Grand Rapids Housing Market – 2020 In Review

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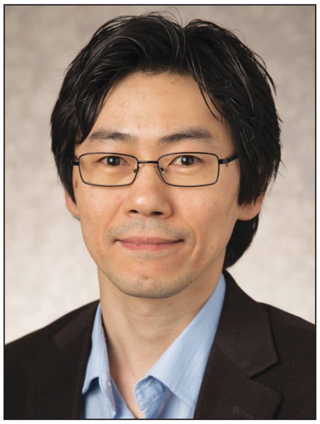
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The COVID-19 pandemic slowed home sales during the 2nd quarter of 2020, but price growth gained traction. The Grand Rapids regional economy was severely affected by the slowdown caused by the public health crisis, with employment in Kent County decreasing from approximately 350,000 workers in April 2019 to roughly 265,000 in the same month of 2020 reflecting a 24.3% decline (U.S. Bureau of Labor Statistics, 2020a). However, unemployment rates stayed relatively low among workers in high-paying occupations. For instance, nationally the peak unemployment rate was 7.7% in April (decreasing to 3.7% in November) for management and professional occupations, while in service occupations the unemployment rate reached 27.2% in April (U.S. Bureau of Labor Statistics, 2020b). On the other hand, the inventory of homes for sale remained at a very low 1.2 month supply in the region through September (Grand Rapids Alliance of Realtors - GRAR, 2020). In addition, the pandemic had at least two positive effects on the housing market. First, mortgage rates went down due to the economic slowdown. The 30-year fixed rate dropped from 3.72% in December 2019 to 2.67% in December 2020. Second, the pandemic helped increase the perceived value of housing, with stay-at-home orders making homes safe havens for work, study, and leisure.

In fact, housing prices went up even at the national level, rising by 8.4% in the past 12 months through October (based on the Case-Shiller index by the S&P Dow Jones Indices LLC, 2020), compared to an average growth rate of 3.5% in 2019. Sales of existing homes were unchanged in the first nine months of the year compared to the same period in the previous year (National Association of Realtors, 2020). However, construction activity rose by 6.5% in 2020 compared to the same period in 2019 despite the 14% year-over-year decline during the 2nd quarter (U.S. Census Bureau, 2020), showing that there was an increase in the expected demand for housing.

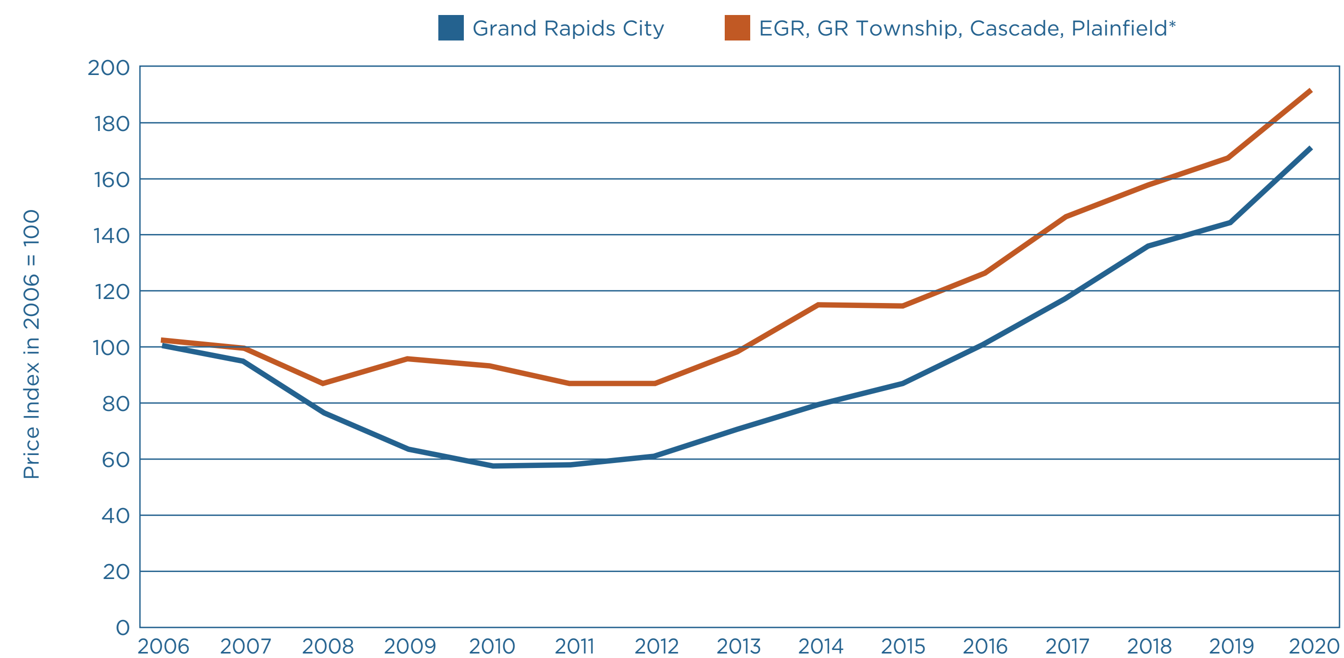
In the City of Grand Rapids, the repeat-sale price index estimates (**Figure 1**) suggest that home prices rose by an average of 16.9% in 2020 based on data through September. This growth rate is much higher than the 6.8% increase seen during 2019. In northern and eastern municipalities within Kent County (East Grand Rapids, Grand Rapids Township, Cascade, and Plainfield), home prices rose by 14.3% in 2020, a much higher rate than in 2019 when it reached 6.6%. Hence, housing price growth has accelerated in the region despite the economic uncertainties caused by the COVID-19 pandemic.

