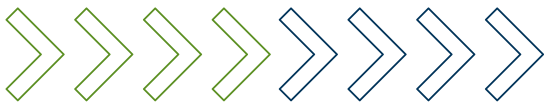

# 2023 REAL ESTATE UPDATE PART 1: SHIFTING MIGRATION & THE AVAILABILTY QUANDARY


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FARM CREDIT
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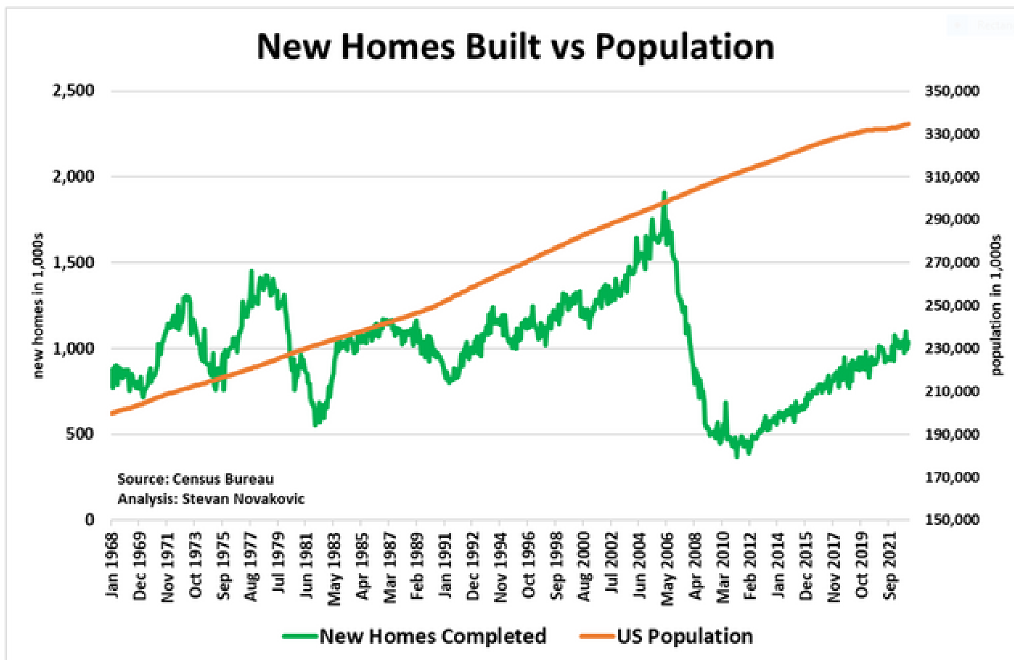
"Unprecedented." The pandemic and reactions to it have encouraged writers and news anchors to broadcast this term far and wide and, while perhaps folks have tired of the term, it often is the most apt descriptor across events and industries. After three years of never-before-experienced phenomena, hosts of mistakes in response have been made that hamper our future, whether under or over-procuring some goods, lack of training skills across necessary industries, and, especially in the case of this piece: underbuilding of living spaces.

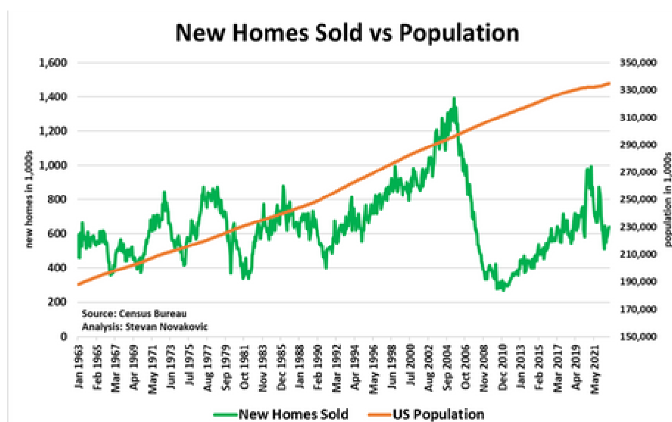
It is hard to find a home. Well, not entirely. Not everywhere. Would you like a 3,500 sqft 3/2 in Evansville, IN for $150,000? How about a 4/2 in Pittston, PA for a cool $172,000? Maybe a compact 1,070 sqft 3/2 starter in Salina, KS, for $199,000? Or splurge on a lovely 3,700 sqft 4/4 in Jackson, MS, for $275,000? I won't lead us across the nation looking for affordable homes (the cost factor will be covered in our next blog and video), but we should affirm that not all markets are equal. People that work in person (anything from IT to plumbers to mechanics to retail clerks) by default must be near enough to commute to their place of business. The only individuals with complete agency to buy anywhere nationwide are those with jobs guaranteed to work from home and retirees, both constrained only by price. So, what happens when a global viral pandemic emerges, and over 60% of Americans begin working from home? Then – mortgage interest rates dropped to what were the lowest of all time. And to top it all off, the stock market climbed to record peaks, allowing some on the cusp of retirement to cash out early with an inflated 401k or Roth IRA.

