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Economics Group

Special Commentary

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Housing Chartbook: November 2020

COVID Sets Off a Race for More Space

The shift to remote work and remote learning has greatly increased the amount of time spent at home, effectively setting off a new space race. Homeowners have been investing more in their homes to better utilize the space they currently have, while households that found themselves with too little space have sought more by either looking for a larger apartment or single-family home. Often that seach has sent households into the suburbs or beyond. Businesses are also increasingly looking to the same geographies to set up satellite operations or relocate outright. The implications for the housing market will stretch out well beyond the pandemic and will play a major role in shaping the economic environment for the entire decade.

Early on in the pandemic, we noted that recessions triggered by exogenous shocks tend to accelerate shifts that were already under way. Nowhere is this more true than the housing market, where a shift from rental housing toward homeownership was already under way toward the end of the last decade. Homeownership is rising fastest among the young, reflecting the rising number of Millennials reaching major lifetime milestones such as marriage and having children. COVID has likely acceleated the timetable for buying a first home. Families want more indoor and outdoor space. This past summer's wave of urban unrest has further accelerated the move by the leading edge of Millenials away from city centers, as safety and political stability have also become concerns. We do not believe the urban renaissance of the past decade has ended, but a clear shift has occurred that appears to have long-lasting repercussions.

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The increased preference for homeownership is evident in a variety of indicators, but two are notable standouts: homebuilder confidence and the homeownership rate. The National Association of Homebuilders/Wells Fargo Homebuilders Index has successively hit new all-time highs in each of the past three months and surged to 90 in November. Builders' assessment of current sales also jumped to an all-time high of 96. Builder optimism is highest in the West and South, which combined account for 80% of single-family starts, but is solidly higher year-over-year in all regions.

Figure 1

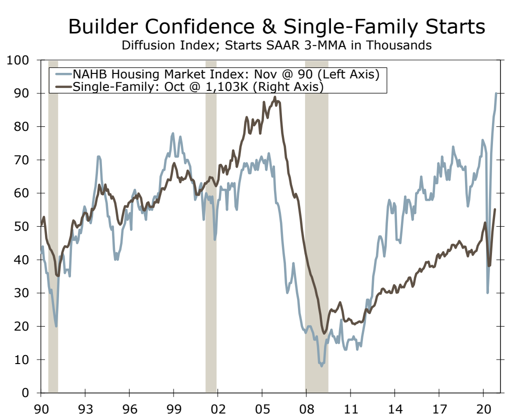
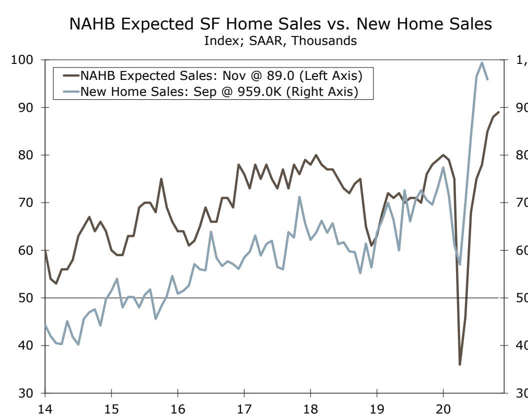


Figure 2



Source: U.S. Department of Commerce, NAHB and Wells Fargo Securities

There Has Been a Clear Shift in Preferences toward Homeownership

The second data point that highlights the shift toward homeownership is the latest quarterly data from the quarterly Census Residential Vacancies and Homeownership survey. The homeownership rate spiked 2.6 percentage points in the second quarter to 67.9%. The spike was largely thought to be a statistical anomaly due to problems conducting the survey during the onset of the pandemic. Restrictions surrounding COVID prevented interviewers from making in-person visits, and many households temporarily (or possibly permanently) vacated residences and could not be reached by telephone. The homeownership rate did not fall back much during the subsequent quarter, however, slipping just 0.5 percentage points to 67.4% in Q3, even though the survey used to put the series together effectively returned to normal in September.

Homeownership has likely increased, but perhaps not as dramatically as has been reported in the last two quartely surveys.

Given the magnitude of the moves in major components of the homeownership rate and vacancy survey, we would caution against drawing too many conclusions from the data reported for the past two quarters. The data should not be entirely ignored, however, as they tend to confirm what we are hearing anecdotally and seeing in regional data and surveys. The underlying trends within the national quarterly survey appear to be accurate. The homeownership rate has likely increased, but perhaps not as dramatically as has been reported in the last two quartely surveys. Moreover, homeownership has turned up sharply for every demographic and age cohort and in all geographic regions, while the number of renter households appears to have declined substantially. The data are undoubtedly skewed by temporary factors, such as the large number of renters that have abandoned high priced urban apartments and moved back in with parents or other relatives, where they can work remotely and have more living space.

Another significant change picked up over the past two quarters has been the substantial drop in the number of vacant homes held off the market (-20% year-over-year) and vacant homes for seasonal use (-8%). The drops coincide with a widely reported upswing in the number of people working remotely, initially via long-term rentals and more recently in homes purchased. Recent data from Zillow show demand for homes has picked up in many popular vacation and second home markets, including Cape Cod, Park City, the Jersey Shore and Naples. Mountain destinations have also been popular throughout the West, as well as Georgia, the Carolinas and Virginia.

We have raised our forecast for new and existing homes and housing sales, given the continued strength we have seen in sales deep into this fall. While the resurgence in COVID cases may lead to another round of partial shutdowns, the most impacted industries are likely to be restaurants, bars and entertainment venues, impacting renters more than homebuyers. We do not expect to see another comprehensive lockdown, although it remains a risk. Residential construction should largely continue, particularly with so much activity now shifting to parts of the South and West, where building activity can continue throughout the winter months. Home sales should also be only nominally affected by the resurgence in infections, as social distancing regulations will add more fuel to the race for more living space. Home prices will likely continue to climb, as the supply of homes for sale remains tight. We have raised our estimates for price gains over the forecast period.

Figure 3

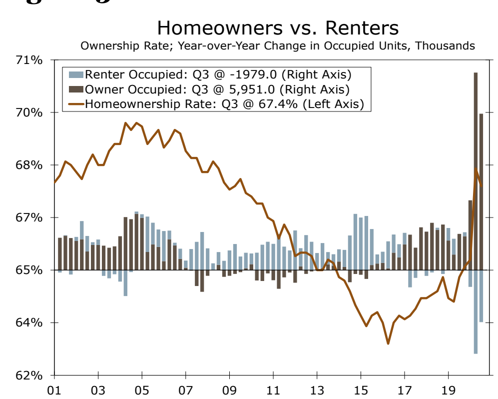
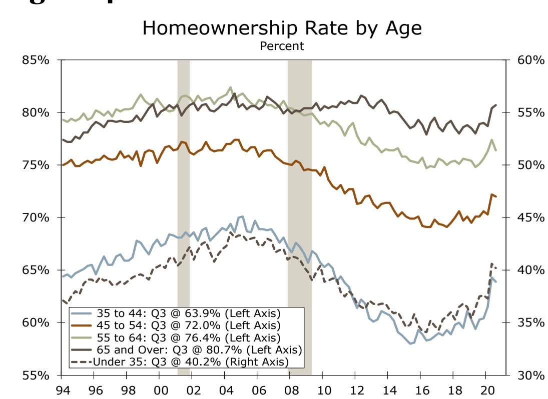


Figure 4



Source: U.S. Department of Commerce and Wells Fargo Securities

National Housing Outlook

								Forecast		
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP, Percent Change	1.8	2.5	2.9	1.6	2.4	2.9	2.3	-3.5	4.2	2.8
Residential Investment, Percent Change	12.4	3.8	10.2	6.5	3.5	-1.5	-1.5	4.7	10.5	6.7
Nonfarm Payroll Change (Avg. Monthly)	192	250	227	195	176	193	178	-715	333	235
Unemployment Rate	7.4	6.2	5.3	4.9	4.3	3.9	3.7	8.1	6.3	5.2
Home Construction										
Total Housing Starts, in Thousands	924.9	1,003.3	1,111.9	1,173.7	1,202.9	1,249.9	1,290.0	1,360.0	1,410.0	1,460.0
Single-Family Starts, in Thousands	617.7	647.8	714.6	781.5	848.9	875.8	887.7	950.0	1020.0	1070.0
Multifamily Starts, in Thousands	307.2	355.5	397.3	392.2	354.0	374.2	402.3	410.0	390.0	390.0
Home Sales										
New & Existing Home Sales, in Thousands	5,516	5,374	5,755	6,013	6,124	5,960	6,026	6,350	6,680	6,920
New Home Sales, Single-Family, in Thousands	429	439	501	561	613	617	682	830	960	1,020
Total Existing Home Sales, in Thousands	5,087	4,935	5,254	5,452	5,511	5,343	5,344	5,520	5,720	5,900
Existing Single-Family Home Sales, in Thousands	4,484	4,344	4,646	4,838	4,892	4,742	4,765	4,932	5,120	5,280
Existing Condominium & Co-op, in Thousands	603	591	608	614	619	601	579	588	600	620
Manufactured Homes										
Total Shipments, in Thousands	60.2	64.3	70.5	81.1	92.9	96.6	94.6	94.2	96.3	98.6
Percent Change	9.7	6.8	9.7	15.0	14.5	3.9	-2.0	-0.5	2.3	2.4
Home Prices										
Median New Home, $ Thousands	268.9	288.5	294.2	307.8	323.1	326.4	321.5	327.5	338.0	351.0
Percent Change	9.7	7.3	2.0	4.6	5.0	1.0	-1.5	1.9	3.2	3.8
Median Existing Home, $ Thousands	197.1	208.3	222.4	233.8	247.2	259.3	271.9	291.5	314.8	335.1
Percent Change	11.5	5.7	6.8	5.1	5.7	4.9	4.9	7.2	8.0	6.4
FHFA Purchase Only Index, Percent Change	7.0	5.0	5.3	5.8	6.4	6.5	5.3	5.7	5.8	5.4
S&P Case-Shiller C-10 Home Price Index, Percent Change	11.7	7.9	4.6	4.5	5.3	5.4	2.3	2.4	2.8	3.5
Interest Rates - Annual Averages										
Federal Funds Target Rate	0.25	0.25	0.27	0.52	1.13	1.96	2.25	0.25	0.25	0.25
Prime Rate	3.25	3.25	3.27	3.52	4.13	4.96	5.25	3.25	3.25	3.25
10-Year Treasury Note	2.35	2.54	2.14	1.84	2.33	2.91	2.14	0.73	1.15	1.43
Conventional 30-Year Fixed Rate, Commitment Rate	3.98	4.17	3.85	3.65	3.99	4.54	3.94	3.08	2.89	3.13