Figure 1 shows Housing Price Index estimates since 2006, the year in which prices peaked for the decade within the City of Grand Rapids. The data were restricted to reflect market conditions for typical, non-distressed, single-family home sales (details are in the Technical Notes at the end of the article). In comparison, the local Greater Regional Alliance of Realtors (GRAR, 2020) reported that the average price of single-family homes sold in the region through September was 8.9% higher in 2020 than in the same period in 2019. Hence, price seems to have increased more in the City of Grand Rapids and in the municipalities noted than in the overall region. The GRAR also reported a -3.2% change in the number of home sales through September in 2020 compared to the same period in 2019. Based on local government records for the same period, there was a 12.4% decline in sales in the City of Grand Rapids and a 3.5% decline in the northern and eastern municipalities (see **Figure 3** for sales data by quarter). Note that the decline happened almost entirely in the 2nd quarter of the year, with sales in the 3rd quarter recovering to 2019 levels and agents reporting lots of bidding activity.

One concern was that the COVID-19 pandemic and restrictions to work, school, and leisure activities would end up hurting the demand for living in central, urban areas. However, so far housing demand in downtown Grand Rapids seems to be holding up. Within the 49503 zip code encompassing the downtown, prices continued to increase even during the 2nd quarter of the year (**Figure 3**). Sales did go down in the 2nd quarter but at rates similar to other areas of the city (**Figure 2**).

