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2021 Housing Market Forecast and Predictions

DECEMBER 2, 2020

2021 National Housing Market Forecast and Predictions: Back to Normal

To say 2020 was a year of surprises is an extreme understatement. What started off as a bright year for the housing market and the economy was soon derailed by a global pandemic and severe economic recession. As detailed by my colleague, [George Ratiu](#), the economic rebound has been sharp, but is by no means complete and created distinct winners and losers among sectors in the economy. Read more detailed thoughts on the overall economic context and outlook, [here](#). One of the big winners has been the housing market, which saw home sales and prices hit decade-plus highs following decade lows in the span of just a few months. We expect housing's winning streak to continue in 2021 as seasonal trends normalize and some of the frenzied momentum fades thanks to fresh affordability challenges. Below you'll find our forecast and housing market predictions on key trends that will shape the year ahead.

Realtor.com 2021 Forecast for Key Housing Indicators

Housing Indicator

Realtor.com 2021 Forecast

Mortgage Rates	Average 3.2% throughout the year, 3.4% by end of year
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Existing Home Median Sales Price Appreciation	Up 5.7%
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Existing Home Sales	Up 7.0%
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Single-Family Home Housing Starts	Up 9%
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Homeownership Rate	65.9%
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HOUSING 2021 FORECAST

Sellers will get top dollar as buyers struggle with affordability

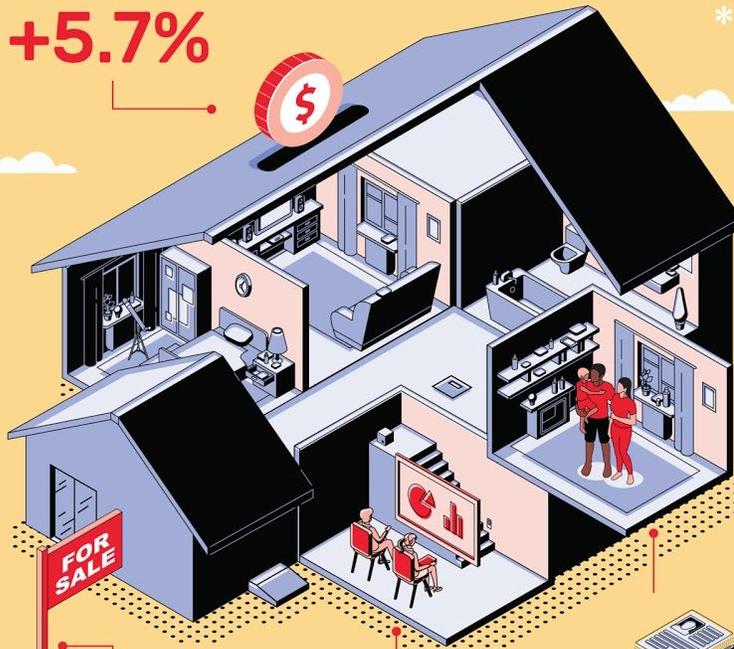


Home Prices will hit new heights

+5.7%

Seasonality makes a return

After normal seasonality was tossed out the window in 2020, we expect to see a strong spring and summer homebuying season, while things will wind down in fall and winter



Home sales are going up

+7%

Strong demand and more homes hitting the market equals a healthy rate of growth

Mortgage rates on the move

+3.4%
by end of year

Along with rising prices, this will make affordability an issue for buyers

The rise of the millennials

No longer just dominating the entry-level market, millennials are now taking over as "move up" buyers as they have children and need more space



Covid + Double Dip Recession

The current pandemic already creates a lot of uncertainty, but with a widening gap between the employed and unemployed, plus the expiration of CARES Act protections, the economy could take a massive hit



Wildcards could shake things up

Seasonality and 2020 Context: The Baseline

In 2020, the seasonal pattern for home sales and other metrics was thrown out of whack by the timing of the coronavirus arrival as well as the shelter-at-home orders and other measures that were rolled out to arrest the spread of the virus. These measures were implemented just before what's normally the best time of year for sellers to list a home for sale, and housing inventory never fully made up the gap as buyers returned in earnest before sellers. This uneven return of buyers and sellers created a housing market frenzy that pushed the number of sales to decade highs while time on market dropped to new lows. This trend persisted well into the fall, a time when normal seasonal trends typically favor home buyers over sellers, thus buyers hoping for the usual break in 2020 were likely disappointed. Understanding this backdrop will be key to evaluating the data as it comes in for 2021 as we expect the housing market to settle into a much more normal pattern than the wild swings we saw in 2020. Year over year trends will need to be understood in the context of the unusual 2020 base year.