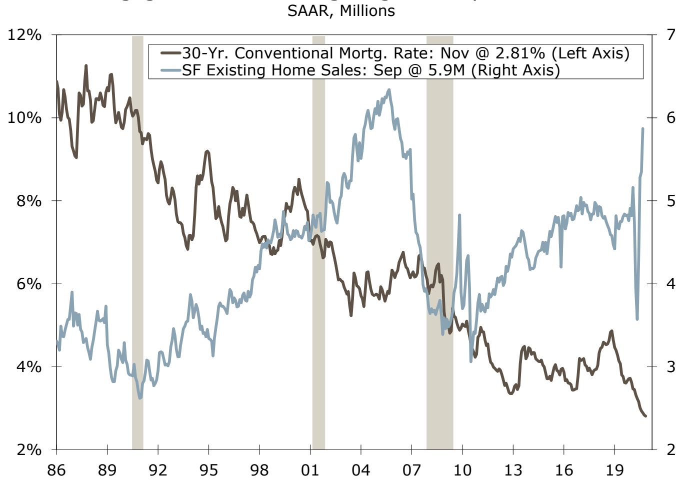
Forecast as of: November 16, 2020

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, FRB, FHFA, FHLMC, National Association of Realtors, S&P and Wells Fargo Securities

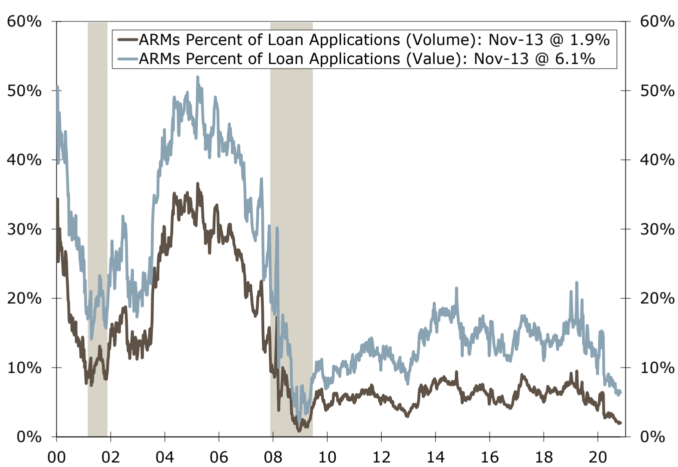
Mortgages

- Mortgage applications for purchase have declined from the heights reached earlier this summer. That said, purchase applications are still up nearly 19% over the year for the week ending November 13. Refinancing applications are up 78% over the year.
- Mortgage rates continue to reach new lows. Conventional 30-year rates fell to 2.83% in October. News of an effective vaccine sent Treasury yields higher, which may ultimately lead to slightly higher mortgage rates in coming months.
- Banks reported tightened lending standards across all residential real estate loans in Q3. The bulk of mortgage originations since the onset of the COVID crisis has been among buyers with higher credit scores.

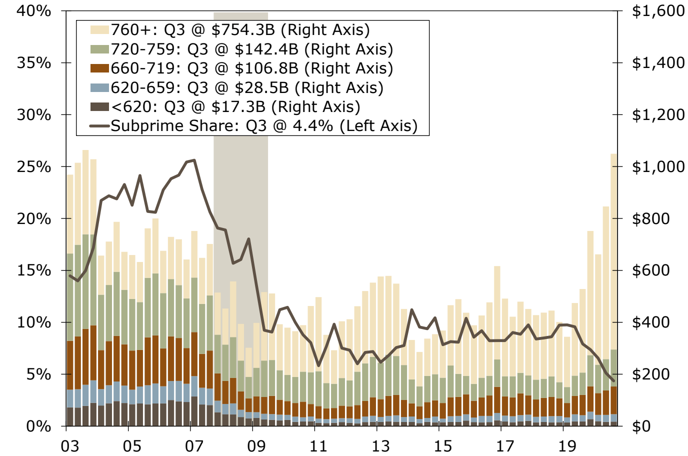
Mortgage Rate vs. Existing Single-Family Home Sales
SAAR, Millions



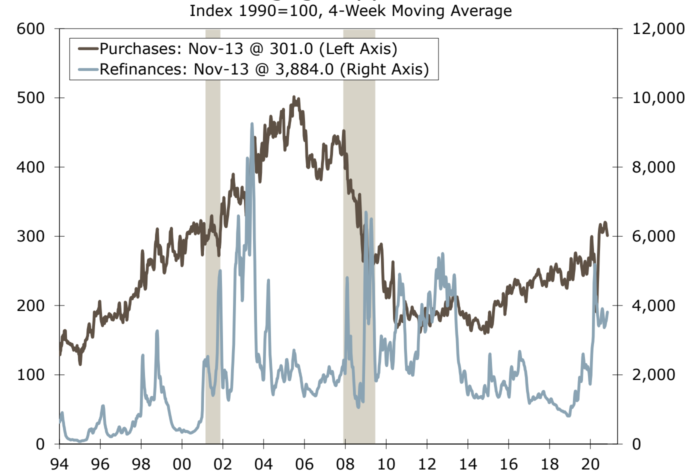
Adjustable Rate Mortgage Applications



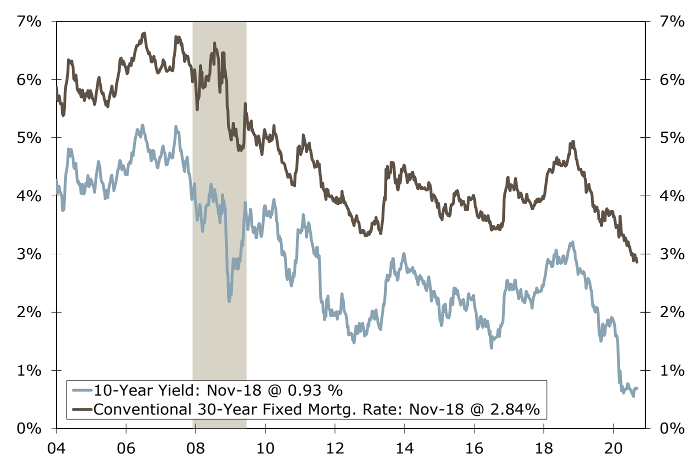
Mortgage Origination by Credit Score
Percent of Total Originations; Billions of Dollars



Mortgage Applications
Index 1990=100, 4-Week Moving Average



Conventional Mortgage Rate vs. 10-Year Treasury Yield

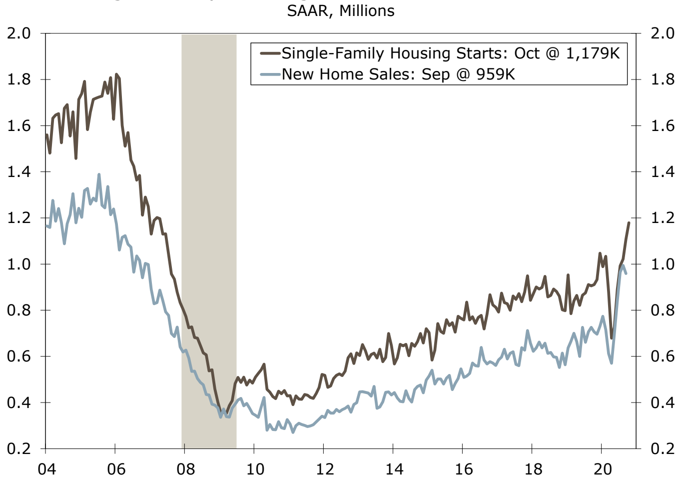


Source: MBA, Federal Reserve System, U.S. Department of Commerce and Wells Fargo Securities

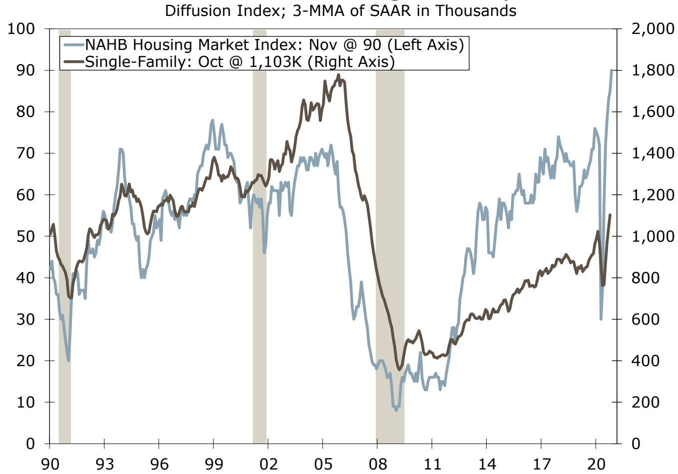
Single-Family Construction

- Single-family construction is steadily gaining momentum. Starts rose for the sixth consecutive month in October, jumping 6.4% to a 1.179-million unit pace.
- Homebuilder confidence ascended to a record high of 90 in November. The ongoing shift away from apartment dwelling to more livable space has induced soaring demand for homes which has boosted confidence well above pre-pandemic levels. Builders reported solid increases in present and future single-family home sales.
- Single-family building permits inched up 0.6% in October to a 1.12-million unit pace. Permits are below starts, suggesting that starts may moderate amidst a continuing shortage of lots and high lumber prices.

