TEXAS A&M UNIVERSITY
Real Estate Center

Anatomy of a Pandemic
Assessing Housing Market Damage and Recovery

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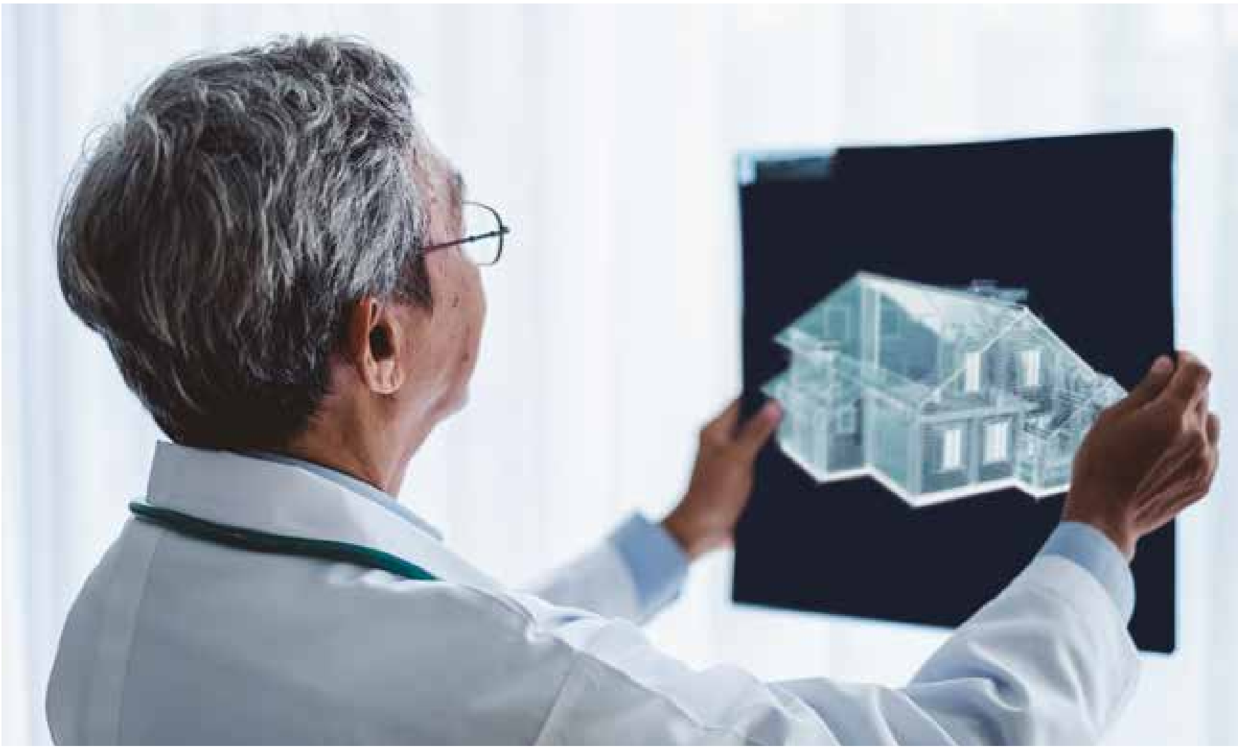
August 31, 2020
Publication 2283



COVID-19 needs no introduction at this point. Its global impact was immediate and devastating. The coronavirus crisis struck with unmatched magnitude, speed, and efficiency, transforming life almost instantly. Society was forced to adjust quickly and readjust often.

Policymakers have been hard-pressed to provide relief while businesses have scrambled to reinvent their business operations. In all the chaos, how did the Texas housing market respond, and what is the immediate outlook?

Knee-Jerk Reaction

Texas real estate activity began to pull back mid-March before the state officially started restricting commerce and gatherings. This was near the time when major events such as Austin's South by Southwest, the Houston Rodeo, and Fiesta San Antonio announced cancellations and postponements.

