

ON POINT

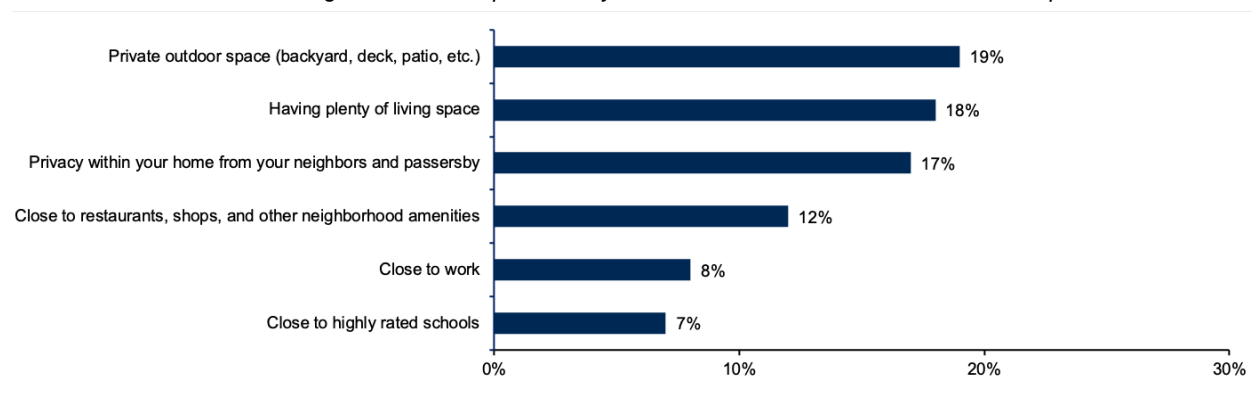
ECONOMIC AND POLICY INSIGHT FROM THE OCC

The Pandemic-Fueled Preference for Single-Family Homes May Endure

The coronavirus pandemic dramatically changed many fundamental facets of people's lives, including work, school, dining, and shopping. Home buying has been no exception as the pandemic affected long-standing housing preferences. Historically, "location, location, location" was recognized as the most important factor in real estate investing and home choice. However, now that people are not only spending an unprecedented amount of time at home, but also need designated space to work from home, the pandemic is elevating the role of specialized features of single-family homes in housing purchase decisions (see figure 1). Compared with demand for condominium (condo) and co-operative (co-op) units in multifamily structures, the demand for single-family homes grew faster during the pandemic and, combined with tight supply, led to significant price appreciation for single-family homes, regardless of location.¹ After the pandemic subsides, the demand for single-family homes may moderate but will likely still be stronger than its pre-pandemic level.

Figure 1: Prospective Home Buyers Rank Private Outdoor Space as the Most Important Feature

You indicated that the following factors are important in your choice of home. Which is the most important?



