

AN UNANTICIPATED SURGE

Home Sales Soar During Downturn

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THE recession that began a little more than a year ago has been unusual in a number of ways. The quick, sharp decline in economic activity followed by a rapid rebound was unprecedented. The oversized impact on the accommodation, food service, arts, and entertainment industries also was atypical. The housing market was particularly unusual, both in the overall number of home sales and where those sales took place.

A Home-Buying Boom

Recessions are defined by declines in economic activity. As overall economic activity slows and uncertainty rises, families are less likely to purchase or build a new home. During six of the past seven recessions prior to the current one,¹ home sales declined, especially early in the downturn. Over the past year, the housing market bucked that trend.

Nationally, existing single-family home sales declined in March through June, due largely to the various “stay-at-home” orders across the country.

However, sales rebounded strongly over the following eight months. From July 2020 through February 2021, existing home sales were 17% above sales during July 2019 through February 2020.²

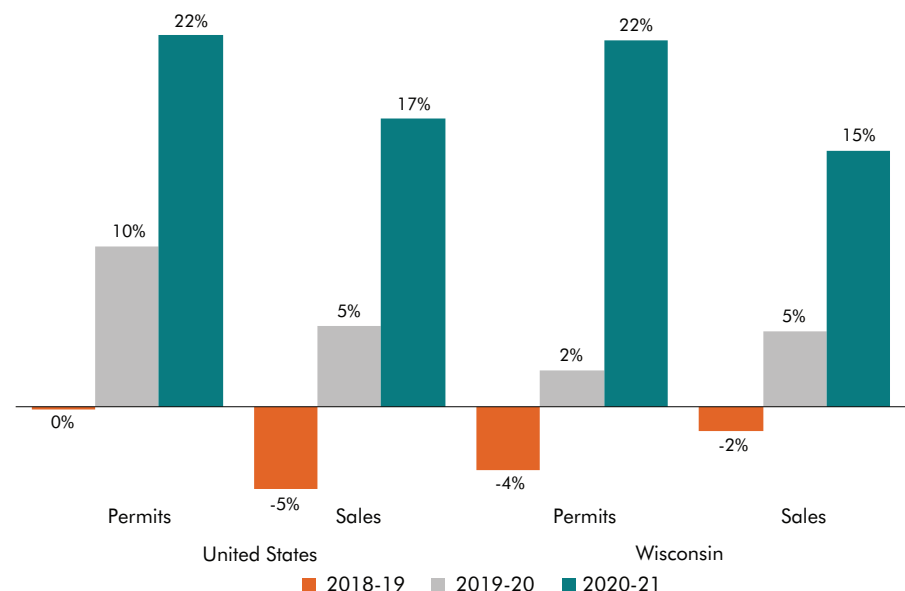
Building permits for single family homes also surged. During that same July 2020 through February 2021 period, building permits rose 22% nationally compared to the same months a year earlier.

Wisconsin charted a similar path. Compared to the same months in 2019, home sales declined from March through June 2020. Sales have been strong since then, rising 15% during July 2020 through February 2021.³ Building permits in Wisconsin also soared, increasing 22% from the same period in 2019-2020 (see chart).

Three factors likely played key roles in this home buying and building spree. First, the recession hit primarily low-income households, many of whom are renters. Incomes of middle- and high-income households were

continues

Figure 1: Home Sales & Building Permits
July 2020 through February 2021, Year over Year Change



little changed and the economic uncertainty that comes with a typical recession was less pronounced for these families.

Second, mortgage rates fell steadily. From the start of the pandemic through the end of 2020, mortgage rates declined from 3.5% to 2.7%.⁴ A decline in mortgage rates can make homes more affordable.

Third, many companies found the work-from-home model to be effective and are making it permanent for at least part of their workforce. Some of these individuals may have taken that opportunity to move further away from their place of work.

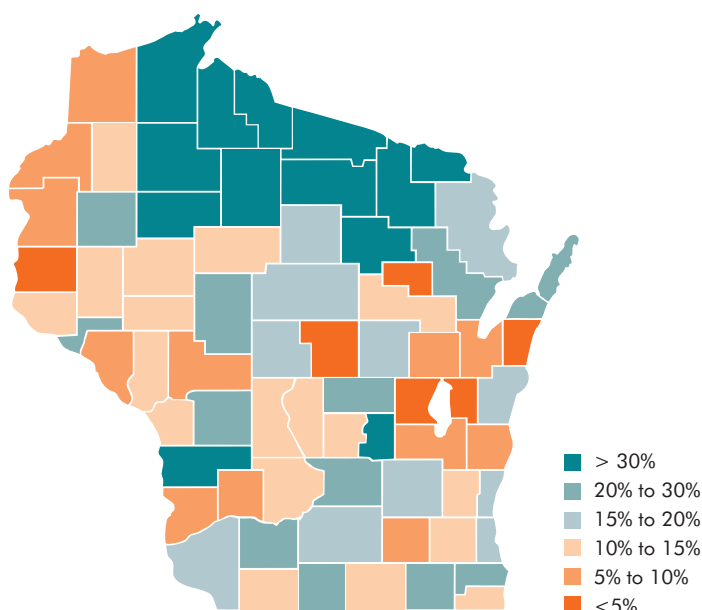
A Locational Shift

While the surge in home sales nationally and in Wisconsin was unforeseen, equally surprising was the rise in home purchases in northern Wisconsin. In the 23 counties north of Highway 29, single family home sales during the recent July-to-February period were 23.1% above the same months a year earlier. In the rest of the state, home sales rose 14.1%.

Looking more closely at the north, five counties stood out with exceptional growth. In Iron County, about 54 homes are typically sold during these months; in 2019-2020 the number was 50. During the pandemic, sales more than doubled to 116.

In both Price and Florence counties, year-over-year gains were nearly 75%. And, while not matching those rates of increase, sales in Forest

Figure 2: A Northern Resurgence: Yearly Home Sales by County
July 2020 through February 2021, Year over Year Change



and Vilas counties were still extraordinarily strong, up more than 40%. The map shows July 2020 through February 2021 increases (or a loss of 4% in the case of Calumet County) for all 72 counties.

Conclusion

What makes this housing boom so unusual, besides the fact that it occurred during a recession, is that it was so at odds with forecasts heading into 2020. Nationally, most real estate experts expected modest growth in home sales due to a lack of supply, rising prices, and a slow-growth economy. The 7.5% growth during all of 2020 greatly exceeded those expectations.

There is still much we do not know about this boom. How long will it continue? Will the shift to the rural north continue? And what are the patterns within counties? Are there in-county moves from larger municipalities to smaller ones occurring, which would suggest the beginning of a permanent “work-from-home” shift? Clearly, falling interest rates played a role. But something else was likely at work. What that “something” is will not be known until additional data become available. ♦

Endnotes

- 1 The 1969-1970 recession was the exception.
- 2 Calculations based on existing home sales data from the National Association of Realtors.
- 3 Calculations based on existing home sales data from the Wisconsin Realtors Association.
- 4 <http://www.freddiemac.com/pmms/>