The Takeaway

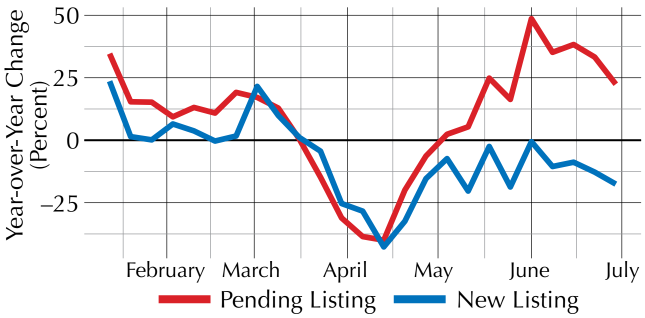
Shelter-in-place restrictions that were put into place in March 2020 had an almost immediate impact on housing markets throughout Texas, particularly in the state's major urban areas. Third-quarter 2020 housing data should shed more light on the extent of the damage and how long recovery will take.

Home sales throughout the state fell some in March, but most of the damage was in new and pending listings (Figure 1). The drop began halfway through the month as many sellers likely had second thoughts about allowing potential buyers into their homes or were unwilling to move to another home after the sale.

So far, overall home prices since March haven't drifted off course with pre-coronavirus trends. In March and April, this might have largely been due to the lag time between when contracts were signed and when home

Figure 1. Texas Weekly Housing Activity, 2020

Seasonally Adjusted Year-over-Year Change



Source: Real Estate Center at Texas A&M University

sales finally closed, giving a final snapshot of prices before the coronavirus.

Unlike in many other states, real estate in Texas was still considered an essential industry and allowed to continue after the virus hit. However, April home sales suffered considerably at a time when sales normally would begin to ramp up for the summer high season. The disruption was caused largely by everyone from real estate agents to title companies scrambling to adjust to the new situation.

Homeowner Havoc

After a tumultuous start to the coronavirus pandemic, Texas homeowners are holding up fairly well. Data from the U.S. Census Bureau's Household Pulse Survey (HPS), a weekly questionnaire, suggest things are not as bad as one might expect—for now.

In general, Texas homeowners have been more optimistic than not about their existing housing situation despite the surrounding chaos. Of those with mortgages, most were confident they would be able to make their upcoming payment, a robust sentiment week after week since the survey began in mid-April. More than half indicated they were "highly confident" they could make their next payment, while almost a quarter percent were "moderately confident" (Figure 2).

What role does mortgage forbearance play in homeowner confidence? Not that much, according to HPS survey results, which consistently reported that less than 5 percent of homeowners with mortgages have indicated requesting any type of mortgage deferment.

Some housing experts suggest that even those with mortgage forbearance might not be in as much trouble as one thinks. According to Windermere Chief Economist Matthew Gardner, 52 percent of homeowners entering forbearance in April still made their next mortgage payment, indicating many homeowners entered forbearance as a precautionary measure.

HPS findings support this defensive repositioning in Texas. According to the mid-June survey, the most frequent actual or planned use of stimulus money by individuals with mortgage forbearance was to pay down consumer debts such as credit cards and student loans. This usage was overwhelmingly ahead of household supplies, food, and telecommunication payments. Additionally, these individuals overwhelmingly reported using their regular pre-pandemic income to pay normal weekly expenses. Unfortunately, answers to HPS questions pertaining to the stimulus usage don't differentiate between actual and planned usage, which means it's hard to tell how many households will follow through with their earlier stated plans. In other words, results may likely vary over time.

Initial homeowner sentiment may have been positive due to cash hording, which likely began involuntarily in March in response to major business disruptions. Personal expenditures plummeted that month because there was either nowhere to buy anything or, in some cases, such as toilet paper and sanitizer, nothing to buy. A month later, the Coronavirus Aid, Relief, and Economic Security (CARES) Act stimulus checks began arriving, and personal savings skyrocketed, dwarfing the previous record set in the mid-1970s (Figure 3). The effect has waned some since April but may return if a second round of stimulus happens.