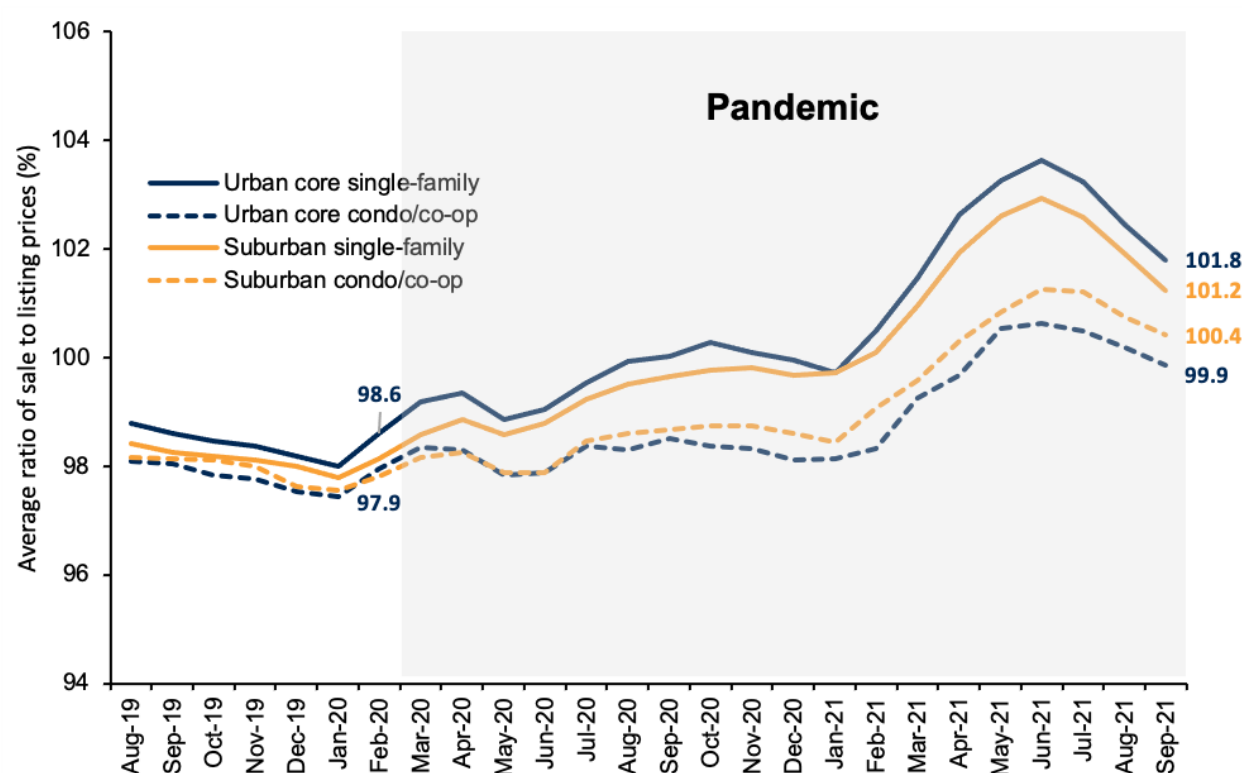
Source: [Redfin Survey of Prospective Homebuyers](#), March 2021

¹ Single-family homes are one-unit structures, including single-family detached houses and single-family attached houses (town houses, row houses). Condos and co-ops are homes in multi-unit structures (such as high-rises, mid-rises, and garden-style apartment buildings) in which housing unit owners share a great deal of the common areas within the structure, including elevators, stairways, hallways, fitness centers, and entrances.

Stronger Single-Family Home Demand and Tighter Supply Present in Both Urban Cores and Suburbs During the Pandemic

The ratio of home sale price to listing price is often used as a measure of housing demand, as it reflects the extent to which the buyer's offer price exceeds the seller's asking price. The higher the ratio, the stronger the demand. As shown in figure 2, the average ratio of sale to listing prices for single-family homes was quite similar to that for condos and co-ops before the pandemic. After the pandemic started in March 2020, the ratio for single-family homes began to diverge from that for condos and co-ops in both urban core and suburban counties. This suggests that the pandemic strengthened home buyers' demand for single-family homes, no matter where they are located—urban core or suburban counties.

Figure 2: Average Ratio of Sale to Listing Prices by Structure Type and Urbanization



