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The Impact of the Government's COVID-19 Response

Post-Pandemic Housing Market

The effects of the pandemic-era federal stimulus payments and monetary policy will cast a long shadow on the housing market. Government responses to the COVID-19 pandemic had major and persistent effects on the U.S. housing market, on buyers and sellers, and on existing homeowners.

When the COVID-19 pandemic hit the U.S. in the early spring of 2020, economic activity slowed dramatically. Many businesses were shuttered, and others were forced to adapt to social distancing and vaccination requirements. There was significant uncertainty and fears that a global pandemic—unprecedented in modern times—would drive the U.S. economy into a major recession. To combat that risk, the federal government stepped in to pump money directly to businesses and consumers and dropped interest rates to help keep money moving freely through the economy.

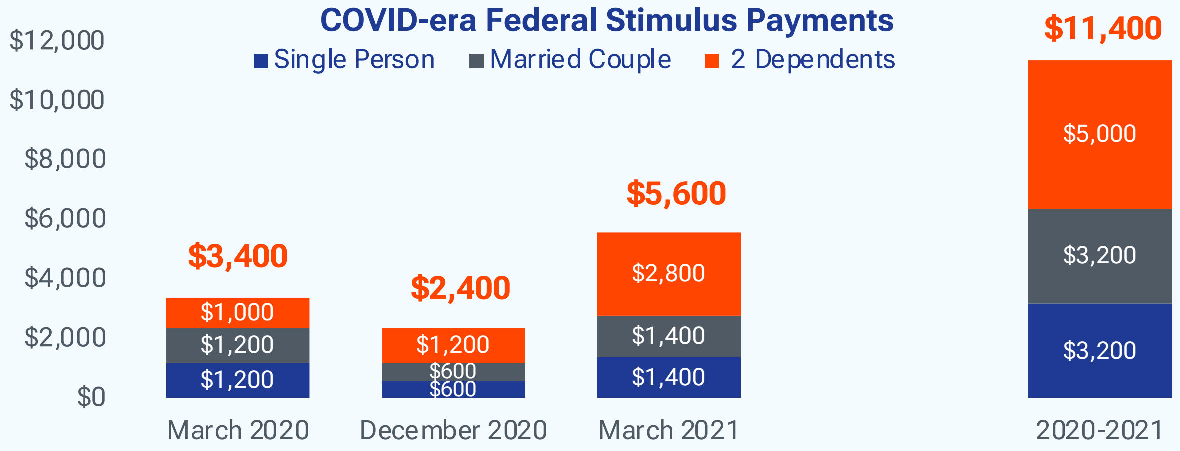
An economic recession was, indeed, avoided in the short term. The final analysis on the extent to which government policies held off an economic downturn or created other economic challenges is still outstanding. What is certainly true is that fiscal and monetary policies implemented during the pandemic had a major and long-lasting impact on the U.S. housing market, on homebuyers and sellers, and on homeowners.

Pandemic-Era Government Policy Impacting the Housing Market

Direct Payments to Households

When the pandemic shut down businesses, the federal government made grants and loans available to businesses to help keep them afloat during the closures. They also sent payments directly to individuals and families. The priority was to get money into people's hands quickly rather than targeting payments to those whose economic situations were truly impacted by the pandemic. While many people were laid off or had their hours and wages significantly reduced during the pandemic, there were others—including many high-income households—who were able to move their work home and saw their income uninterrupted.