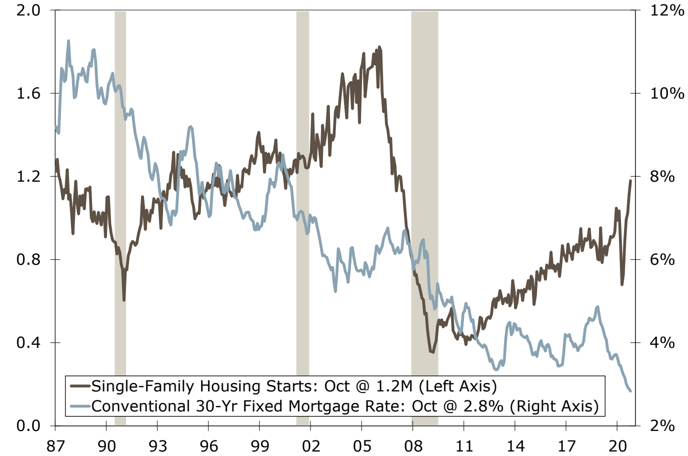
Single-Family Housing Starts vs. New Home Sales
SAAR, Millions



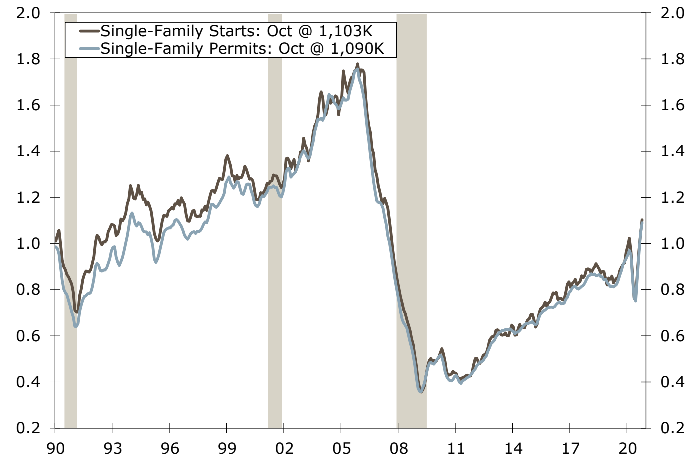
Builder Confidence & Single-Family Starts
Diffusion Index; 3-MMA of SAAR in Thousands



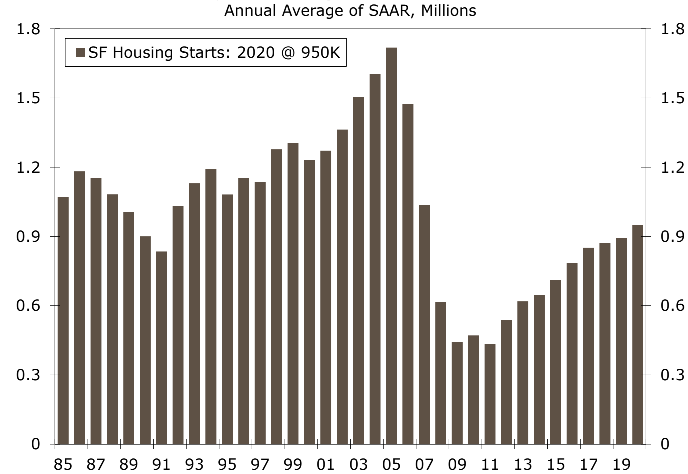
Single-Family Housing Starts vs. Mortgage Rate
SAAR, Millions



Single-Family Housing Starts vs. Building Permits
SAAR, Millions, 3-Month Moving Average



Single-Family Housing Starts
Annual Average of SAAR, Millions

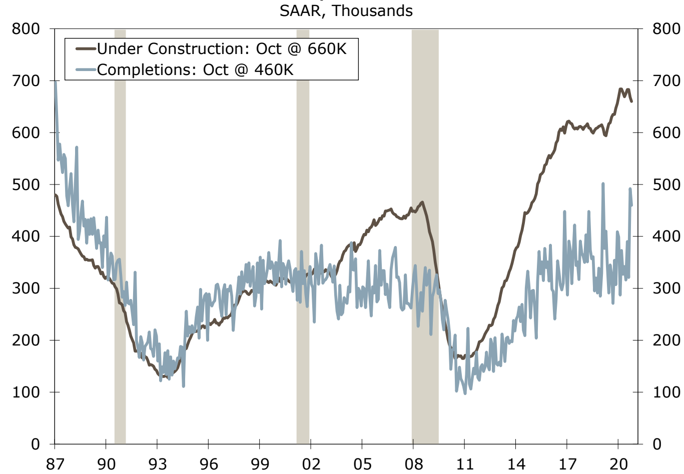


Source: U.S. Department of Commerce, NAHB and Wells Fargo Securities

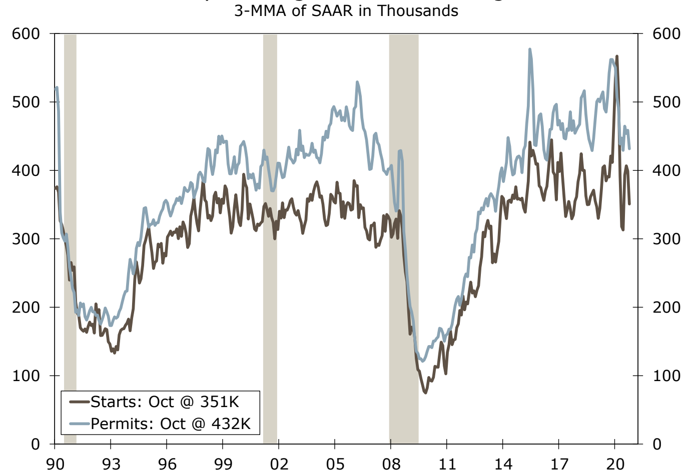
Multifamily Construction

- Multifamily starts were unchanged in October at a 351,000-unit pace. Caution is growing around multifamily development, as renters continue to flee urban areas to trade up for more space. Even though new apartment construction appears to be softening, a barrage of new units are set to be delivered next year, predominantly in urban areas.
- Multifamily permits fell 1.6% in October, marking its third consecutive drop. Year-to-date, permits are down 3.7%. Apartment construction appears to be pivoting toward the suburbs, where renters can get a little more space. Although trending lower, the overall level of multifamily starts should hold up fairly well for the year as whole, and we look for healthy levels of apartment building in coming years.

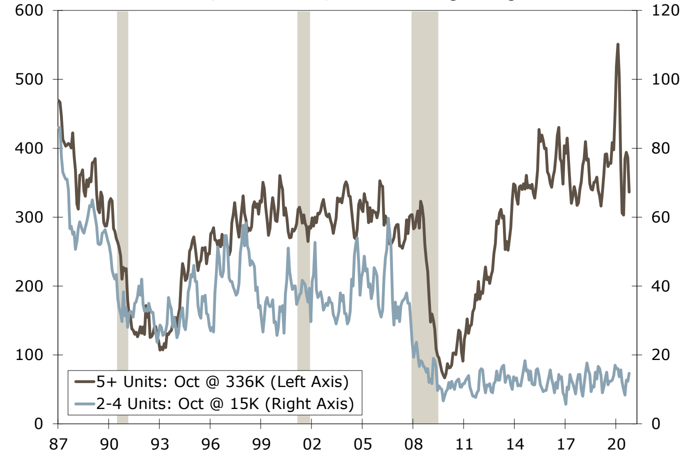
Multifamily Construction
SAAR, Thousands



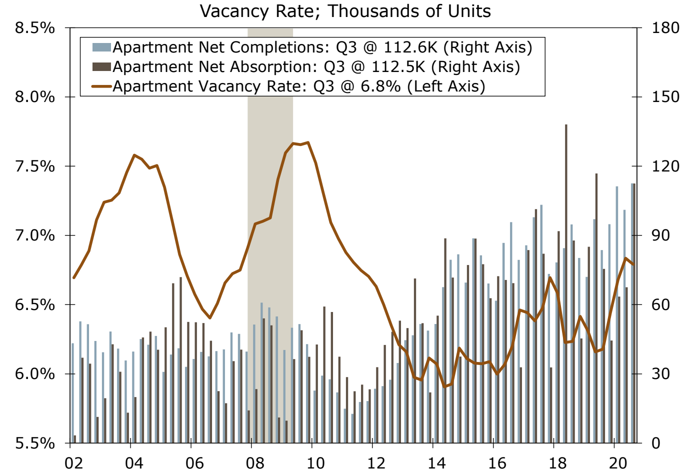
Multifamily Housing Starts vs. Building Permits
3-MMA of SAAR in Thousands



