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Where Have All the Houses Gone?

The inventory of homes for sale is startlingly low. The pandemic is part of the reason, but it's not the whole story.


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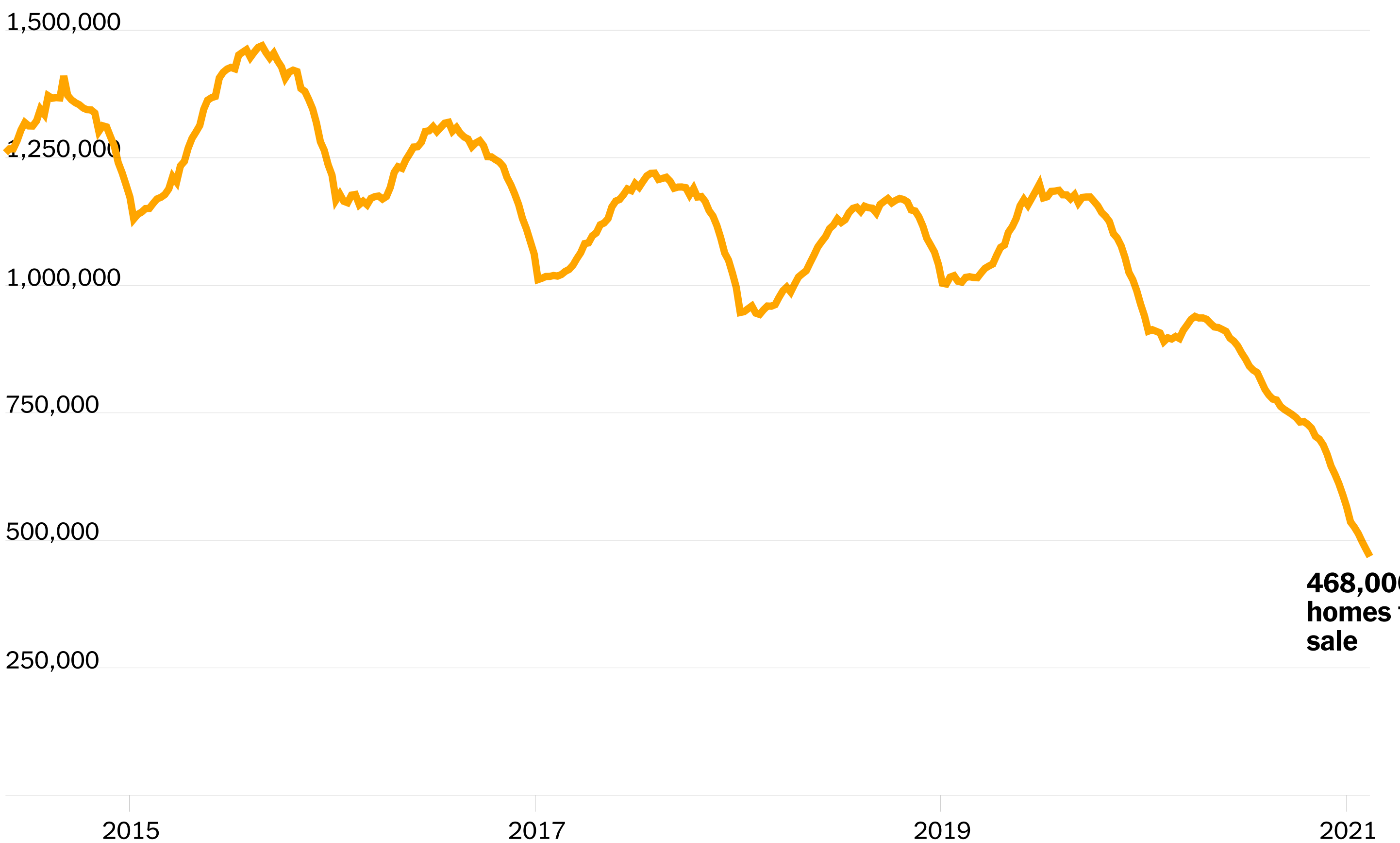
The number of homes for sale nationally has plummeted



