Health of Housing Markets (HoHM) Report

From Nationwide Economics

2020 Q3

Data as of 2020 Q2

Housing climbs off the canvas after the COVID punch

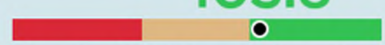
- The national LIHHM* had its largest one-quarter increase since 2010, rising to a slightly positive ranking as conditions improved sharply following the COVID-19 shutdown. Although the negative effects for the labor market are still being felt across the country, record low mortgage rates, positive demographics, and a desire for "space" continue to boost housing demand — lifting the outlook for the housing market.
- Regionally, the majority of local housing markets have a neutral ranking, followed by a slightly negative ranking — suggestive of mixed housing conditions. Only a few markets have very negative rankings. The severe job losses from earlier this year continue to offset many positive trends for housing.
- Delinquency rates spiked to recessionary levels in the second quarter as homeowners struggled with lost jobs and incomes. Many of these mortgages may not go into foreclosure, at least for a while, due to the forbearance options for federally-backed loans, while the surge in delinquency rates for this downturn looks to be over.

* *Leading Index of Healthy Housing Markets (LIHHM): A data-driven view of the near-term performance of housing markets for the nation as a whole as well as for 400 metropolitan statistical areas (MSAs) and divisions.*

Housing Market Health Status: **Stabilizing**

National LIHHM: **Positive**

103.6



The national LIHHM is modestly positive for housing market growth.

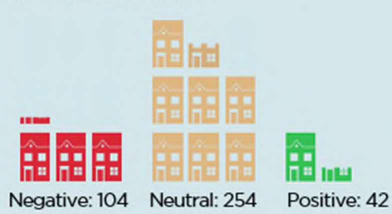
Market Drivers

Significant job losses due to COVID-19 could weigh on segments of homebuyer demand for some time. Low mortgage rates and improved housing affordability should offset the negative impacts from the jobs market for many consumers, driving sales activity higher.

- Jobs: **Highly negative**
- Demographics: **Near Average**
- Prices: **Solid Gains**
- Mortgage Market: **Positive**

MSA Performance

The largest share of local housing markets are rated as neutral.



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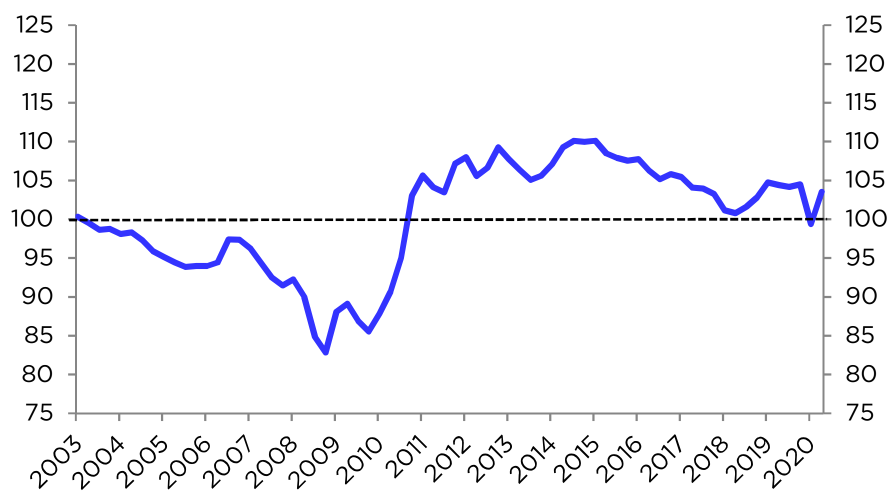
Housing outlook improves after the COVID-19 hit