Home Sales

After whipsawing in tremendous fashion in early 2020, the housing market more than regained its early-year momentum to finish at new highs for home sales in the fall. For the year, we expect 2020 home sales to register slightly higher (0.9%) than the 2019 total thanks to the strong, if delayed, buying season. Going into 2021, we expect home sales activity to slow from those frenzied levels which represented underlying housing demand as well as make-up buying for a spring season many buyers missed out on plus a sense of urgency brought on by record low mortgage rates. As sub-3 percent mortgage rates start to feel less exceptional, buyers may not react with the same immediacy to take advantage of them, initially, though as rates start to rise in the second half of 2021, buyers may feel the need to hurry purchases along to lock in a low rate. Additionally, as make-up buying from the disruption of spring 2020 fades, home purchases will be propelled by underlying demand in 2021. This demand will come from a healthy share of Millennial and Gen-Z first-time buyers as well as trade-up buyers from the Millennial and older generations.

We expect home sales in 2021 to come in 7.0% above 2020 levels, following a more normal seasonal trend and building momentum through the spring and sustaining the

pace in the second half of the year. While home sales are expected to lose some momentum over the last months of 2020, the shallower than normal seasonal slowdown creates a higher base of activity leading into 2021 that is roughly maintained for the first half of the year. As vaccines for the coronavirus become broadly available to the public, and economic growth reflects the resumption of more normal patterns of consumer spending, home sales gain even more in the second half of the year.

Home Prices

With the already limited inventory of homes for sale relative to buyers pushed further out of balance by the pandemic that brought out buyers in mass and kept many sellers pondering their options, home prices skyrocketed surging up more than 10 percent over year-ago levels by the late fall. We expect the momentum of home price growth to slow as more sellers come to market and mortgage rates settle into a sideways pattern and eventually begin to turn higher. The large number of buyers in the market, including many Gen-Zers looking to buy their first-home and Millennials who are both first-time and trade-up buyers will keep upward pressure on home prices, but rising numbers of home sellers will provide a better relief valve for that pressure.

We expect home prices in 2020 to end 7.6% above 2019, after a seeing near record high boost in the summer and early fall, but beginning to decelerate into the holidays. From there, we expect price gains to ease somewhat in 2021 and end 5.7% above 2020 levels, decelerating steadily through the spring and summer, and then gradually reaccelerating toward the end of the year.

Inventory

Although the housing market is healing and by many measures doing better than before the pandemic, inventory remains housing's long haul symptom. There were an insufficient number of homes for sale going into 2020 in large part due to an estimated shortfall of nearly 4 million newly constructed homes. Much to the surprise of many, the coronavirus and recession did not lead to a distressed seller driven inventory surge as we saw in the previous recession, but further reduced the number of homes available for sale. Starting in fall 2020 the housing market saw more than half a million fewer homes available for sale than the prior year. We expect to see an improvement in the

pace of inventory declines starting just before the end of 2020 that will continue into Spring 2021, so that while the number of for-sale homes will be lower than one year ago, the size of those declines will drop. We expect a more normal seasonal pattern to emerge which will contrast with the unusual 2020 base and lead to odd year over year trends, but taken as a whole we expect inventories to improve and, by the end of 2021, we may see inventories finally register an increase for the first-time since 2019.

While total inventories will remain relatively low thanks to strong buyer demand, the number of new homes available for sale and existing home sellers, what we call “newly listed homes,” will be more numerous which will help power the expected increases in home sales.