The pandemic drove an entirely new type of migration, marked, for the first time, by people of means. Hoovervilles were not the abode of the landed gentry, but rather the Joad's of Steinbeck's prize-winning novel. Ohio's most famous dish, Skyline Chili, is an adaptation of the meat filling for pastitsio brought by working class Greek immigrants from the former Yugoslavia. More than 21 million Southerners, white and black, moved into industrial cities across the Northeast, Midwest, and agrarian regions of California – to the point where the California Speaker of the Assembly for decades starting in the 1960s was consistently a Texan (culminating in the legendary Willie Brown), and Detroit named a neighborhood "Little Dixie." This is no longer the case, it has become flipped, inverted, to the point where those of lower socioeconomic status are relegated to stay in whichever location they have a dwelling and can afford (there are always, however, exceptions).

While exacerbated by the pandemic (and we will discuss wealth transfer in the future) – that was simply the catalyst for an avalanche that had been waiting to rumble since the housing crisis of the mid-2000s. On a foundational basis, I refer to the following chart incessantly:

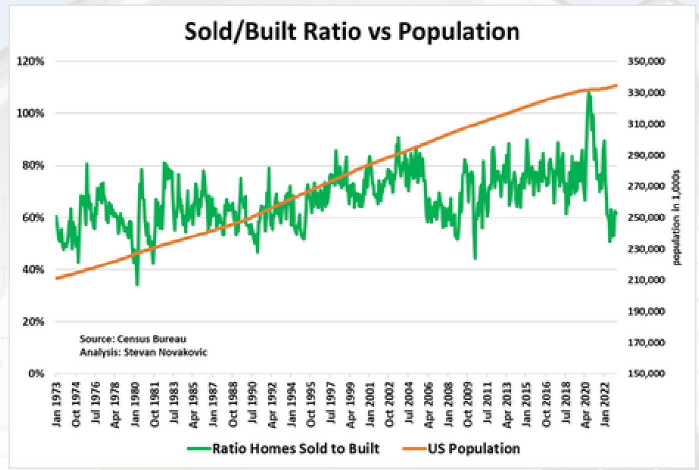



This chart is at an annualized rate, but it compares apples to apples: total homes built in the US compared with the total population growth. Scale matters, so let's take a step back. Consensus across economic analysis identifies 1.7 million new housing units per year to be the replenishment rate for the entire United States (household growth + derelict or unlivable spaces). Take a look at the numbers: the lowest recorded annual building rate during the economic crisis of the early 1980s was 555,000 homes per year in February of 1982. Of the 48 months from 2009-2013, only thirteen times did the US build at a higher rate than that, and averaged 501,000 homes (SAAR), with the lowest month of January 2012 falling to a rate of 392,000 new builds. So, what happens when the US averages 967,000 total units (including apartments) built annually from 2007 through 2019, and we need 1.7 million? Or, peradventure, if a sizable cohort of people live in uninhabitable homes longer, maybe 1.4 million new units per year? A chasm-sized deficit opens. That windfall over the 13-year post-housing crash was a net negative of 9.5 million housing units being built compared with forecast necessity. To further put this in perspective on a relative basis: in February of 2023 we completed homes at a lower rate than April 1972 when the US population had 127 million fewer individuals.