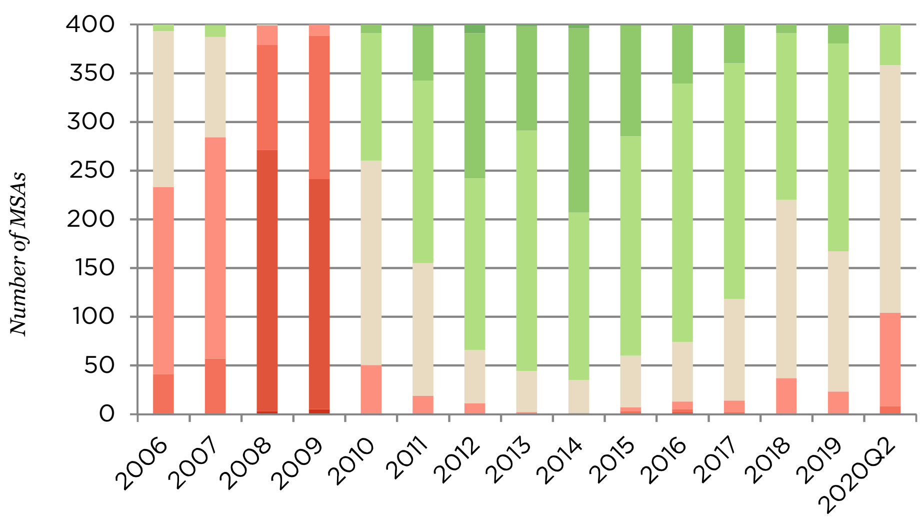
Despite recent gains, the job market continues to be dramatically worse than a year ago – or most other historical time periods – preventing a larger recovery in the national LIHHM, which currently stands at a slightly positive reading of 103.6. Still, the national LIHHM saw the fourth-largest increase in its history (data back to 2003), and the biggest outside of the recovery from the Great Recession. Record low mortgage rates and rising incomes drove an increase in housing affordability, which should help to keep housing demand elevated into 2021. A still-high unemployment rate, however, could lead to a rise in foreclosure rates if-or-when government loan forbearance ends, as well as to slow pace of household growth.

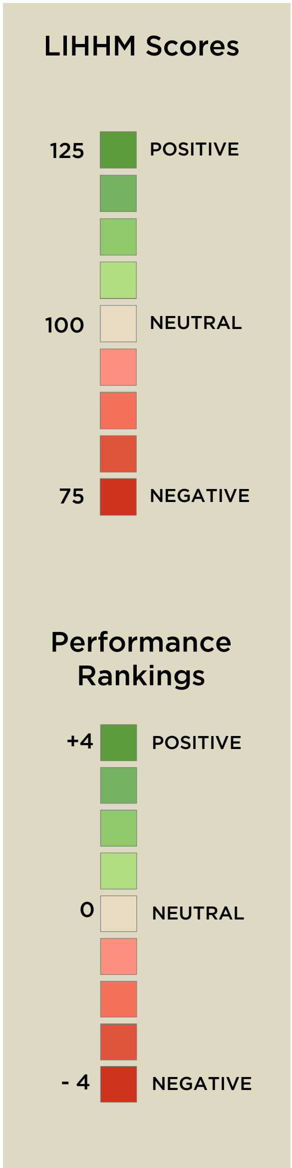
Regionally, weak labor markets continued to weigh on the housing market outlooks for most metro areas. As at the national level, housing affordability readings have improved in many areas, a boost to homebuyer demand even as the effects of COVID-19 recession are expected to linger for some time. While improved from last quarter, the breakdown of rankings for the MSAs remains the much weaker than at any other point since 2009.

