Amherst

Amherst

Strong urban dweller demand for suburban homes drives high home price and rent growth

Booming urban household demand for suburban homes contributed to the record-high pandemic-era home price growth. Lockdowns and remote work prompted households to leave their urban dwellings for more spacious suburban residences. Since few families could afford larger homes within central urban neighborhoods, many households moved to lower-cost markets, including the immediate suburbs and more affordable SunBelt cities. These inbounding urban dwellers accelerated pre-pandemic suburbanization trends and pushed up prices in an already competitive market. However, the wealth of those moving also had an impact. Because urban households could buy an entire house in the suburbs for the amount of a down-payment of an equivalent urban home, their entrance to low-cost markets prompted price growth that has not been seen since the lead up to the Great Recession.

Large migration out of high-cost cities

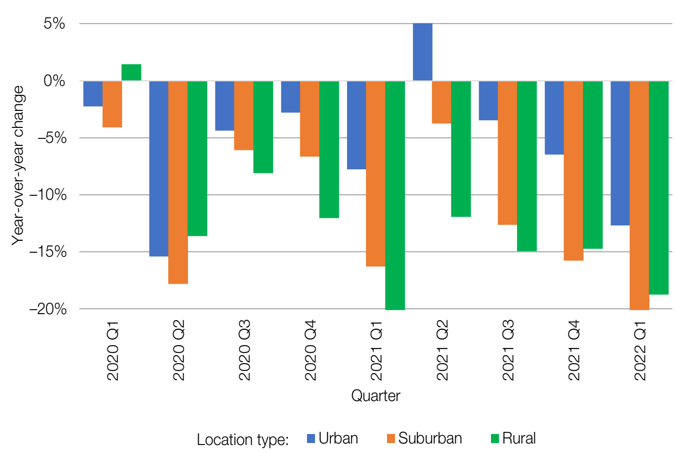
A Cleveland Federal Reserve study illustrates the migration shifts induced by the pandemic.[1] Between second quarter 2020 and second quarter 2021, more than 2.4 million additional people (above those who would seasonally move over a similar time period) chose to relocate from high-cost large metropolitan areas to more spacious single-family homes in lower-cost metros.[2,3] Mid- and small-size metros saw the largest influxes, as net migration from high-cost cities increased by 10 percent and 9 percent, respectively. Some metros, such as Fort Myers, Fla., saw a net increase equivalent to 1 percent of their workforce.

Not only was there an increase in migration, but the households that migrated shifted to a new demographic. Before 2020, suburbanization was led by lower-income households who sought a more affordable lifestyle away from the high-cost cities in which they lived. The pandemic altered that flow. For the first time in a decade, more urban households residing in above-median-income neighborhoods moved than households in below-median-income neighborhoods. Although the cohort of moving and buying consumers broadened throughout 2021, wealthier households, including early retirees, continued moving to the SunBelt and other popular retirement destinations. Demand from higher-income households is also one of the contributing factors that led to 30 percent of home purchases being made in all cash in 2021 through July.[4]

Suburban listings shrank faster during COVID-19

Sharp suburban inventory decreases and price hikes underscore the rapid uptick in demand for suburban homes.[5] Before the pandemic, urban-area and suburban active listings trended together, while rural listings exhibited lower year-over-year inventory volatility. During the initial lockdowns in second quarter 2020, the share of active listings declined in all areas. However, as lockdowns eased, prior trends were shaken up, and the gaps between urban, suburban and rural price appreciation began to grow. Since second quarter 2020, suburban and rural inventories have fallen two to four times faster than their urban counterparts.[6] As high home price growth in traditionally more affordable regions made urban homes more appealing, urban inventory declines sped up. Yet, even at its peak, urban inventory decline was still only 66 percent of the decline in suburban areas. Fannie Mae reported similar findings on inventories. Listings for three-plus bedroom homes shrank 5 percent faster than one- and two-bedroom inventories. Suburban inventories shrank 30 percent faster than urban inventories. Cities that received a large volume of urban migrants also had outsized absorption rates of more than 20 percent.[7]

Figure 1: Rural and suburban inventories shrink faster

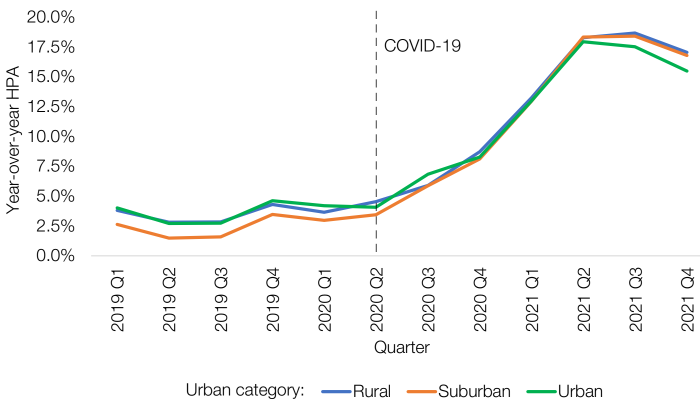


Source: Amherst tabulation of MLS listing data in combination with HUD Urbanization Perceptions of Small Area Index