Key Housing Trends

2021 TRENDS: Millennials & Gen Z

The largest generation in history, millennials will continue to shape the housing market as they become an even larger player. The oldest millennials will turn 40 in 2021 while the younger end of the generation will turn 25. Older millennials will be trade-up buyers with many having owned their first homes long enough to see substantial equity gains, while the larger, younger segment of the generation age into key years for first-time homebuying. At the same time, Gen Z buyers, who are 24 and younger in 2021, will continue their early foray into the housing market.

In early 2020, younger generations, including Millennials and Gen Z, were putting down smaller downpayments and taking on larger debts to take advantage of low mortgage rates despite rising home prices. In fact, only a quarter of respondents to a summer survey reported lowering their monthly mortgage budget or not changing their home search criteria in response to lower mortgage rates. The other three-quarters said low rates would enable them to make a change to their home search, and the most commonly cited change was buying a larger home in a nicer neighborhood.

We expect these trends to persist as rising home prices require larger upfront down payments as well as a bigger ongoing monthly payment due to the end of mortgage rate

declines. Early in the pandemic period, there was concern that temporary income losses could prove to be particularly disruptive to younger generations' plans for homeownership, as these were the groups expected to face income disruptions that might require dipping into savings which would otherwise be used for a down payment. Thus far, these disruptions have not had an effect on overall home sales, and some home shoppers report an ability to save more money for a downpayment as a result of sheltering at home, but we are still not completely through the pandemic-related economic disruption.

2021 TRENDS: Remote Work

As we discussed in early 2020, the ability to work from home is not new. In fact, as long ago as 2018, roughly one-quarter of workers worked at home, up from just 15 percent in 2001. More recently, a scan of real estate listings on realtor.com in early 2020 showed that in the ten metro markets where they are most common, as many as 1-in-5 to 1-in-3 home listings mentioned an "office." Remote working was already more common among home shoppers than the general working population, with more than one-third of home shoppers reporting that they worked remotely even before the coronavirus. Additionally, remote working has gained an unprecedented prominence in response to stay-at-home orders and continued measures to quell the spread of the coronavirus. Another 37 percent of home shoppers reported working remotely as a result of the coronavirus. While a majority of home shoppers reported a preference for working remotely, three-quarters of workers expect to return to the office at least part-time at some point in the future. However, the ability to work remotely was a factor prompting a majority of respondents to buy a home in 2020. This was the case even when most expected to return to offices sometime in 2020. As remote work extends into 2021 and in some cases employers grant employees the flexibility to continue remote work indefinitely, expect home listings to showcase features that support remote work such as home offices, zoom rooms, high-speed internet connections, quiet yards that facilitate outdoor office work, and proximity to coffee shops and other businesses that offer back-up internet and a break from being at home, which can feel monotonous to some, to become more prevalent

2021 TRENDS: Suburban Migration

With remote work becoming much more common, home shopping in suburban areas had a stronger post-COVID lockdown bounceback than shopping in urban areas, starting in the spring and continuing through the summer. These trends, which have been visible in rental data as well, suggest that city-dwellers—freed from the daily tether of a commute to the office and looking for affordable space to shelter, work, learn, and live—were finding the answer in the suburbs. In fact, a summer survey of home shoppers showed that while a majority of respondents reported no change in their willingness to commute, among those who did report a change, three of every four reported an increased willingness to commute or live further from the office.

Even before the pandemic, homebuyers looking for affordability were finding it in areas outside of urban cores. The pandemic has merely accelerated this previous trend by giving homebuyers additional reasons to move farther from downtown.

Housing Market Perspectives

What will 2021 be like for buyers?

The housing market in 2021 will be much more hospitable for buyers as an increased number of existing sellers and ramp up in new construction restore some bargaining power for buyers, especially in the second half of the year. Still-low mortgage rates help buyers afford home price increases that will be much more manageable than the price increases seen in 2020. With companies continuing to allow workers more flexibility, we see the inner as well as outer suburbs and smaller towns continuing to entice home buyers and builders. Areas that can ramp up affordable housing supply will benefit and see an influx of buyers.

While buyers will be able to visit homes in person, a strong preference for most shopping to buy, they will take advantage of the industry's acceleration toward technology to check out homes, explore neighborhoods, and research the purchase online, saving time and energy to focus on a more selectively curated list of homes to view in person.

