The Resilience and Realignment of House Prices in the Era of Covid-19

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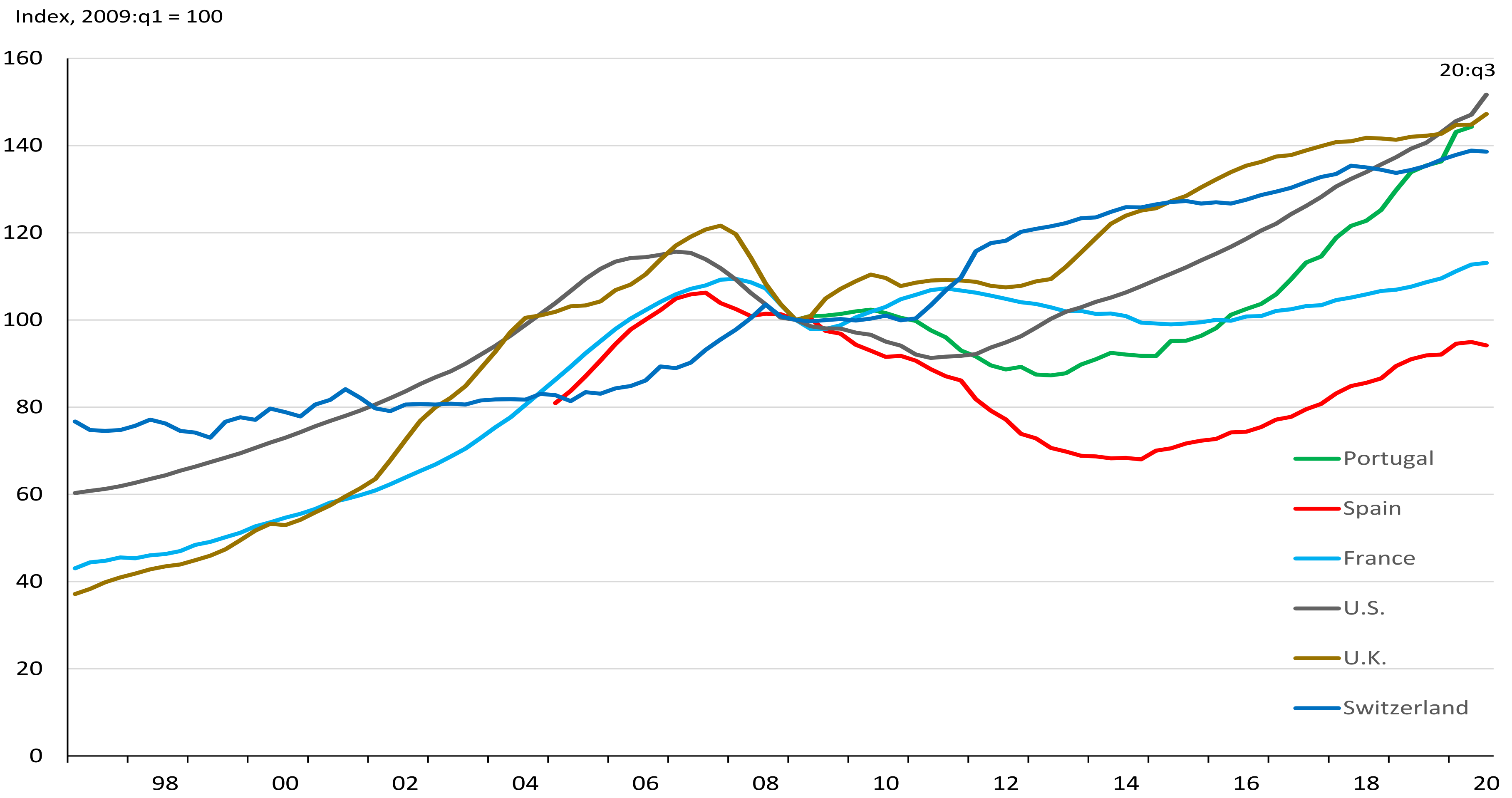
1. Introduction

- Covid-19 pandemic has affected the major drivers of overall housing demand and its composition;
- House prices have been resilient in some countries;
- Negative income effects more than offset by lower interest rates amid inelastic supply in the short-run;
- In other countries, house prices have fallen or house appreciation has notably slowed.

