

COVID-19 Effects on Real Estate: A Regional Perspective

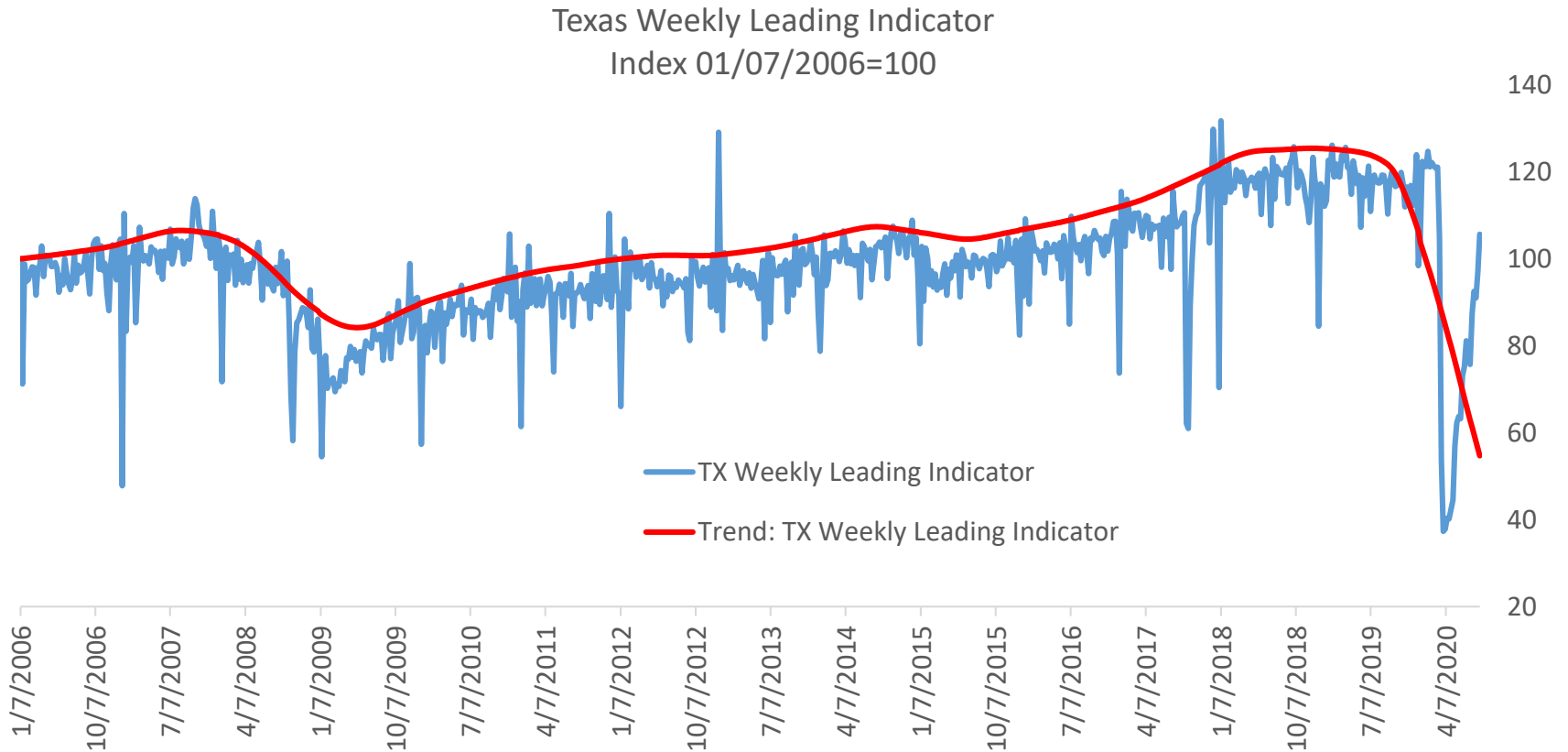
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AUBER Roundtable

August 20, 2020

The Great Lockdown

- Crisis like no other. Severity. Uncertainty surrounding duration, impact.
- Texas Weekly Leading Index signals uptick in economic activity
 - ✓ However, index still indicates recession in future.

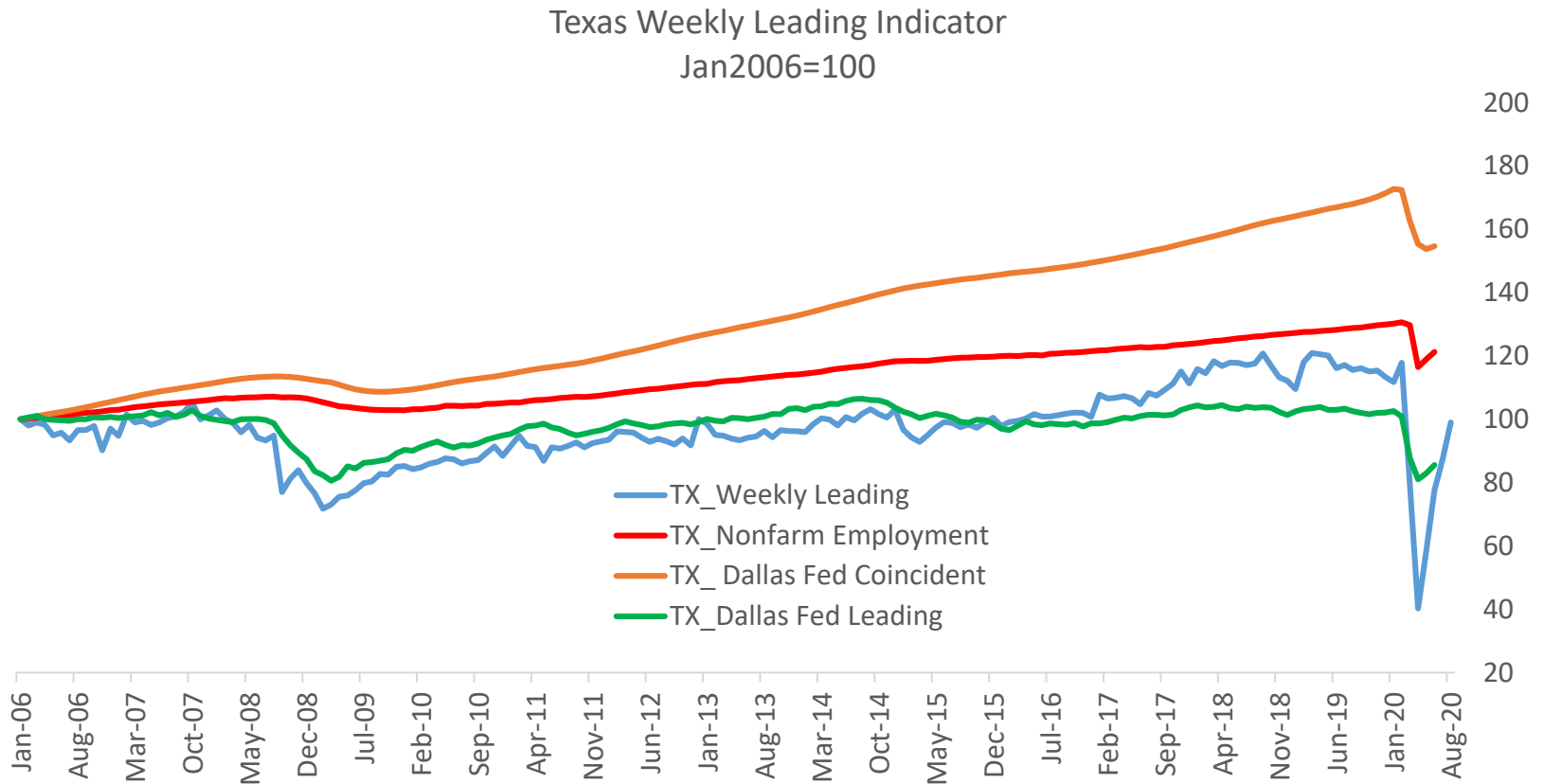
The Great Lockdown



Note: Seasonally Adjusted

Source: Real Estate Center at Texas A&M University

The Great Lockdown



Note: Seasonally Adjusted

Source: Real Estate Center at Texas A&M University

Pandemic impact on economy

Number of jobs (thousand) gained and lost during COVID-19 pandemic

	U.S.	Texas
Mar-Apr 20	-22,160	-1,412
May - Jun 20	7,499	475
Net gain/lost	-14,661	-937

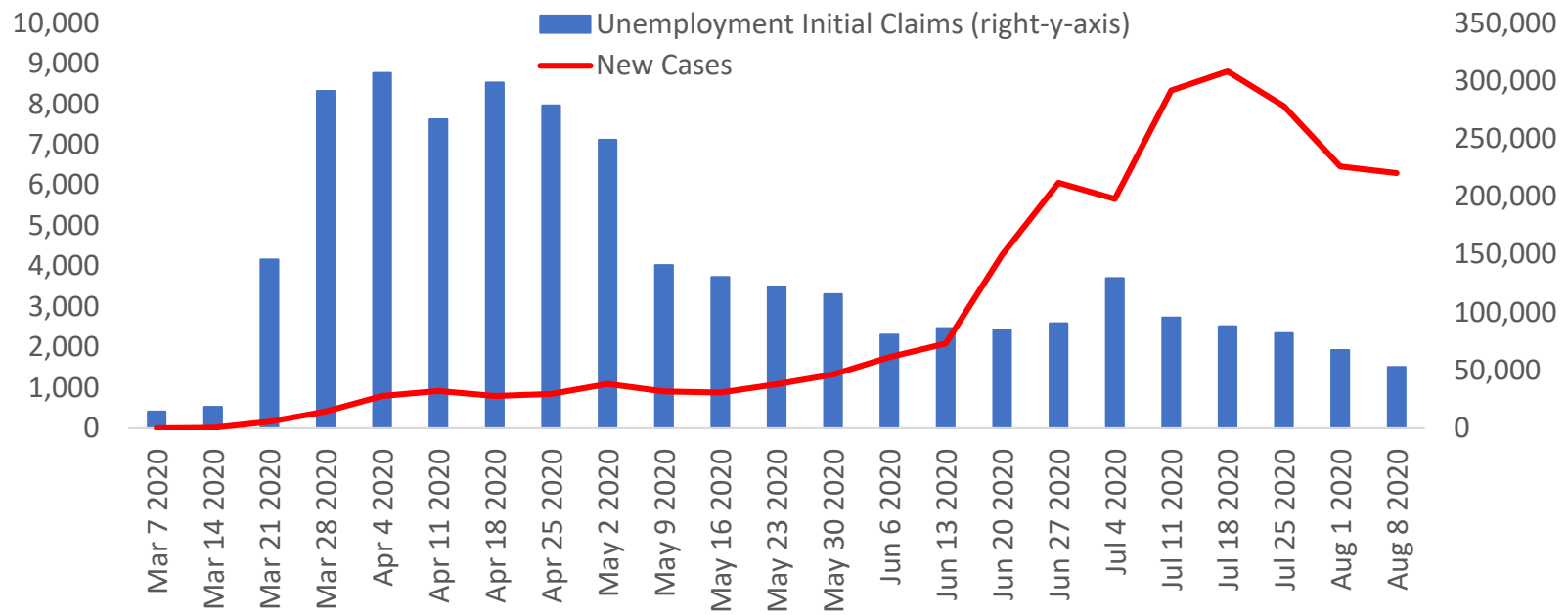
Source: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

Pandemic impact on economy

Number of Initial Unemployment Claims

	U.S.	Texas
Mar 21 - Aug 15	57,389,948	3,273,127

Texas: Unemployment Initial Claims and COVID-19 New Cases

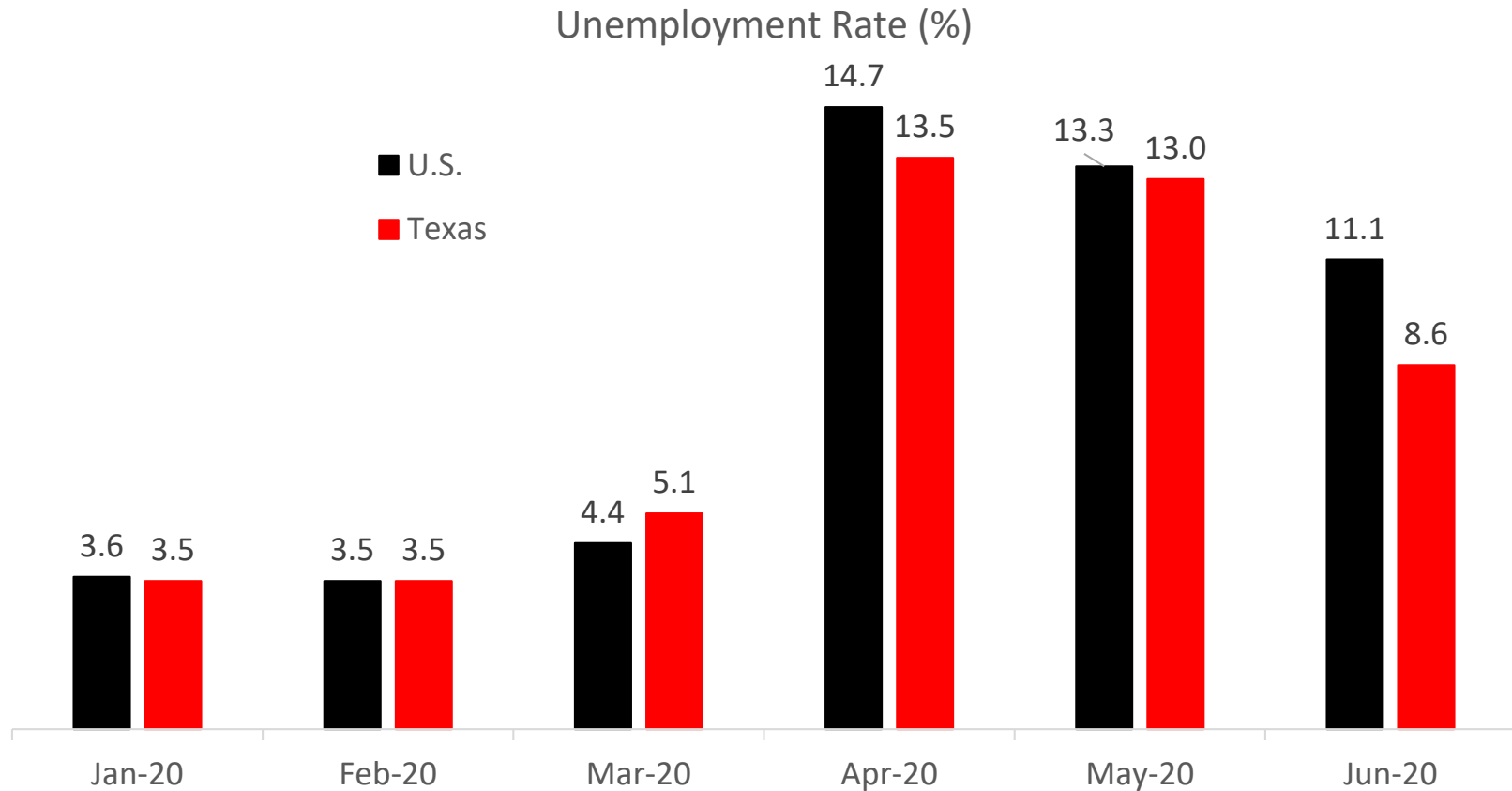


Note: Seasonally Adjusted

Source: Texas Workforce Commission and Real Estate Center at Texas A&M University