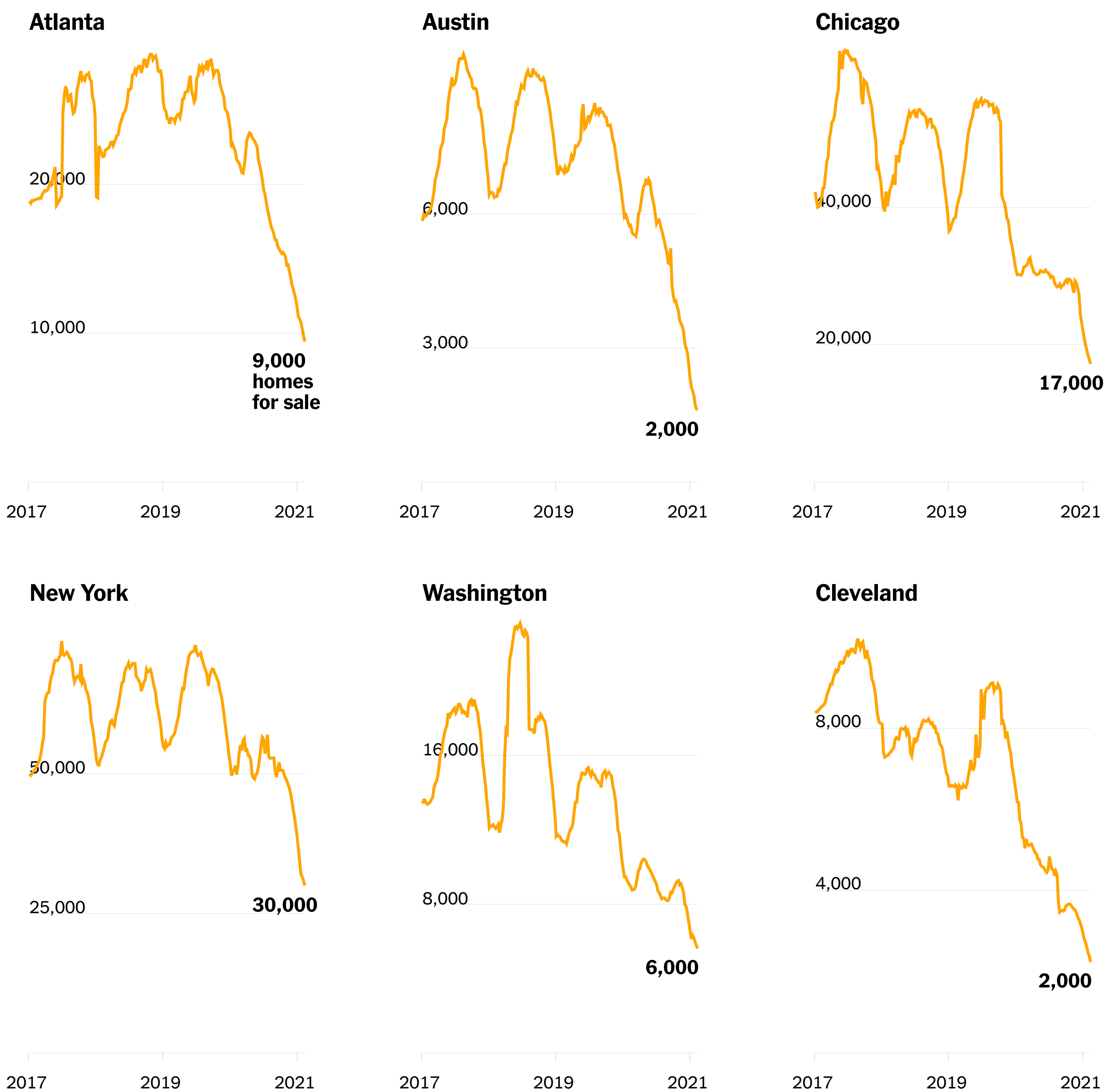
Note: Includes condos, townhouses and single-family homes. Source: Altos Research

Much of the housing market has gone missing. On suburban streets and in many urban neighborhoods, across large and midsize metro areas, many homes that would have typically come up for sale over the past year never did. Even in cities with a pandemic glut of empty apartments and falling rents, it has become incredibly hard to buy a home.