Figure 1: Nominal House Prices Continue to Rise during the Covid-19 Pandemic



Sources: Transactions-based data from FHFA (U.S.), IAZI/CIFI (Switzerland), INE (Portugal and Spain), Nationwide (U.K.), Notaires-Insee (France), and authors' calculations.

1. Introduction (continued)

- Emerging micro-level shifts in house prices and construction are consistent with plausible pandemic effects on housing demand and supply;
- Our paper explores some possible reasons for this: macroeconomic, microeconomic, and behavioral;
- Discussion useful for the housing curriculum.

2. House Price Indexes and Covid-19

- Covid-19 hit Europe and the U.S. in March 2020;
- House price indexes available through 2020q3;
- Index values at least for 2020q2 reflect prices that had been agreed prior to the start of the pandemic;
- Since available index values are based on limited transaction volumes and prices adjust with a lag, caution should be exercised;
- Paramount that indices be constant-quality, especially with limited samples of transactions.

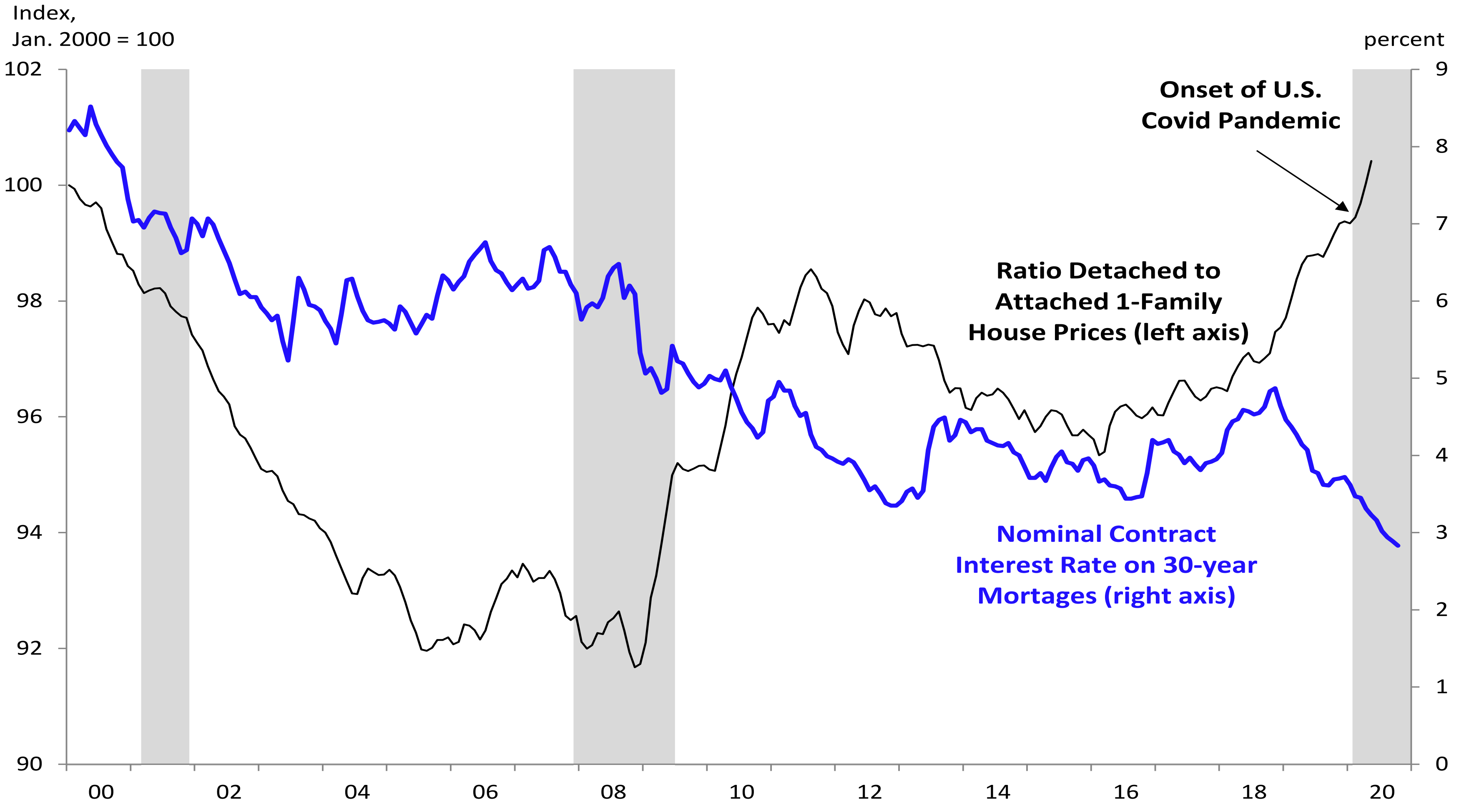
3. Economic Factors