National LIHHM



MSA LIHHM Performance Rankings

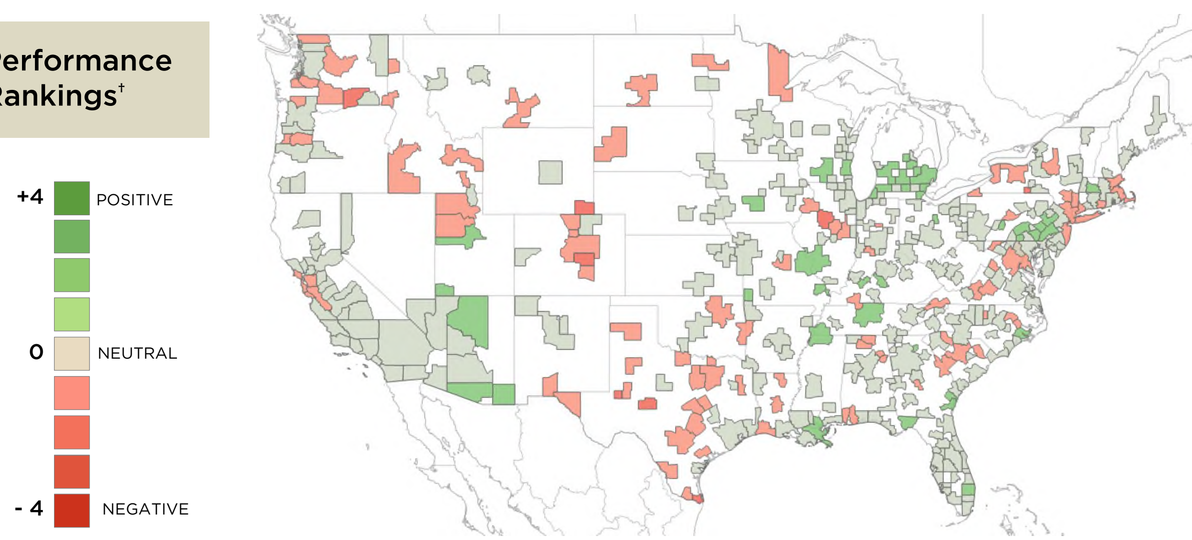




The majority of MSAs have a neutral housing market outlook

- A quarter of local housing markets now have a negative ranking, the second-highest number since 2009 (behind last quarter). Fortunately, 96 of these are negative by only one ranking (out of a possible four), indicating only slightly elevated concern about housing health in those markets. The remaining local markets are rated -2, indicating that a modest downturn in housing market readings is more likely in these areas, at least in the near-term.
- Well over half of the MSAs, 254 in total, have a neutral ranking this quarter, mainly due to the very poor employment figures coming out of the COVID-19 recession. The neutral rankings suggest a mixed outlook for housing growth over the next year or so, but are not indicative of a downturn.
- Only 42 of the MSAs are rated positively, a slight decline from last quarter when there were 44 positive rankings. All of these are positive by one ranking (out of a possible four) — signaling modestly healthy housing trends.

Performance Rankings†



Rank	Metropolitan Statistical Area
1	Detroit-Dearborn-Livonia MI
2	Cape Girardeau MO-IL
3	Saginaw MI
4	Milwaukee-Waukesha-West Allis WI
5	Joplin MO
6	Mansfield OH
7	Gettysburg PA
8	Des Moines-West Des Moines IA
9	Lansing-East Lansing MI
10	Elizabethtown-Fort Knox KY

Top 10 MSAs

Rank	Metropolitan Statistical Area
400	Odessa TX
399	Cheyenne WY
398	San Angelo TX
397	Kennewick-Richland WA
396	Peoria IL
395	Colorado Springs CO
394	Brownsville-Harlingen TX
393	Elmira NY
392	Idaho Falls ID
391	McAllen-Edinburg-Mission TX

Bottom 10 MSAs

† *Data as of 2020 Q2*

MSAs by size (Top 40), with corresponding performance rankings

Performance Rankings:

+4		POSITIVE
0		NEUTRAL
- 4		NEGATIVE

11 of the 40* largest MSAs have a negative LIHHM performance ranking this quarter, with only two ranked as positive. The remaining major U.S. housing markets are rated as neutral, indicative of a mixed outlook for housing growth.