Although the pace will slow from late 2020's frenzy, fast sales will remain the norm in many parts of the country which will be a challenge felt particularly for first-time buyers learning the ins and outs of making a major decision in a fast-moving environment. Buyers who prepare by honing in on the neighborhood and home characteristics that are must-haves vs. nice-to-haves and lining up financing including a pre-approval will have an edge.

What will 2021 be like for sellers?

Sellers will be in a good position in 2021. Home prices will hit new highs, even though the pace of growth slows. Buyers will remain plentiful and low mortgage rates keep purchasing power healthy, but monthly mortgage costs will rise as mortgage rates steady and home prices continue to rise. Sellers hoping to see further double-digit price gains will likely be disappointed, but those setting reasonable expectations can expect to see a timely sale and will want to focus on their next move.

Housing Market Predictions 2021 – Metro Area Breakdown

Metro	2021 Sales Growth % y/y	2021 Price Growth % y/y
Akron, Ohio	5.3%	4.2%
Albany-Schenectady-Troy, N.Y.	7.1%	3.7%
Albuquerque, N.M.	4.5%	3.2%

Allentown-Bethlehem-Easton, Pa.-N.J.	0.3%	4.9%
Atlanta-Sandy Springs-Roswell, Ga.	3.6%	6.2%
Augusta-Richmond County, Ga.-S.C.	5.1%	3.2%
Austin-Round Rock, Texas	8.4%	4.6%
Bakersfield, Calif.	10.5%	3.7%
Baltimore-Columbia-Towson, Md.	4.8%	6.2%
Baton Rouge, La.	6.5%	2.6%
Birmingham-Hoover, Ala.	3.7%	3.2%
Boise City, Idaho	9.8%	9.1%
Boston-Cambridge-Newton, Mass.-N.H.	5.4%	5.7%
Bridgeport-Stamford-Norwalk, Conn.	9.7%	7.8%

Buffalo-Cheektowaga-Niagara Falls, N.Y.	6.3%	4.0%
Cape Coral-Fort Myers, Fla.	1.5%	4.3%
Charleston-North Charleston, S.C.	9.5%	4.3%
Charlotte-Concord-Gastonia, N.C.-S.C.	13.8%	5.2%
Chattanooga, Tenn.-Ga.	4.9%	3.5%
Chicago-Naperville-Elgin, Ill.-Ind.-Wis.	8.3%	3.5%
Cincinnati, Ohio-Ky.-Ind.	4.9%	3.8%
Cleveland-Elyria, Ohio	6.7%	2.7%
Colorado Springs, Colo.	5.4%	6.2%
Columbia, S.C.	8.1%	5.4%
Columbus, Ohio	10.3%	7.6%

Dallas-Fort Worth-Arlington, Texas	11.3%	4.4%
Dayton, Ohio	0.7%	1.7%
Deltona-Daytona Beach-Ormond Beach, Fla.	5.4%	6.3%
Denver-Aurora-Lakewood, Colo.	12.5%	5.4%
Des Moines-West Des Moines, Iowa	6.9%	2.8%
Detroit-Warren-Dearborn, Mich	-2.8%	4.9%
Durham-Chapel Hill, N.C.	4.8%	4.3%
El Paso, Texas	10.6%	6.4%
Fresno, Calif.	8.9%	8.5%
Grand Rapids-Wyoming, Mich	9.1%	3.6%
Greensboro-High Point, N.C.	6.8%	4.1%

Greenville-Anderson-Mauldin, S.C.	4.3%	1.3%
Harrisburg-Carlisle, Pa.	14.4%	3.8%
Hartford-West Hartford-East Hartford, Conn.	12.1%	3.4%
Houston-The Woodlands-Sugar Land, Texas	5.3%	4.6%
Indianapolis-Carmel-Anderson, Ind.	4.1%	2.3%
Jackson, Miss.	5.3%	1.9%
Jacksonville, Fla.	9.4%	5.0%
Kansas City, Mo.-Kan.	12.1%	3.5%
Knoxville, Tenn.	7.9%	5.7%
Lakeland-Winter Haven, Fla.	5.1%	4.9%
Las Vegas-Henderson-Paradise, Nev.	12.0%	5.2%