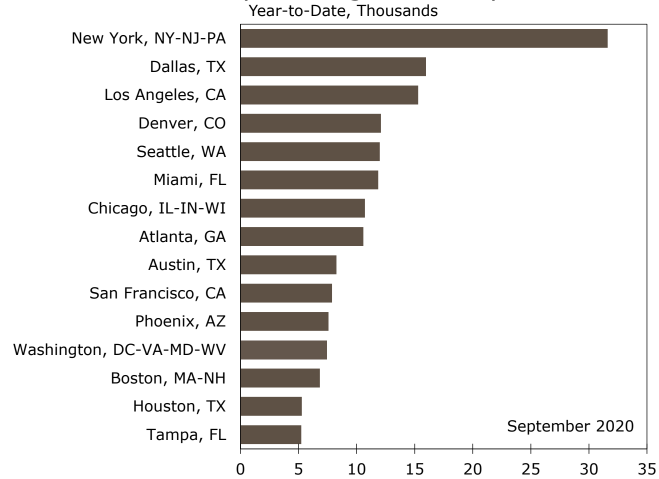
Multifamily Housing Starts
SAAR, In Thousands, 3-Month Moving Average



Apartment Supply & Demand
Vacancy Rate; Thousands of Units



Multifamily Housing Permits by MSA
Year-to-Date, Thousands

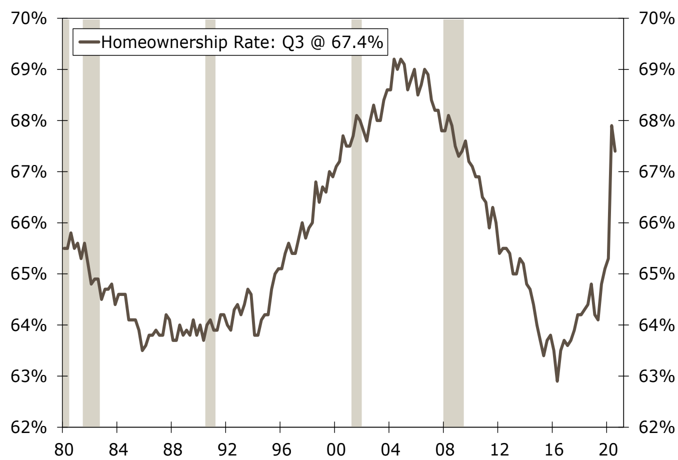


Source: U.S. Department of Commerce, CoStar Inc. and Wells Fargo Securities

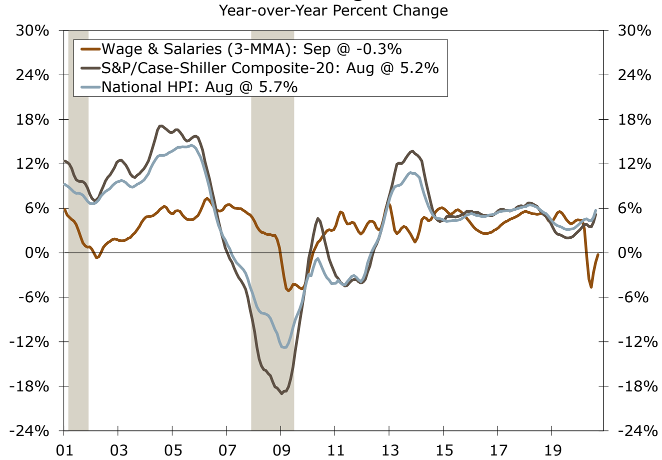
Buying Conditions

- A major share of banks reported stronger demand for mortgages in Q3, even as lending standards tightened. The latest sentiment data from Fannie Mae and the University of Michigan note that consumers feel that now is a good time to buy a home. Both surveys also reported growing optimism in favorable mortgage rate expectations.
- The homeownership rate ticked down 0.5% in the third quarter, coming off of a 2.6% surge in Q2. Buyer demand has clearly risen over the past few months, but the dramatic upswing in the homeownership rate is probably exaggerated.
- Housing affordability remains an issue. NAR's housing affordability index has steadily fallen as home prices are rising faster than household income.

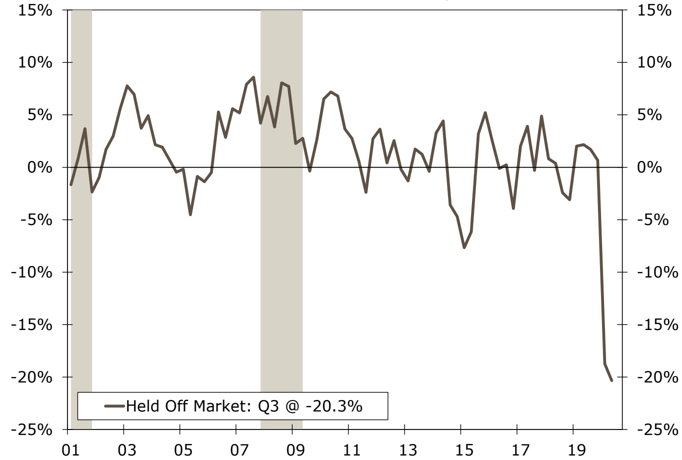
U.S. Homeownership Rate



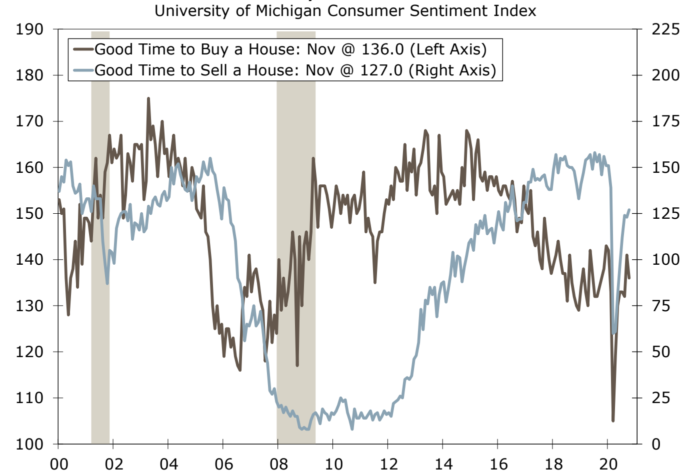
Home Prices vs. Wages and Salaries
Year-over-Year Percent Change



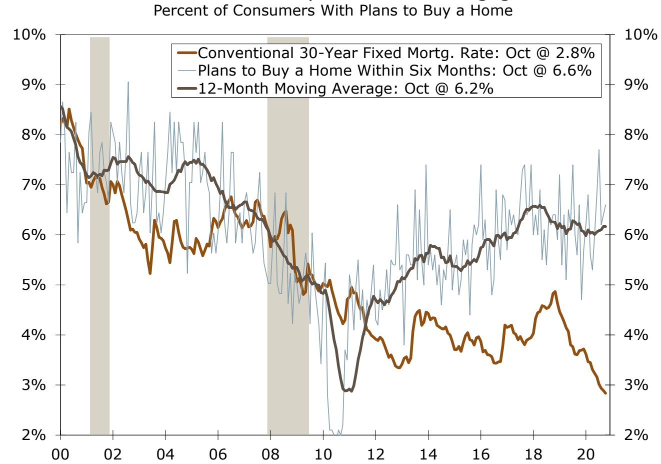
Vacant Homes Held Off Market
Year-over-Year Percent Change



Good Time to Buy vs. Good Time to Sell
University of Michigan Consumer Sentiment Index



Confidence: Plans to Buy a Home vs. Mortgage Rates
Percent of Consumers With Plans to Buy a Home

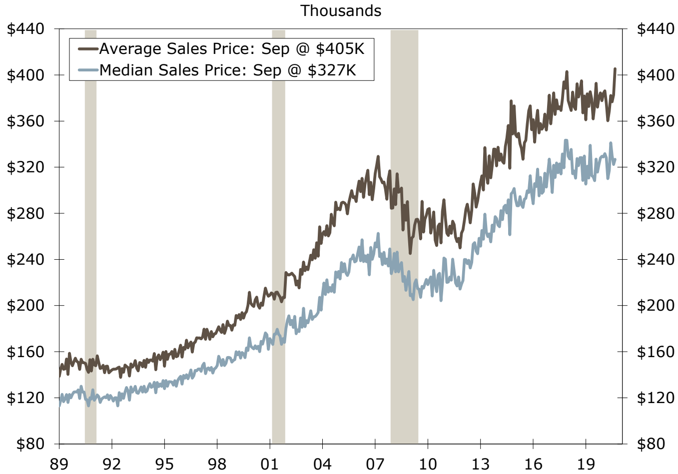


Source: University of Michigan, National Association of Realtors, The Conference Board, S&P, CoreLogic, Fannie Mae, U.S. Dept. of Commerce and Wells Fargo Securities

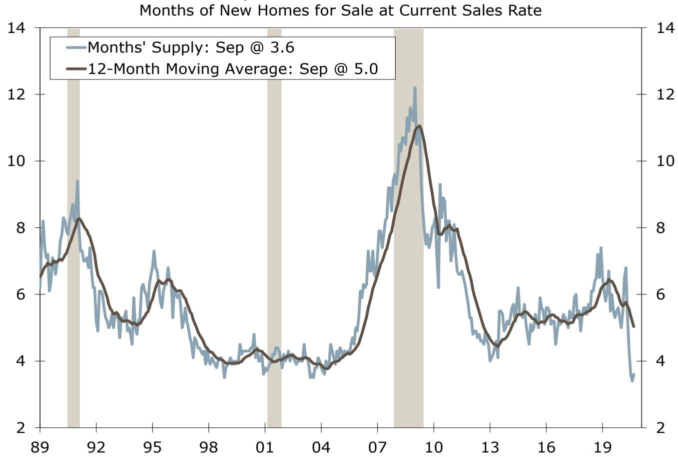
New Home Sales

- New home sales fell slightly in September, although the decline follows several months of robust gains. The upward trend will be hard to sustain as demand starts to brush-up against supply constraints.
- Homebuilders are selling homes faster than they can build them. The recent upswing in home prices were likely driven by limited inventories. Inventories have averaged just a 3.5-month supply over the past three months, down from a 5.6-month average for the same period a year ago.
- Sales are strong in the South and West. Both regions are benefitting from an affordability migration away from densely populated, higher-cost areas. Notably, we are seeing sales pick up in more distant suburbs around several West Coast cities.