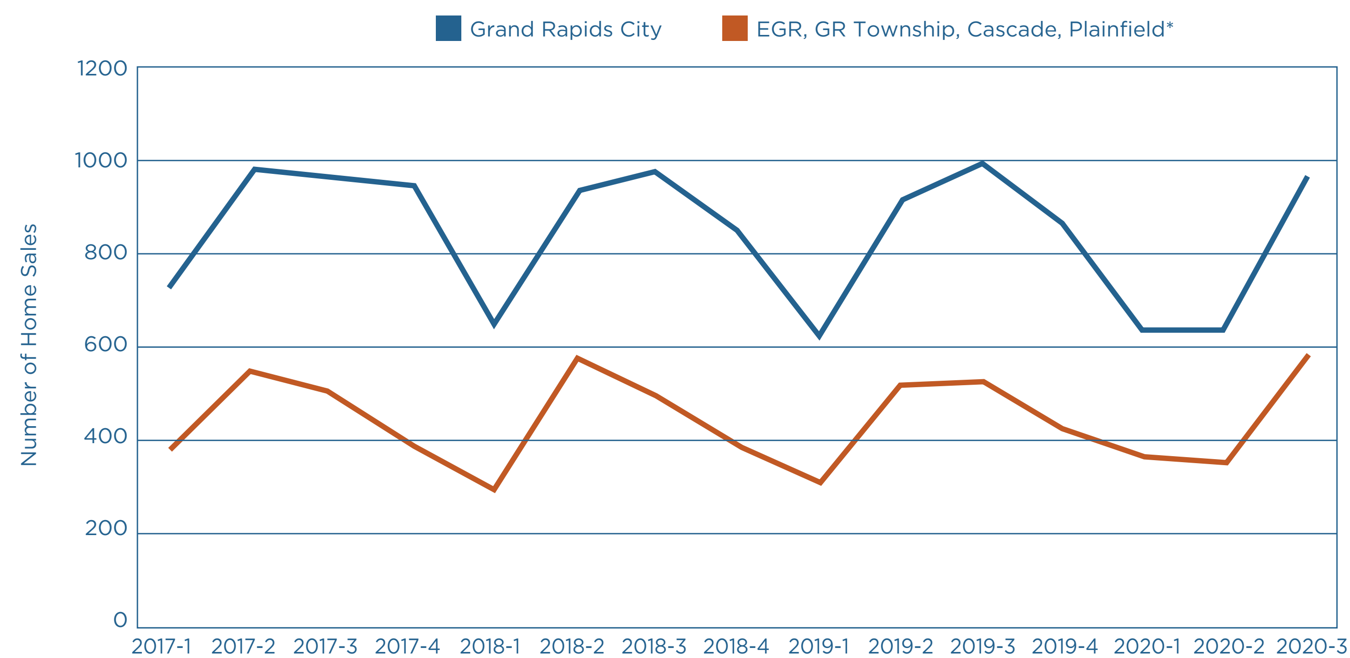
Given the strength of the housing market, even during the pandemic, housing stock versus demand levels is a potential concern. During the first half of the last decade, the number of families in the Grand Rapids metropolitan area grew by 43% with new residential building levels meeting this need (U.S. Census Bureau, 2020). Over the last 5 years, the region has built homes at a rate of 7 percentage points higher than new family growth. However, the rise in construction was mostly the result of a large increase in multi-family unit construction. If the pandemic-induced preference for single-family housing continues, this housing mix will likely do little to slow single-family home price rise, but it should instead reduce the growth in multi-family housing rental rates.