Pandemic impact on economy

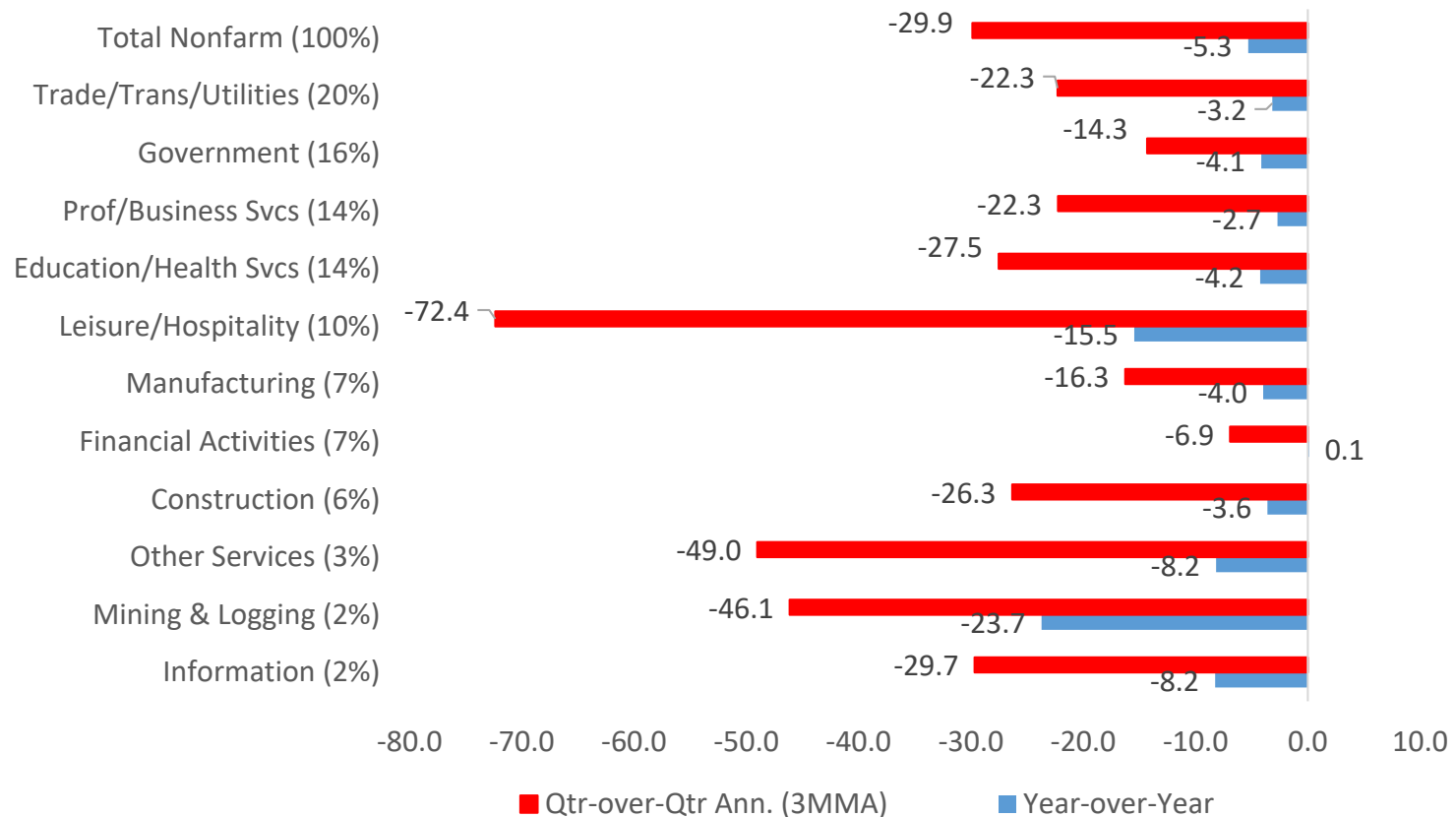


Note: Seasonally Adjusted

Source: Real Estate Center at Texas A&M University

Pandemic impact on economy

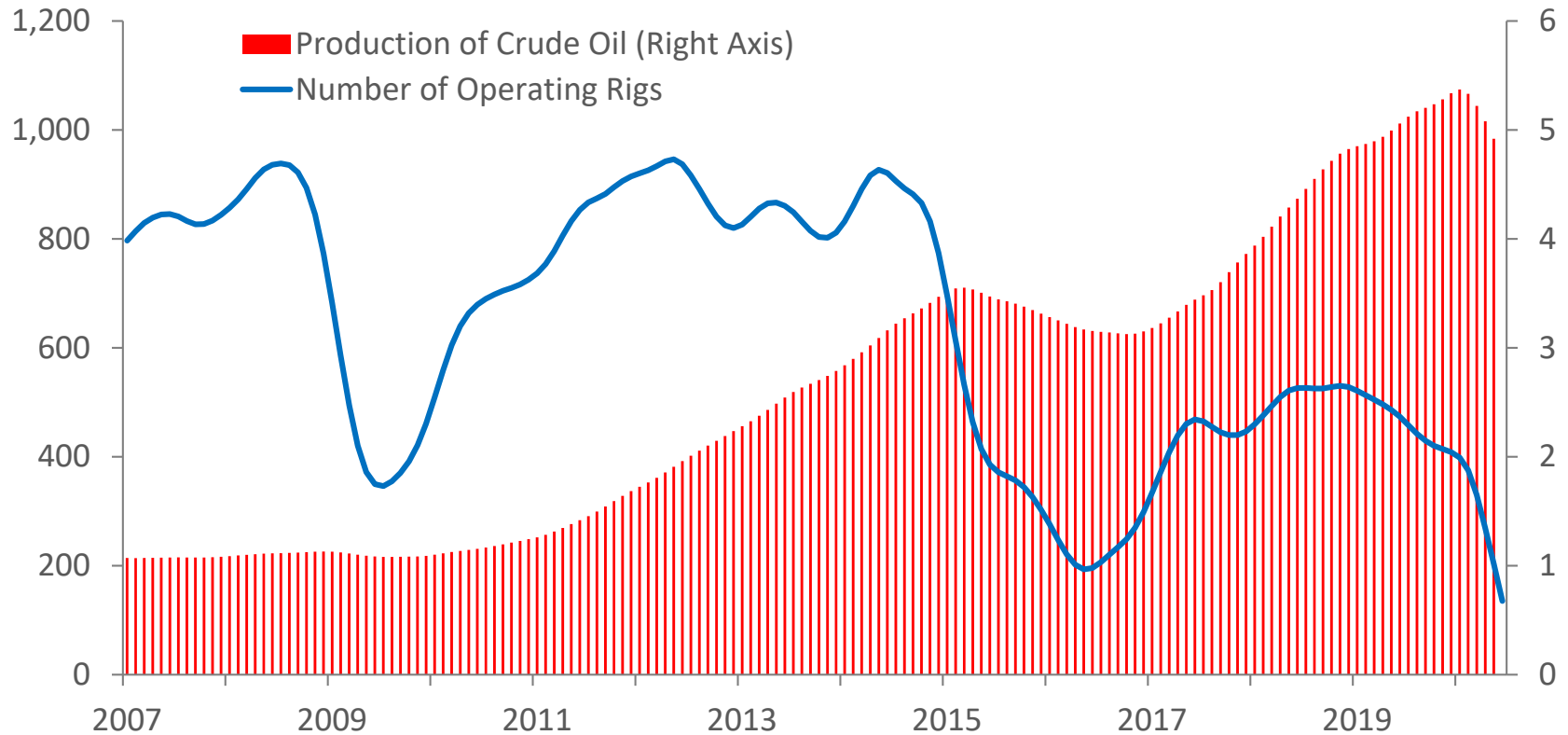
Texas Employment by Sector Jun-20
(Year-over-Year and Quarter-over-Quarter Annualized Percent)



Note: Seasonally adjusted.
 Source: Bureau of Labor Statistics.

Pandemic impact on economy

**Texas Production of Crude Oil and Rig Count
(Number of rigs, Millions of barrels per day)**

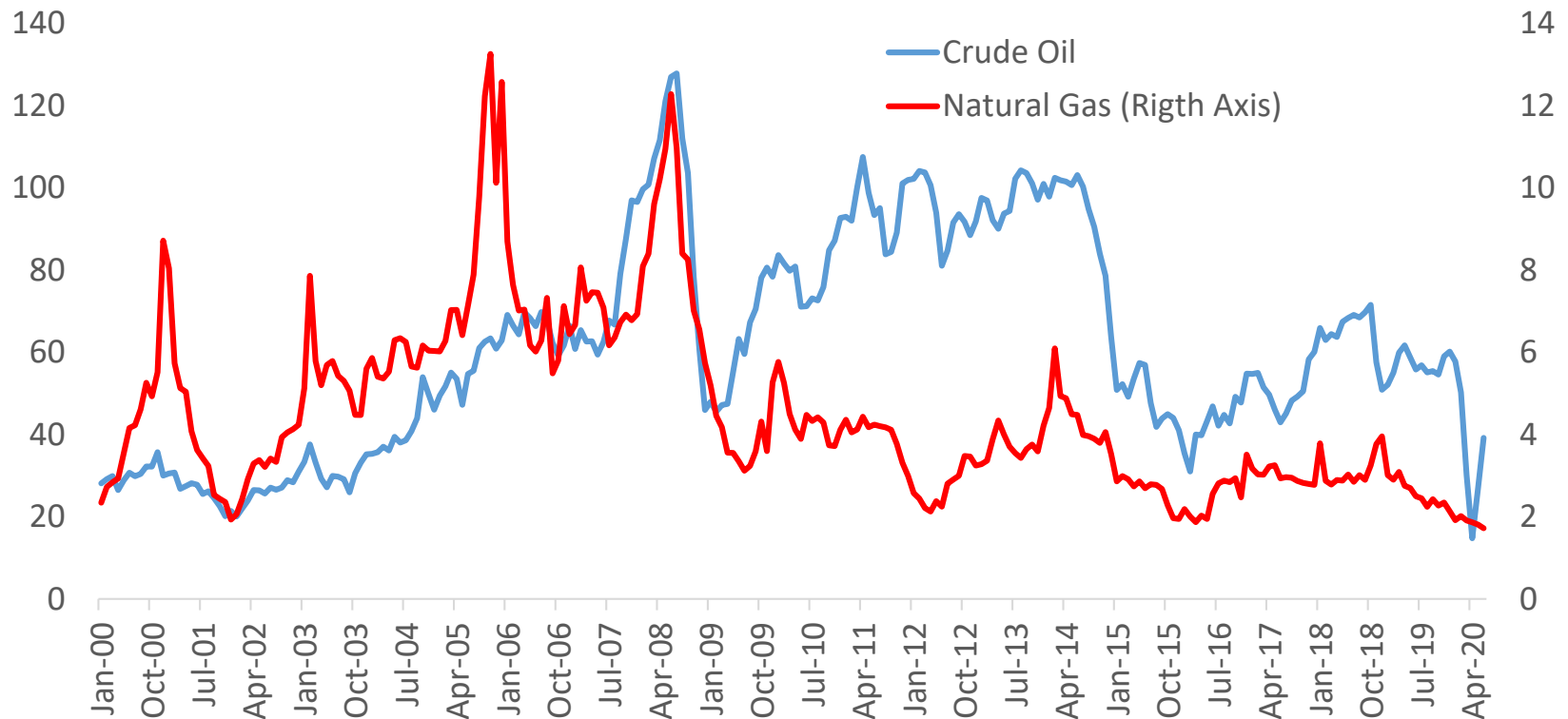


Note: Seasonally Adjusted

Source: Real Estate Center at Texas A&M University

Pandemic impact on economy

Crude Oil and Natural Gas Prices
(\$/Barrel, \$/million BTU)

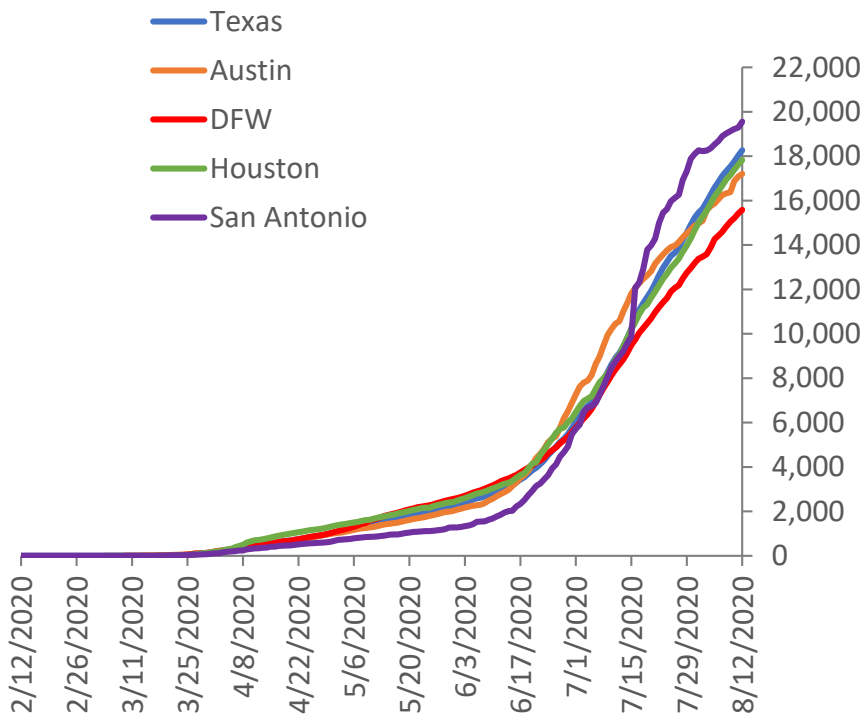


Note: Seasonally Adjusted

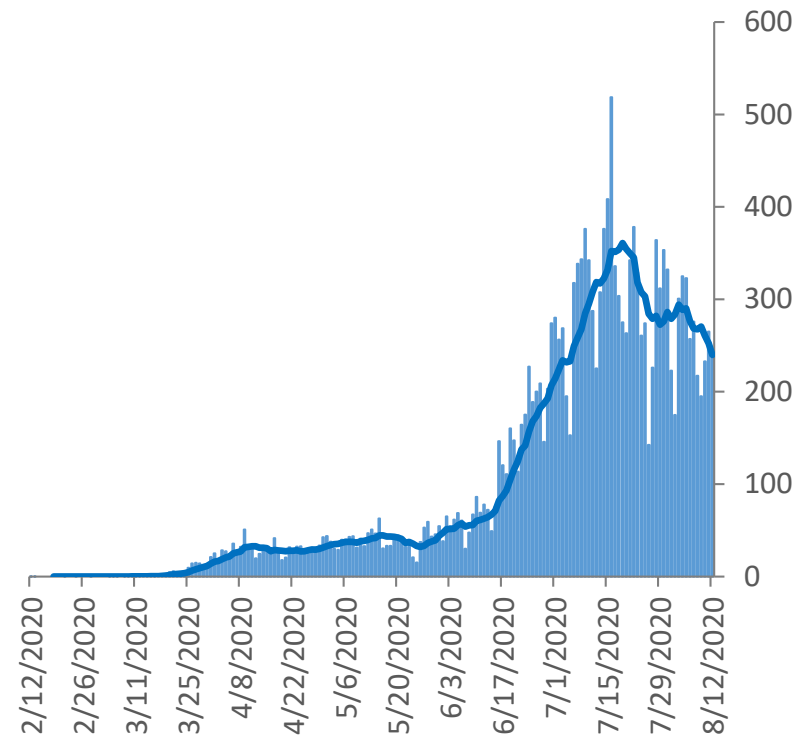
Source: Real Estate Center at Texas A&M University

Road to recovery depends on health outcomes

Total Cases/Mil in Texas



Daily New Cases/Mil in Texas



Source: <https://github.com/nytimes/covid-19-data/blob/master/us-counties.csv>

Pandemic impact on residential, commercial development

- Longer crisis persists, more likely to see transformative, lasting changes in behavior.
- Difficult to change behavior if it has a short-run impact.
- Structural change takes time.

Pandemic impact on residential, commercial development

- COVID-19 accelerated changes already prevalent:
 - ✓ Working from home
 - ✓ On-line purchases
 - ✓ Healthy lifestyle benefits
 - ✓ Education/skill attainment outcomes

Pandemic impact on residential, commercial development

Residential

- People hurt most during crisis: low-skill/low-wage.
- Majority renters who cannot afford to buy houses.
- Some first-time homebuyers lost during pandemic.
- Housing supply lag will continue, especially starter homes in short-run.
- Preference to purchase a home supported.

Pandemic impact on residential, commercial development

Residential

- About 1/3 of country's renters protected by an eviction moratorium that covers properties with federally insured mortgages.
 - ✓ Expired July 25.
 - ✓ NMHC Rent Payment Tracker 86.9% of apartment Households paid rent (August 13)
- Some cities/landlords offered temporary rent reductions and repayment plans.