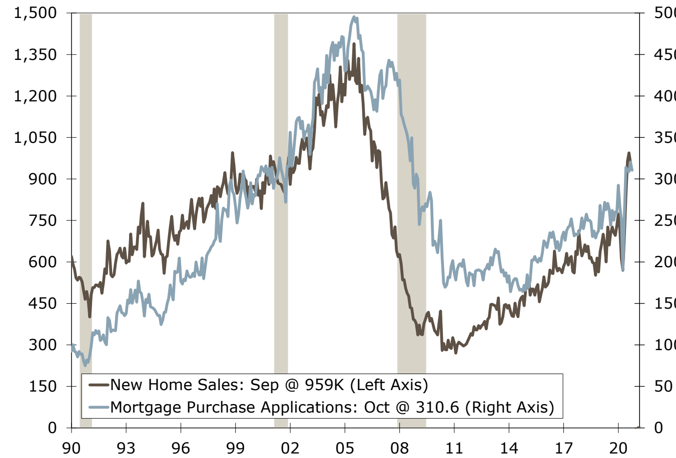
New Home Sale Price
Thousands



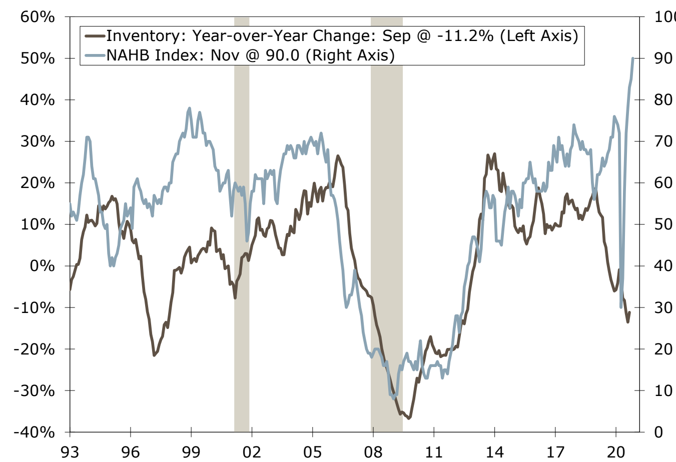
Inventory of New Homes for Sale
Months of New Homes for Sale at Current Sales Rate



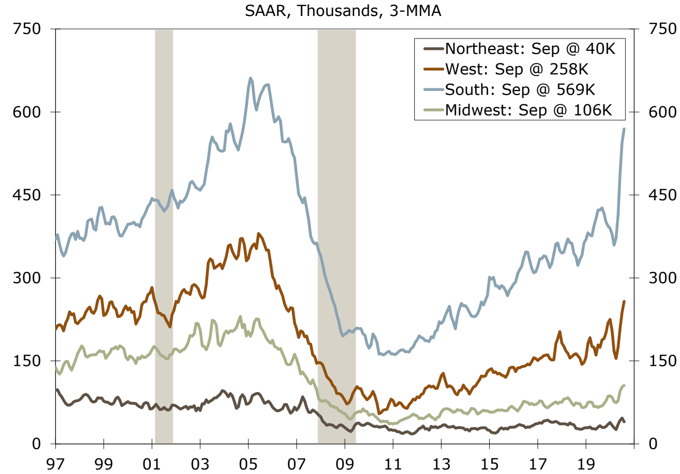
New Home Sales vs. Mortgage Purchase Applications
SAAR, Thousands; Index 1990=100



Inventory Growth vs. NAHB Housing Market Index



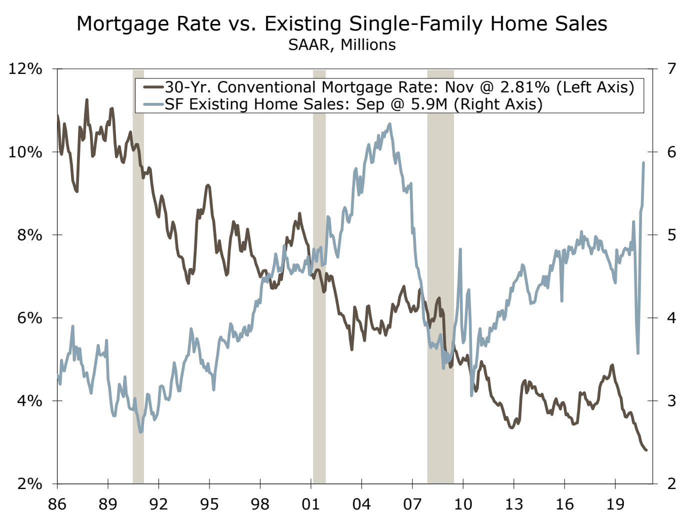
New Home Sales
SAAR, Thousands, 3-MMA

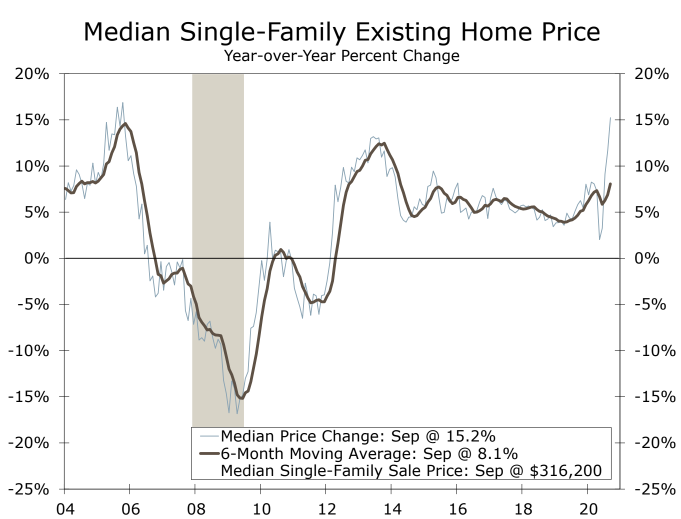


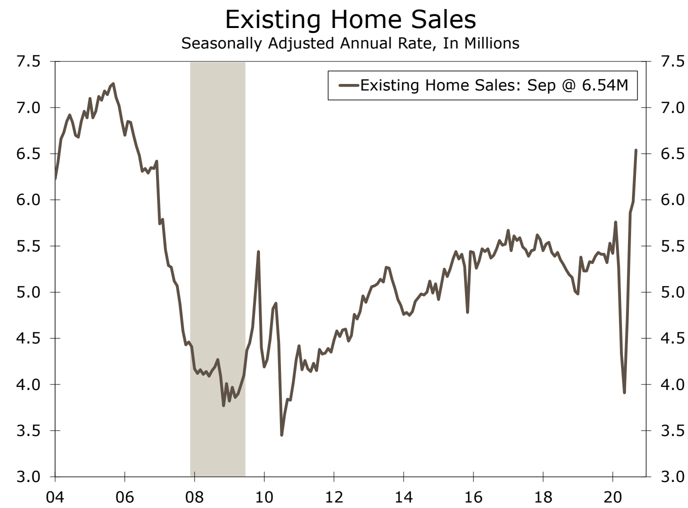
Source: U.S. Department of Commerce, Freddie Mac, NAHB and Wells Fargo Securities

