Testing Pandemic Housing Assumptions, Round One

By: Jann Swanson | Wed, Aug 25 2021, 2:32 PM

Early in the pandemic (Version I) there were a lot of theories advanced about its **lasting effects on housing.** Some of the theories were fanciful. These included (true story) that new homes would include covered areas specifically for no-touch delivery of on-line purchases which would, of course, constitute the bulk of our shopping. Multifamily construction would have to include no-touch or self-cleaning surfaces throughout common areas. Private areas for outdoor living would be mandatory

Other projections were based on early observations of housing trends. Among the ones that were most worrisome to many in the industry was the apparent desire to shift away from density. This was seen happening both in an increased demand for detached housing and a perceived exodus from larger cities. The premise was the big cities would see dramatic declines in their populations as growth exploded in smaller cities and rural areas. Vacation meccas could gain the most as workers would be able to work in the areas where they wanted to play. Another, less concerning assumption was increasing homebuyer demand for more living space to accommodate working and schooling at home.

While the COVID-19 crisis is certainly not over, housing stakeholders are beginning to test some of the more reasonable and impactful assumptions about expected changes. Are they transient or representing a shift that could be generational? Perhaps they are merely a case of what behavioral psychologist Daniel Kahneman calls WYSIATI, or "What you see is all there is." "In other words, a cognitive bias in which humans subconsciously draw conclusions solely on immediately available information."

In the last week there have been two reports on the accuracy/durability of a couple of predictions. Morgan Stanley looked at the supposed emptying out of U.S. cities. It was analyzing this from the standpoint of advising investors on city-linked assets such as apartment and office REITS and municipal bonds, but the findings are interesting from the housing vantage point.

The company examined several data points including cell phone usage, and apartment and office rents. Michael Zezas, head of U.S. Morgan Stanley's Public Policy Research said the truth about cities is "more nuanced, and more positive" than media reports might suggest. Overall, 18 percent of consumers have moved since February of last year (12 percent moved permanently). Mobility was highest in higher and lower income brackets.

"Cellphone tracking data show that not all cities lost population, and **many only lost people to neighboring counties**, reflecting the enduring economic viability of those areas." Further, he says, any outmigration may prove temporary. "A common thread among people fleeing cities was that they had the means or the mobility to leave, and that the pandemic was the primary motive. With the pandemic's end in sight, that motive could wane."

Their key finding was that population shifts varied by city, often significantly. They found metro areas falling into one of four categories.

A few cities boomed. They found five, Jacksonville, Florida; Memphis, Phoenix/Mesa, Albuquerque, and Atlanta, that not only maintained population growth through the pandemic, but saw increases in both office and apartment rents. "These cities are more than temporary escapes," says Zezas. "They are growing for strong intrinsic and durable reasons."

There were 21 metro areas that Morgan Stanley considered to be **rebounding**. This group including San Antonio, Charlotte, Tennessee; and Las Vegas, lost population but appear to be recovering according to cellphone and rental data. "People may have left the core of these cities because they had the means to relocate, but either will return or remain residents of periphery communities," Zezas explains.

Steady cities lost population and current signs of recovery are mixed. Zezas says this group of nine cities bears watching as they could easily end up in either of the other three categories. They include Austin, Portland, Oregon; Seattle, and Denver, all of which were booming prior to the pandemic.

The Lagging cities were those that were not growing as fast as others prior to the COVID crises and haven't yet signaled a rebound. Zezas says it's likely no coincidence that the four cities in this bucket-Los Angeles, San Francisco, San Jose, and New York-are among the largest and most expensive U.S. markets.

The Morgan Stanley report adds that, broadly speaking, the pandemic has been positive for housing-related assets. "Low interest rates, strong consumer balance sheets, and positive demographics have driven demand for single-family homes in most major markets. Over $400 billion in purchase-mortgage originations in each of the last two quarter of 2020 was the highest volume of new loans in at least 17 years.

So far, the demand for more living space does not seem to be a myth, although it could indeed be temporary. The National Association of Home Builders (NAHB) says there is recent data showing an impact on new home construction.

NAHB economist Robert Dietz says second quarter 2021 data from the Census Bureau shows median single-family square floor area increased over the first two quarter of this year to 2,297 square feet from 2,265 at the end of 2020. The average rose from 2,473 to 2,540. While these changes are not large, it is a reversal from pre-pandemic trends. Home size declined between 2016 and 2020 as more starter homes were developed.

Dietz says, "Going forward we expect home size to increase again, given a shift in consumer preferences for more space due to the increased use and roles of homes (for work, for study) in the post-Covid-19 environment."

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