Pandemic impact on residential, commercial development

Residential

- Many renters are jobless and depend on supplemental weekly unemployment benefits \$600
 - ✓ Expired July 31
- The number of tenants able to pay rent going forward is unknown.
 - ✓ depends on them being employed and earning wages.

Pandemic impact on residential, commercial development

Residential

- People still need place to live, income constraints play important role.
- Supply could be negatively affected in short-run, but massive migration out of apartments not likely.
- Residual fear about COVID-19 and/or future viruses and clustering effect could hamper future apartment demand.
 - ✓ Housing affordability issues help demand

Pandemic impact on residential, commercial development

Residential

- Long-run, expect movement to more amenities less density (e.g., better communal spaces, storage units, fewer than 40 apartments per development).
- Trend toward mixed-use commercial developments which include office, retail, and multifamily, should continue
 - ✓ offer quality amenities and less density, and often in suburbs or urban fringe.

Pandemic impact on residential, commercial development

Commercial

- Strong relationship between CRE vacancies, unemployment.
 - ✓ Longer unemployment lasts, stronger the negative impact.
- Accelerated retail restructuring, development of industrial
 - ✓ Retail will be hit hardest, accelerating shift to e-commerce.
 - ✓ Industrial less affected, benefiting from shift to e-commerce and need for distributive and warehousing centers.

Pandemic impact on residential, commercial development

Commercial

- Not everyone can work from home.

What is future of office building?

SARS Hong Kong did not have real impact on office buildings.

- Some office amenities cannot be duplicated at home.
- Relationship and networking-building difficult to accomplish working from home.

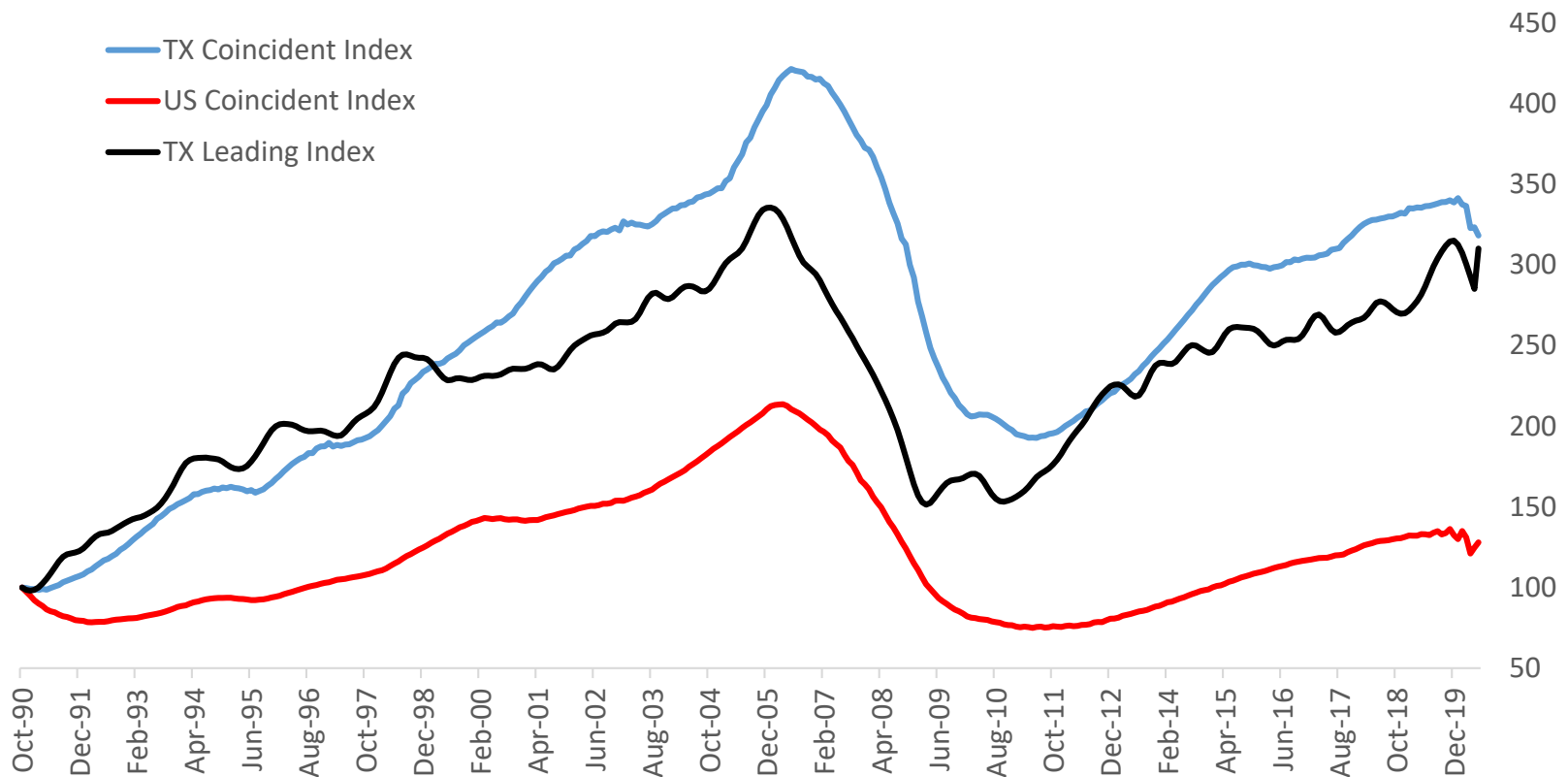
Pandemic impact on residential, commercial development

Commercial

- ✓ The process of some high-tech employees working from home and of doing business online will accelerate.
- ✓ Expect more satellite offices in suburbs or in other cities with less density to put fewer employees in central downtowns or in high-density areas.
- ✓ This pattern was observed before pandemic due to housing affordability issues

Leading index points toward higher activity going forward

**Texas Residential Construction Coincident and Leading Index
(Oct1990=100)**



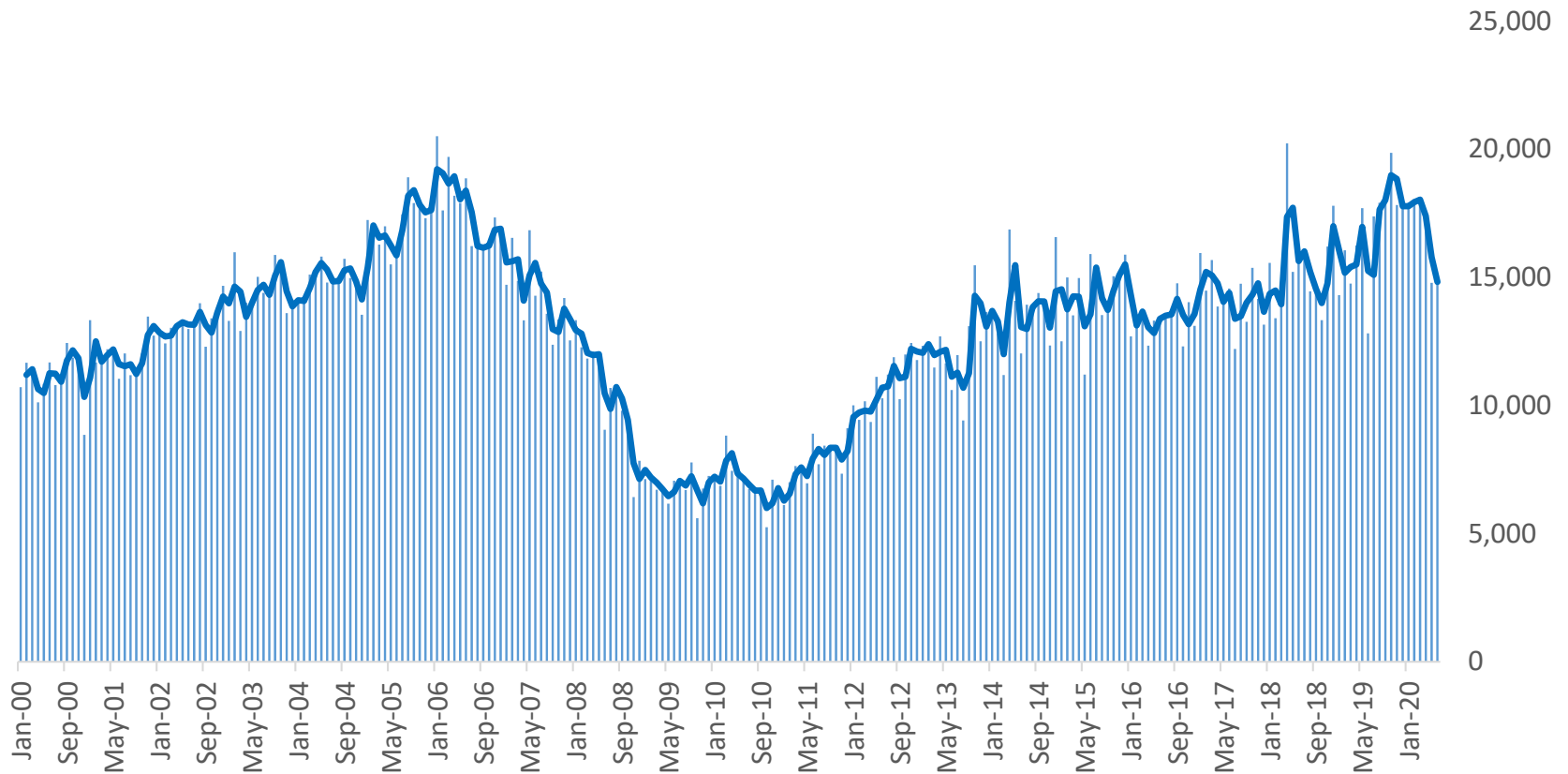
Note: Seasonally adjusted.

Source: Dallas Federal Reserve and Real Estate Center at Texas A&M University



Residential construction rebounded in June

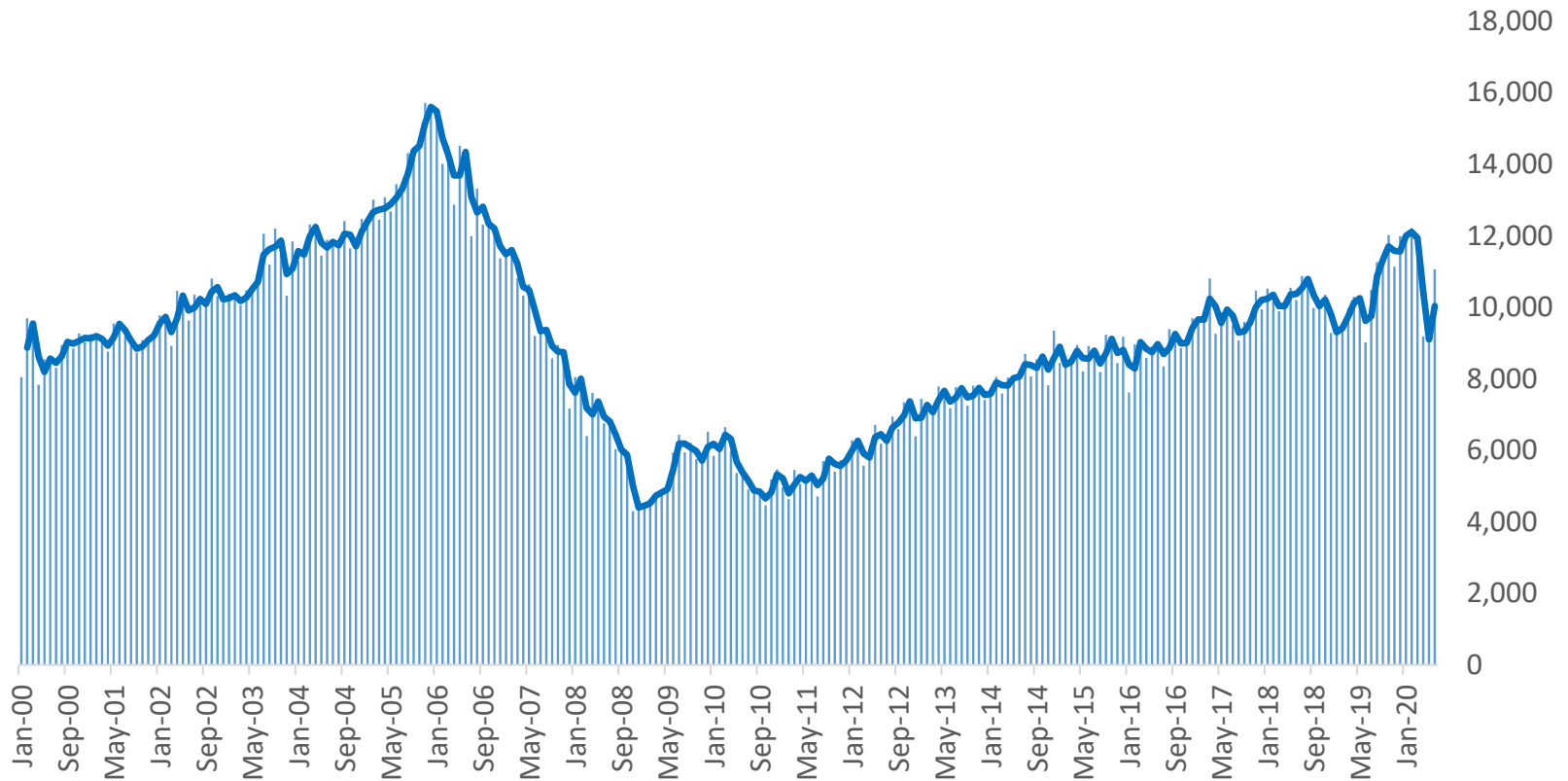
**Texas Residential Construction Permits
(#)**



Note: Seasonally adjusted. Total Residential Construction Permits
Source: U.S. Census Bureau and Real Estate Center at Texas A&M University

Led by single-family permits

Texas Single-Family Construction Permits (#)

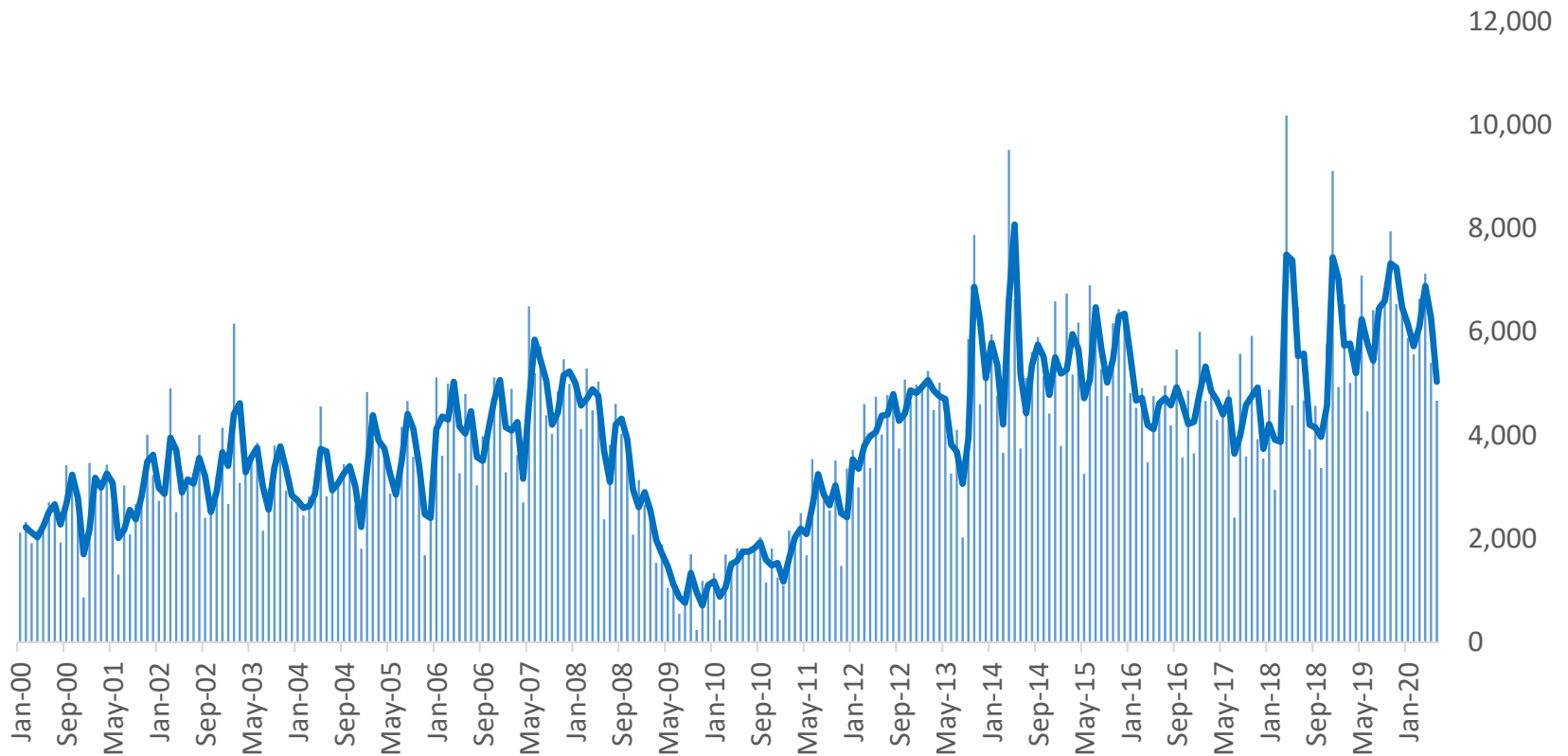


Note: Seasonally adjusted. Single Family Residential Construction Permits
Source: U.S. Census Bureau and Real Estate Center at Texas A&M University