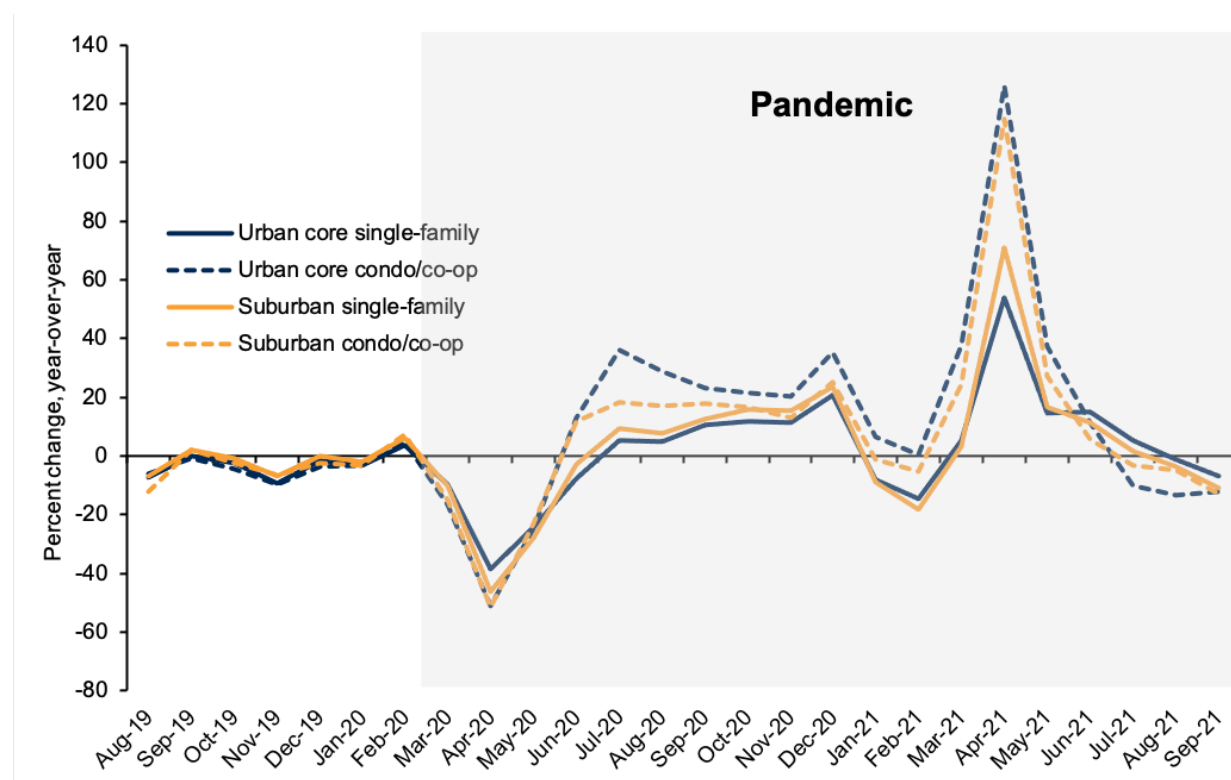
Source: Author's calculations from U.S. Census, Redfin, and Multiple Listing Services (MLS) databases

Note: Urban core counties are in metropolitan statistical areas (MSA) of 1 million or more in population that (1) contain the entire population of the largest principal city of the MSA, (2) have their entire population contained in the largest principal city of the MSA, or (3) contain at least 250,000 inhabitants of any principal city of the MSA. Suburban counties are in MSAs of 1 million or more in population that do not qualify as urban core counties.

If the demand for single-family homes was strong, as described above, what about the supply of these housing units during the pandemic? Figure 3 illustrates the flow of new units into the home sales market, as measured by year-over-year percent change. Housing supply mostly comes from two sources: existing homes listed for sale by homeowners and new homes constructed by builders. Given that it takes time to build new housing, the supply of new housing units responds to a spike in demand more slowly than the supply of existing homes. Therefore, new listings of homes for sale, as shown in figure 3, are mainly indicative of trends in new

entries of existing homes into the sales market during the pandemic. Figure 3 shows that the new-listing growth rate for single-family homes put on the market was nearly indistinguishable from the rate for condos and co-ops during the initial two months of the pandemic or earlier. In contrast, the new-listing growth rates for single-family homes have been significantly lower than condos and co-ops in both urban core and suburban counties most of the time since May 2020, when pandemic lockdowns began to be lifted in most parts of the country. This indicates that owners of existing single-family homes have been less willing to move and sell their homes than condo and co-op owners during the pandemic despite strong housing demand across the country, contributing to a tighter supply of single-family homes for sale on the market.

Figure 3: New Listings of Homes for Sale



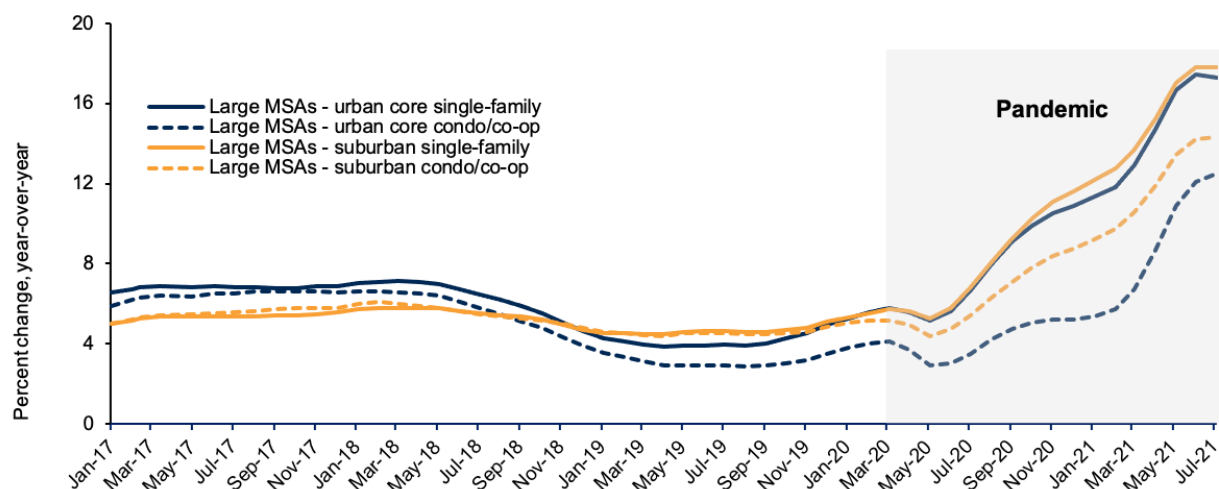
Source: Author's calculations from U.S. Census, Redfin and MLS databases