Figure 2. Texas Payment Confidence within Tenure Group

	No Confidence	Slight Confidence	Moderate Confidence	High Confidence	Payment is/will be deferred
Renters	13%	26%	30%	30%	1%
Homeowners with mortgage	19%	15%	24%	50%	2%

Source: Household Pulse Survey for week ending July 21, 2020

Many homeowners are in income ranges that are less likely to suffer from income loss, according to the HPS. Based on income levels reported on their 2019 taxes, close to 60 percent of homeowners with mortgages have household incomes above $75,000. While they're certainly not immune to income loss, the magnitude of their loss is not nearly as great as that of households making $35,000 or less, a group in which over 60 percent reported some level of income loss since the start of the pandemic. This helps explain the difference in sentiment between renter and homeowner confidence regarding housing payments. Over a third of renters in the survey reported earning less than $25,000 in 2019. This was the income level most affected by job layoffs and furloughs.

What about potential homeowners? Even if their employment is still secure, their ability to buy a home just got a lot harder due, in part, to increased credit requirements for new mortgages. This includes higher credit score requirements as well as more stringent income verification requirements and, in some cases, last-minute employment verification. Additionally, some loan products, such as jumbo loans, were completely taken off the table.

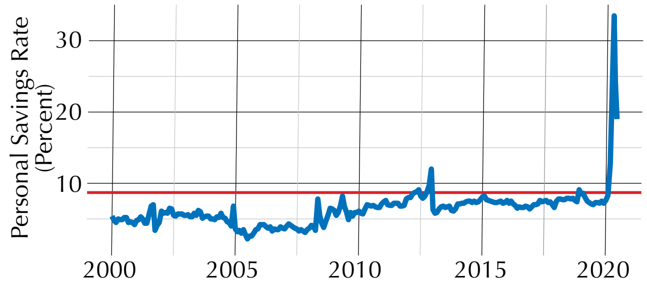
Despite these headwinds, mortgage applications have made a tremendous rebound and hit new heights (Figure 4). While data from the Mortgage Bankers Association don't distinguish between new and experienced homebuyers, the same obstacles apply. The bigger problem for eligible home shoppers is simply finding a home. Home supplies still haven't recovered since March and April. With fewer homes available, choice in some markets is limited.

You Are Now Leaving the City . . . Maybe?

After weeks of shelter-in-place restrictions, thoughts of escape from urban areas were inevitable. In April, rental activity in rural areas began surging. Soon afterward, stories of urban flight emerged from many of the nation's major cities. Much of this talk was accompanied by news about more people working remotely, particularly from tech industry leaders such as Facebook and Twitter. Freedom to work remotely could allow people to live in more affordable markets, relieving them of the burden of expensive urban housing costs.

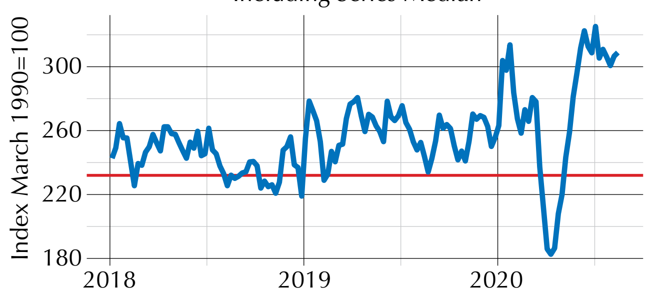
Is urban flight happening in Texas? Possibly, but it's too soon to tell for sure. Accounts of urban flight so far have generally been to nearby suburbs, not necessarily other smaller urban areas. Housing activity in several suburb counties significantly increased after shelter-in-place restrictions were lifted. However, this boost was more

