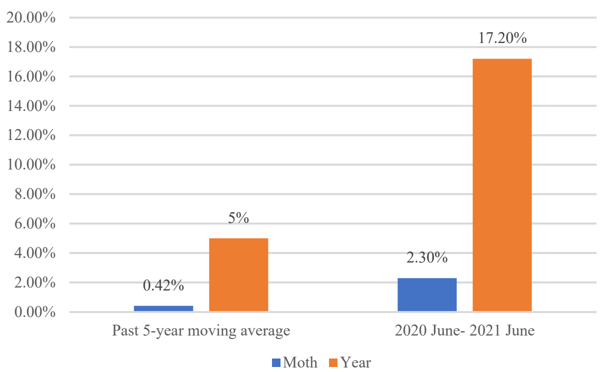

Figure 2. The comparison of home price indices between past five years and recent one year (percentage)

In general, the collapse of fixed mortgage rates to record high levels was behind the price surge. Because Homebuyers typically buy as much home as their mortgage payment allows, lower mortgage rates accelerate house price growth. This situation happens especially when there is a shortage of homes. Some techniques that agencies had not used in the past are now becoming popular. For example, in our increasingly virtualized world, virtual tours and sanitary precautions are the norms. It is common to visit a property later in the process after it has been thoroughly vetted from a distance. Since marginally interested house-hunters will likely weed themselves out before scheduling a showing, physical visits are more likely to result in sales. As a result, the pandemic directly spurs the use of online communication and payment for housing.

3. RESPONSE FROM PEOPLE

The affordability of housing has emerged as one of the most pressing problems caused by the pandemic. Even though low-income individuals or families may face challenges concerning local housing prices, an affordability crisis implies that these issues affect a large number of households. The government performs various activities, including taxation, zoning, subsidies, regulating, lending, and many more at the federal, state, and local levels. For example, the government can control citizens' money from the bank or the market. The presidential candidates' housing proposals for 2020 contain three standard features:

- Eliminating housing cost burdens for low-and middle-income families,
- Removing local regulatory barriers to supply, and
- Mitigating the effects of past racial discrimination.

It cannot be fixed by the market alone. The government has the responsibility for the outrageous price that skyrocketed. Since unbalanced demand and supply pushed up the price of housing, increasing housing sources is the most immediate and effective solution. Scarcity drives the price up. A free society does not permit the government to mandate that more buildings be built. Large contracts are the only way the government can encourage and motivate these construction businesses. Subsidies from the government will play an essential role in this link. The current situation is the seller's market, meaning that the demand exceeds the supply of housing. To score a property, buyers must compete with each other. Thus, the seller may increase the price. In addition, since buyers have to deal with increased interest, they are rarely able to bargain. They are more willing to accept properties as-is. Preapproval for a loan is common among buyers ahead of time. Their financing is available when they have the ideal opportunity to buy a house. Federal funds have generally provided temporary and targeted direct support. In addition to direct stimulus checks given to employers, many companies also received statements made directly to tenants, enabling them to continue paying for their rent and mortgages. Vacancy rates and occupancy rates have both been severely impacted. Despite the broad spike in delinquencies, the rates within lodging and retail have varied significantly. In general, buyers start being patient toward sellers' "indifferent" attitude since bidding wars often result in higher-off offers than the value of the home itself. As a consequence of not having any patience, some buyers will end up making offers for homes that they would not normally consider due to the frustration of losing out.

Many buyers use a housing agent to increase their chances of buying a home. It is beneficial to hire a real estate agent who has experience in both buying and selling homes. Furthermore, it is undoubted that they are familiar with the local community and have strong relationships with other realtors. Although the pandemic disrupts their house-hunting plans, buyers can still check out available houses from the comfort of their homes at their convenience. Some real estate agents are doing virtual tours and limited in-person home tours using social distancing and other precautions to protect buyers, sellers, and agents from potential exposure to the virus. Their websites and YouTube channels feature virtual tours of properties for sale. Buyers can get a realistic view of the property by taking virtual tours or attending virtual open houses. All the details they care about can be viewed by clicking a mouse button. Additionally, they can view a more significant number of homes virtually than would be possible through a real estate agent on a single day.

4. PREDICTIONS ON FUTURE HOUSING MARKET

Due to low-interest rates, hot real estate markets have been seen across the country due to buyers' improved purchasing power. The Federal Reserve intends to keep interest rates low until at least 2022, even as economic outlooks improve. The buyer will thus be able to get a rate of around 3%, which will make them more likely to get a mortgage. It will be efficient to improve the liquidity of the market and currency. Consequently, the demand will keep overwhelming the amount of supply because research from Vastercapital shows Millennials - a generation of more than 72 million people - are making their first foray into the housing market. In contrast, even though few sellers trade their houses because of the high price, the housing supply will not increase a lot because the housing construction cannot be finished in a short time (always for 1.5 years till people can move in). House prices will remain high but decelerate for the next 1-2 years because it is undoubted that these factors will not change enormously. The result will be that the rental market may have become more robust in the last two years. There is such an excessive increase in housing prices that affordability has already dropped and will continue to drop slightly. Rental properties will meet the demand for housing much as they did during the previous housing crisis.

However, the case will flip to another side two years later: the market will be favorable for buyers. As we head into 2022, mortgage rates are expected to increase. In the past few months, mortgage rates have been hovering between low-to-mid-2% for both 30-year and 15-year fixed mortgages, a record low for both. Therefore, these low rates are encouraging an already brisk housing market. A higher mortgage rate would help squelch an already fast housing market. Though mortgage rates and interest rates will inevitably increase, they will still remain favorable for homebuyers, as will inventory in 2 years, with improved financing conditions. Getting outside your home and taking up other activities will reduce the urgency to buy, which means the willingness to buy a house will decrease in most cities. If the money and offered welfare to buy a house will not increase, the housing price will decrease because of the increase in supply and decrease in demand. The market in the metropolis will remain firm and stabilized for the short term because there will not be enough area to increase the housing sources suddenly. However, in most cases, despite the lack of adequate inventory to satisfy demand, the increase in inventory might give buyers hope in the future and possibly give them more buying leverage. It will bring about the consequence that related purchasing ability will maintain high. Increasingly, the market becomes a buyer-friendly type; the trade between buyers and sellers will also become balanced instead of a bidding war.

Homeowners took advantage of the pandemic's work-from-home environment to migrate to the suburbs instead of high-priced city centers. Experts say next year will remain a hot year for suburban real estate, given the number of people working from home. Real estate's new average is creating enormous opportunities against this backdrop. Hundreds of previously unpopular cities and counties have become popular in recent years due to various factors, including their size, location, culture, or sophistication. People are attracted more attention than before to low-density, healthier, wealthier, more mobile areas that offer more access to the outdoors, better hospitals, smaller schools, and more open space.

5. CONCLUSION

This study describes the real estate market changes in the pandemic, presents a range of reactions to the transformation, and forecasts future development regarding current trends. Considering factors such as mortgage rate, interest rate, hesitant mind, and necessity of houses, it is evident that the housing price has increased enormously and will continue to increase with a decelerating speed since there is an overabundance of housing demand compared to supply. Lots of policies are being developed to moderate this unbalanced situation. To lower the cloud-kissing price, the government motivates the construction of new homes, modulates mortgage rates, and adjusting lockdown policies. Based on experts' assertions, the market data suggests that the price problem can be solved in no more than three years due to home buyers' related increased purchasing power. Additionally, there will be the blossoming of suburban housing.

Therefore, people can be aware of what the real estate situation looks like currently as well as how it will change in the future.

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