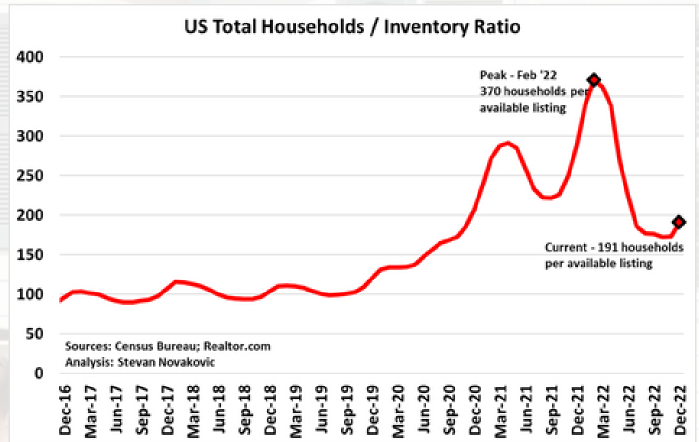


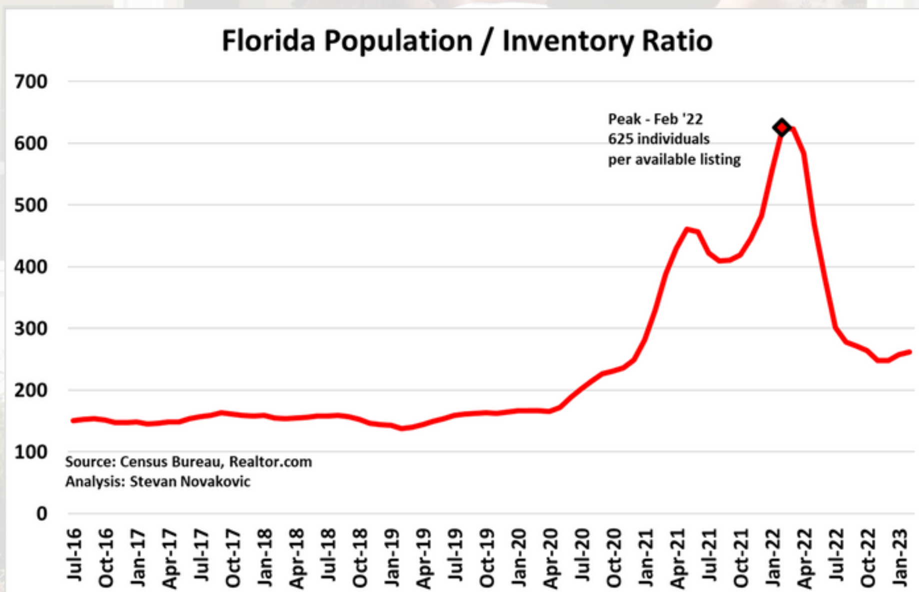

Seeing through a glass darkly, new homes sold paint an even bleaker situation than what was built. From 2009-2012 the nation averaged 343,000 sold annually, with the lowest rate in February 2011 of 270,000 homes (the actual total: 22,000 homes closed that month, fewer than 1,000 in the entire Northeastern portion of the country and around 2,000 in the entire Midwest). Comparatively, over the 36 months from the beginning of 1963 to end of 1965 the US averaged 567,000 annual new sales – at a time when the population averaged 192 million people. At '09-'12 mean population estimates of 310 million, the United States was 61% more populous but selling 40% fewer homes.

Before changing topics, take a look at one last angle, the ratio of new homes sold to those built. A critical eye might ask – does it really matter if we weren't selling as many homes? Maybe we had too many? What we observe is that the data is quite noisy month to month, but the overwhelming majority of time the ratio for sales to builds is between 60-80%, for an average prior to the housing crisis of about 65%. Intuitively, this is healthy: if Americans buy at too high of a rate, there won't be any slack in the system. Throughout the recovery, from 2013-2019, the average ratio was a noticeably higher 75% (new home availability was eroding as we slowed builds). A market apocalypse, however, emerged with the four horsemen of an impending and expanding shortage, work from home, retirements, and record-low mortgage interest rates. These riders drove the ratio of sales/builds to an all-time record of 1.08 in August of 2020, exacerbating a net drain on the system (as more new homes were purchased than completed).