- House prices reflect several factors (e.g., income, interest rates, supply);
- Real disposable income per capita in the U.S. declined by 9% from April to September 2020;
- This should translate into lower house prices, ceteris paribus;
- But much lower interest rates can offset income effects;
- And many countries temporarily protected homeowners from losing their homes and prevented fire sales from lowering house prices;
- Spain or Portugal, for instance, allowed borrowers to suspend their mortgage payments.

3. Economic Factors (continued)

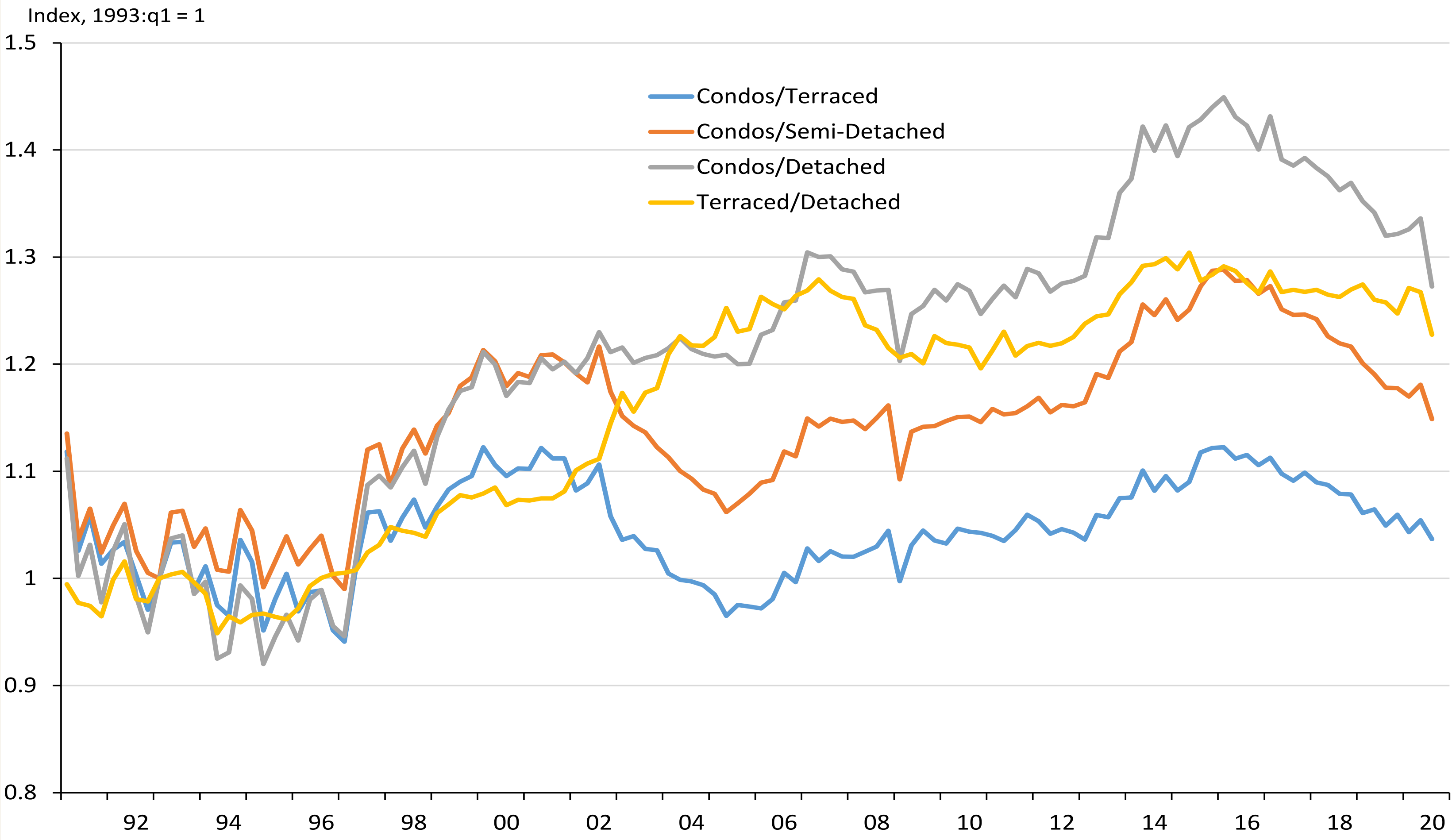
- Many countries adopted robust policies to support jobs and incomes;
- National house price changes can hide disparate dynamics across locations and property types;
- For example, the impact of the crisis across Portuguese cities differed greatly depending on the exposure to international tourism;
- Also, some signs of increased demand for larger dwellings in less condensed areas (e.g., second homes outside of major cities);
- Increased demand for single-family houses and decreased demand for condos. Lower interest rates also favor more land-intensive housing.