Figure 3. National Personal Savings Rate
Includes Series Median



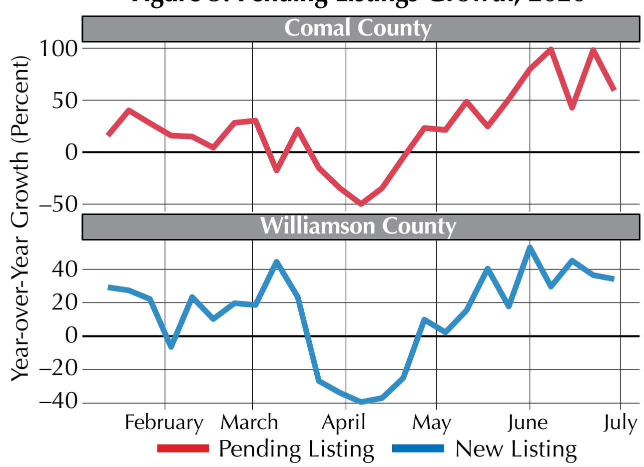
Sources: U.S. Bureau of Economic Analysis and Real Estate Center at Texas A&M University

Figure 4. Purchase Mortgage Loan Application Volume Index, Seasonally Adjusted
Including Series Median



Sources: Mortgage Bankers Association, Haver Analytics, and Real Estate Center at Texas A&M University

Figure 5. Pending Listings Growth, 2020



Source: Real Estate Center at Texas A&M University

likely due to pent-up demand following dismal March and April activity, as well as more attractive home prices.

Popular suburban markets such as Comal and Williamson Counties clearly reveal the familiar ups and downs from the coronavirus. Seasonally adjusted pending listings in these counties grew by at least 40 percent in the weeks after shelter-in-place restrictions were lifted (Figure 5), indicating a big boost in sales ahead. This bounceback was after those counties suffered at least a 40 percent drop in pending listings the month before. In effect, May numbers reflect the market's slow crawl to catch up. The upcoming months will determine if this is a short-term or long-term pattern.

One thing is for certain: home sales in the Big Four metro central counties (counties that include Houston, Dallas-Fort Worth, San Antonio, or Austin) are in worse shape than their surrounding suburb counties. With the exception of Bexar County, year-over-year sales growth in May was down the most in core metro counties, and it was down by at least 20 percent. Fortunately, June turned out to be a better month for positive year-over-year sales almost across the board. Core counties (again, except for Bexar County) still lagged in growth compared with surrounding suburban counties (Figure 6).

The perception of urban flight may have more to do with fewer home listings in these core counties. The supply of new homes entering the market in 2020's summer high season was significantly lower than last year, and this slump occurred everywhere. An inadequate supply of new homes for sale will likely hamper housing recovery. However, recovery could depend on more than just an increase in home listings. The price distribution of homes available for purchase will likely play a key role. This distribution will be particularly important for home affordability, and it may explain why sales growth is stalled in some of the Big Four core counties.

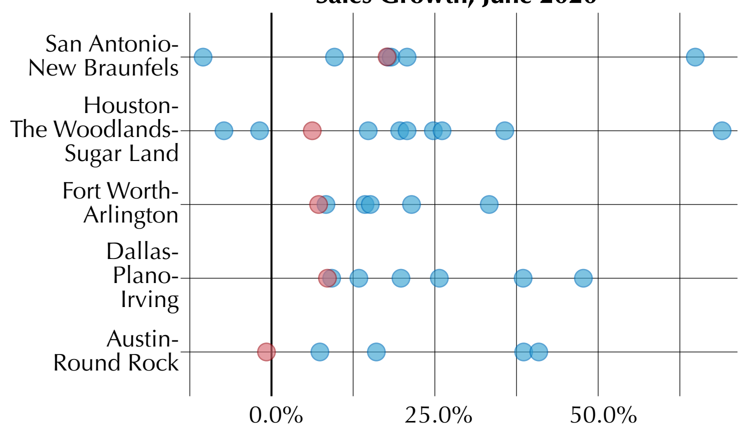
Did the Housing Affordability Problem Just Get Worse?

Home affordability was already an issue before the coronavirus. Whether it has gotten worse depends a lot on where the buyer lives. In Tarrant County, the homes available for purchase in 2020 look about the same as those from 2019. Tarrant County is a major hub for homes in the affordability sweet spot, with a large share of homes priced either in the upper $100,000s or lower $200,000s. Despite the drop in overall listings, the price distribution of homes appears to be essentially untouched with the median list price almost $300,000 both this year and last.