Multifamily permits continue to fall

**Texas Multifamily Construction Permits
(#)**

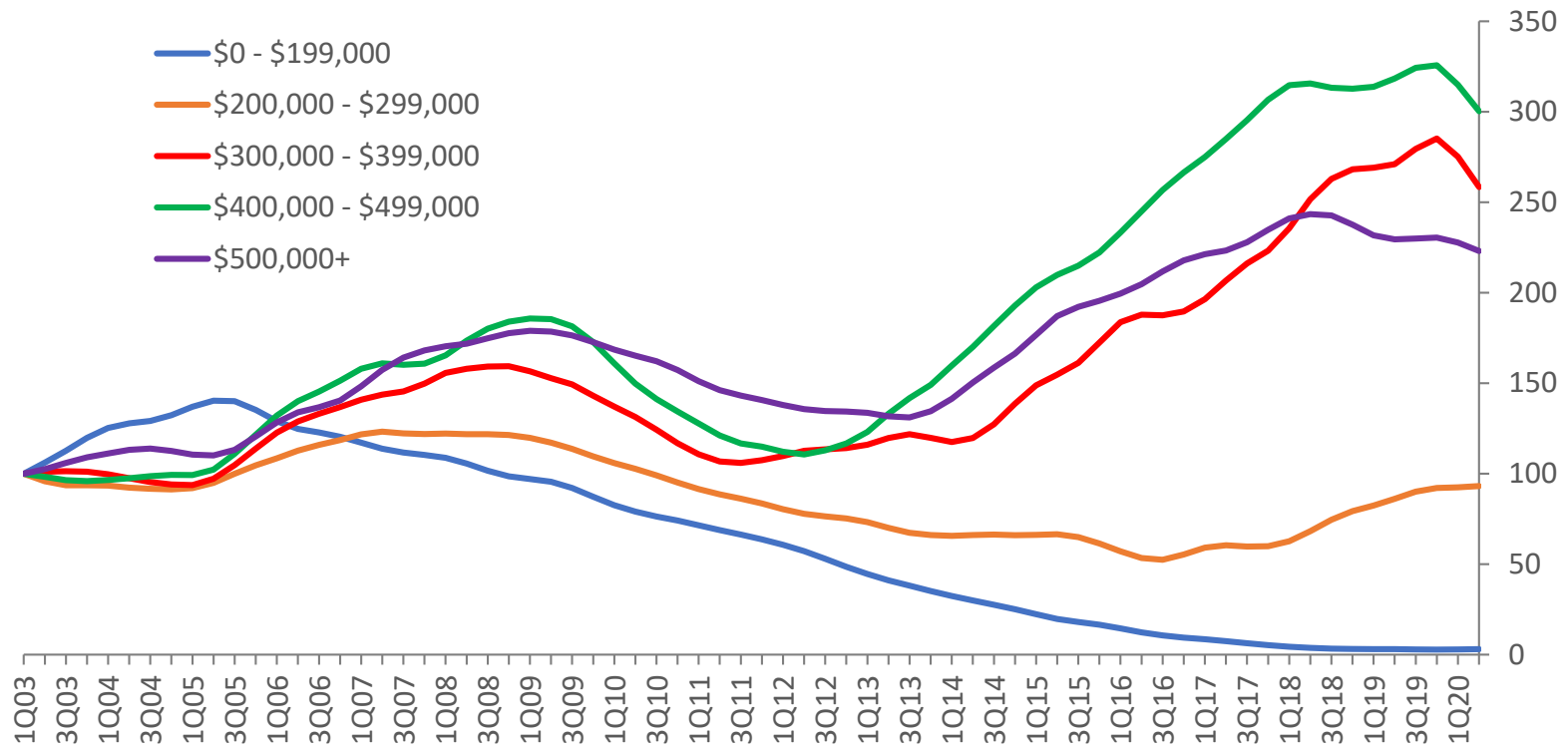


Note: Seasonal adjusted. Multi Family Residential Construction Permits
Source: U.S. Census Bureau and Real Estate Center at Texas A&M University



Production pipeline for lower price home never returned

DFW Vacant Developed Supply
(Index 3Q2001=100)

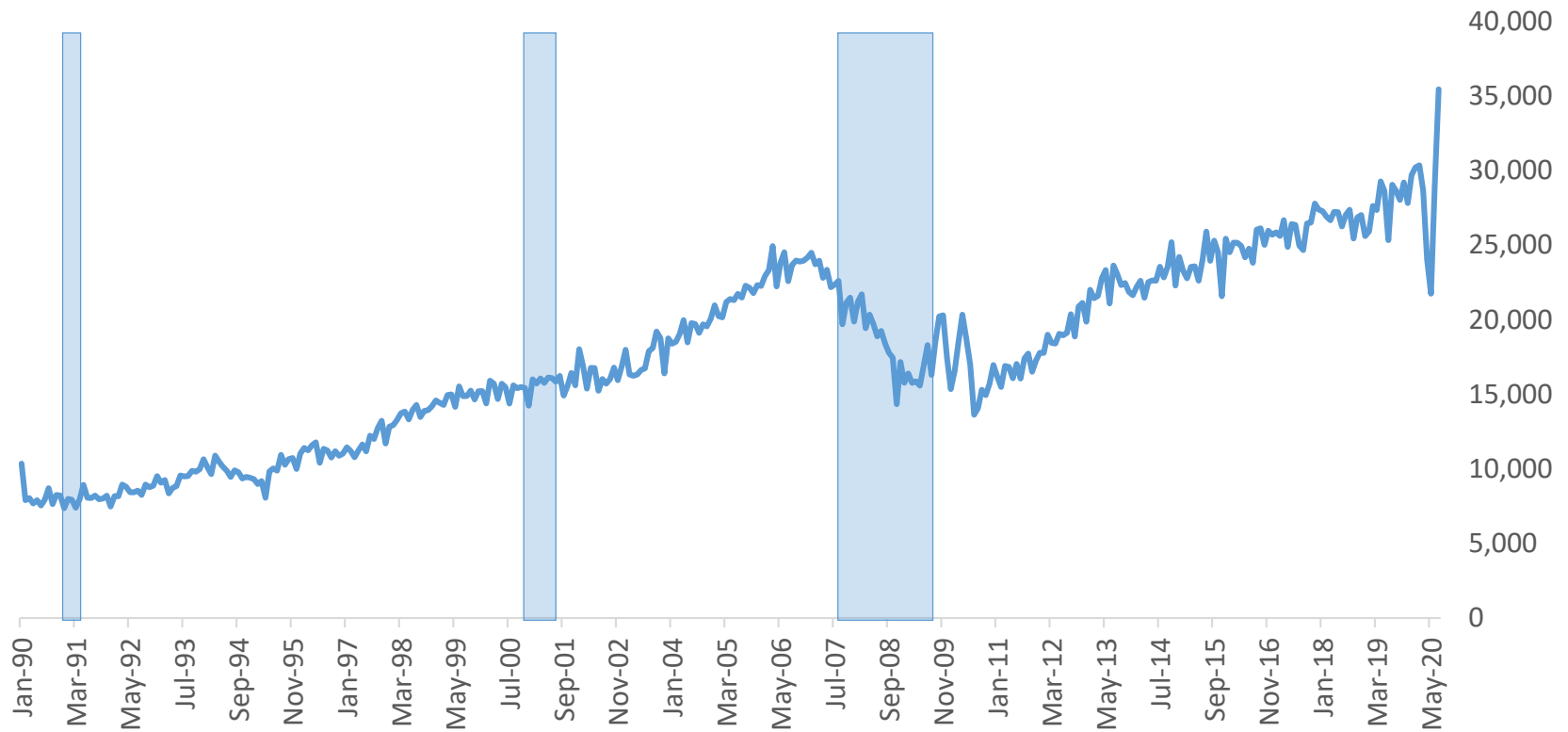


Note: Trend-Cycle Component..

Source: Metro Study and Real Estate Center at Texas A&M University.

Housing sales are expanding

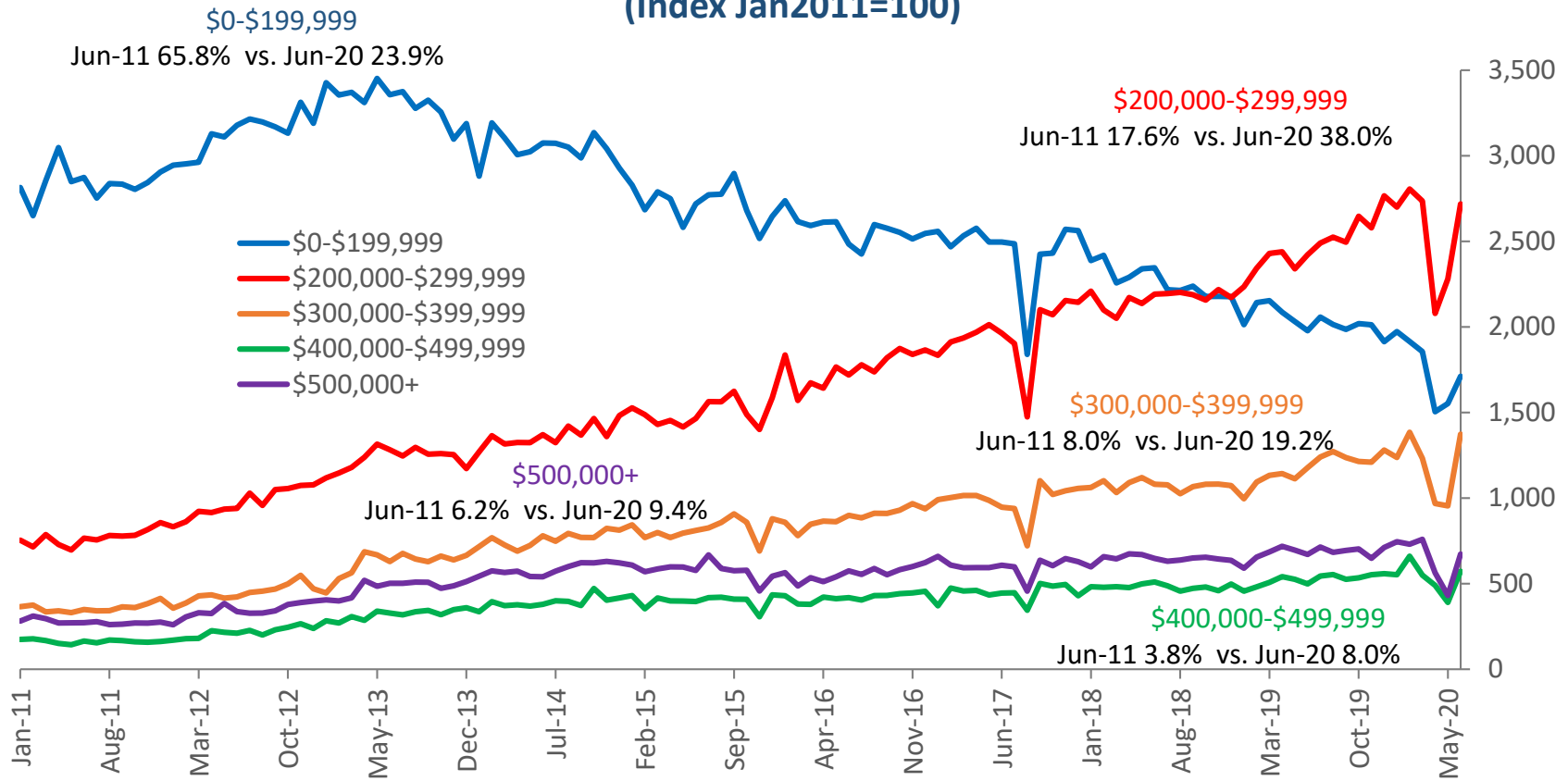
Texas Housing Sales
(#)



Note: Seasonal adjustment. Shaded area refers to US recession.
Source: Real Estate Center at Texas A&M University.

Housing sales slowed considerably for lowest price cohort

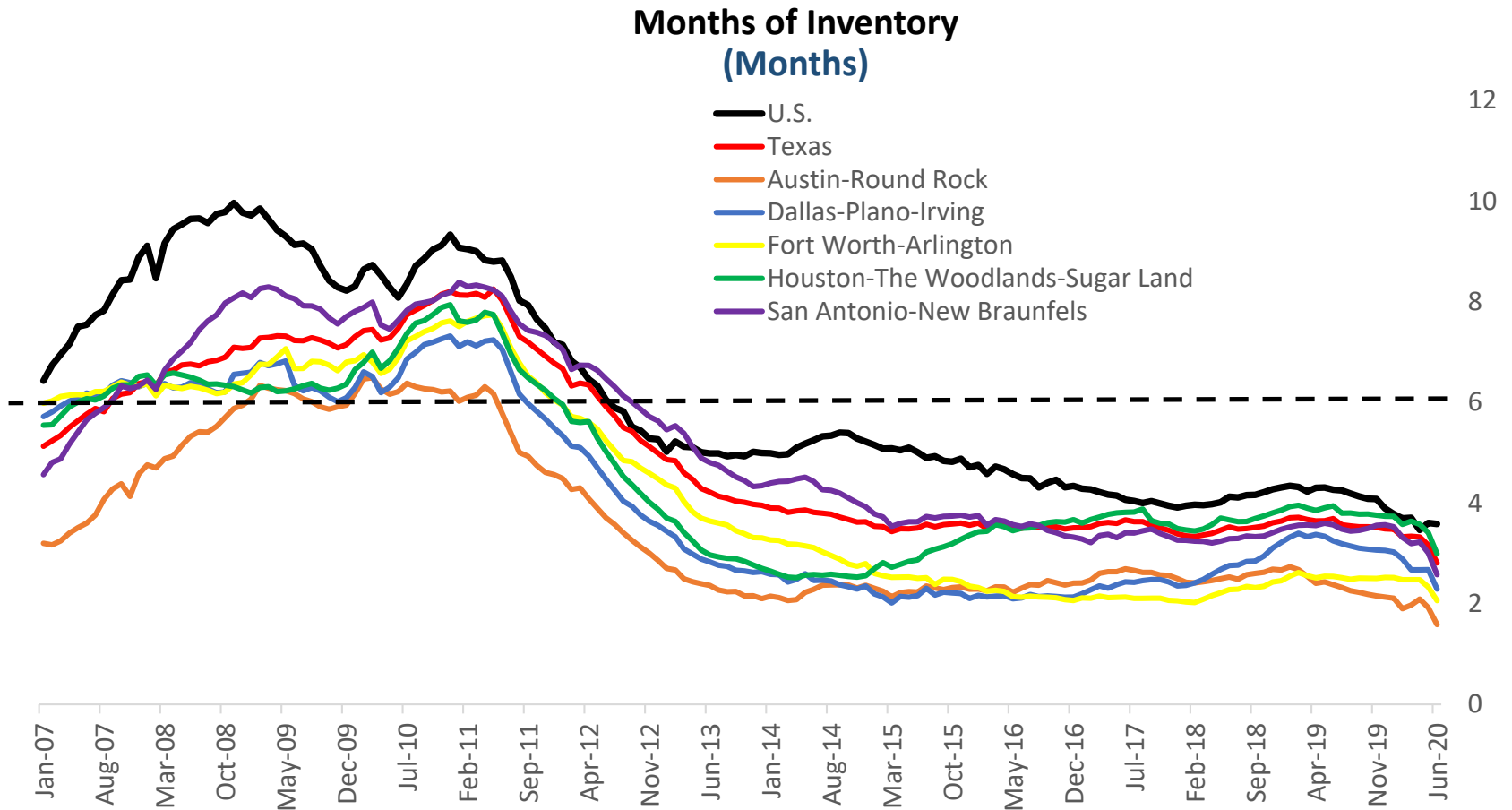
Houston Housing Sales by Price Cohort (Index Jan2011=100)



Note: Trend-Cycle Component. Includes existing and new homes.
 Source: Real Estate Center at Texas A&M University.