Figure 1: Government stimulus payments fueled housing demand



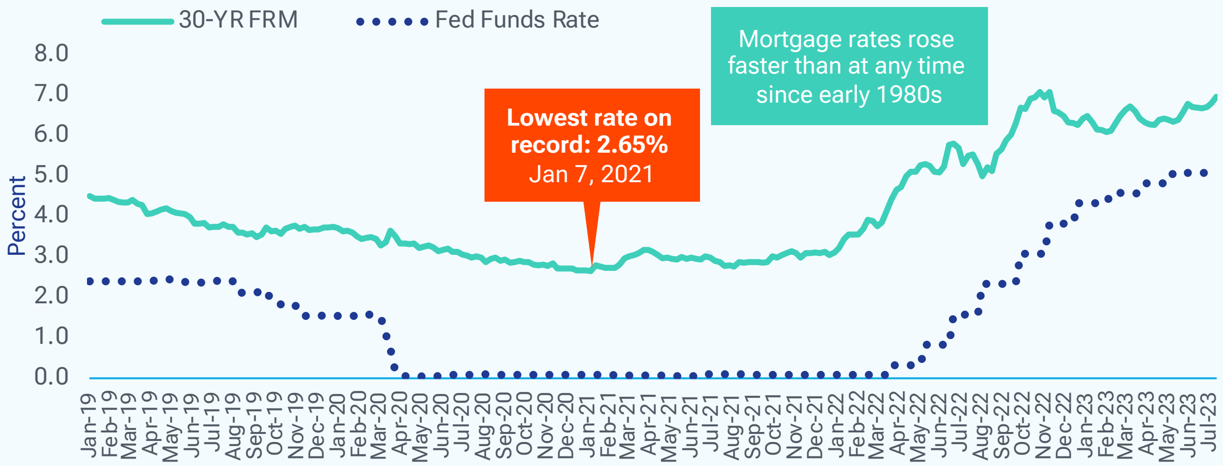
Source: U.S. Department of Treasury

In a 12-month period, a single person could have received up to $3,200 while a family of four (married couple and two children) could have received $11,400. In many markets across the country, households who were able to bank these stimulus payments could use that money to support down payments, allowing them to enter the homeownership market or afford to compete more aggressively for available housing.

Interest Rate Policy

In March of 2020, as COVID-19 cases began to grow and states and localities started shutting down schools and businesses, the Federal Reserve cut the target federal funds rate to near zero to reduce the cost of borrowing, keep money flowing in the economy, and stimulate economic growth. This was on top of rates that were already low, by historical standards, from the central bank's response to the Great Recession. The federal funds rate impacts a variety of financial instruments, including 30-year fixed mortgage rates, which fell to historic lows. The average rate on a 30-year fixed rate mortgage fell from about 3.5% in March 2020 to 2.65% in January 2021, the lowest rate on record. Rates remained consistently below 3% through the fall of 2021.

Figure 2. Fed policy drove mortgage rates



Source: Freddie Mac, Federal Reserve

Mortgage applications and home sales surged in the second half of 2020 and first half of 2021. Some of this surge represented pent-up demand when the normal process of homebuying was effectively shut down in April of 2020. However, the surge also included new move-up buyers, first-time buyers, and second-home buyers. First-time buyers were able to get into the market with a conventional mortgage at a historically low rate. Move-up buyers looking for more space during the pandemic took advantage of low rates. Mortgage originations for second home purchases reached record highs. Millions of mortgage holders refinanced as rates sank to record lows.

The Federal Reserve's interest rate policies supercharged the housing market and likely helped keep the economy from entering a major recession. Government policy also stimulated demand more broadly, which, combined with materials shortages caused by pandemic-driven disruptions in national and international supply chains, led to escalating inflation. Inflation peaked at 9.1% in June 2022, reaching a four-decade high. So, the Federal Reserve stepped in again, this time to quickly raise interest rates to tamp down inflation. As the short-term federal funds rate was hiked through repeated rate decisions, mortgage rates also went up, increasing faster than at any time since the early 1980s. Demand was still high and home prices were still rising, and as mortgage rates increased, the typical monthly payment for a homebuyer nearly doubled between 2021 and 2023.

Figure Figure 3. Federal Reserve policy made homebuying less expensive—and then more expensive: Government stimulus payments fueled housing demand

	Jan 2019	Jan 2021	Jan 2023	July 2023
Median price	$250K	**$305K**	$361K	**$410K**
Mortgage rate	4.46%	2.74%	6.27%	6.84%
Monthly payment	$1,520	**$1,550**	$2,490	**$2,950**
Income needed	$65K	$67K	$107K	$126K

Source: NAR, Freddie Mac, Bright calculations | Calculations assume 10% down payments and a 30-year fixed rate mortgage. Monthly payments include estimates of property taxes and homeowners' insurance. Income needed calculations assume monthly payment is no more than 28% of a household's income.