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Single-Family Home Prices Appreciated More Rapidly During the Pandemic, Regardless of Location

As a result of stronger demand and tighter supply for single-family homes, across the United States the county-average price of single-family homes has consistently appreciated more rapidly than that for condos and co-ops in large MSAs since the onset of the pandemic; this is also true for both urban core and suburban counties (figure 4).

Figure 4: County-Average Home Price Growth Rate by Structure Type: Urban Core and Suburban Counties in Large MSAs

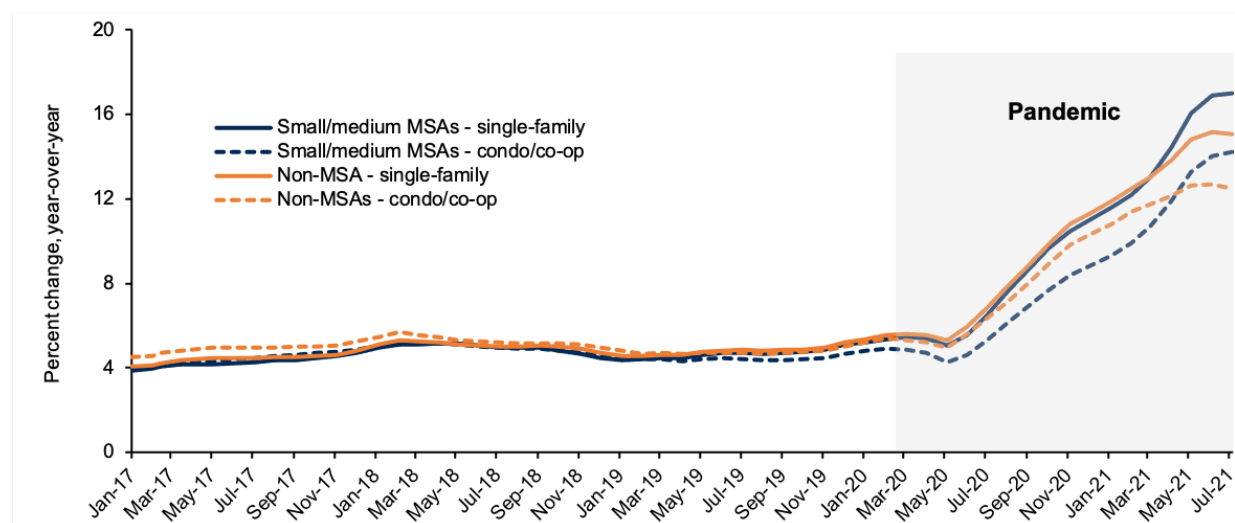


Source: Author's calculations from Black Knight Inc. Home Price Indices (HPI), U.S. Census, and National Center for Health Statistics databases

Note: Large MSA urban core counties are in MSAs of 1 million or more in population that (1) contain the entire population of the largest principal city of the MSA, (2) have their entire population contained in the largest principal city of the MSA, or (3) contain at least 250,000 inhabitants of any principal city of the MSA. Large MSA suburban counties are in MSAs of 1 million or more in population that do not qualify as urban core counties.

Moreover, these new patterns of price growth differentials between single-family homes versus condo and co-op units are also found in counties located in small and medium MSAs as well as in non-MSAs, as illustrated in figure 5.

Figure 5: County-Average Home Price Growth Rate by Structure Type: Small/Medium MSA and Non-MSA Counties



Source: Author's calculations from Black Knight Inc. HPis, U.S. Census, and National Center for Health Statistics databases.