Months of inventory continue to decline

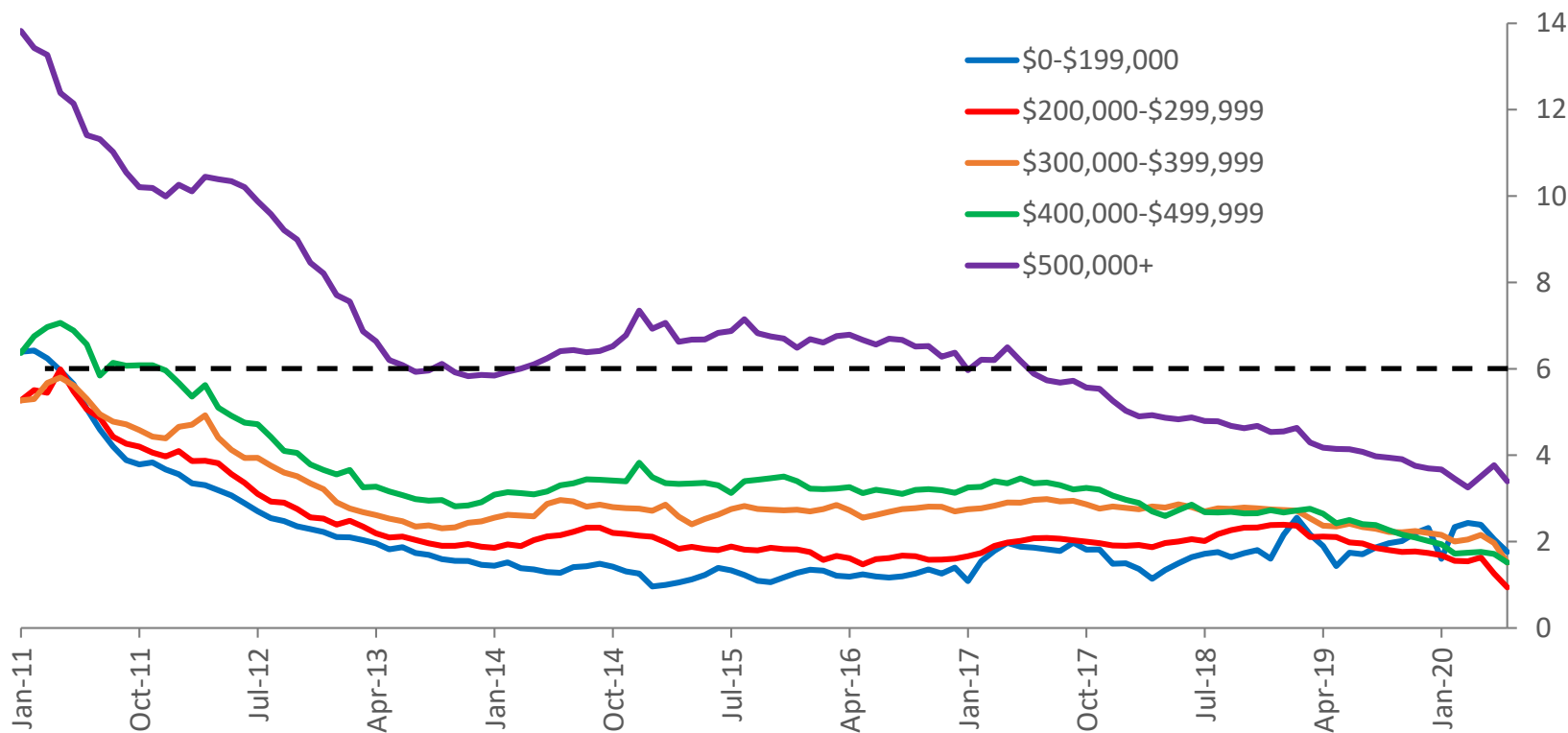


Note: Seasonal adjusted.

Source: Real Estate Center at Texas A&M University.

Months of inventory continue to decline for home prices below \$300,000

Austin Months of Inventory by Price Cohort (Months)



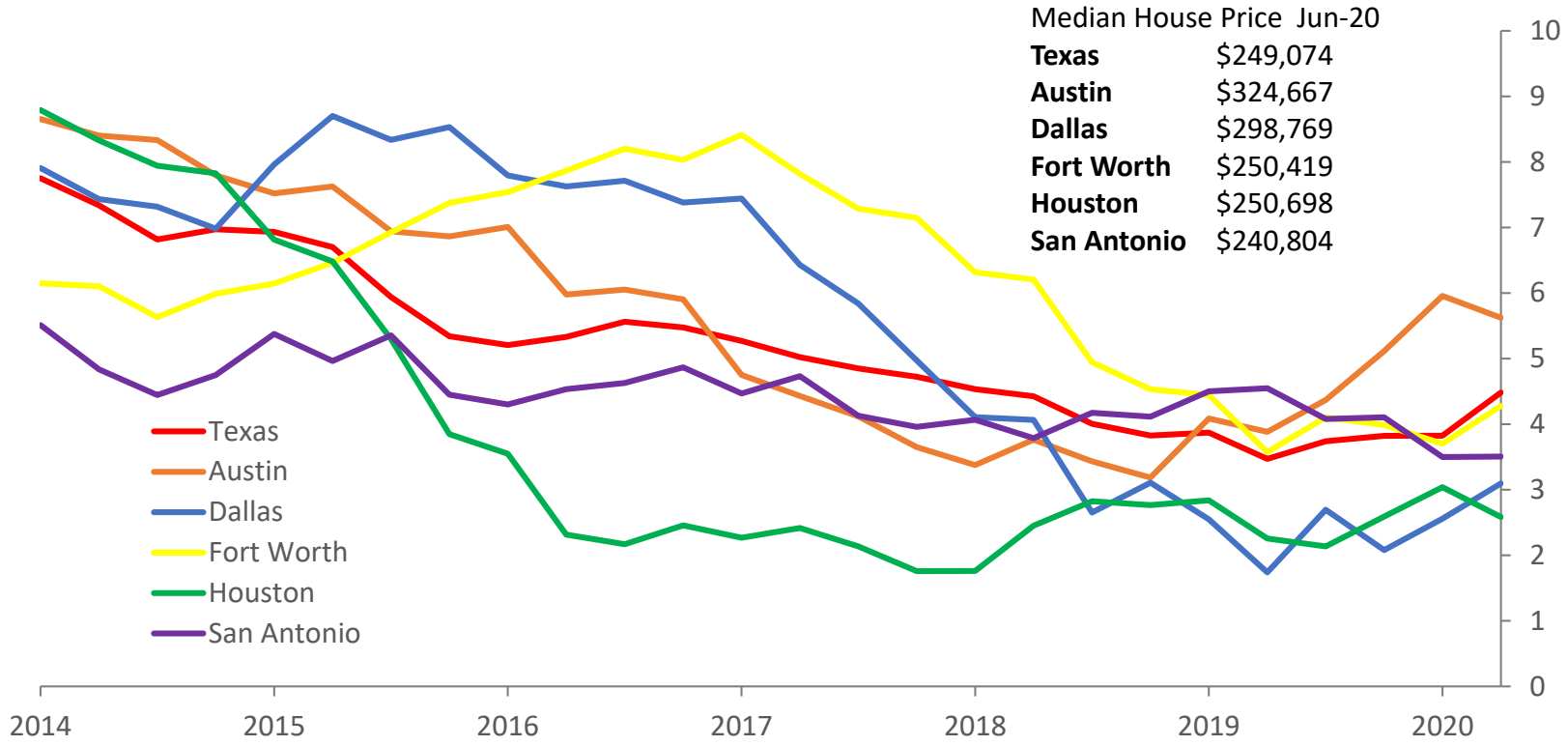
Note: Seasonally adjusted.

Source: Real Estate Center at Texas A&M University.



Home price growth continues in 2020

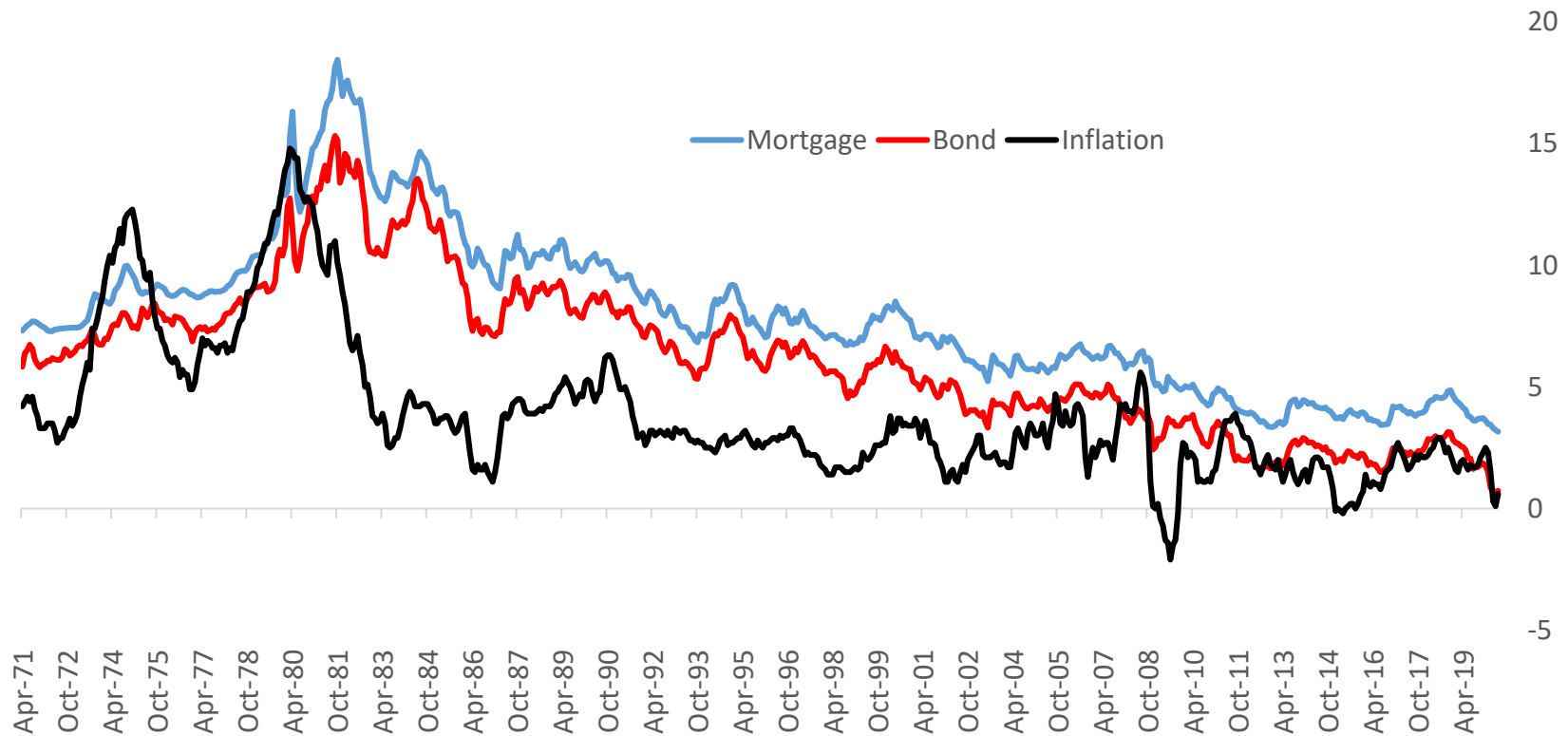
**Real Estate Center Repeat Sales Housing Price Index
(Year-over-Year Percentage Change)**



Note: Seasonally Adjusted. Quarterly House Price Index.
Source: Real Estate Center at Texas A&M University.

Mortgage rates fall as inflation and growth expectations decline

**30-Year Mortgage Rate, 10-Year Bond Yield and Annual Inflation
(Percent)**

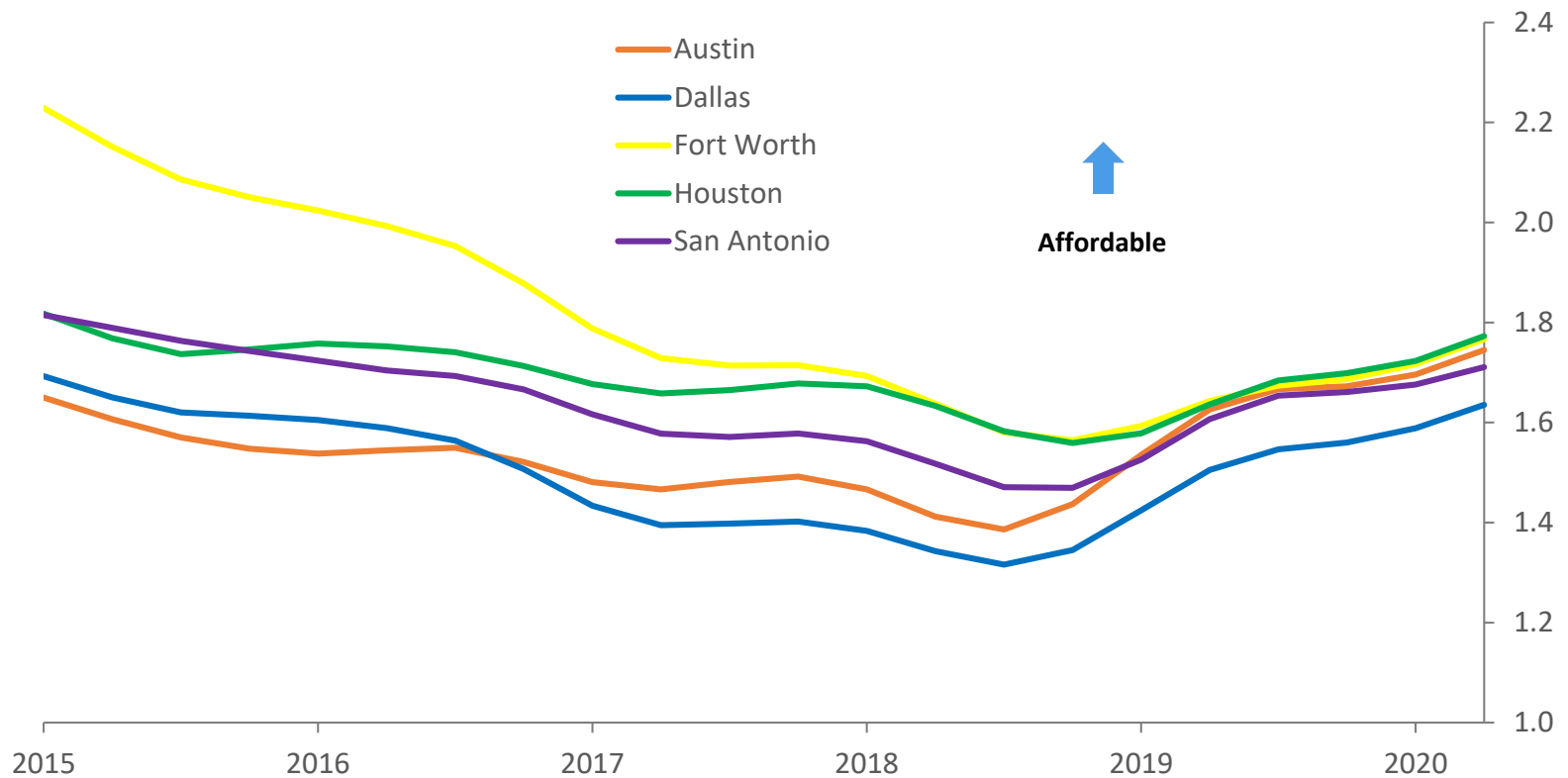


Note: Seasonally adjusted. CPI All Urban Consumers 1982-84=100.