Higher interest rates did not slow consumer demand as much as anticipated, and the Fed's actions did not bring home prices down. Rather, they dramatically lowered the supply of for-sale housing. Demand did ease as higher rates and prices priced some out of the market. But a new obstacle to supply emerged as homeowners refrained from moving because they wanted to hold on to their existing super-low mortgage rates. Interest rate policy locked up both the demand and supply sides of the housing market.

As we move through the pandemic, it is clear that there will be long-lasting impacts from the fiscal and monetary policies that were put into effect to deal with the pandemic.

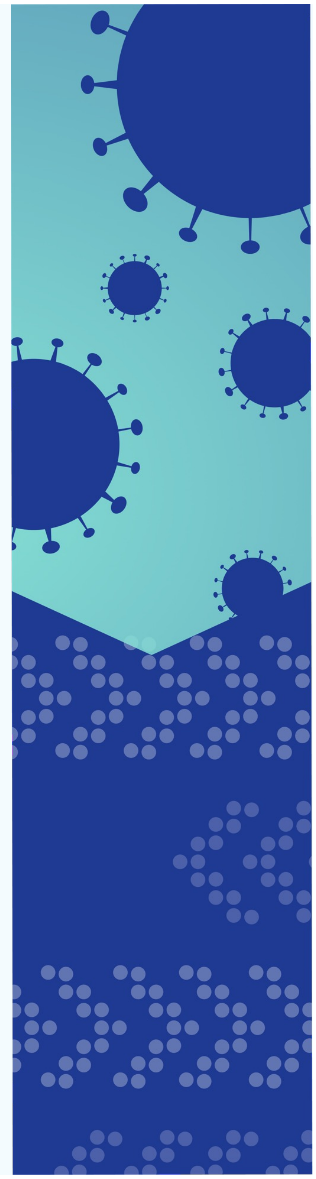
Impact on the National Housing Market

Nationally, home sales surged during the pandemic. There were 6.12 million sales of existing homes in 2021, over a million more than there would be in a normal year. Sales were just over 5 million in 2022 but are projected to be off significantly in 2023, down to around 4.38 million. During the pandemic, 14 million mortgage holders also refinanced as rates sank to record lows. Homeowners refinancing their mortgage during the pandemic saved an average of $220 per month with their lower rate, according to analysis by the New York Federal Reserve. Instead of seeing a collapse of the housing market, as some had predicted at the onset of the pandemic, home prices surged by more than 40% between 2020 and 2022.

Homeownership Expanded During the Pandemic

Super-low mortgage rates may have expanded homeownership somewhat. In the first quarter of 2020, the U.S. homeownership rate was 65.3%. In the first quarter of 2023, the homeownership rate was 66.0%.

- **Black:** 44.0% to 45.8%
- **Hispanic:** 48.9% to 49.7%
- **White – Black homeownership rate gap:** 29.7% to 28.6%
- **White – Hispanic homeownership rate gap:** 24.8% to 24.7%
- **Below median family income:** 51.8% to 53.4%
- **At or above median family income:** 78.7% to 78.6%