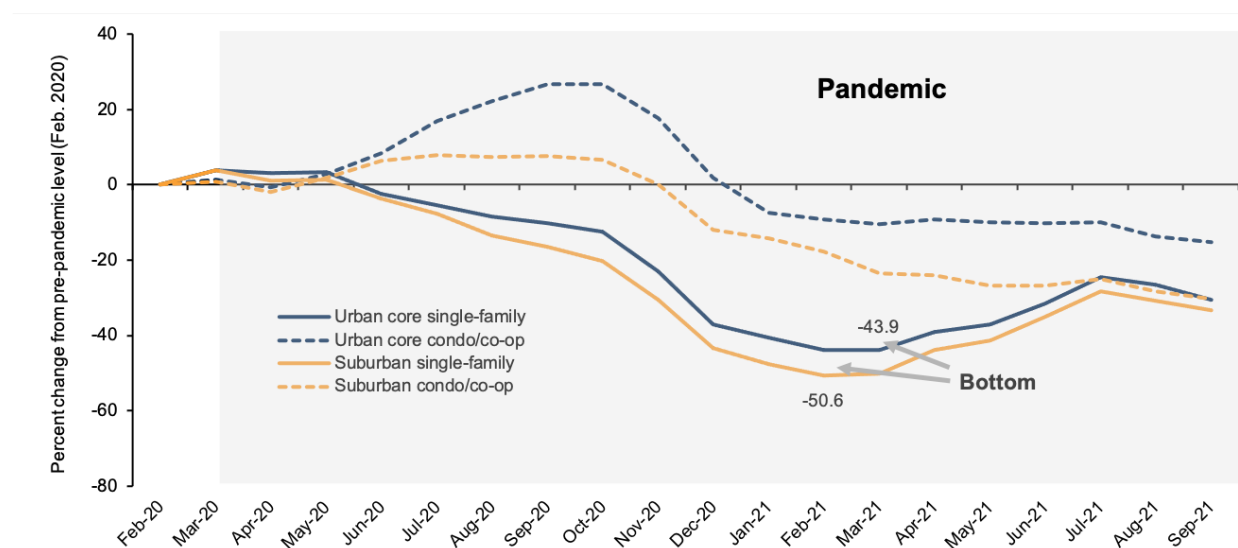
Note: Small/medium MSA counties contain 50,000 to 999,999 in population. Non-MSA counties are in micropolitan statistical areas, which are centered on an urban cluster with a population of 10,000 to 50,000, and rural counties with less than 10,000 in population that are not part of an MSA or micropolitan area.

Figures 4 and 5 also illustrate that single-family homes appreciated at similar rates across various geographic areas since the pandemic started in March 2020, no matter whether they are located in urban core or suburban counties of large MSAs, small and medium MSAs, or in non-MSAs.

The Pandemic-Induced Preference for Single-Family Homes May Endure if Increased Prevalence of Remote Work Persists

Although the future of single-family housing markets in the post-pandemic era is unclear at this point due to many pandemic-related uncertainties, there are early signs that suggest possible trends for housing markets going forward. As shown in figure 6, the inventories of single-family homes on the market as of September 2021 were still about 30 percent below their pre-pandemic levels. The rate of decline in single-family home inventories for sale is slowing, however, after hitting troughs in February and March 2021. These developments suggest that, on one hand, the pandemic-fueled strong demand for single-family homes may be moderating along with subsiding pandemic concerns, reopening economies, and deteriorating affordability of home prices. On the other hand, single-family homes may still have stronger demand and tighter supply than their pre-pandemic levels in both urban core and suburban counties for some time to come.

Figure 6: Inventory of Homes for Sale, Percent Change from Pre-Pandemic Level



Source: Author's calculations from U.S. Census, Redfin, and MLS databases

Note: Urban core counties are in MSAs of 1 million or more in population that (1) contain the entire population of the largest principal city of the MSA, (2) have their entire population contained in the largest principal city of the MSA, or (3) contain at least 250,000 inhabitants of any principal city of the MSA. Suburban counties are in MSAs of 1 million or more in population that do not qualify as urban core counties.