Sources: Federal Home Loan Mortgage Corporation, Federal Reserve Board and Bureau of Labor Statistics

Falling interest rates and slower price growth benefited affordability

Real Estate Center Housing Affordability Index
(Index)

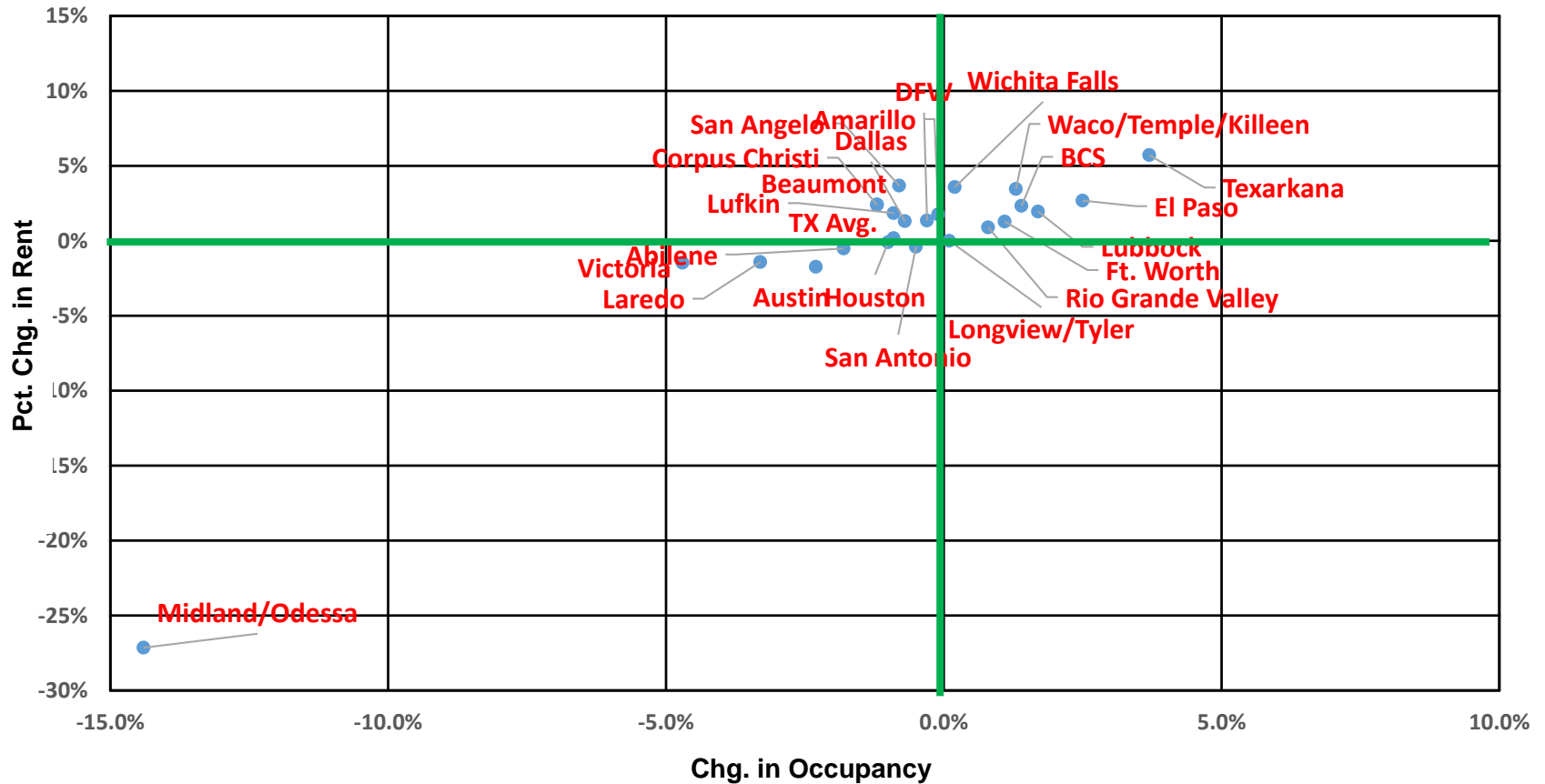


Note: Seasonal Adjusted.

Source: Real Estate Center at Texas A&M University.

Positive rent growth and negative occupancy change

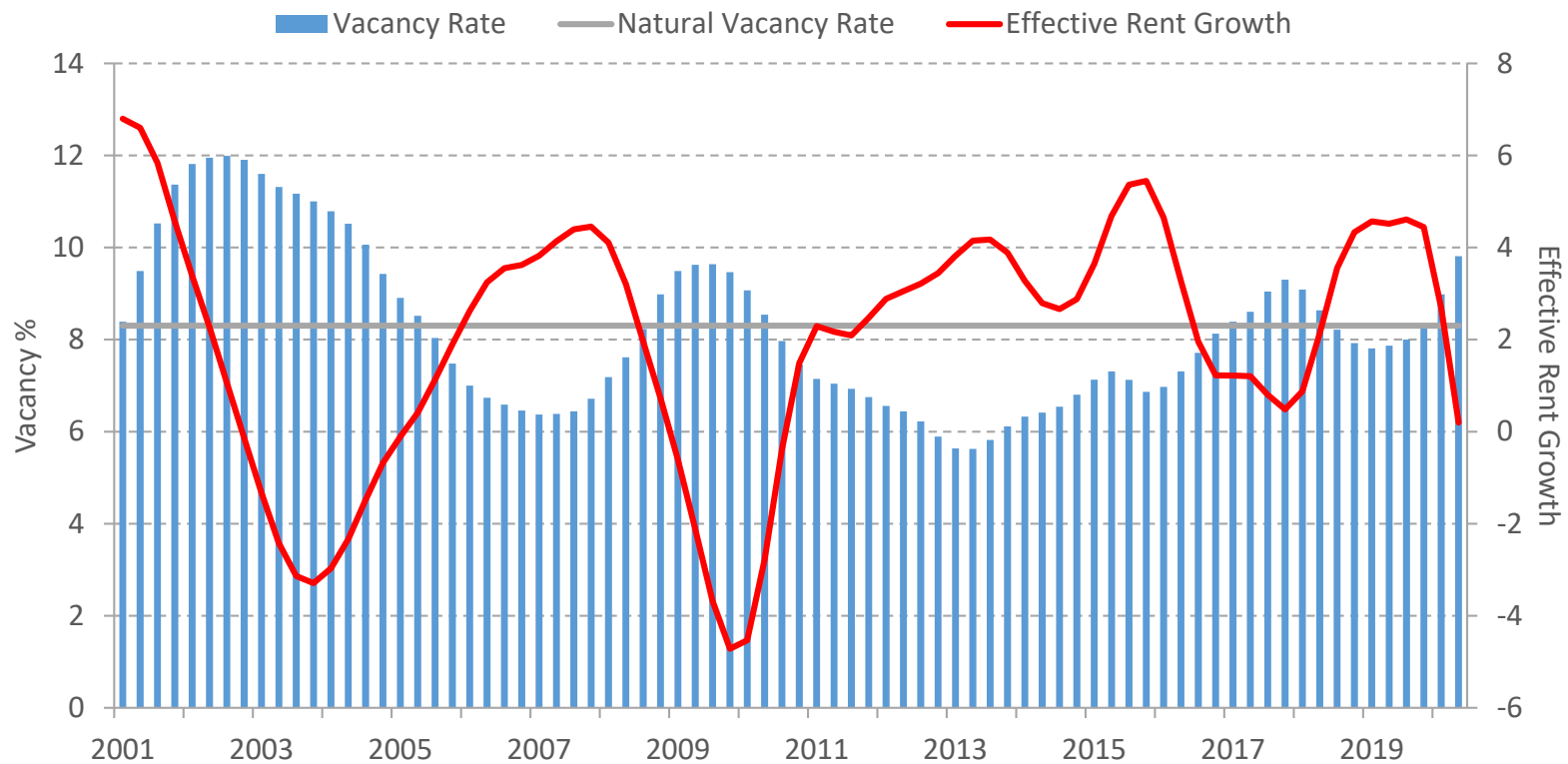
Overall Apartment Market Change in Effective Rent and Occupancy
(y-o-y % Jul-20)



Fuente: ALN Apartment Data and Real Estate Center at Texas A&M University

Vacancy rates increase and effective rent growth declines

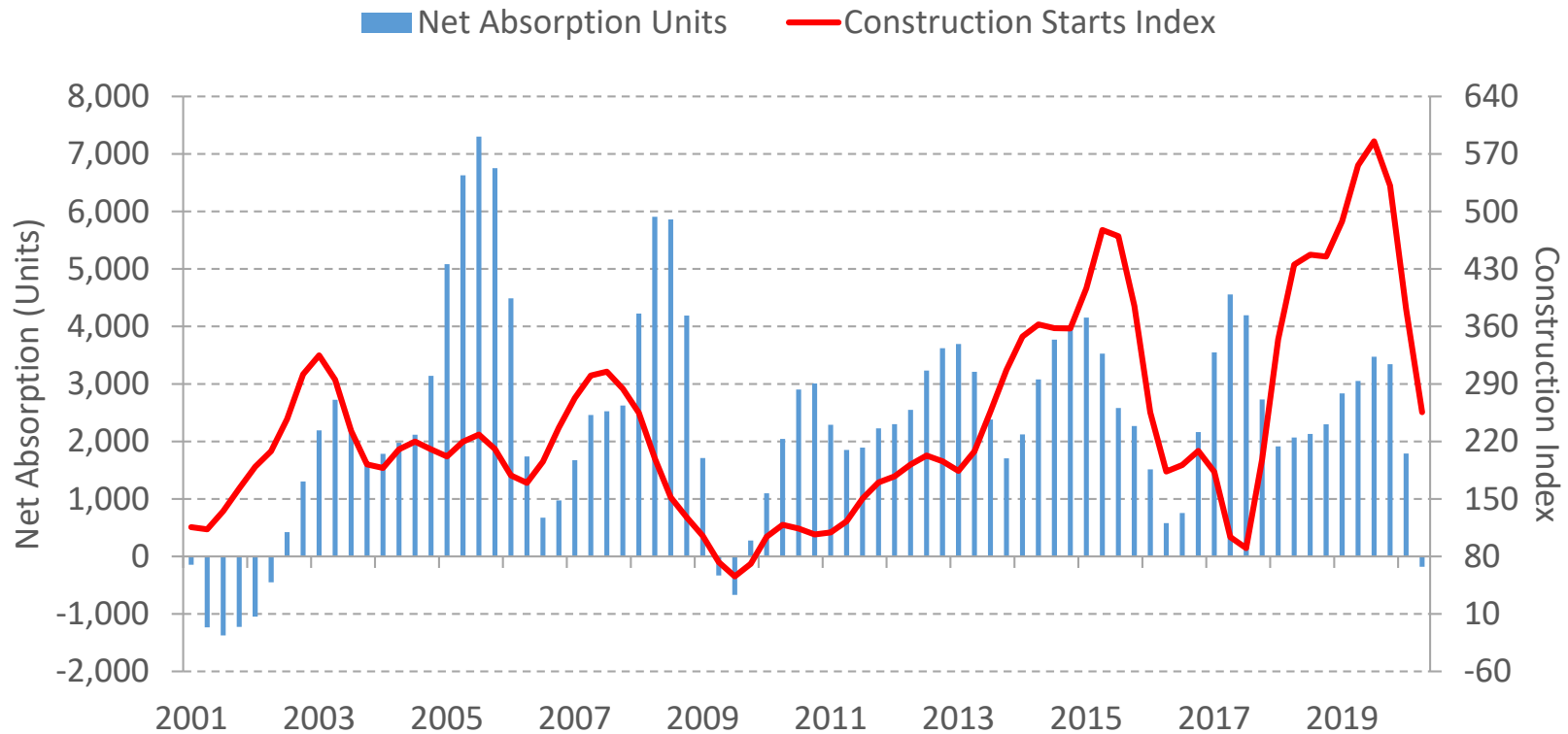
Austin Overall Apartment Vacancy and Effective Rent Growth (%)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar and Real Estate Center at Texas A&M University.

Demand turns negative as supply declines

**Houston Overall Apartment Net Absorption and Construction Starts Index
(Units, Index 2000Q1 = 100)**

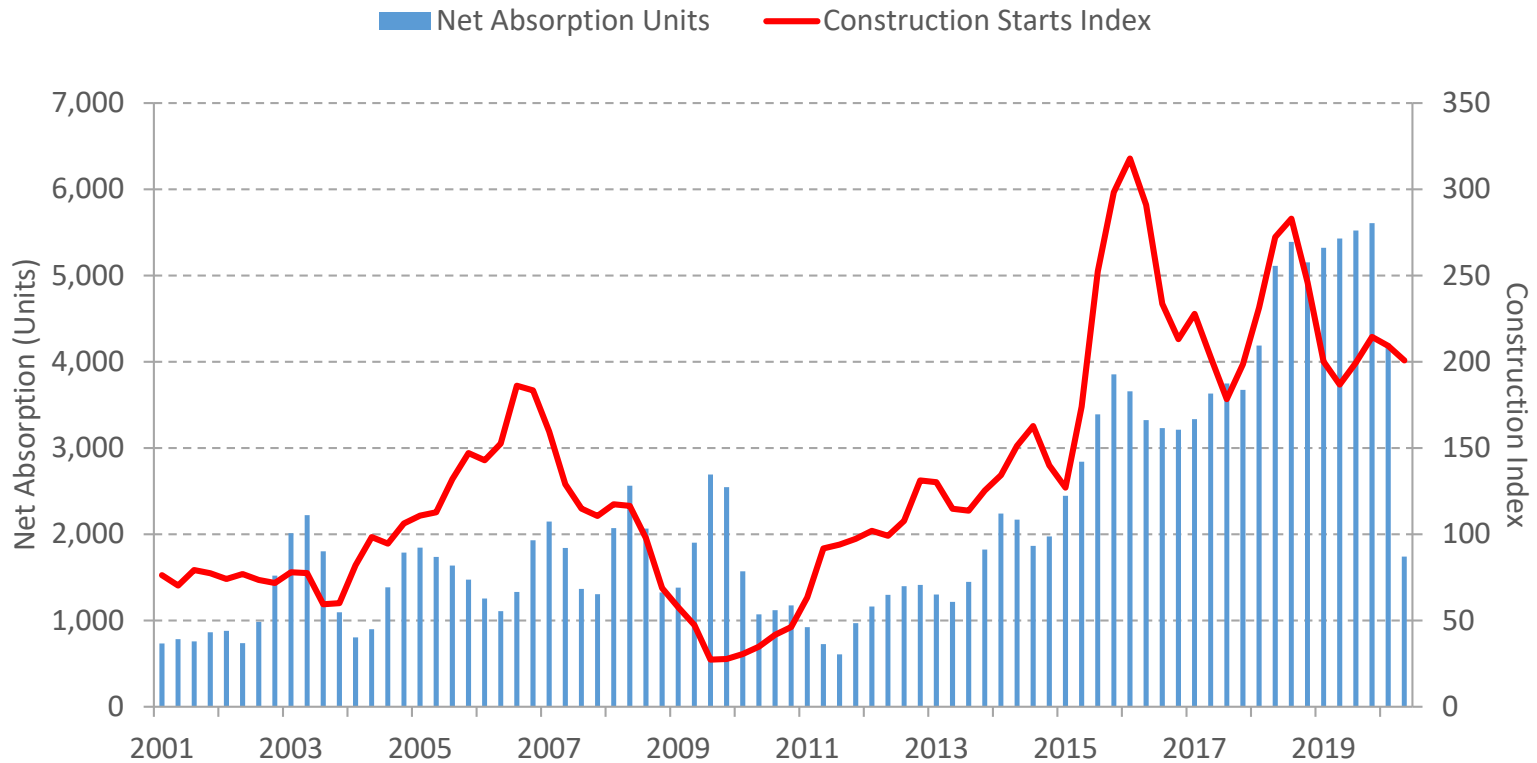


Note: Seasonally Adjusted and Trend-Cycle Component.