Home price growth highest in receiving metros

The metros with the most significant inflow of migrants from high-cost areas were also the metros that experienced the highest home price appreciation in 2021. The Cape Coral–Fort Myers, Fla., metro saw its net inflow of households double levels of the prior three years, with the

Figure 2: The rise of suburban prices



Sources: Amherst HPA and HUD Urbanization Perceptions of Small Area Index

equivalent of 1 percent of its workforce moving to the area. Consequently, even in the waning months of 2021, it experienced year-over-year home price appreciation of more than 30 percent.[8] Cape Coral was not alone. Stockton, Calif.; Boise, Idaho; Austin; Raleigh; Atlanta; and Las Vegas were all in both the top-20 receivers of high-cost city dwellers and in the top 20 in home price appreciation.

High demand for suburban homes is also reflected in price growth. Before the pandemic, suburban home price growth typically lagged urban growth by 1 to 2 percentage points. As lockdowns eased up, suburban price growth surpassed urban price appreciation. Moreover, while urban price appreciation began to slow during the peak of home price growth in second quarter 2021, suburban and rural prices maintained their upward trajectory.[9]

Uncertainty looms on the horizon

Numerous economic and geopolitical factors make it difficult to predict future demand for suburban and rural homes. High home price growth in suburban and rural neighborhoods blurred price differences across the United States, making traditionally affordable areas more expensive and less desirable for those in high-cost cities. Requests for workers to return to the office, rising interest rates and Russia's invasion of Ukraine all introduce some uncertainty into consumer demand for suburban homes, but it is unlikely to sharply dampen in the near future.

[1] Stephan Whitaker, "Migrants from High-Cost, Large Metro Areas during the COVID-19 Pandemic, Their Destinations, and How Many Could Follow"; Federal Reserve Bank of Cleveland Data Brief; March 25, 2021

[2] 2.4 million is likely an underestimate of movers because the study only tracks households that have a record in Equifax Consumer Credit Panel data. In 2015, the Consumer Financial Protection Bureau's Office of Research estimated that 30 percent of adults in low-income neighborhoods are credit invisible and a further 15 percent have unscored records. As a result, the Credit Panel study likely underestimates the number of low-income households that left high-cost cities, though this is less likely to impact housing prices.

[3] "Has An Urban Exodus Occurred? Residential Environment Trends Shaping the Future of Where We Live"; Freddie Mac; Research note; July 12, 2021

[4] Lily Katz, "Share of Homes Bought With All Cash Hits 30% for the First Time Since 2014"; July 15, 2021

[5] Urban, Suburban, Rural designations provided by HUD Urbanization Perceptions Small Area Index (UPSAI)

[6] Amherst tabulation of MLS listings as of first quarter 2021

[7] "Has An Urban Exodus Occurred? Residential Environment Trends Shaping the Future of Where We Live"; Freddie Mac; Research note; July 12, 2021

[8] Amherst Home Price Appreciation (HPA) Index as of December 2021

[9] Amherst HPA and Amherst tabulation of MLS listing

CONTRIBUTOR

Gene Burinskiy

Vice President of Research and Data Journalism

Amherst

CORPORATE CONTACT

Dan Scorpio, Managing Director
Abernathy MacGregor
media@amherst.com
Please visit: **www.amherst.com** and **www.amherstcapital.com.**

Important note: The comments provided herein are a general market overview and do not constitute investment advice, are not predictive of any future market performance, are not provided as a sales or advertising communication, and do not represent an offer to sell or a solicitation of an offer to buy any security. Similarly, this information is not intended to provide specific advice, recommendations, or projected returns of any particular product of The Amherst Group LLC ("Amherst") or its subsidiaries and affiliates.These views are current as of the date of this communication and are subject to rapid change as economic and market conditions dictate. Though these views may be informed by information from sources that we believe to be accurate and reliable, we can make no representation as to the accuracy of such sources nor the completeness of such information. For more information on Amherst, please visit www.amherst.com.

CORPORATE OVERVIEW

Amherst is on a mission to transform the way real estate is owned, financed and managed. Amherst leverages its proprietary data, analytics, technology and decades of experience to seek solutions for a fragmented, slow-to-evolve real estate ecosystem and to materially improve the experience for residents, buyers, sellers, communities and investors. Today Amherst has nearly 1,200 employees and more than $14.1 billion in assets under management, as of December 2021.

During the past decade, Amherst has scaled its platform to become one of the largest operators of single-family assets and has acquired, renovated and leased more than 34,500 homes across 32 markets in the United States. The firm seeks to deliver customized, stabilized cash-flowing portfolios of assets to its investors, wrapped in all the ongoing services required to manage, own and finance the asset, including property management, portfolio management and a full capital-markets team. In addition to its single-family rental platform, Amherst's debt business pursues two distinct credit strategies in mortgage-backed securities and commercial real estate lending. Over its 27-year history, Amherst has developed a deep bench of research and technology talent, and leverages data and analytics at every stage in the asset lifecycle to improve operations and preserve long-term value for our investors and the more than 188,000 residents the firm has served.