Today, if you're looking for one, you're likely to see only about half as many homes for sale as were available last winter, according to data from Altos Research, a firm that tracks the market nationwide. That's a record-shattering decline in inventory, following years of steady erosion.

And it's one flashing sign that the housing market — which can defy basic laws of economics even in normal times — is acting very, very strangely.

The number of available homes has fallen steeply in metros across the country



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This picture is a product of the pandemic, but also of the years leading up to it. And if half of what is happening in the for-sale market now seems straightforward — historically low interest rates and a pandemic desire for more space are driving demand — the other half is more complicated.

"The supply side is really tricky," said Benjamin Keys, an economist at the Wharton Business School at the University of Pennsylvania. "Who wants to sell a house in the middle of a pandemic? That's what I keep coming back to. Is this a time you want to open your house up to people walking through it? No, of course not."

A majority of homeowners in America are baby boomers or older — a group at heightened risk from the coronavirus. If many of them have been reluctant to move out and downsize over the past year, that makes it hard for other families behind them to move in and upgrade.

There are lots of steps along the "property ladder," as Professor Keys put it, that are hard to imagine people taking mid-pandemic: Who would move into an assisted living facility or nursing home right now (freeing up a longtime family home)? Who would commit to a "forever home" (freeing up their starter house) when it's unclear what remote work will look like in six months?

This reluctance can take on a life of its own in a tight market, said Ralph McLaughlin, the chief economist at Haus, a housing finance start-up. When there aren't a lot of options out there to buy, would-be sellers get skittish about finding their own next home and back out of the market themselves.

"Every additional home that gets pulled off the market incentivizes someone else to not sell their house," Mr. McLaughlin said. "That's a self-reinforcing cycle."

There is another factor particular to the pandemic: At the peak, more than four million homeowners with government-backed loans were in mortgage forbearance during the pandemic (about 2.6 million still are). While that government policy, recently extended through June, has been a lifeline for many families who've lost income, it has also meant that some homes that most likely would have come on the market over the past year, either through foreclosure or a forced sale, did not.

Add all of this up, and for every tale of someone who ran off and bought in the suburbs or paid all-cash sight unseen in some far-flung town, the larger story of the pandemic is this: Americans have been staying put.

That reality has collided with other forces that have been building since the housing crash. Even before the pandemic, real estate agents and economists were fretting about a shortage of inventory, which had been trending downward since the housing bust.

For more than a decade, less housing has been built relative to historical averages. The housing crash decimated the home building industry and pushed many construction workers into other jobs. Local building restrictions and neighbor objections have slowed new construction. President Trump's strict immigration policies further restricted the labor supply in the industry, and his tariffs pushed up the price of building materials.

But newly built homes are just what a tight housing market needs.

"This is the reason why home building is so critical," said Lawrence Yun, the chief economist for the National Association of Realtors. When a brand-new home comes on the market, no one has to move out (and elsewhere) to free it up. "Home building is an empty home. They're just bringing empty homes to the market."

The last decade has also been a period of relatively low interest rates. That incentivized many homeowners to stay in their homes longer than they would have in the past, clinging to cheap mortgages. The low rates also encouraged many homeowners who bought a new home not to sell their previous one, but to treat it as an investment property instead.