Source: CoStar, Dodge Analytics and Real Estate Center at Texas A&M University.

Demand continues positive for Class A

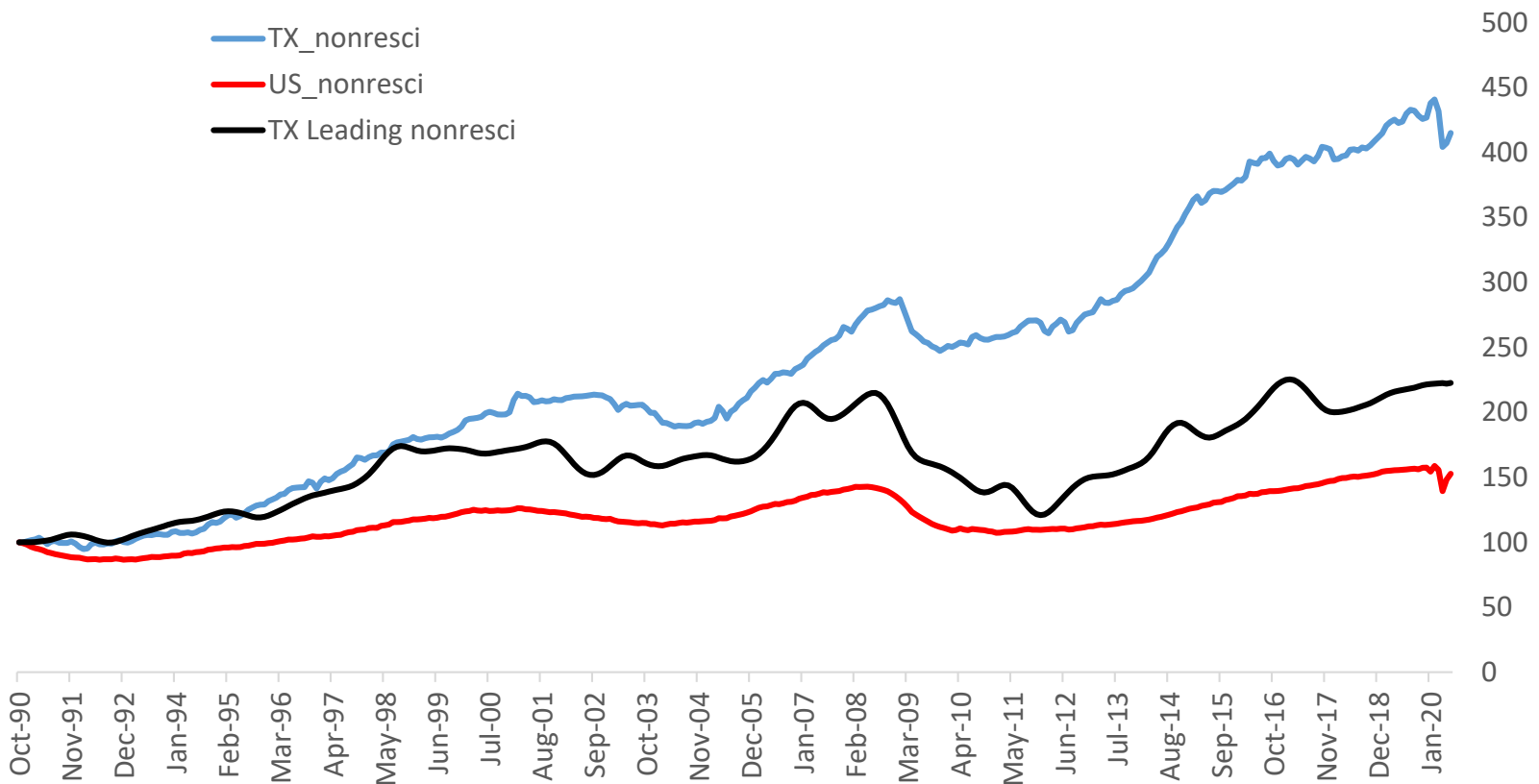
DFW Class A Apartment Net Absorption and Construction Starts Index (Units, Index 2000Q1 = 100)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar, Dodge Analytics and Real Estate Center at Texas A&M University.

Leading index points toward slower activity going forward

**Texas Nonresidential Construction Coincident and Leading Index
(Oct1990=100)**

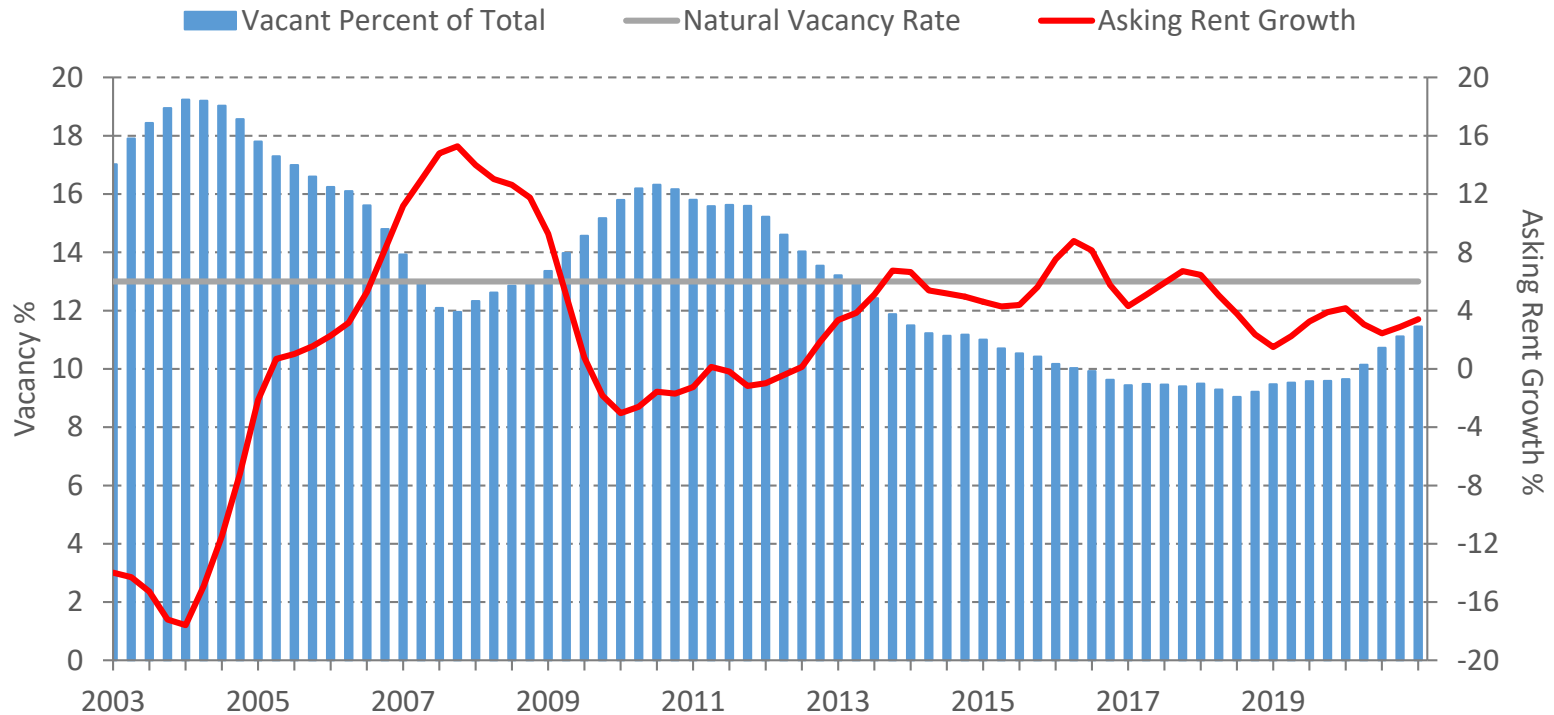


Note: Seasonally adjusted. Total Residential Construction Permits
Source: Dallas Federal Reserve and Real Estate Center at Texas A&M University



Vacancy rates increase and asking rents remain positive

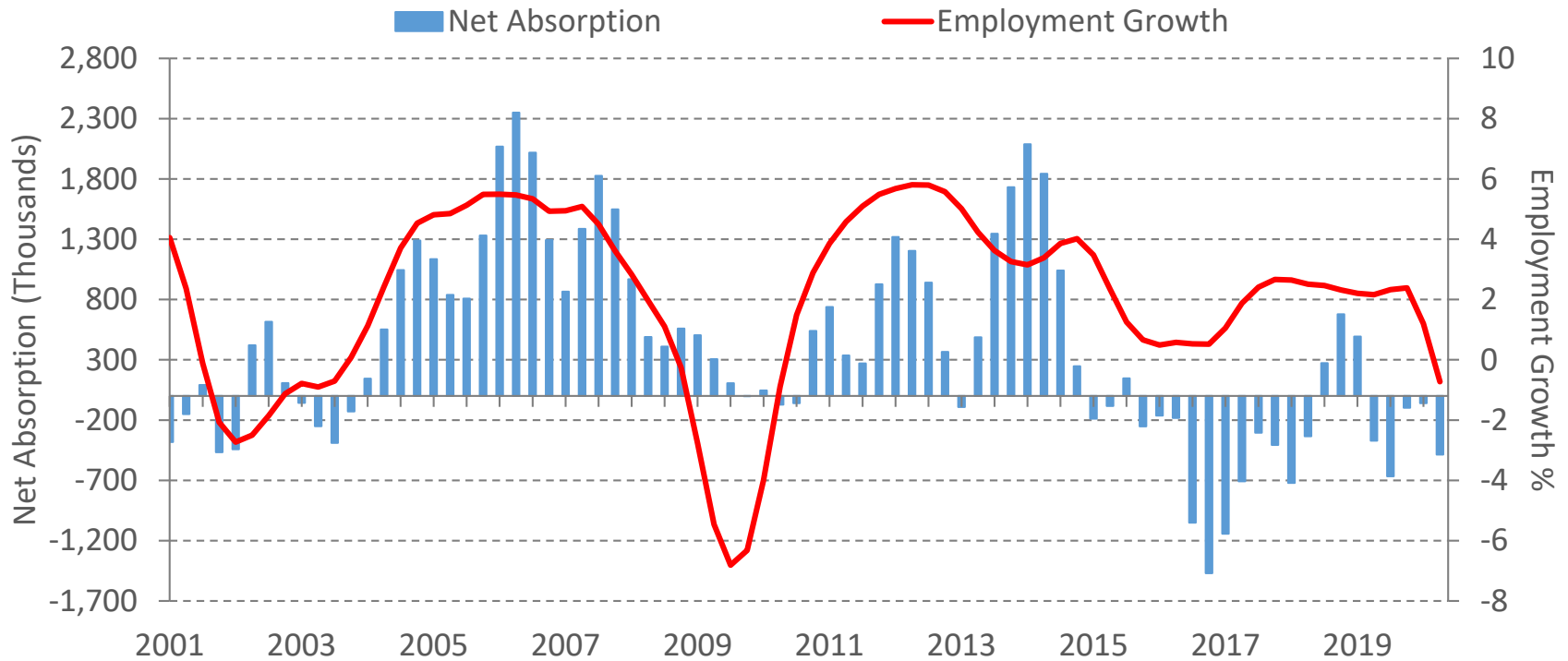
Austin Overall Office Vacancy and Effective Rent Growth (%)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar and Real Estate Center at Texas A&M University.

Demand continues negative as employment falls

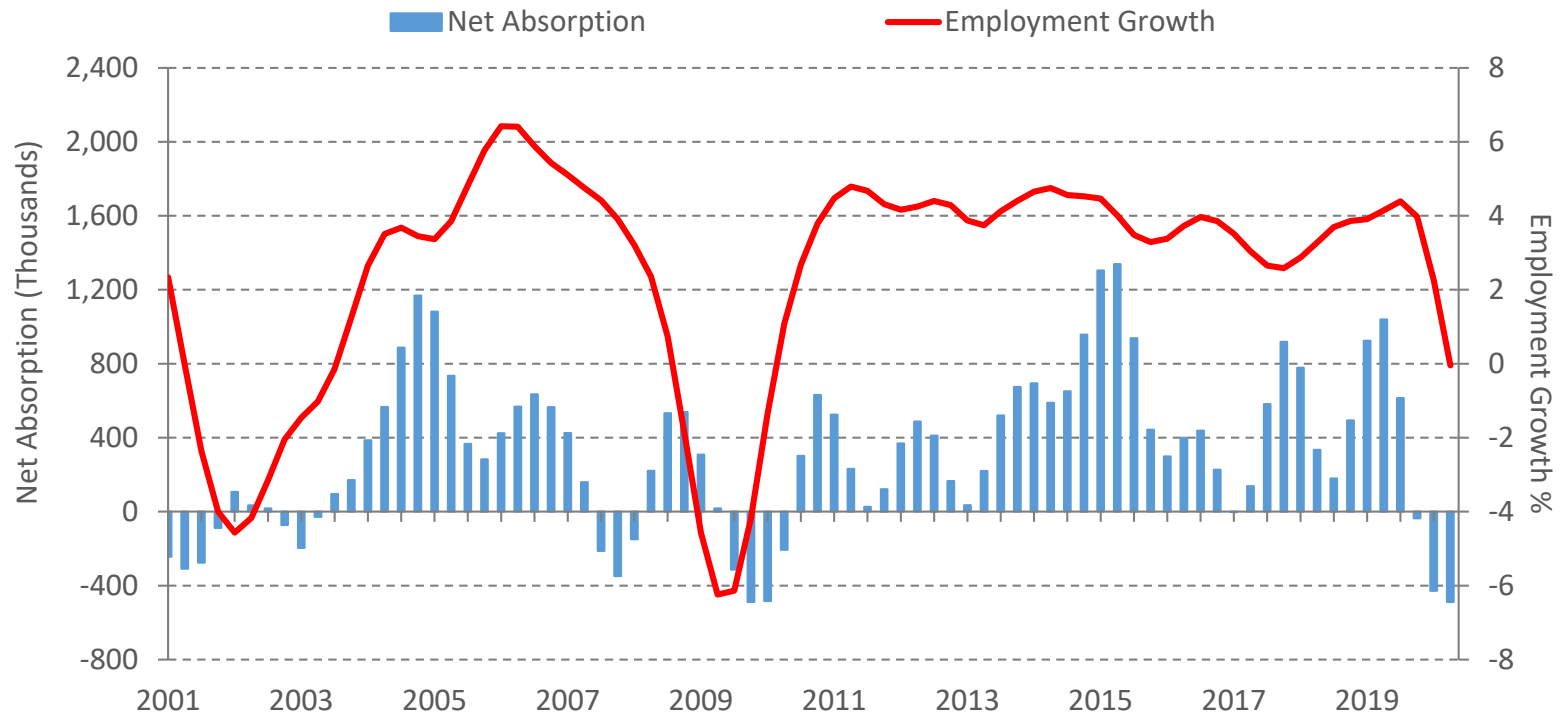
Houston Overall Office Net Absorption and Construction Starts Index (SQF, %)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar and Real Estate Center at Texas A&M University.