We know "new homes" are not the entirety of availability – the majority of transactions involve "existing" dwellings, built units typically being sold by the inhabitant. The ratio of total domestic households to inventory is one of the many ways to gauge competitiveness of a market place. This comparison is not fool proof, we can stratify by income category and house prices and really hone in on buyer potential, but for this short analysis and the sake of simplicity take a look at the aggregate: a few months pre-pandemic, July 2019, the ratio of households to existing listings for sale was at 99:1. Basically, about 100 family units per unit of inventory. By February 2022, at the peak, there were 370 households potentially competing for each dwelling. As some homes sit longer and some markets retrace, the nationwide ratio remains almost double pre-Covid levels at 191:1.



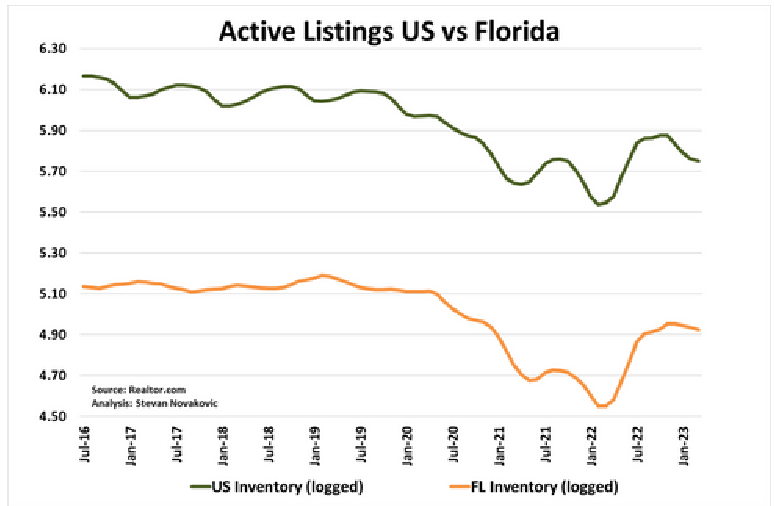
Let's hover down slightly to the Sunshine State, and again, just looking at an aggregate view. We see a story very similar to what happened nationally – just on an exaggerated scale. Starting with February 2019, the population to listing ratio was about 138:1. While higher than the national average, this is in-line with Florida experiencing hotter demand than most other states. In this instance, however, the state's ratio jumped to 625 individuals per available dwelling unit, 4.5 times more competitive than pre-pandemic. As a reminder, this is just a relative measure, not all households are competing for the same homes, but it does give the reader an image of scale in regard to inventory shortage.

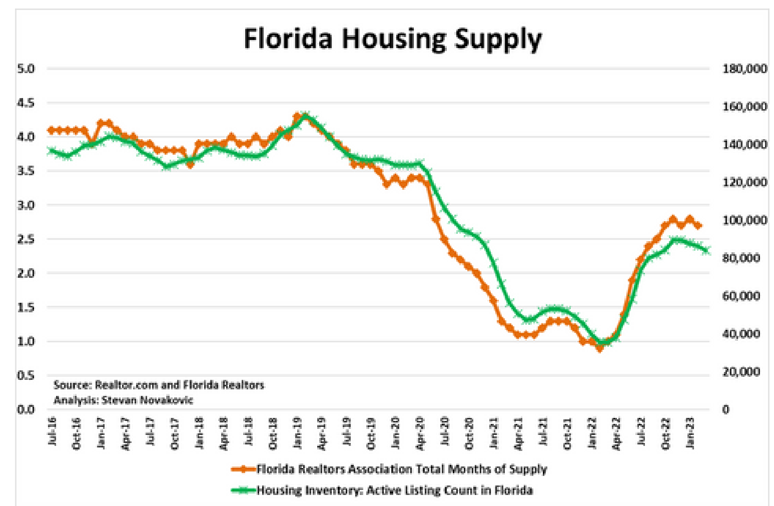
So where is the nation headed? What has happened more recently? Well, while more homes started to come online towards the end of 2022, the country and the state of Florida is back in reversal territory. Homes $400,000 and above are remaining on the market longer, fewer cash buyers are coming to the table, and high mortgage interest rates are encouraging increased competition at lower price points.