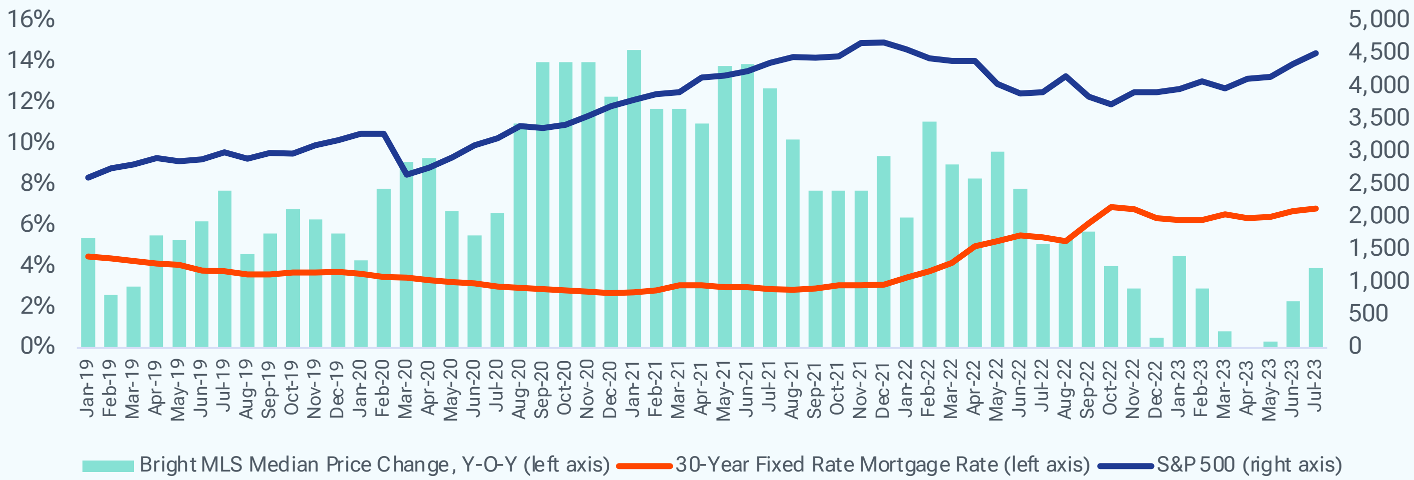


The Impact of COVID-Era Government Policy on the Mid-Atlantic Housing Market

This analysis examines the changes in the Mid-Atlantic housing market during and immediately following the pandemic to explain the impact of government policies on the housing market and to assess the extent to which changes in the housing market will be long-lasting. In April of 2020, as businesses—including many real estate–related businesses—were forced to suspend normal operations, the number of home sales fell dramatically in the Mid-Atlantic, creating concerns about an impending housing market recession. However, the tide turned very quickly as the Federal Reserve dropped interest rates, mortgage rates began falling, consumer savings rose, and the stock market surged. Buyers were back in the market at a fast pace during the summer, and monthly home sales activity was up by more than 30% compared to typical years during the second half of 2020 and through much of 2021. While price growth was already accelerating in the Mid-Atlantic prior to the pandemic, home prices increased sharply beginning in the second half of 2020.

Looking back, the booming stock market alongside the ultra-low mortgage rates raises the question of whether cash buyers or buyers financing with a conventional or FHA mortgage contributed more to the rapid rise in home prices after the pandemic.