Demand continues negative as employment falls

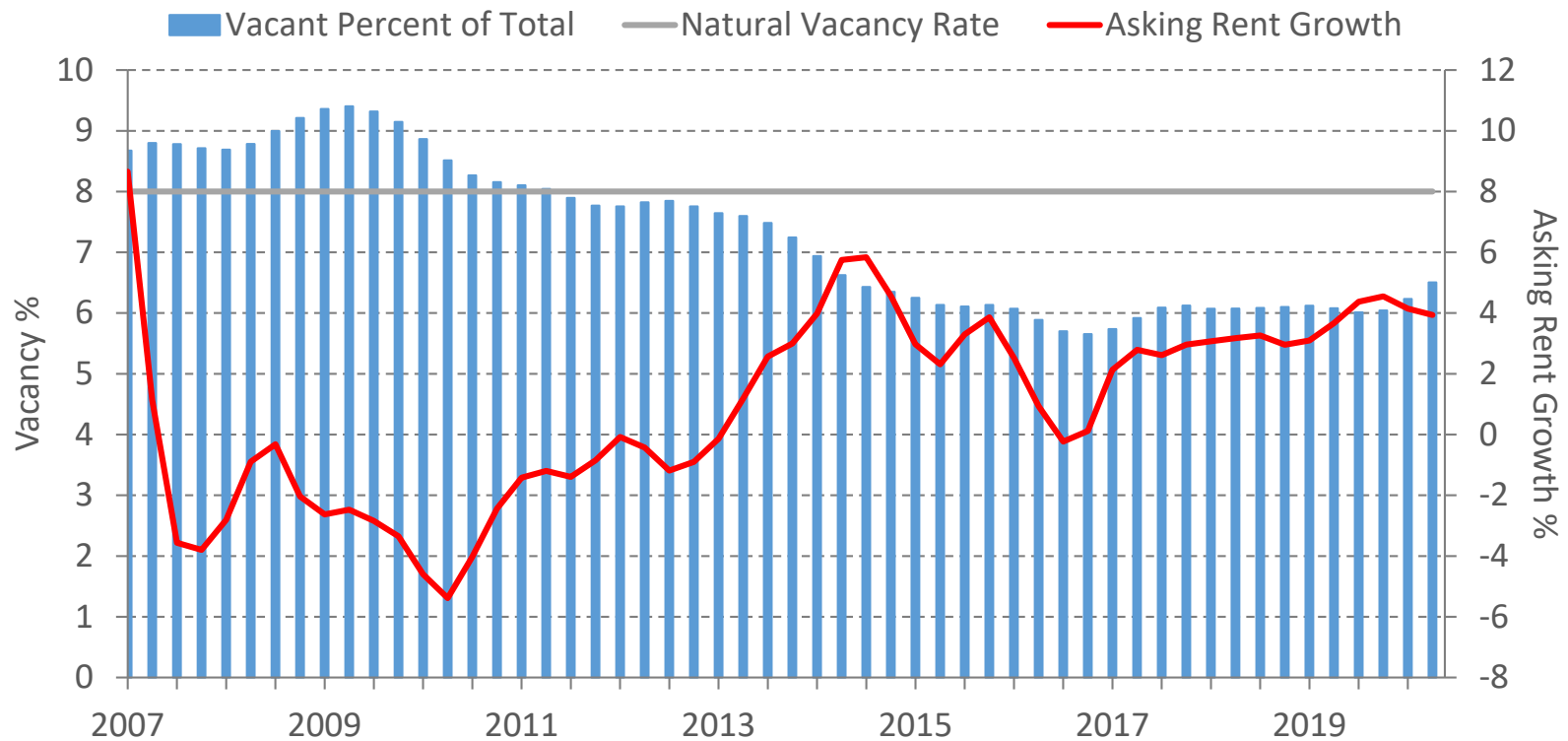
DFW Class A Office Net Absorption and Construction Starts Index (SQF, %)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar and Real Estate Center at Texas A&M University.

Vacancy rates increase and asking rents growth stabilizes

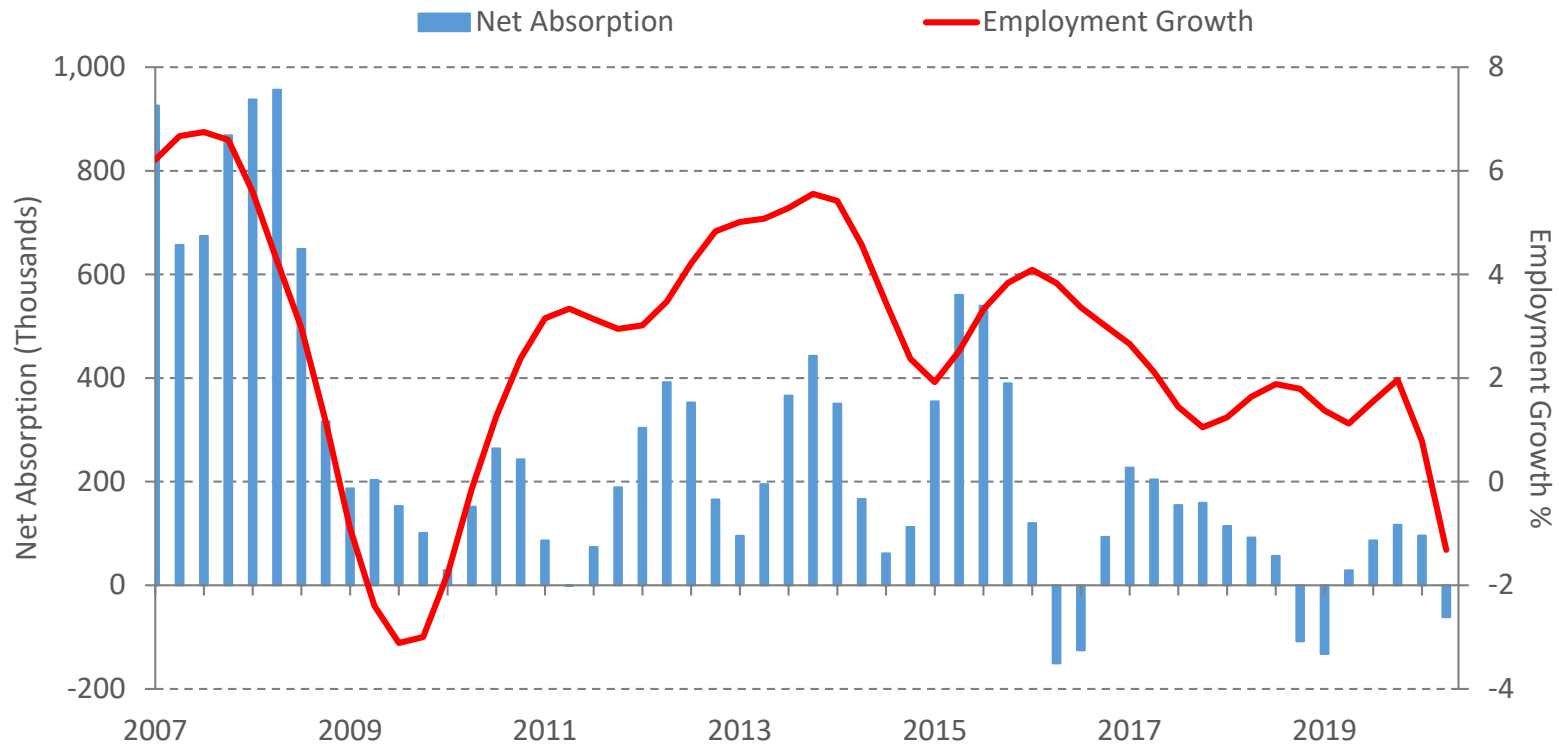
Houston Retail Vacancy and Effective Rent Growth (%)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar and Real Estate Center at Texas A&M University.

Demand turns negative as employment falls

Austin Retail Net Absorption and Employment Growth (SQF, %)

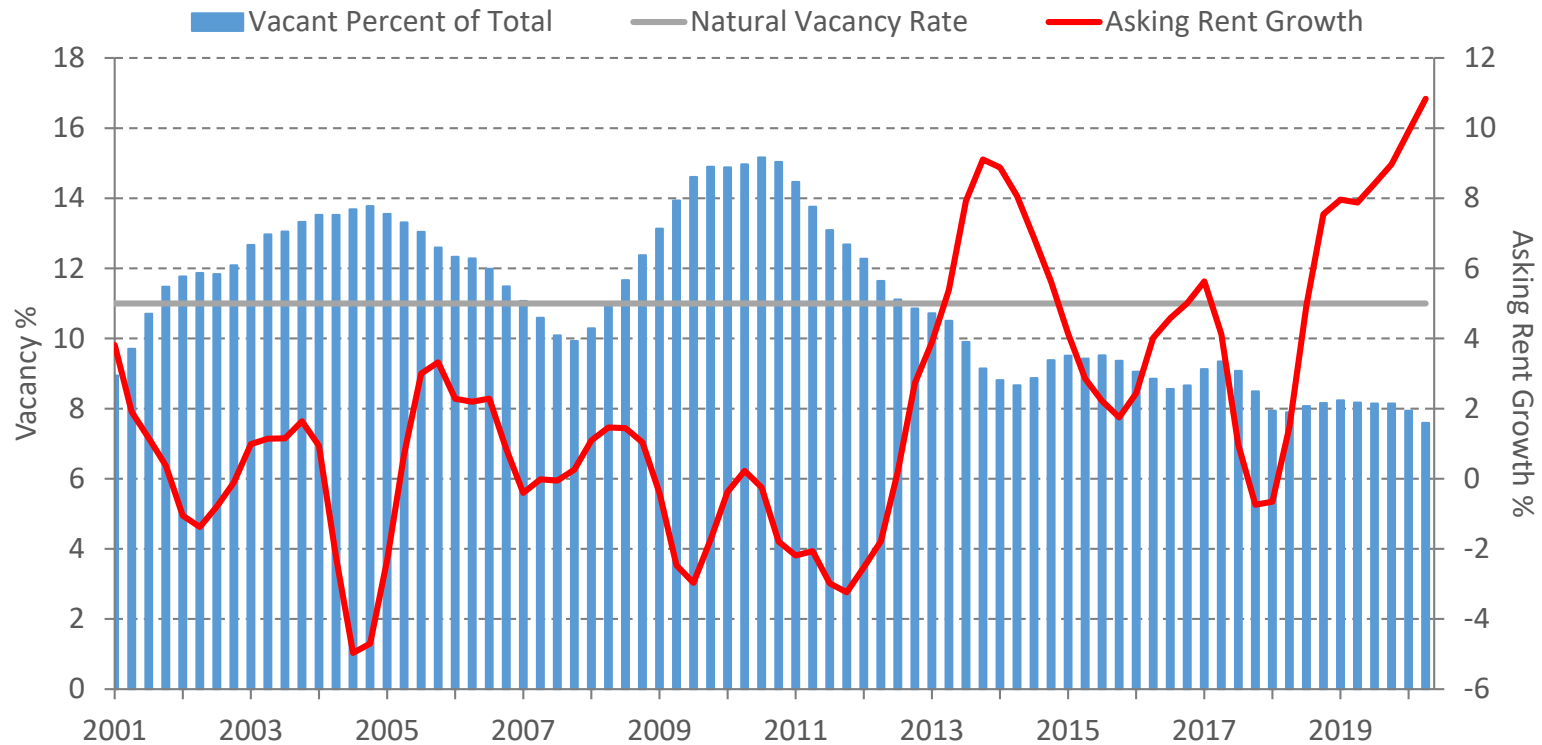


Note: Seasonally Adjusted and Trend-Cycle Component.

Source: Bureau of Labor Statistics, CoStar and Real Estate Center at Texas A&M University.

Vacancy rates decrease, and asking rents growth continues

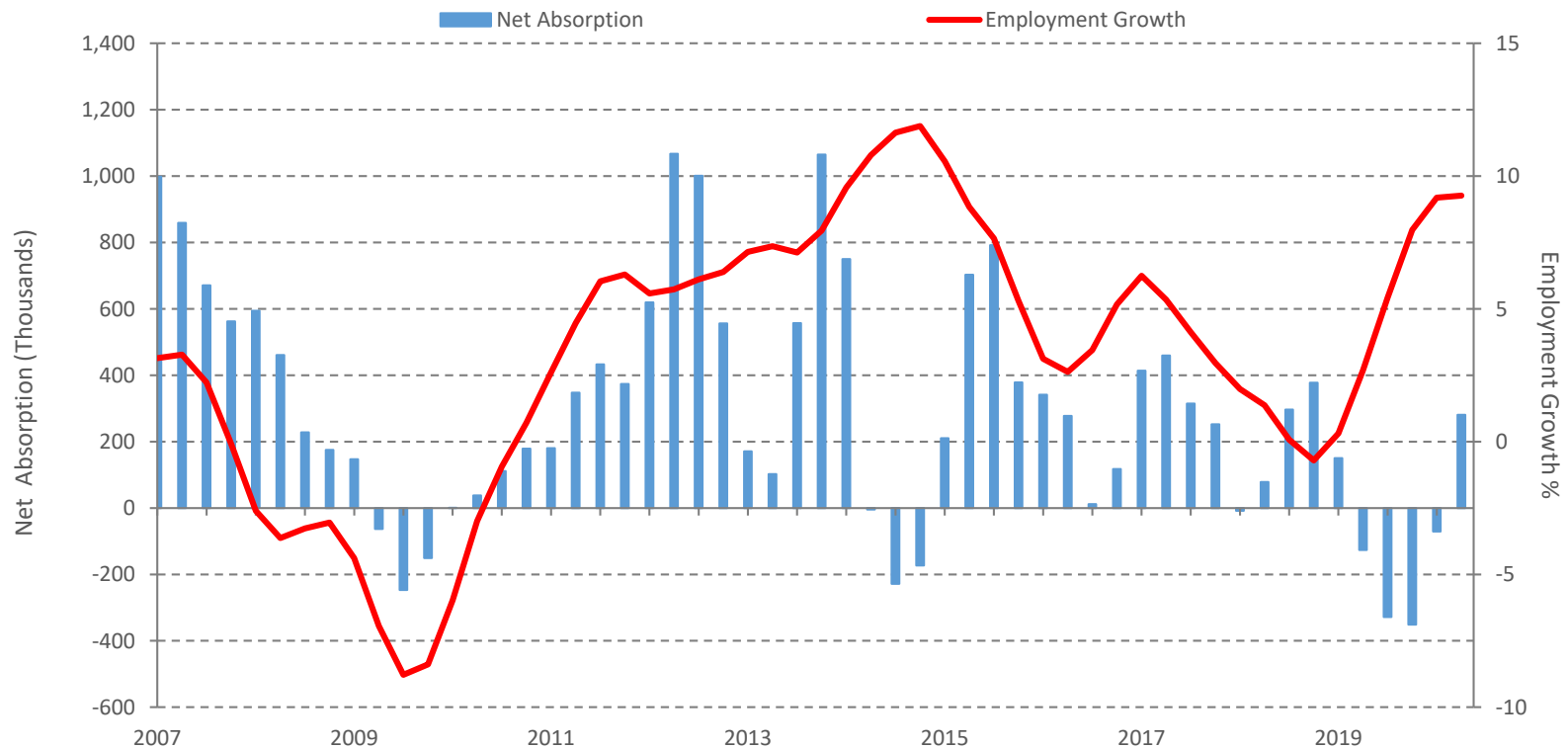
Houston Warehouse Vacancy and Asking Rent Growth (%)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar and Real Estate Center at Texas A&M University.

Demand remains strong as employment slows

San Antonio Warehouse Net Absorption and Employment Growth (SQF, %)



Note: Seasonally Adjusted and Trend-Cycle Component.
Source: CoStar and Real Estate Center at Texas A&M University.

Real estate markets going forward

- Path to recovery depends on COVID-19 outcomes.
 - ✓ Economic recovery could be hindered going forward by possible upsurges in Texas COVID-19 cases.
- Further waves of infections can reverse increased mobility and spending, affecting the path to recovery.

Real estate markets going forward

- Housing market characterized by low inventories accompanied by positive price growth.
- Apartment market outlook is worrisome due to uncertainty surrounding people losing extra unemployment benefits.
- Office weaker demand, resilience for some sectors
 - ✓ Negative outlook for Houston office market, started before COVID-19.
- Retail restructuring will proceed benefiting warehouse market while hurting retail.

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www.recenter.tamu.edu