Figure 2: Relative Prices of Detached to Attached Single-Family Houses in the U.S. Resume Rising at the Onset of the Covid-19 Recession



Sources: CoreLogic, Freddie Mac, and authors' calculations.

Figure 3: Prices of Less Land-Intensive Relative to More Land-Intensive Homes in the U.K. Fall in the Covid-19 Pandemic

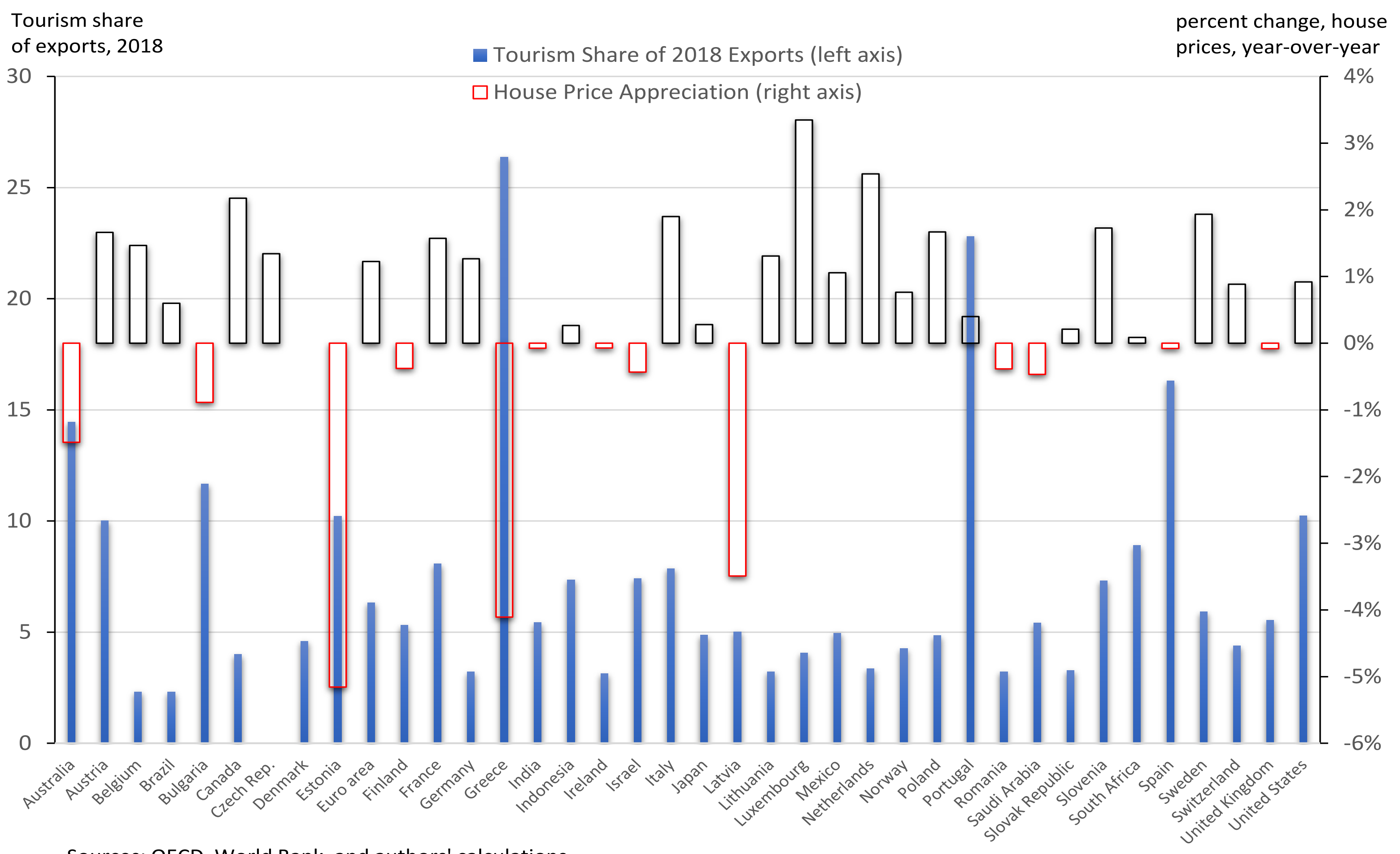


Sources: Nationwide and authors' calculations.

4. Linkages between Tourism and Housing Markets

- Some countries and cities are very exposed to tourism;
- The sector accounts, e.g., for 26% of exports in Greece;
- International tourism arrivals fell 65% during 2020:H1 (UNWTO); house price appreciation (2020:q2) weaker in tourist dependent countries.

Figure 4: House Prices Softer in Tourist-Dependent Countries in the Covid-19 Pandemic



Sources: OECD, World Bank, and authors' calculations.

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- For Portugal, the decline in housing sales was greater in cities with higher tourism intensity (Porto, Lisbon, and Lagos);

Table 1: Relationship between Tourism Intensity and Housing Demand, Evidence from Portugal

	Number Hotel Overnights (per 1,000 inhabitants)	Changes in Housing Sales (Third Quarter/First Quarter 2020)
Porto	21.24	-38%
Lisbon	27.51	-29%
Lagos	46.54	-22%
Coimbra	5.32	-12%
Maia	1.56	-5%
Leiria	2.04	-8%

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- For Portugal, the decline in housing sales was greater in cities with higher tourism intensity (Porto, Lisbon, and Lagos);
- The crisis induced a transfer of a large share of short-term rental properties to the long-term rental market;