Little Rock-North Little Rock-Conway, Ark.	1.9%	1.5%
Los Angeles-Long Beach-Anaheim, Calif.	10.0%	7.3%
Louisville/Jefferson County, Ky.-Ind.	7.0%	4.2%
Madison, Wis.	5.1%	2.1%
McAllen-Edinburg-Mission, Texas	10.0%	3.6%
Memphis, Tenn.-Miss.-Ark.	9.1%	4.8%
Miami-Fort Lauderdale-West Palm Beach, Fla.	3.7%	7.1%
Milwaukee-Waukesha-West Allis, Wis.	6.3%	6.0%
Minneapolis-St. Paul-Bloomington, Minn.-Wis.	0.5%	4.8%
Nashville-Davidson-Murfreesboro-Franklin, Tenn.	3.1%	4.8%
New Haven-Milford, Conn.	8.6%	3.1%

New Orleans-Metairie, La.	5.3%	4.2%
New York-Newark-Jersey City, N.Y.-N.J.-Pa.	-3.8%	0.5%
North Port-Sarasota-Bradenton, Fla.	10.3%	6.6%
Oklahoma City, Okla.	5.8%	3.0%
Omaha-Council Bluffs, Neb.-Iowa	1.4%	4.9%
Orlando-Kissimmee-Sanford, Fla.	10.1%	5.8%
Oxnard-Thousand Oaks-Ventura, Calif.	12.5%	5.5%
Palm Bay-Melbourne-Titusville, Fla.	11.6%	4.7%
Philadelphia-Camden-Wilmington, Pa.-N.J.-Del.-Md.	7.0%	4.5%
Phoenix-Mesa-Scottsdale, Ariz.	11.4%	7.0%
Pittsburgh, Pa.	9.2%	4.1%

Portland-South Portland, Maine	2.0%	6.4%
Portland-Vancouver-Hillsboro, Ore.-Wash.	8.1%	6.2%
Providence-Warwick, R.I.-Mass.	4.5%	5.5%
Raleigh, N.C.	6.0%	3.9%
Richmond, Va.	6.2%	4.5%
Riverside-San Bernardino-Ontario, Calif.	12.4%	5.5%
Rochester, N.Y.	8.4%	5.1%
Sacramento-Roseville-Arden-Arcade, Calif.	17.2%	7.4%
Salt Lake City, Utah	7.5%	5.7%
San Antonio-New Braunfels, Texas	7.2%	4.3%
San Diego-Carlsbad, Calif.	11.3%	5.5%

San Francisco-Oakland-Hayward, Calif.	1.3%	8.4%
San Jose-Sunnyvale-Santa Clara, Calif.	10.8%	10.8%
Scranton-Wilkes-Barre-Hazleton, Pa.	6.7%	1.1%
Seattle-Tacoma-Bellevue, Wash.	8.9%	9.7%
Spokane-Spokane Valley, Wash.	3.8%	5.6%
Springfield, Mass.	8.1%	4.2%
St. Louis, Mo.-Ill.	3.4%	3.8%
Stockton-Lodi, Calif.	8.2%	6.1%
Syracuse, N.Y.	4.2%	4.6%
Tampa-St. Petersburg-Clearwater, Fla.	8.7%	7.5%
Toledo, Ohio	3.9%	3.3%

Tucson, Ariz.	3.4%	4.5%
Tulsa, Okla.	2.7%	2.0%
Urban Honolulu, Hawaii	5.2%	1.6%
Virginia Beach-Norfolk-Newport News, Va.-N.C.	8.1%	1.8%
Washington-Arlington-Alexandria, DC-Va.-Md.-W. Va.	5.2%	6.7%
Wichita, Kan.	2.4%	3.4%
Winston-Salem, N.C.	2.6%	4.4%
Worcester, Mass.-Conn.	3.5%	4.5%
Youngstown-Warren-Boardman, Ohio-Pa.	6.1%	4.5%