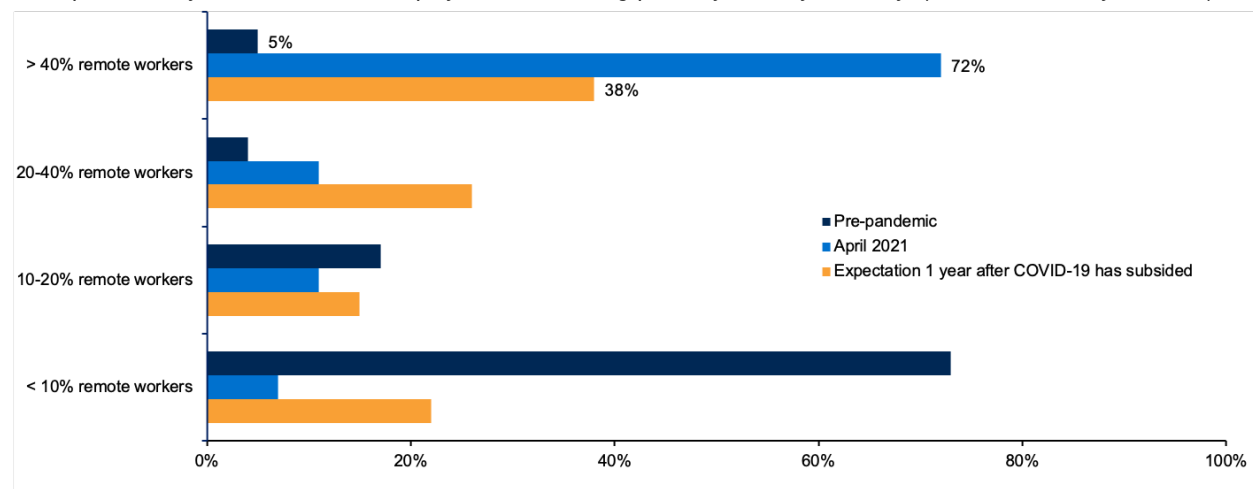
Indeed, a growing body of research and surveys consistently indicates that working from home, or remote work, although initially necessitated during the pandemic, has gained widespread acceptance among employees and employers alike, and thus could endure as a higher share of overall employment options even after the pandemic is over. This will have important implications and lasting impacts on housing market developments in the post-pandemic era because remote work is a key pandemic-induced factor that shifted home buying preferences

toward certain features only available in single-family homes,² such as more square footage to allow designated space for working from home, plenty of separate living spaces or floors to facilitate multiple activities by various family members, private outdoor spaces, and larger yet less expensive homes.³ For example, the Conference Board conducted a survey on work-from-home arrangements and future expectations in April 2021, collecting responses from 231 human capital executives at large U.S. companies. As illustrated in figure 7, before the pandemic only 5 percent of the respondents indicated that their companies had more than 40 percent of full-time employees primarily working remotely at least three days per week. During the pandemic 72 percent of the companies reported over 40 percent remote workers, while 38 percent of the companies expect to still have over 40 percent remote workers once COVID-19 cases have subsided for one year.

The survey results from the Conference Board and others imply that greater acceptance of working from home is perhaps the most important organizational legacy of the pandemic. Both remote work hours and the number of organizations that will still allow remote work in the post-pandemic era are likely to moderate when the pandemic subsides, tempering the demand for single-family homes. However, as remote work is expected to remain much more popular in the post-pandemic world than in the pre-pandemic world, it may have a lasting impact on housing market dynamics by continuously fueling stronger demand for single-family homes compared with the pre-pandemic level going forward.

Figure 7: Surveyed U.S. Companies Expect More Remote Work Post-Pandemic Than Pre-Pandemic

What percent of your U.S. full-time employees are working primarily virtually/remotely (at least three days a week)?



Source: Copyright chart, "[The Reimagined Workplace a Year Later](#)," June 2021, p. 5. Reprinted with permission from the Conference Board.

² According to a [survey](#) conducted by real estate broker Redfin in July 2020, prospective home buyers ranked "want designated space to work from home" as the preference most impacted by the pandemic.

³ Compared with condo and co-op units, single-family homes are much larger but significantly less expensive in terms of price per square foot. According to the *American Housing Survey* and Redfin database, in 2019 median square footages for single-family detached houses, attached houses (town houses), and condo/co-op and other multi-family units were 1800, 1430, and 866, respectively, while their prices per square foot were \$155, \$166, and \$223, respectively.

The Point?

The coronavirus pandemic shifted home buyers' preferences toward single-family homes regardless of location and urbanization level; longer-lasting remote work legacy trends may sustain this shift going forward.