- This has raised rental supply and lowered rental prices;
- And reduced the attractiveness of housing investment in tourism cities.

4. Linkages between Tourism and Housing Markets (continued)

- Tourism is not the only industry hurt hard by Covid-19;
- House price appreciation slower in oil exporting countries (Indonesia, Saudi Arabia, Mexico, Norway, and the UK).

5. Behavioral Explanations

- Many view the income declines as transitory, and anticipate a U-shaped or V-shaped recovery;
- Optimistic view bolstered by the low interest rates;
- Many hold the narrative that in the long run housing is a safe investment yielding high returns;
- Hence, investors accept low risk premia on the premise that housing is a good long-run investment.

5. Behavioral Explanations (continued)

- Also seller behavior characterized by loss aversion;
- Sellers not forced to sell wait for better times to sell;
- Pandemic induced declines in demand coincide with lower supply, maintaining house price levels.

6. Conclusion

- House prices have been resilient so far in many places as income effects offset by impacts of lower interest rates and limited supply;
- Also, macro-economies have performed better than the dire economic forecasts made in the spring of 2020;
- Exceptions are real estate markets in countries and regions that depend much on tourism (especially international) and oil exports;
- In addition, there has been a relative upward shift in the demand for detached homes;
- Relatively larger income declines for lower skilled, service workers have hurt rents and also pushed up house prices relative to rents.