Meanwhile, home affordability in Travis County has worsened. In May, the median list price was $440,000, a $40,000 jump from May 2019 (Figure 7). In June, the gap widened an additional $5,000. The reason is that after shelter-at-home restrictions were lifted, homes priced in the $200,000s and $300,000s were the shortest in supply. The same goes for Collin and Comal Counties, but the magnitude there was far less than in Travis County. Austin's price distribution appears to be the exception, but it provides another example of how the coronavirus has shaken up markets.

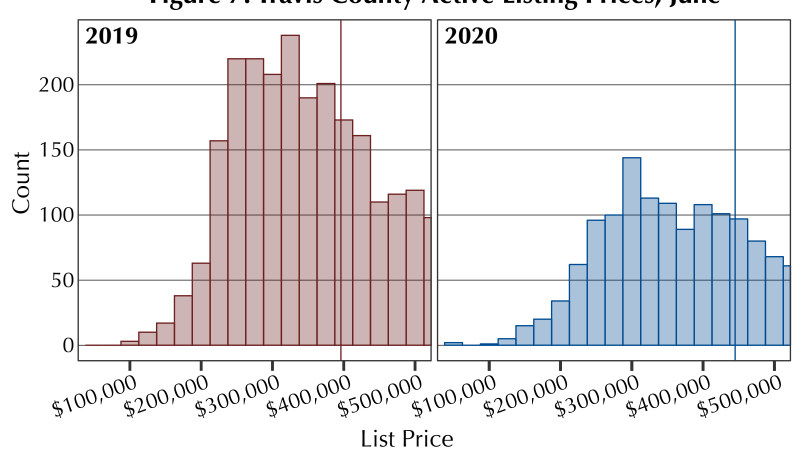
Oddly enough, overall prices could continue to increase like they did before the virus. According to the Real Estate Center's Home Price Index, price growth in many markets, including Dallas-Fort Worth and Houston (Figure 8), doesn't appear to have been disturbed by the

Figure 6. Big Four Texas Metro County Sales Growth, June 2020



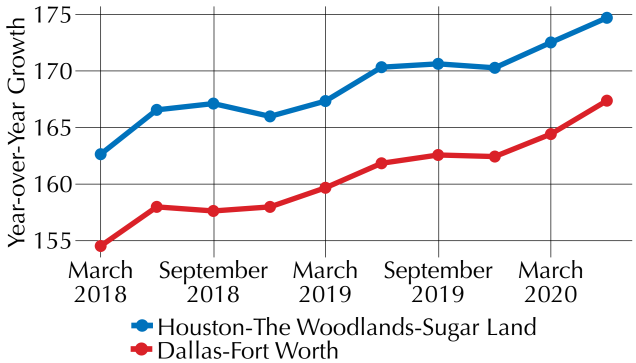
Source: Real Estate Center at Texas A&M University

Figure 7. Travis County Active Listing Prices, June



Source: Real Estate Center at Texas A&M University

Figure 8. Home Price Index Stability



Source: Real Estate Center at Texas A&M University

pandemic. Prices may actually continue to grow provided supply remains constrained and demand remains strong, as indicated by purchase mortgage applications.

More Time, New Insights

The coronavirus has caused major shocks in housing supply and demand. The sobering rate of job loss beginning in late March gave the first signals that a swift "V-shaped" economic recovery would likely be out of reach. In fact, the only realistic expectation is that change will continue.

The virus will probably determine the pace of recovery from this recession. Data such as Texas' pending listings (Figure 1) may show the impact the virus has on the real estate market. Toward the end of June, positive coronavirus cases in Texas began to accelerate. Around the same time, pending listings in Texas took a big spill.

More time is needed for the pandemic's effects on Texas' housing market to materialize. Hopefully, third quarter 2020 will yield new insights.

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