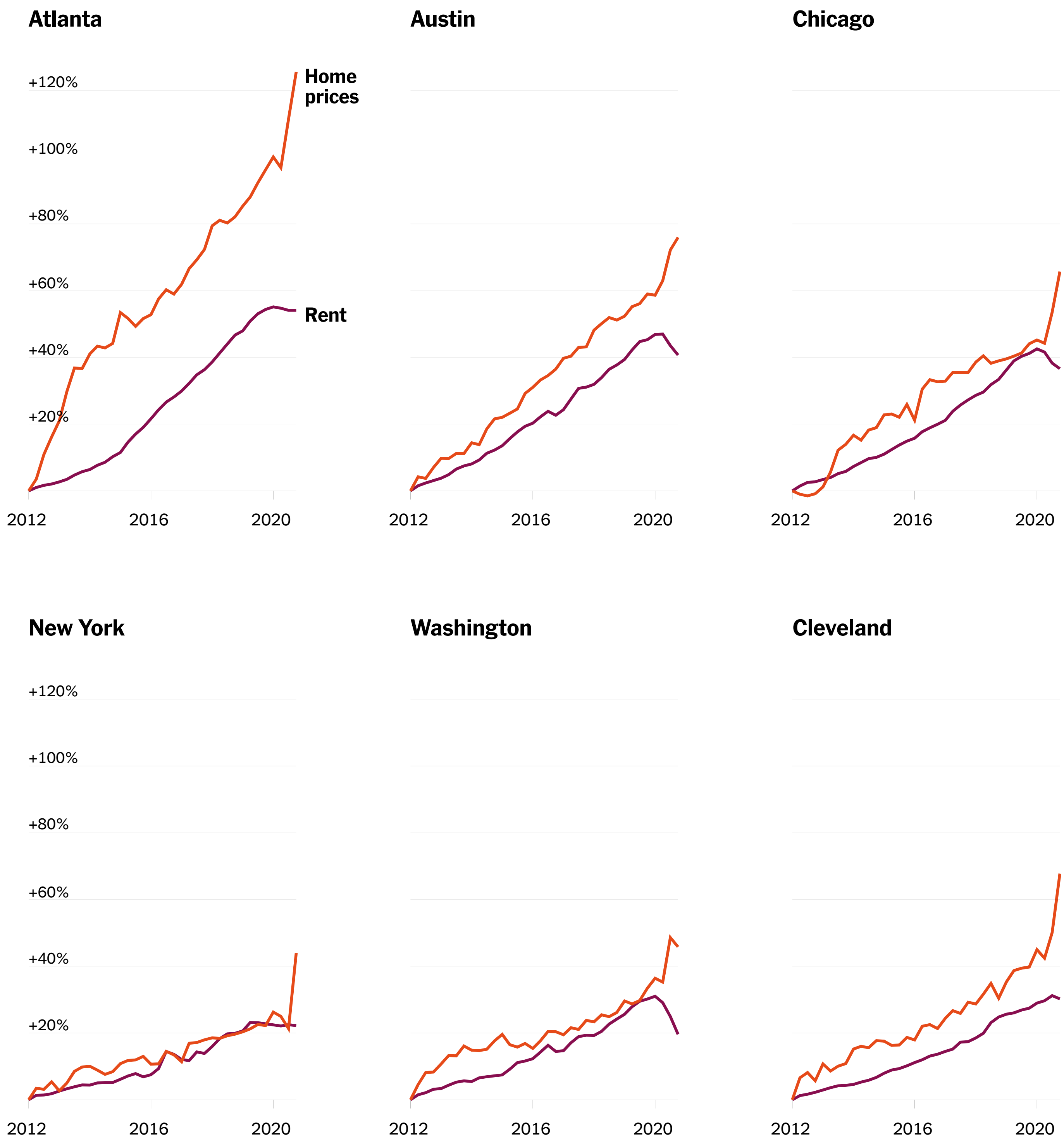
"Right now it's a screaming good deal to have two properties: When my mortgage rate is 2.7 percent, why not have two of them?" said Michael Simonsen, the C.E.O. of Altos Research. "It took a long time, I think, to realize that that's what was going on."