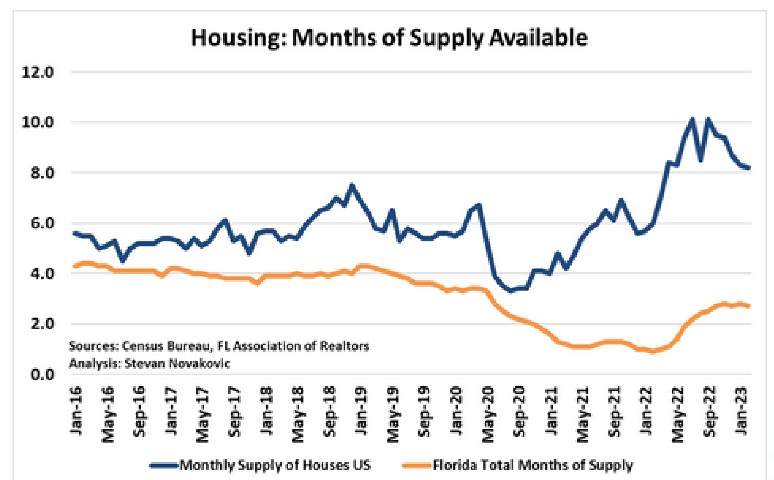
These last two charts further corroborate the narrative we have been unpacking: fewer homes are being sold (they are just taking longer), and fewer homes are being placed on the market. In the state of Florida, total months of supply has been rising – but this does not tell the full story. That ratio is the relationship of homes sold to inventory, it is not a measure of demand. Thus, while on its face, it might appear the market has been getting softer, for the most part, that has not been the case. If the active listing count continues to decline (as it has for the past three months) little price retracement will be experienced across the market. This phenomenon, as we can see, is occurring nationwide.

After exhausting this discussion, let's sum up, once again, with some pertinent musical symbolism. The United States, in this author's opinion, has had two true "bards" in the Medieval sense, two singer-songwriters which pricked the heart of the American psyche like no others: John Prine and Bob Dylan. As I wrote this piece, the Illinoian's "Spanish Pipedream" rang in my ears. In it, a soldier's everyman dream comes to fruition as his chosen painted lady suggests they abscond from society, move to the country, build a home, and survive off the land. It actually worked, and they lived happily ever after, dining on peaches, and their many children found religious peace without prodding. It's a legendary combination of prose, but in 1971 it was just realistic enough to be a light-hearted song of hope, not totally a "pipedream."

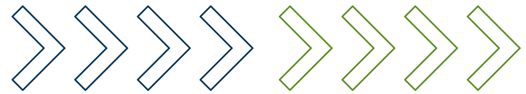
This time period was towards the end-cap of those millions of (predominately) poor Southerners who trekked across the nation for better economic conditions. Folks could, and they did this: for the most part the opposite of 2023. But to conclude, the primary takeaways for this article are that the US has underbuilt and was destined for a crisis, the pandemic was the catalyst for new American migration patterns, there were not enough available homes to meet demand throughout the bull run, and softening has been muted by a continued lack of available inventory. As this country faces a crisis of NIMBYism, supply chain havoc, inflation, overzealous regulations, housing deficits, developable land shortages, high- interest rates, and much more – fewer and fewer households will be able to reach closer to Prine's synopsis of a past American's dream.





# ABOUT OUR ECONOMIST



Stevan Novakovic holds an M.S. in Public Policy from Georgetown University with a focus in econometrics. Prior to joining Farm Credit of Central Florida he conducted economic research on agricultural commodities for IHS Market (previously Informa Economics Group), and spent time in hedging/risk management and as a commodities trader for Central States Enterprises, Inc. Stevan also earned an M.A. from Columbia University and undergraduate degrees from the Moore School of Business at the University of South Carolina, where he triple-majored in International Business, Global Supply Chain and Operations Management, and Finance.

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