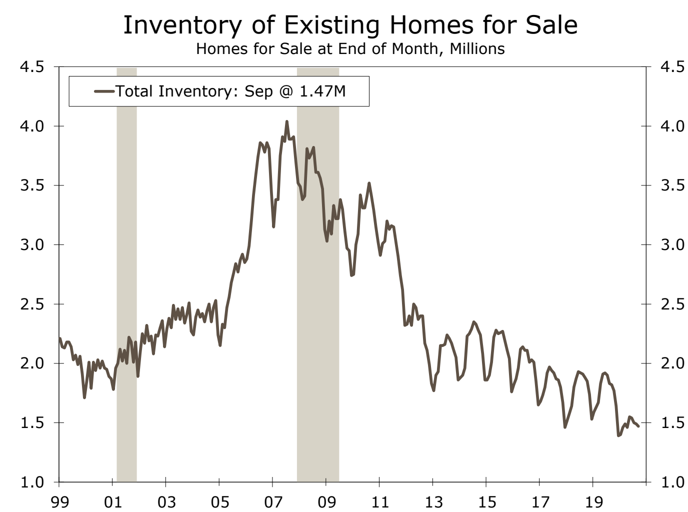
Existing Home Sales

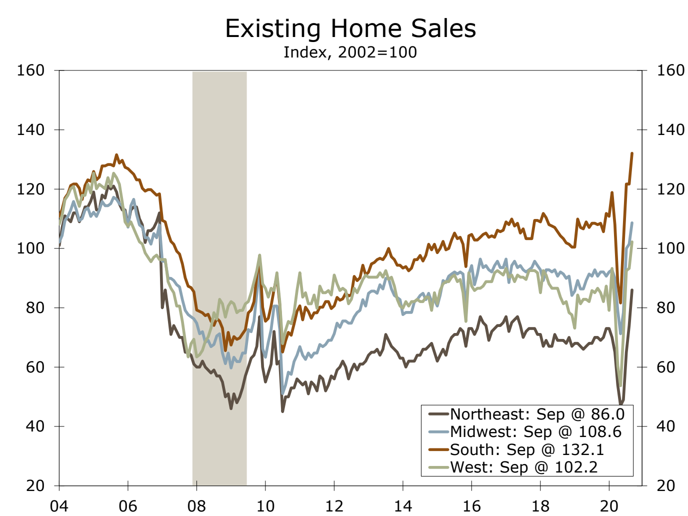
- Existing home sales rose 9.4% in September to a 6.54-million unit pace, marking the strongest pace since May 2006. Low mortgage rates and the desire for more space have driven the upturn in sales.
- Lean inventories may be limiting even stronger gains. There were only 1.47-million homes for sale at the end of September, down 19.2% from last year. In combination with strong demand, homes are selling quickly and prices have risen sharply. The median price for homes sold jumped 14.8% over the past year to $311,800.
- We expect sales to remain strong in October, as demand for homes is still benefitting from remote working and virtual schooling. Increasingly limited supply and curtailed housing affordability, however, may serve to rein in sales in the coming months.







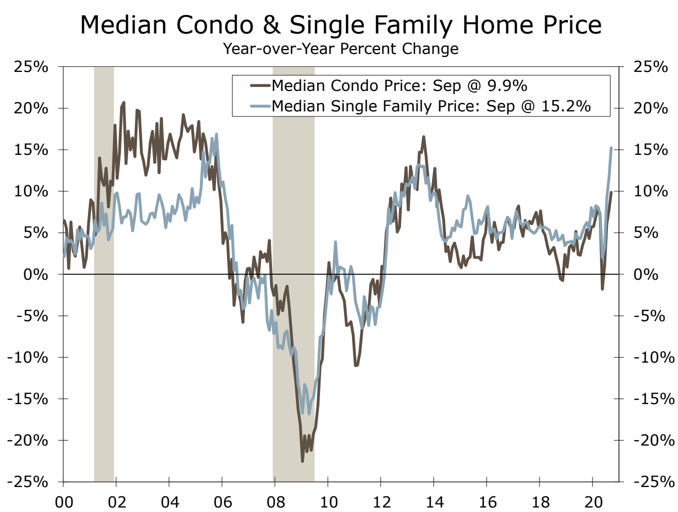


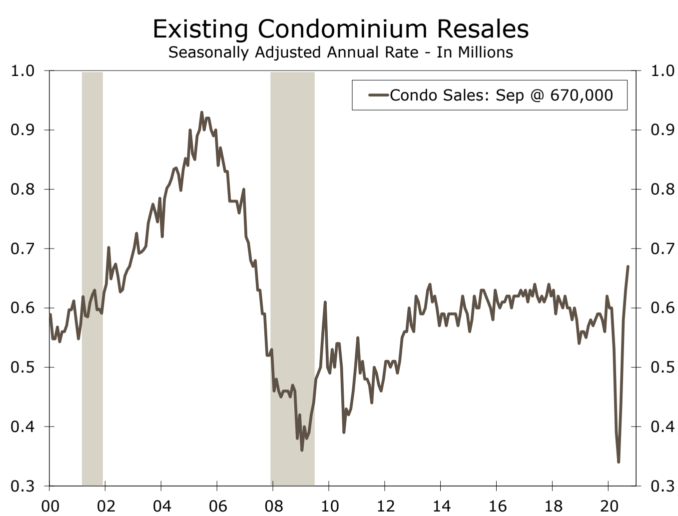


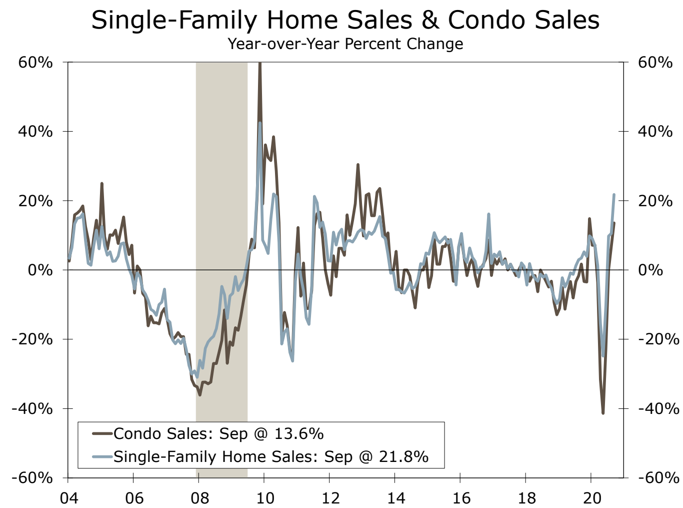
Source: National Association of Realtors, Freddie Mac and Wells Fargo Securities

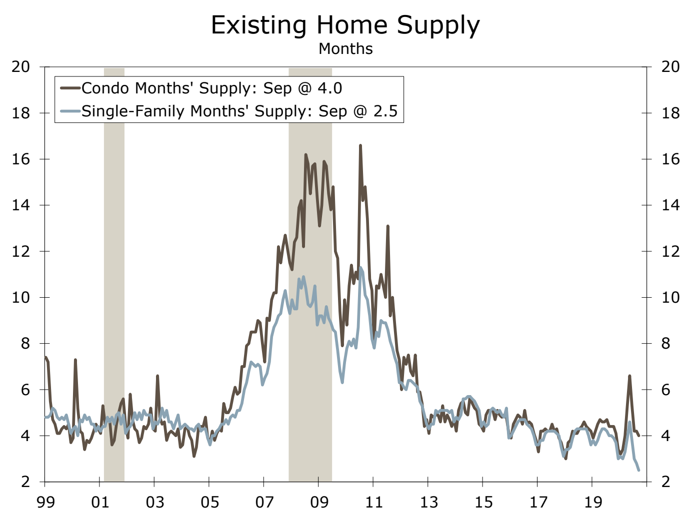
Condos and Co-Ops

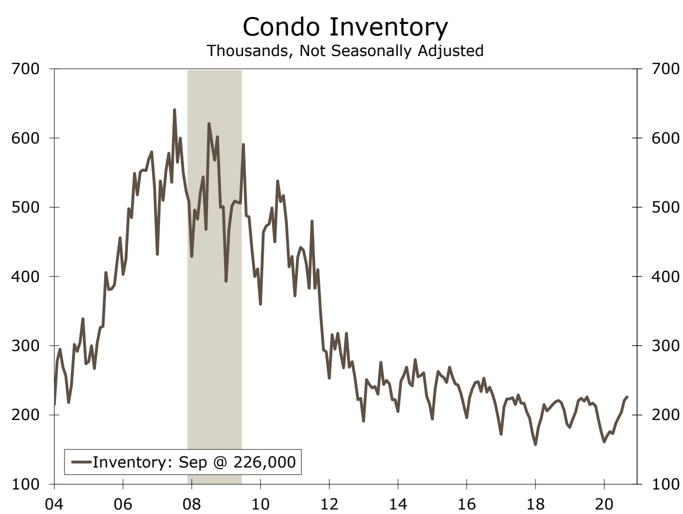
- The revival in home buying in areas around major metros such as New York, Boston and Los Angeles has likely driven the resurgence in sales of condos and co-ops. Condo sales rose 13.6% over the year in September, coming in at a 670,000-unit annual rate.
- Stronger demand has begun to pull prices higher. The median price for existing condos and co-ops was $272,700 in September, nearly 10% higher than its level a year ago.
- Diminished single-family affordability could be pushing more potential buyers toward condominiums. Lower-cost areas in the South and West that have considerable inventories may continue to benefit from the current migration away from higher-cost areas of the country.