Figure 4. Home prices, mortgage rates, and the stock market



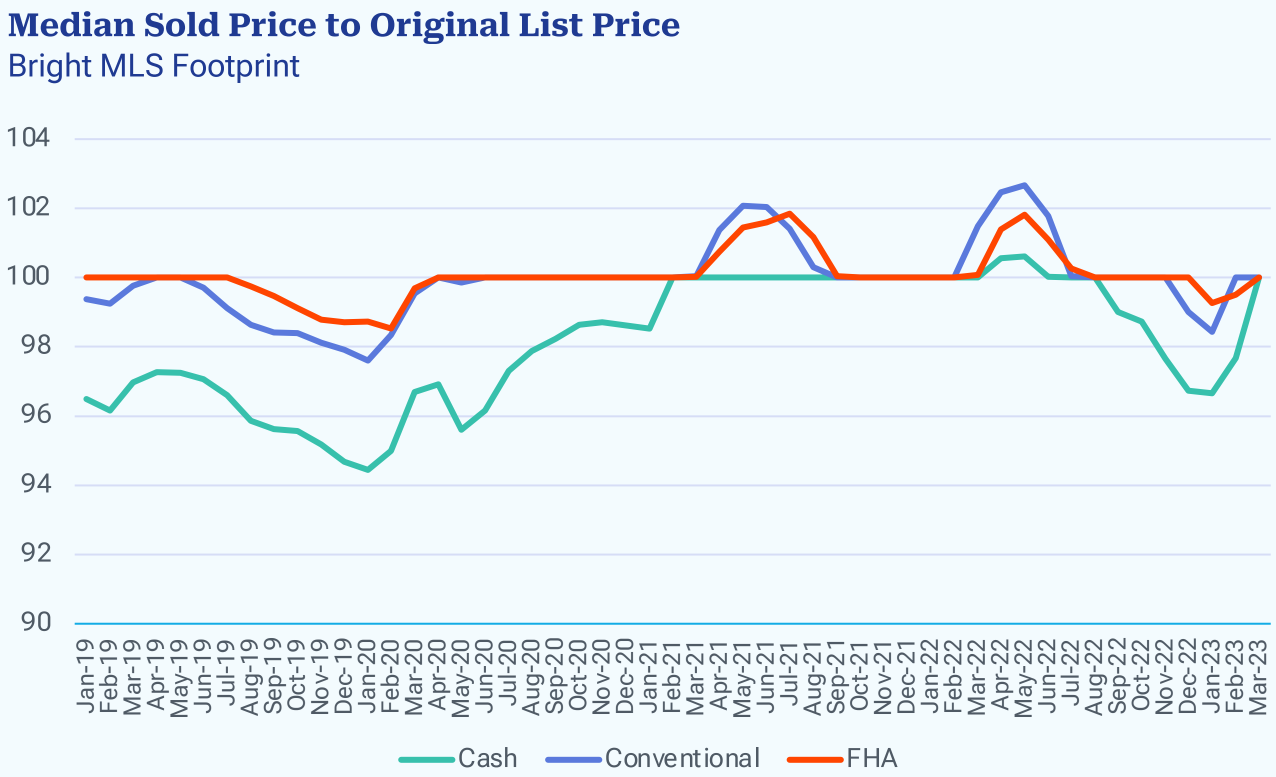
Source: Bright MLS, Freddie Mac, S&P

We looked at the median sales price to original list price (SP-OLP) ratio by financing type to better understand how low rates contributed to price growth during the pandemic. Throughout 2019, the SP-OLP ratio was highest for FHA buyers, suggesting there was greater upward pressure on prices among lower-priced homes, which are more typically purchased with FHA-supported loans. The SP-OLP ratio could also be higher for FHA buyers because sellers are less certain about the FHA process and unwilling to risk the sale unless the offer is notably better than conventional or cash offers. In 2019, buyers using conventional financing had the second highest SP-OLP ratio while buyers with cash had by far the lowest SP-OLP ratio. The lower SP-OLP ratio for cash buyers is likely because sellers are accepting a lower price for a more expedited and certain process.

When the pandemic hit and mortgage rates began to fall, the median SP-OLP ratio for all types of purchases rose. In May and June 2020, the median SP-OLP index for conventional mortgages was the highest at or above 102, while the ratio for cash sales remained at 100. After the summer selling season of 2021 wound down, the median SP-OLP ratio for sales of all three financing types settled back at 100 from September 2021 through February 2022. During the 2022 selling season, it was again the SP-OLP ratio of conventional loans that increased first and peaked the highest. As interest rates began to rise throughout 2022, however, the SP-OLP ratios for all three financing types began to decline and reflect pre-pandemic levels.

Generally, buyers during the era of ultra-low interest rates using conventional financing appear to have been more willing to pay over the listing price than buyers using FHA or buying with cash. Overall, the trends in the SP-OLP ratio of sales suggest that Mid-Atlantic buyers using conventional financing contributed more to home price appreciation than did cash buyers.

Figure 5. Sale prices exceeded list prices during the pandemic



The majority of home sales in the Mid-Atlantic are financed with conventional financing, which became even more attractive during the period of ultra-low mortgage rates. In the second half of 2019, more than half of sold homes were purchased with conventional financing. About 15% were FHA sales and 16% were cash purchases. As the average interest rate on a 30-year fixed mortgage declined, the share of closed sales that used conventional financing increased. The share of closed sales financed with a conventional mortgage increased to a peak of 61.7% in June 2021. As mortgage rates began to rise, the share of homes financed using conventional mortgages declined to 53.7% by January 2023. Interestingly, FHA purchases generally declined during the pandemic as FHA borrowers switched to conventional financing. Cash purchases, which bottomed at 12.0% of total units sold in the pandemic era, climbed to over 20% of closed sales in October 2022.

