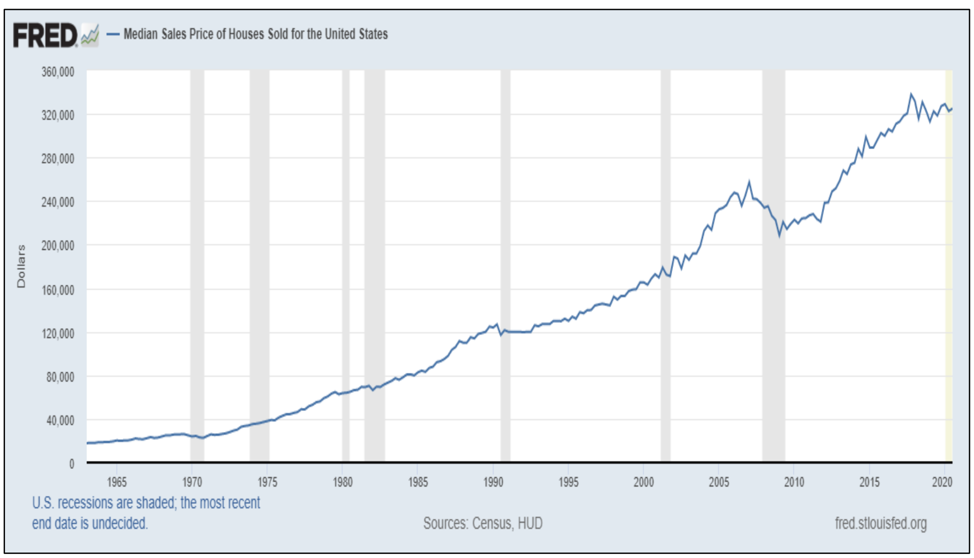
What factors will affect US home prices in the 2020s?

Synopsis:

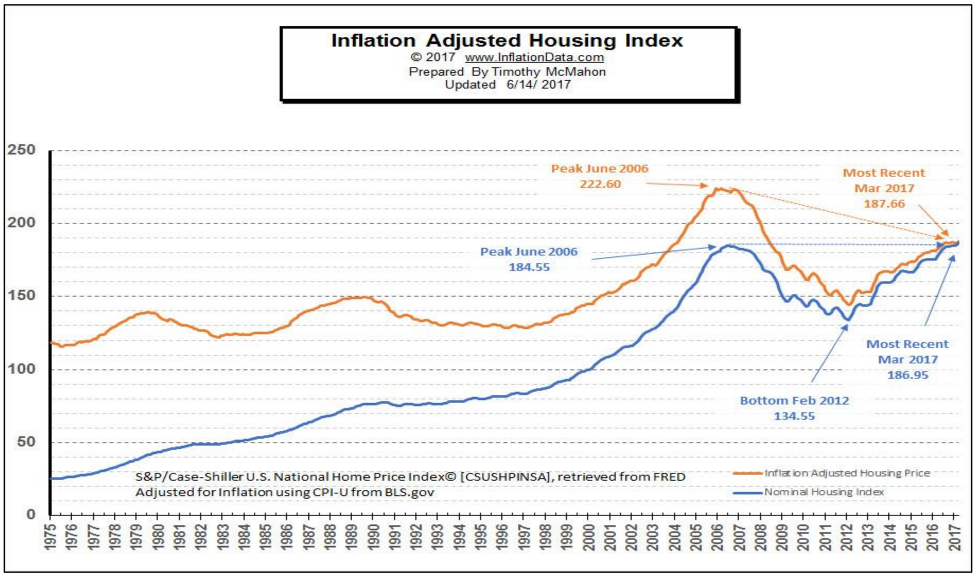
We start by looking at historical US house price trends. Then, we identify the factors that will affect house prices over the coming decade. We pore over socio-economic indicators that have reliably predicted housing prices historically, and identify where they are heading with the help of experts. We then look at two factors which may have a disruptive impact on the housing market - remote work and the climate crisis.

US Housing Prices – Historical:

Median house prices have been steadily increasing for more than 50 years, apart from a dip during the 2008 recession[1].



However, when you adjust those prices for inflation, the story becomes a little more complicated. The Home Price Index, which measures changes in single-family home prices, indicates that while house prices have been increasing since the recession, they are still to hit the peaks of 2006[2].



Factors Affecting House Prices – 2020-2030:

1. **Economic Growth**: Higher economic growth and rising incomes increases demand and pushes up prices. The Congressional Budget Office (CBO) estimates that after post-pandemic recovery numbers of 4.8% in 2021, economic growth for the rest of the decade will stabilize at an average annual rate of 2.1%[3].

2. **Unemployment**: Rising unemployment decreases demand and in turn reduces prices. Unemployment decreased through the 2010s, but it increased from 3.5% (Feb '20) to 14.8% (Apr '20) before stabilizing at 6.7% (Nov & Dec '20)[4]. The CBO expects unemployment to

decrease through the 2020s, but it expects the unemployment rate to remain over its pre-pandemic level (Q4 2030: 4.4%)[3].

3. **Interest Rates**: A fall in interest rates reduces mortgage rates. This in turn stimulates demand, and increases house prices. The CBO expects long-term interest rates to reduce in 2021 (0.9%) before increasing, with average annual interest rates at 2.6% during 2025-2030 (as compared to 2019: 2.1%)[3].

4. **Supply**: A shortage of supply leads to a rise in house prices – this was demonstrated most recently in 2020 when housing prices increased during the pandemic, due to a recovering in demand combined with low supply[5]. The risk management firm Marsh estimates that US construction output declined by 1.7% in 2020[6]; however, Deloitte expects the industry to rebound[7].

5. **Consumer Confidence**: Increased consumer confidence boosts demand for houses, which leads to a rise in prices. While US consumer confidence was clearly shaken by the pandemic, an economic recovery, stimulus support, and a successful vaccination drive have the potential to lead to short-term recovery and long-term rejuvenation.

6. **Mortgage Availability**: Easy mortgage availability increases demand, and consequently, house prices. Mortgage availability was highest before the 2008 recession, but has tightened up since then. The Housing Credit Availability Index (HCAI) (lower HCAI = tougher mortgage availability) has hovered between 5-6% over the last 5 years, but went below 5% during the pandemic[8].

7. **Government Policies**: Government policies – tax credits and subsidies, for example – can stimulate (or depress) demand and home prices.

8. **Demographics**: Demographic shifts can open up some markets and reduce the potential of others. By 2030, 24% of the population is expected to be 65 and above – this might increase the demand for retirement homes, for instance[9].

9. **Work From Home**: If the WHF revolution sustains even after the pandemic (and indications are that it will[10]), buying a house might seem like a sensible move to employees. This could lead to an increase in demand and prices.

10. **Climate Change**: The climate crisis might play a potentially disruptive role when it comes to housing demand and prices – especially in coastal areas. Professor Jesse A Keenan of the Tulane School of Architecture hazards this prediction about how the US Housing Market might look 5 years down the line: "I think five years from now, assuming a relatively constant rate of climate change, we will see greater and greater assignment of risk premiums. There will be momentum to have greater consumer disclosure, as we saw for instance in Texas after Hurricane Harvey. We are going to have more explicit cost burdens associated with a variety of mortgage and insurance products, which will either lead to contracting market share or innovation in any given market." [11]

References:

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General Resources:

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