Figure 1: Housing Price Indexes (HPI) for the Grand Rapids Area*



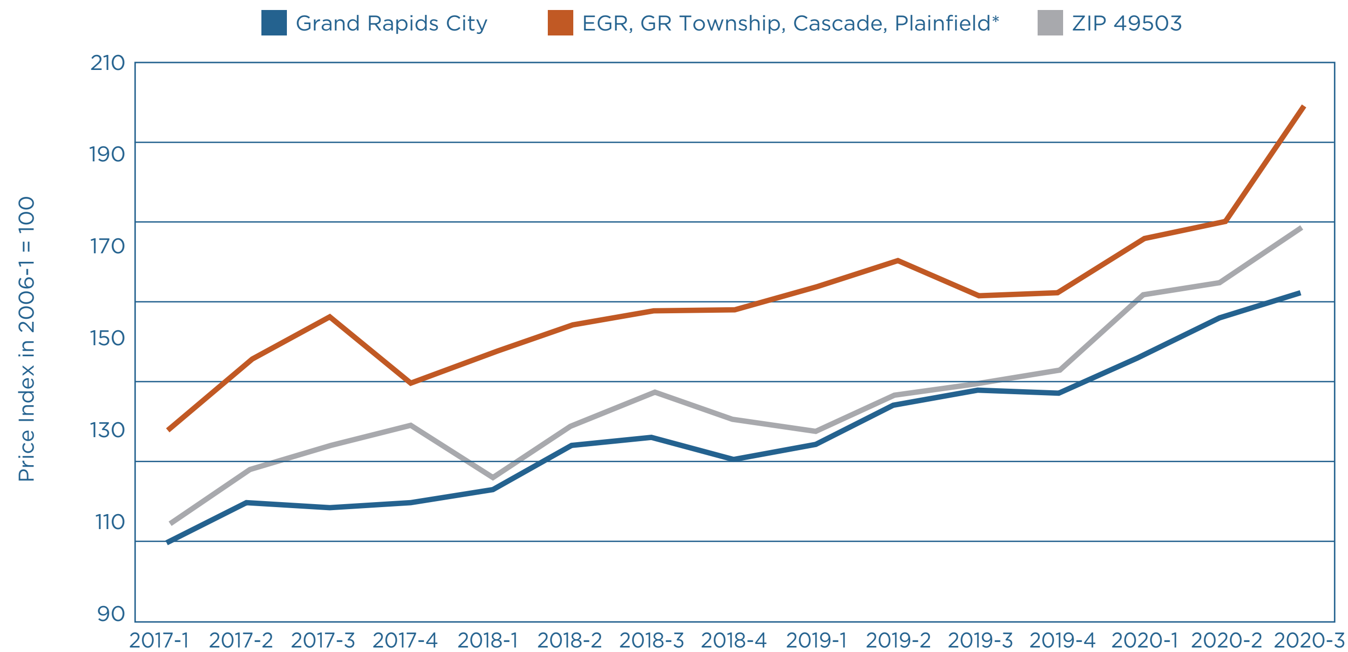
The 2020 index is based on data through September. See Technical Notes at the end of the article for details.
* The municipalities are the City of East Grand Rapids (EGR), Grand Rapids Township (GR Township), Cascade Township, and Plainfield Charter Township.
Source: Sales data retrieved from BS&A Software (2020).

Figure 2: Housing Sales by Quarter for the Grand Rapids Area*



* The municipalities are the City of East Grand Rapids (EGR), Grand Rapids Township (GR Township), Cascade Township, and Plainfield Charter Township.
Source: Sales data retrieved from BS&A Software (2020).

Figure 3: Housing Price Indexes (HPI) by Quarter for the Grand Rapids Area*



See Technical Notes at the end of the article for details.
* The municipalities are the City of East Grand Rapids (EGR), Grand Rapids Township (GR Township), Cascade Township, and Plainfield Charter Township.
Source: Sales data retrieved from BS&A Software (2020).

Conclusions

Home prices maintained an upward trend during 2020 in the Grand Rapids region despite the employment decline due to COVID-19. In fact, housing prices grew faster in 2020 compared to 2019. The volume of home sales dropped during the 2nd quarter of 2020 due to the stay-at-home order but recovered quickly in the 3rd quarter. Prices kept rising due to the low inventory of homes for sale combined with higher demand for housing due to low mortgage rates, government stimulus, reduced discretionary spending, and greater perceived value of housing as people spend more time at home. In the near future, if the economy continues to recover, low home sale inventories and moderate construction activity should keep prices and sales rising in 2021, although at lower rates than in 2020.

Technical Note

The housing price indexes shown in **Figure 1 and 3** are estimated using the repeat-sales method, which compares prices of the same houses as they are resold over time. Data from January 2000 to September 2020 were used. Indexes were set at 100 in 2006 (or quarter 1 of 2006 in the case of **Figure 3**), so that they can be interpreted as the amount of money needed to buy a house for every $100 that was needed to buy the same house in 2006. The repeat-sales method is a way to control for variation in the quality of the different houses sold in each year. The method excludes houses that were not resold during the period of analysis and disregards the impact of improvements or deterioration of each house and/or neighborhood. This approach is widely used to measure average price changes in a broad housing market. In order to better measure the changes in market conditions for typical homes, we excluded the following type of sales: cheap parcels sold for less than $30,000 or that never reached a price of at least $50,000; expensive parcels that were sold for more than $1,000,000 during the period; transfers from or to government, nonprofit, or financial institutions, which reflect non-market transactions; and parcels that had large variations in price, usually the case when parcels were developed or redeveloped. In **Figures 1 and 3**, it should be noted that other municipalities in Kent County and the 49503 zip code area have a relatively small number of repeat sales, making the estimates less accurate especially when analyzing prices by quarter. ■

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