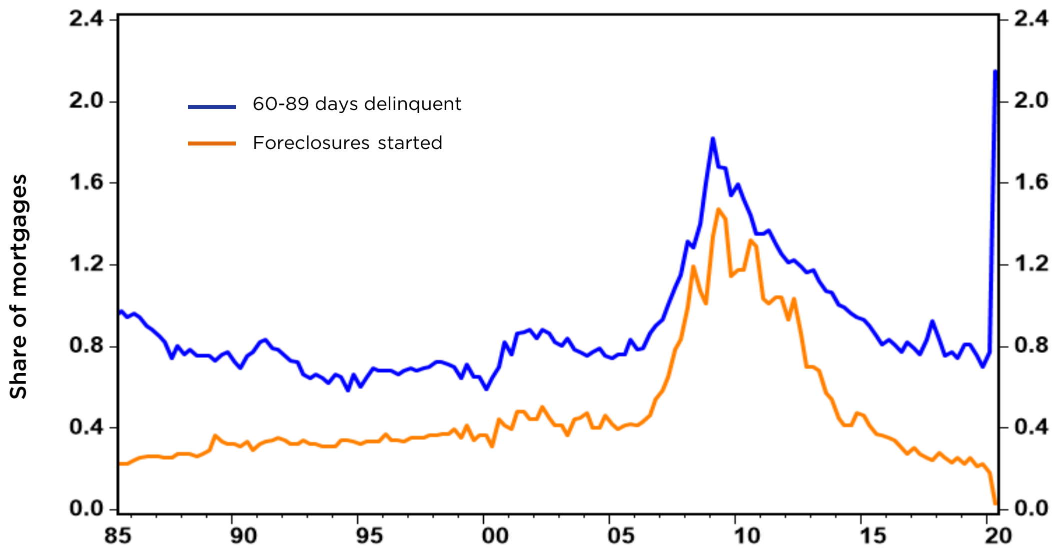
Performance Rankings

	Metropolitan Statistical Area	Current†	Prior Qtr	Prior Year
1	New York-Jersey City-White Plains NY-NJ	-1	-1	0
2	Los Angeles-Long Beach-Glendale CA	0	0	0
3	Chicago-Naperville-Arlington Heights IL	0	1	1
4	Houston-The Woodlands-Sugar Land TX	0	0	2
5	Atlanta-Sandy Springs-Roswell GA	0	0	1
6	Washington-Arlington-Alexandria DC-VA-MD-WV	-1	-1	0
7	Phoenix-Mesa-Scottsdale AZ	0	0	1
8	Dallas-Plano-Irving TX	-1	0	1
9	Minneapolis-St. Paul-Bloomington MN-WI	0	0	1
10	Riverside-San Bernardino-Ontario CA	0	0	1
11	Tampa-St. Petersburg-Clearwater FL	0	0	1
12	San Diego-Carlsbad CA	0	-1	0
13	Seattle-Bellevue-Everett WA	0	0	-1
14	St. Louis MO-IL	1	1	1
15	Denver-Aurora-Lakewood CO	-1	0	0
16	Baltimore-Columbia-Towson MD	0	0	0
17	Anaheim-Santa Ana-Irvine CA	0	-1	-1
18	Warren-Troy-Farmington Hills MI	1	1	1
19	Pittsburgh PA	0	0	0
20	Oakland-Hayward-Berkeley CA	-1	-1	-1
21	Portland-Vancouver-Hillsboro OR-WA	0	0	0
22	Nassau County-Suffolk County NY	-1	-1	0
23	Charlotte-Concord-Gastonia NC-SC	0	-1	0
24	Miami-Miami Beach-Kendall FL	0	0	1
25	Orlando-Kissimmee-Sanford FL	0	0	2
26	Cambridge-Newton-Framingham MA	-1	0	0
27	Newark NJ-PA	0	0	1
28	Fort Worth-Arlington TX	-1	-1	1
29	Cleveland-Elyria OH	0	0	1
30	Cincinnati OH-KY-IN	0	0	1
31	San Antonio-New Braunfels TX	-1	-1	1
32	Sacramento-Roseville-Arden-Arcade CA	0	0	1
33	Philadelphia PA	0	1	1
34	Kansas City MO-KS	0	0	0
35	Columbus OH	0	0	0
36	Las Vegas-Henderson-Paradise NV	0	0	1
37	Indianapolis-Carmel-Anderson IN	0	0	0
38	Boston MA	-1	-1	0
39	Ft Lauderdale-Pompano Beach-Deerfield Beach FL	0	0	1
40	Austin-Round Rock TX	-1	-1	0

† *Data as of 2020 Q2*

* *Largest 40 determined by number of households*

Mortgage delinquencies skyrocketed in the second quarter



Source: Mortgage Bankers Association; Haver Analytics

Spike in mortgage delinquencies but fewer foreclosures for now

As feared by the record-breaking spike in the unemployment rate, the COVID-19 recession led to a sharp increase in mortgage delinquencies during the second quarter of 2020. The Mortgage Bankers Association (MBA) reported that 2.1 percent of all mortgages were overdue by 60-89 days while 90+ day delinquency soared to 3.7 percent — levels only seen in the aftermath of the Great Recession. This represented a sharp reversal from the end of 2019 when the share of mortgages past due was at the lowest level since 1972.

