Q: Is housing immune from weakness in the economy?

Brian Lockhart: Residential real estate, whether looking at single-family homes or multi-family dwellings, has remained incredibly strong in the face of the greatest economic displacement since the Great Depression. The strongest evidence that housing may be immune in today's environment is data from the National Association of Realtors (NAR). There are 181 MSA's (Metropolitan Statistical Areas) in the U.S., and 174 of the 181 had rising prices in Q2 of 2020. When 96% of housing markets show gains at the same time nearly 30 million jobs are lost it is almost incomprehensible.

At the heart of understanding housing lies affordability. Households typically can allocate no more than 25% of their income to housing costs. In today's environment we have had rising incomes coupled with historically low mortgage rates, allowing families to be able to afford more house than in the past. Also putting upward pressure on home prices is very low inventory levels. The number of homes on the market earlier this year was 18% lower than the same period last year, according to NAR data.

Housing will not always be immune to economic weakness. If wages stagnate and interest rates rise, the affordability index reverses and housing will struggle even in the midst of strong economic growth. Multi-family unit growth is expanding so rapidly there is a risk in many markets they will become overbuilt in the next year or two, leading to a correction in that segment of housing.

Clint Pekrul, CFA: So far it doesn't seem that the current economic slowdown has adversely impacted the housing market. In fact, housing has held up relatively well considering the harsh circumstances brought on by the coronavirus. Demand for new construction remains high, as does homebuilder confidence. The National Association of Realtors (NAR) found that in August, existing home sales reached a 14-year high. Meanwhile, supply remains limited, which has pushed prices higher overall. The NAR reported that in September housing inventory reached a new low of just under a three-month supply. Furthermore, according to data from Realtor.com, the national median asking price in September was $350k, which was up roughly 11% from the previous year.

Much of the boom in the housing market can be attributable to record low interest rates. With 30-year rates hovering around 3% to 3.5%, financing a house can be affordable. The challenge is limited supply, which has been an issue for some time. In some cases, offers will come in over the asking price, which essentially offsets any interest savings due to lower rates. If this trend continues, many potential homeowners will continue to simply be priced out of the market.