Cash sales accounting for such a small share of all sales during the period of fastest price gains is another reason that cash sales were unlikely to have been the primary reason behind home price appreciation.

Figure 6. Cash buyers were a small part of the Mid-Atlantic housing market

Share of Home Sales
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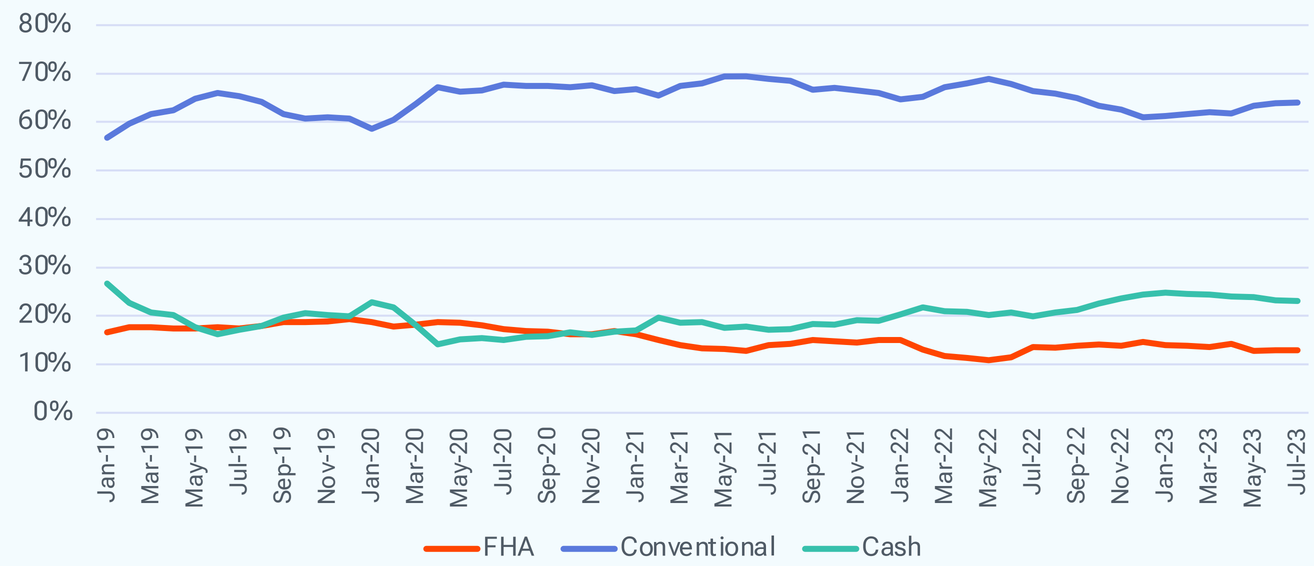
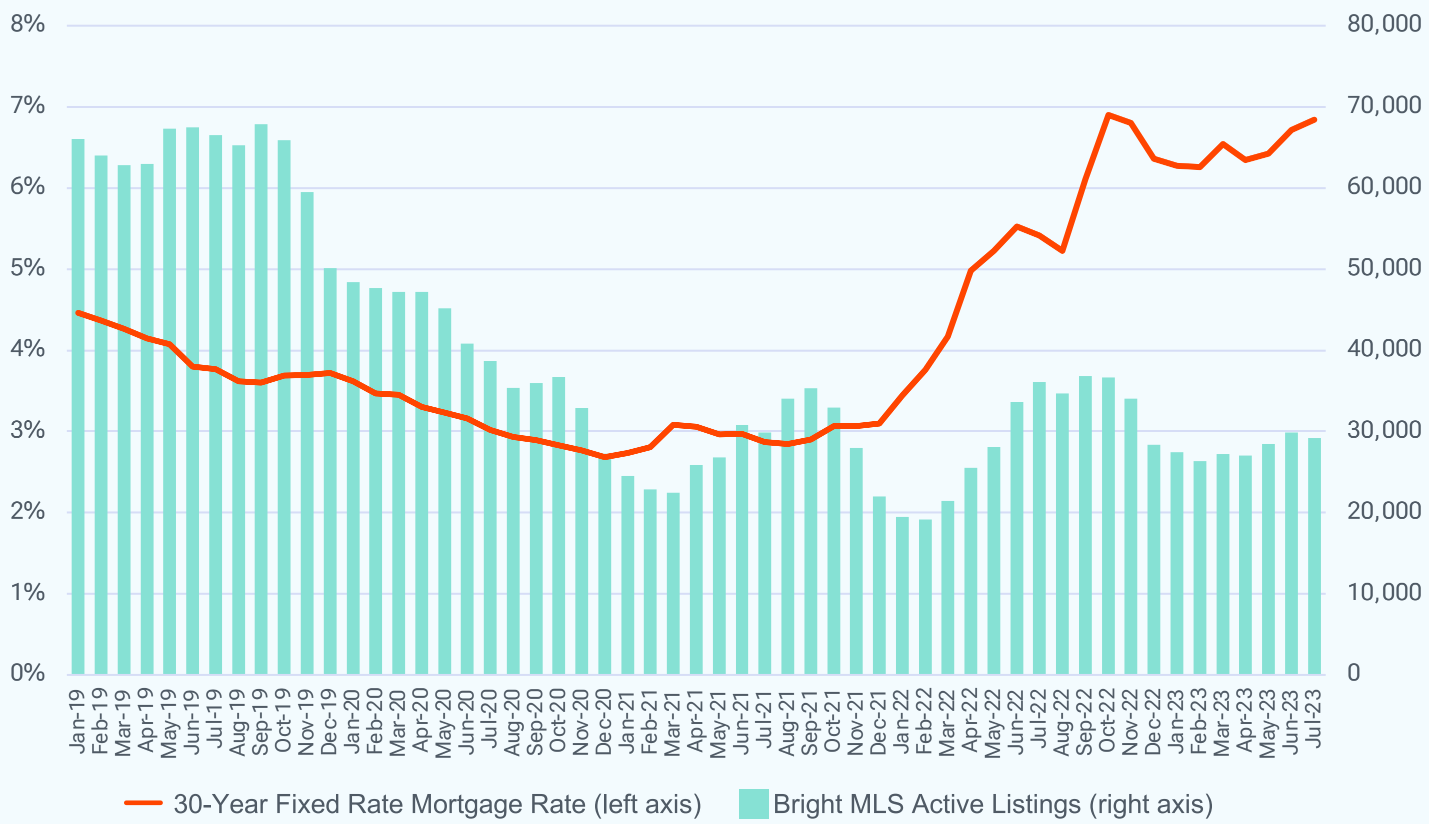