Foreclosures started dropped to near zero during the second quarter, however, as the expanded forbearance provisions and a foreclosure moratorium from the CARES Act for federally-backed loans (from Fannie Mae, Freddie Mac, FHA, and VA) allowed most delinquent homeowners to remain in their homes. The MBA estimated that 4.26 million homeowners or 8.5 percent of all mortgage loans were in forbearance at the end of June. While this figure declined to 7.2 percent in late-August as some homeowners have resumed payments, many delinquent mortgages may remain in forbearance for the full year provided by the CARES act and late payments could be renegotiated or deferred by lenders before the loan goes into foreclosure.

On the upside, the share of mortgages past due by 30-59 days was low in the second quarter, suggesting that the surge in delinquency caused by the downturn may be over. With job gains resuming and the economic recovery in full swing, a renewed jump in new delinquencies is not expected from here. While some federally-backed mortgages could slip into foreclosure even with the forbearance options, the number is expected to be far less than following the Great Recession.

FHA loans more at risk for foreclosure

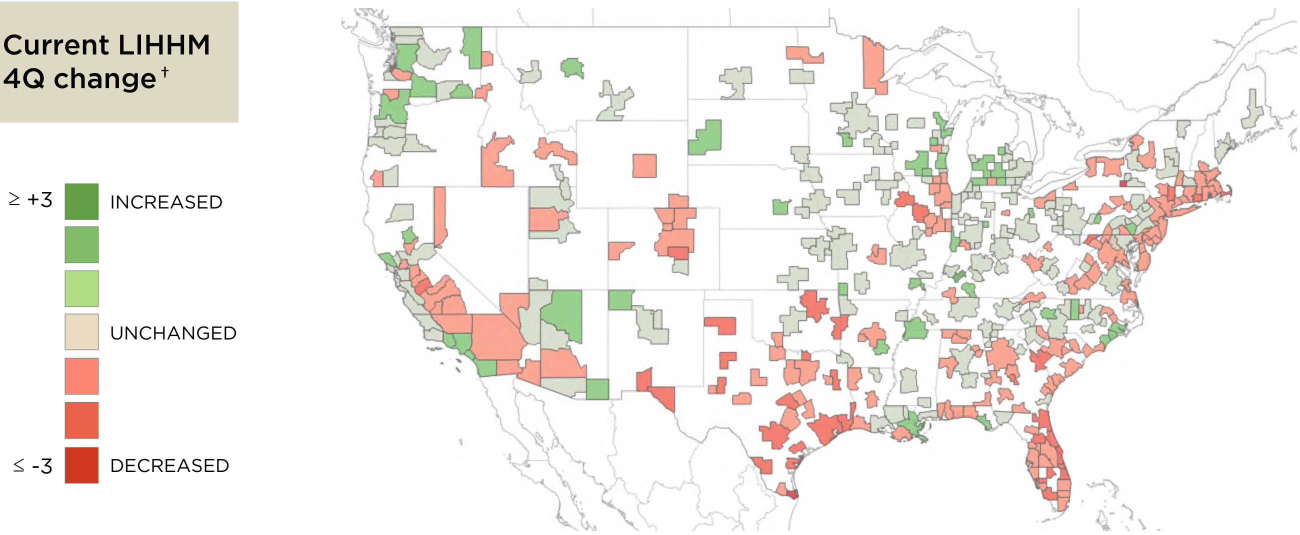
The delinquency data from the second quarter show a stark difference across mortgage loan type. Delinquency rates for conventional mortgages backed by Freddie Mac and Fannie Mae rose sharply but generally remained below levels from the Great Recession. About 6.4 percent of conventional fixed-rate mortgages were past due compared with the 7.7 percent peak in delinquencies from 2010.