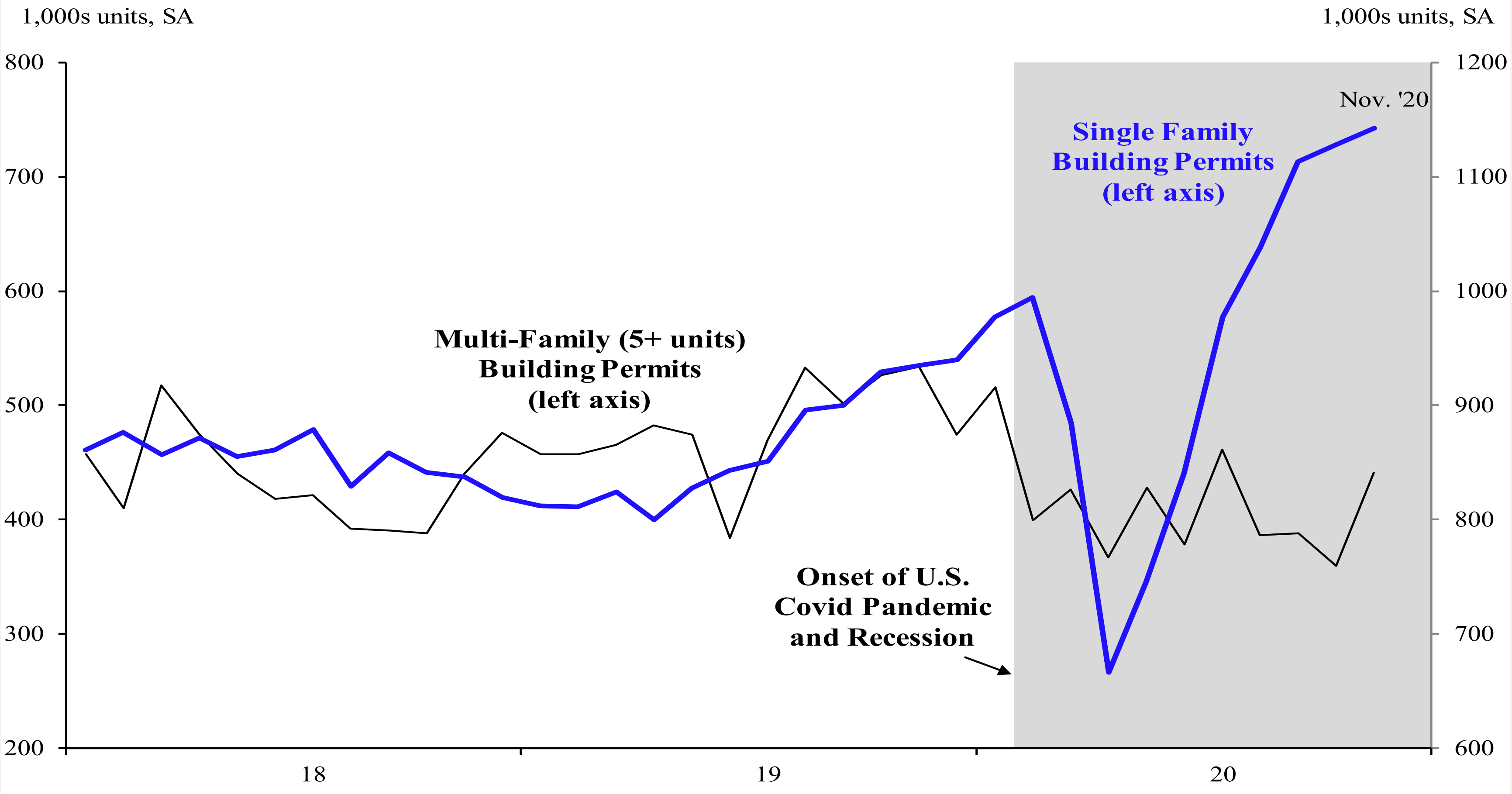
6. Conclusion (continued)

- Hard to predict what will happen in the medium to long term for various reasons;
- Unclear how much longer governments will be able to borrow to support businesses and households;
- Unclear also when and how the second/third waves of the pandemic will be contained and overcome;
- Uncertainty about households’ behavioral response to a rare, major event and the short- versus long-run responses of real estate markets to major shocks;
- These are issues facing both researchers and practitioners.

Many Thanks

Back-Up Slide

U.S. Construction Shifts Toward Single-Family Vs. Multi-Family Units



Source: U.S. Census Bureau. Shaded area denote recssion.