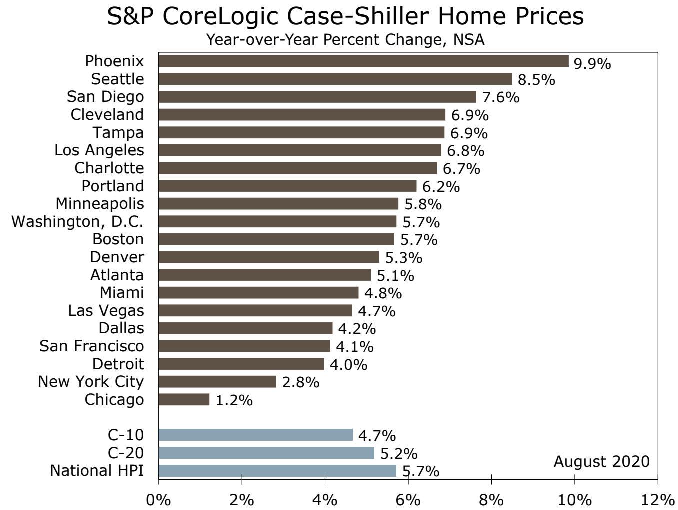


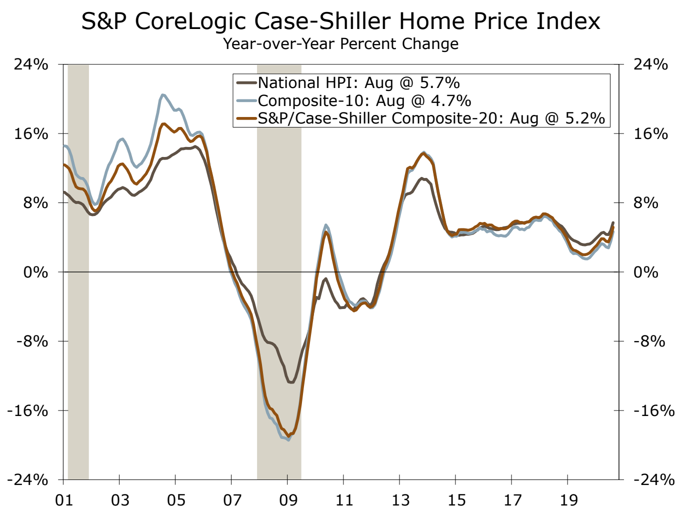


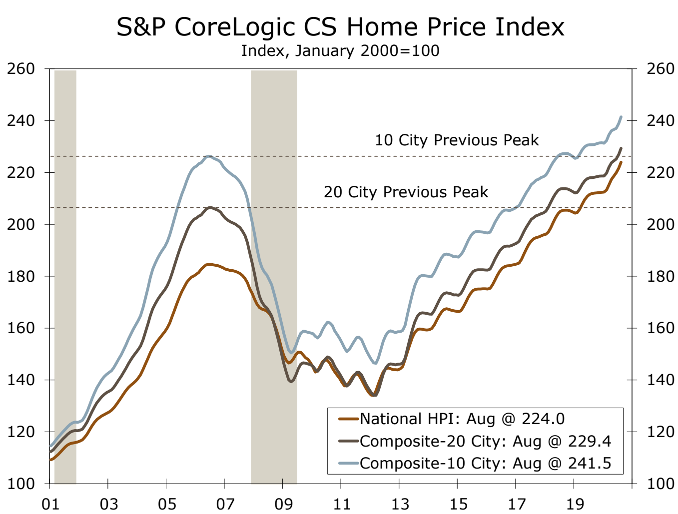
Source: U.S. Department of Commerce and Wells Fargo Securities

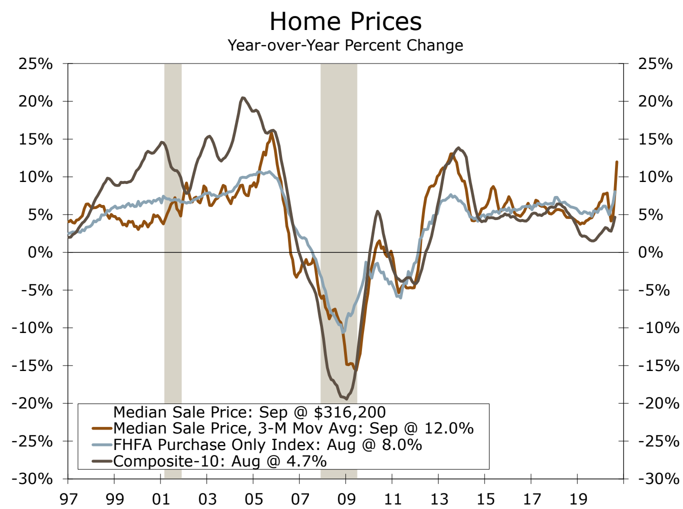
Home Prices

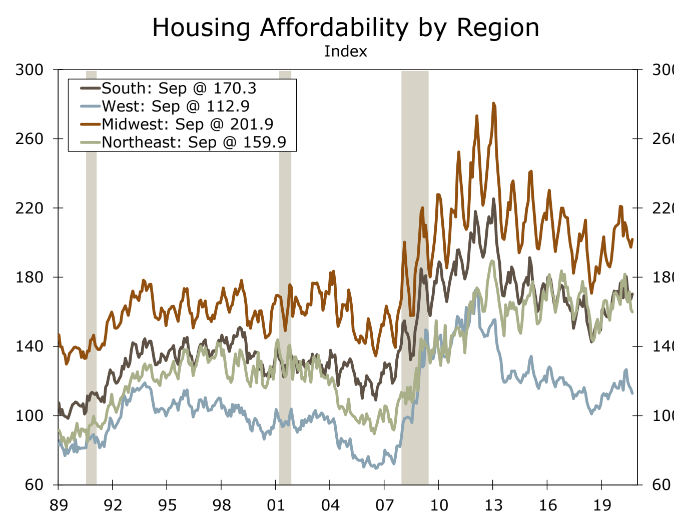
- With robust demand and scarce supply, home prices have begun to heat up. Buyers continue to be enticed by low mortgage rates, while already-low inventories continue to thin. Overall, we expect prices, which were cooling down prior to the pandemic, to reaccelerate as bidding wars continue to push up home values.
- Home prices increased in all of the 181 metro areas tracked by the NAR in Q3. Sixty-five percent of those metros experienced double-digit price growth from a year ago, compared to just 8% in Q2. In a separate release, the S&P CoreLogic Case-Shiller National Home Price Index jumped to 5.71% year-over-year in August, a full percentage point ahead of July.









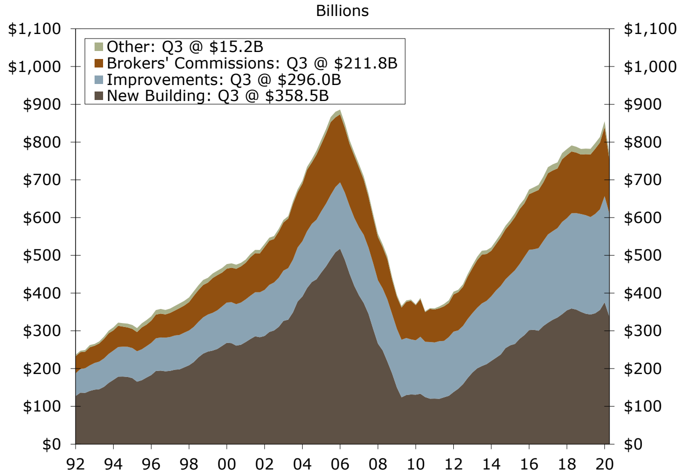


Source: U.S. Dept. of Commerce, S&P, CoreLogic, FHFA and Wells Fargo Securities

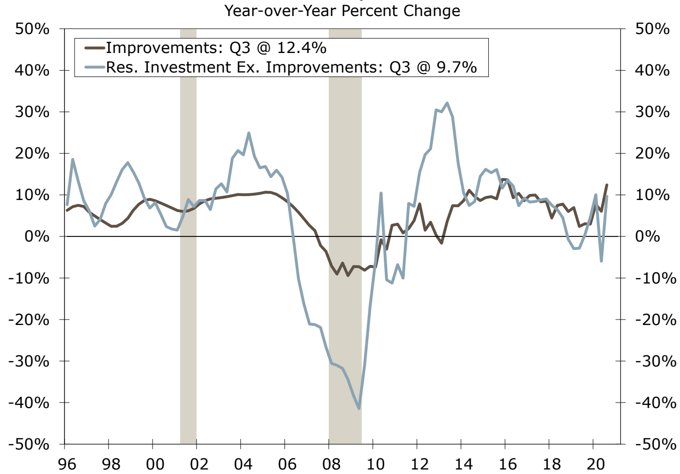
Renovation and Remodeling

- The NAHB Remodeling Index soared to 81.5 in Q3, coming off an already record-setting level of 73.4 in Q2. As people spend more time at home, they are remodeling their spaces to better accommodate a socially distant lifestyle. Home remodelers also appear optimistic about their outlook, as the future market indicator jumped seven points in Q3.
- Consumer spending on durable goods has increased 14% since February as consumers continue to substitute away from services spending. Retail sales at building material stores also remains elevated at +12% since January 2020.
- Residential remodeler payrolls expanded by 9,300 jobs in August and September. Nearly 91% of the jobs lost in March and April have been recouped.