Delinquency rates among FHA mortgages, meanwhile, soared to 15.6 percent — surpassing its prior peak from the housing market collapse. These findings align with the MBA's Mortgage Credit Availability Index which showed that lending to FHA homebuyers loosened far more over the past decade then lending for conventional conforming mortgages — suggesting that the FHA loans would be more susceptible to sudden declines in employment or earnings. Job losses within lower-paying sectors have also been much higher during the COVID-19 recession — contributing to the much larger jump in mortgage delinquency for FHA loans and could lead to a higher share of foreclosure relative to conventional conforming loans.

Housing sustainability has deteriorated in most housing markets since a year ago

- The near-term sustainability of housing markets is best measured by the current LIHHM (page 3), but looking at shifts in the LIHHM over the course of a year can provide additional insights.
- The rankings in over half of MSAs have declined over the past year as labor market conditions worsened sharply due to COVID-19 in 2020. Many of these markets saw their rankings weaken by only one ranking, but a group of 38 MSAs declined by at least two rankings since a year ago (including two markets down by three rankings).
- Only 46 markets had an increase in their performance rankings since a year ago, with all but one rising by one ranking, while 166 local housing markets were unchanged over the past year – reflective of stable housing market fundamentals in those markets.

Current LIHHM 4Q change†



Largest Increase

Rank	Metropolitan Statistical Area
1	Owensboro KY
2	Chico CA
3	Pine Bluff AR
4	Grand Island NE
5	Oshkosh-Neenah WI
6	Panama City FL
7	Joplin MO
8	Altoona PA
9	Cape Girardeau MO-IL
10	Walla Walla WA

Largest Decrease

Rank	Metropolitan Statistical Area
400	Brownsville-Harlingen TX
399	Elmira NY
398	Laredo TX
397	El Paso TX
396	Tulsa OK
395	Houston-The Woodlands-Sugar Land TX
394	Fairbanks AK
393	Davenport-Moline-Rock Island IA-IL
392	Killeen-Temple TX
391	Amarillo TX

† *Change in performance ranking; Data as of 2020 Q2*

Appendix

Leading Index of Healthy Housing Markets (LIHHM)

Nationwide's LIHHM is a data-driven view of the near-term performance of housing markets based upon current health indicators for the national housing market and 400 metropolitan statistical areas (MSAs*) and divisions across the country. For each MSA, the LIHHM uses local-level data to incorporate the idiosyncratic characteristics of regional housing markets. The focus of the LIHHM is on the entire housing market's health, rather than a projection of house prices or home sales.

Nationwide Economics LIHHM methodology

The LIHHM is calculated using a number of variables that describe many of the drivers of the housing market for each MSA. In order to provide the best indicator of housing health, the included variables and corresponding weights for each provide the optimal leading perspective on future housing markets for each MSA. The drivers can be grouped into the following categories:

1. **Employment**
2. **Demographics**
3. **Mortgage Market**
4. **House Prices**

As an illustration, if job growth increases in an MSA, then the resulting rise in incomes creates additional housing demand. Consumers have a greater ability to earn and save for home purchases, increasing sales and pushing up house prices. The LIHHM measures the movements in the included employment, demographic, mortgage market, and house price variables versus the long-term trends within each MSA.

These drivers are used to derive an overall LIHHM score on a scale from 75 to 125 centered around a neutral value of 100. These values are placed into performance rankings to allow for better comparisons across MSAs. These performance rankings are the key metric in comparing the MSAs both to each other and across time. Raw LIHHM values are used for calculation purposes only and will only be shown on the national level as the national score is standalone and is not compared to other areas.

* *MSA: Geographical region with high population density and close economic ties throughout the nearby area, capturing 85-90% of the U.S. population*

Nationwide®

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David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served as Chief Financial Economist at Wharton Econometrics and visiting scholar at the Federal Reserve Bank of Kansas City. His government experience has included roles with the President's Council of Economic Advisors, U.S. Treasury Department and the Office of the Special Trade Representative. He is a past President of the National Association for Business Economics and is a Certified Business Economist (CBE).

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