As the average 30-year fixed rate increased alongside the Federal Reserve raising interest rates, inventory fell to historic lows. The rapid increase in mortgage rates has kept supply low. Roughly 60% of sales between 2020 and 2022 were financed with a conventional mortgage, most with a rate below 4%. Inventory and market activity is likely to remain low for the foreseeable future as many potential sellers will be unwilling to give up their low mortgage rates.

Figure 7. Fast-rising rates keep inventory low



Outlook

The pandemic resulted in massive economic upheaval, with economic activity slowed by public policies designed to moderate the spread of the virus. The federal government engaged in a series of actions that boosted household cash, spurred growth and spending with ultra-low interest rates, and further stimulated the economy with new spending programs. These economic changes all impacted the housing market in various ways, the most notable being a dramatic increase in home prices.

Ultra-low interest rates resulted in an increase in the number of sales in the Mid-Atlantic financed with a conventional loan, a trend that reversed as mortgage rates began to increase. The rapid home price appreciation recorded from late 2020 through late 2021 was likely the result of ultra-low mortgage rates increasing buying power. Indeed, conventional buyers paid the highest premium over listing price in order to close the sale and accounted for the largest share of all sales. Moving forward, the ultra-low interest rates that buyers locked in are likely to keep them in their homes and keep supply low and market activity constrained for the foreseeable future.

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