Over the past decade, he points out, the number of single-family homes in the rental market grew by more than seven million. And the vast majority of single-family rentals are owned by individuals, not big institutional investors. Other opportunities to make revenue off investment properties have also boomed with the rise of companies like Airbnb.

"We're all looking for a unified field theory for what's going on," said Mark Zandi, the chief economist at Moody's Analytics. "We have all these disparate pieces of information. Everyone's got their own telescope looking up into the sky, measuring different things. It's hard to put it all together."

But the overall effect is clear: It's as if the market were mucked up with a lot of sand and mud, Mr. Zandi said. And that produces all kinds of other strange behaviors and patterns. The number of people buying homes sight unseen has soared. Median sales prices in some metros are up 15 percent or more in a single year. In other places, the trajectory of the for-sale market has become entirely detached from what's happening in the rental market.

Rents and home prices have diverged



Notes: Effective rents of multi-family units. Source: CoreLogic, National Association of Realtors, Moody's Analytics

Normally, economists expect rents and home prices to move together in a given community. That's because both respond to the same underlying conditions — a strong labor market, popular amenities, proximity to the ocean. When rents and home prices start to diverge, that's usually a sign of something amiss, like a housing bubble inflating.

Right now, in a number of metro areas, home prices and rents aren't just drifting apart; they're moving in opposite directions. Prices are rising while rents are falling.

"I don't think we've seen a housing market quite like this one," said Jenny Schuetz, a researcher at the Brookings Institution. "And other recessions looked a little bit different, so that makes it hard to know what's going on."

In the run-up to the housing crash, home prices rose far faster than rents, meaning many homes were selling for prices that owners couldn't support if they had to rent them out. Then after the bust, home prices fell in some markets as rents rose, with newly foreclosed owners flooding into the rental market.

Today, rents have fallen for reasons largely inseparable from the pandemic. Laid-off workers have had to double up with family or friends. College students who normally rent near campus have been at home instead. Some renters enticed by low interest rates have successfully bought a home. And the normal influx of new renters into cities — recent college graduates, immigrants, workers who've just landed a new job — has dwindled during the pandemic.

Recent research by Arpit Gupta at N.Y.U. and colleagues suggests that rents have fallen the most in close-in urban neighborhoods. These are also the places where it simply hasn't made sense in a pandemic to pay a premium in rent to be near restaurants, bars, museums and downtown offices.

This has followed another unusual pattern: Single-family rentals are behaving a lot more like owner-occupied houses (in strong demand), while condos look more like rentals (with weak appeal).

These unusual circumstances in the rental market make it all the harder to grapple with what's happening on the home-owning side. The ratio of home prices to rents in many metros is now as high as it has been since the housing bubble — but it has spiked during the pandemic in part because rents have fallen, not solely because prices have soared.

Mr. Zandi, at Moody's, said he wasn't yet anxious about a looming disaster like the last housing bubble. But he says it is already worrisome that rising prices have boxed out many first-time and moderate-income home buyers, who for years to come may lose out on the benefits of locking in interest rates below 3 percent.

"I don't think it's red flares; I think it's yellow flares," Mr. Zandi said. "But if we have another year like we had in the past year, we're going to have a lot of red flares going up."

For now, it's not clear what can shake loose more inventory. Building more would help, but it will take years to catch up to the supply a healthy housing market needs. The pausing of payments through mortgage forbearance relief will end at some point after June, and that could perversely create more inventory through things like foreclosures. Baby boomers will get vaccinated and may decide to make a move.

It's also possible that some of the millions of single-family homes that were converted to rentals over the past decade could be put back on the market now, as their owners see steep profits to be made from selling them.

The pandemic will also eventually subside, and people will gain more certainty about remote work, and more confidence about having strangers in their homes. But for anyone waiting for the typical spring surge in inventory, these reasons for optimism may not materialize in time.

In normal years, inventory hits its annual low point around now in February and then starts to trend up.

"We haven't hit the trough yet," Mr. Simonsen said. "I'm frankly worried that it doesn't climb from here."

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