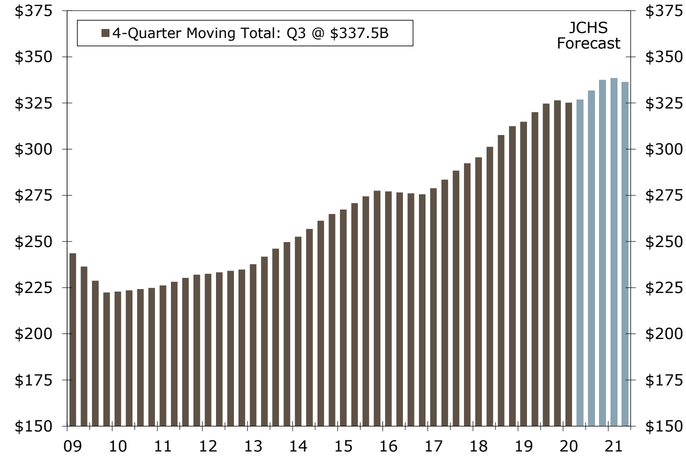
Residential Investment
Billions



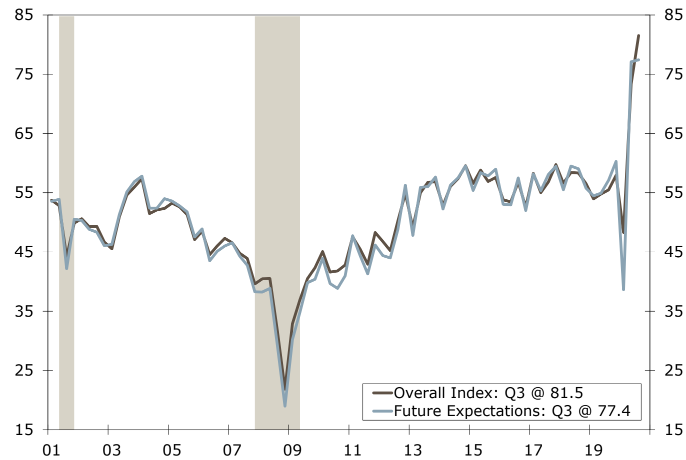
Residential Improvements
Year-over-Year Percent Change



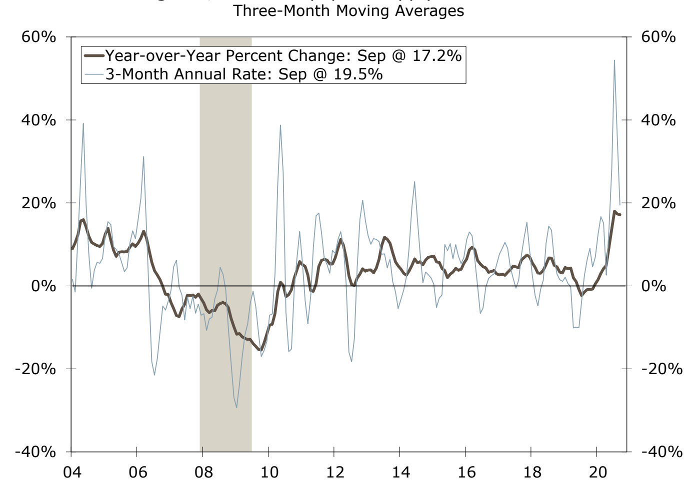
Leading Indicator of Remodeling Activity
Billions, 4-Q Moving Total, Harvard Joint Center for Housing Studies



NAHB Remodeling Market Index



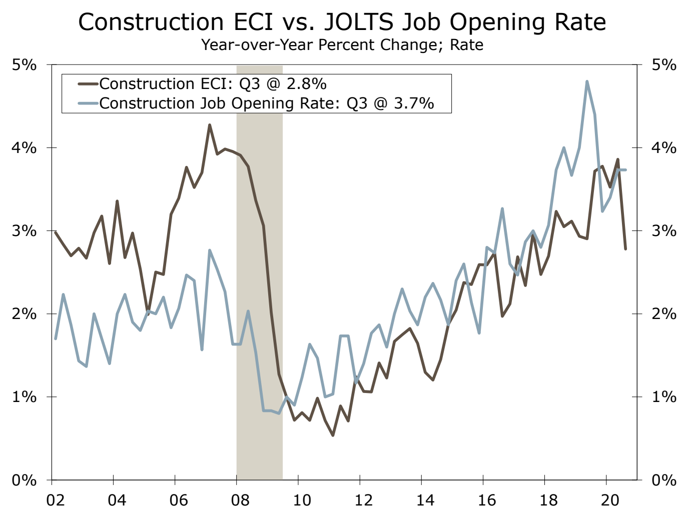
Building Mat, Garden Equip. & Supply Store Retail Sales
Three-Month Moving Averages

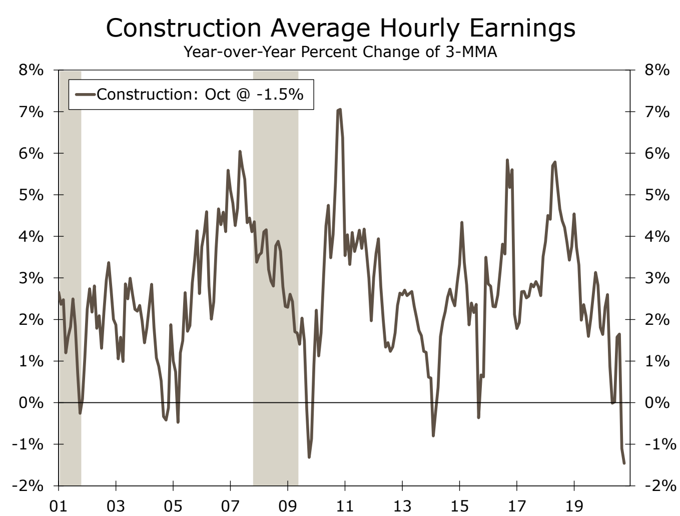


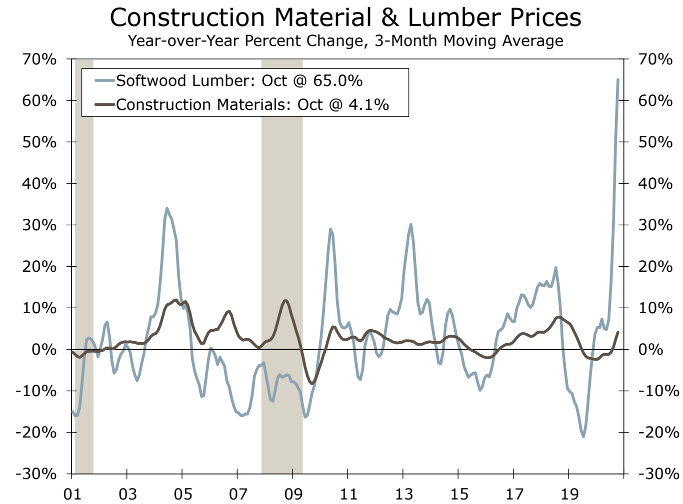
Source: Harvard Joint Center for Housing Studies, U.S. Dept. of Commerce, NAHB and Wells Fargo Securities

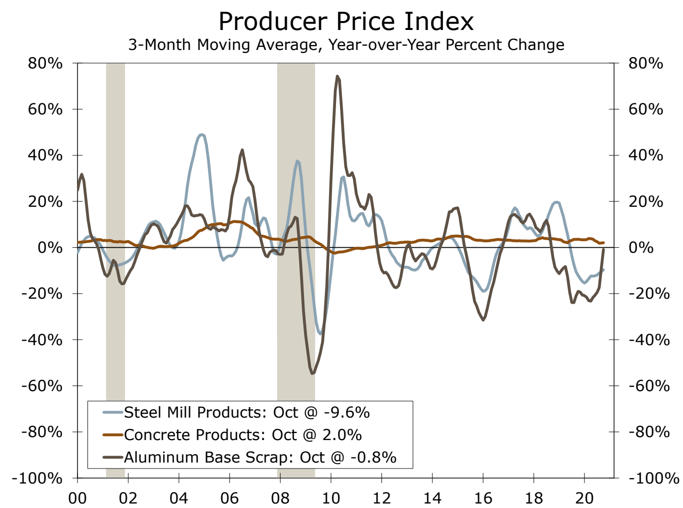
Construction Costs

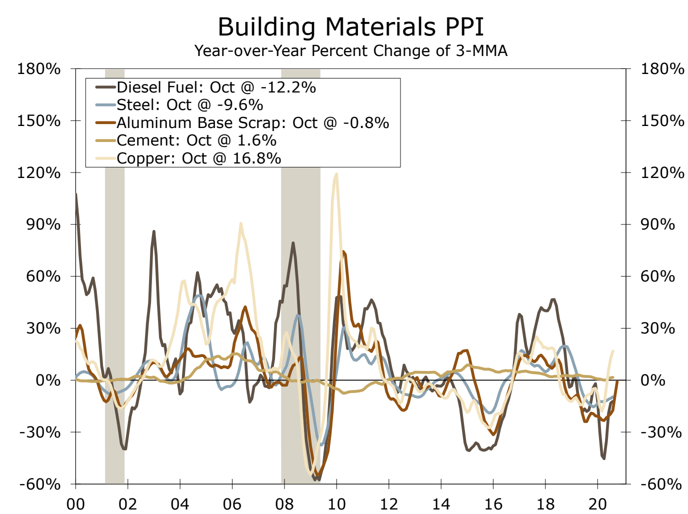
- Lumber prices were up 45.1% year-over-year in October, adding considerable costs to homebuilding and potentially threatening delays of new home construction. However, price growth has cooled off considerably in recent months compared to the run-up earlier this summer.
- The summer surge in lumber prices has pushed up overall residential construction costs as measured by the Producer Price Index (PPI). The PPI for inputs used in residential construction was up 8.2% over the year in October.
- Construction labor costs fell in Q3, as fewer projects were likely taken on and the pool of workers appeared to deepen. National construction payrolls expanded by 84,000 jobs in October.











Source: U.S. Department of Labor, IHS Markit and Wells Fargo Securities

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