The pandemic has been full of surprises for global markets, none more unexpected than the housing boom. Home prices were rising before COVID-19 and continued to rise even under lockdown. Getting confined to quarters turned out to be a big incentive to move to larger quarters. But the story here is now much bigger than the oft-told tale of young families fleeing cramped city apartments for roomier suburbs. Home prices have been rising on average in U.S. cities as well as in rural and suburban areas. Prices have increased not only in the United States but also worldwide, regardless of how hard a country was hit by the pandemic. The latest data from the Organisation for Economic Co-operation and Development (OECD) comes from the end of October 2020, and shows that over the prior 12 months home prices in its 36 member states rose by an average of more than 6 percent—the fastest pace since 2007. In short, home prices have been rising as fast during the pandemic as they did during the boom that went bust in 2008.

In our view, the boom has legs so long as its underlying supports remain firm: limited supply in many countries, coupled with demand pent-up over the last decade, unleashed by record low mortgage rates. Moreover, as the global economic recovery gains steam, the threat of inflation looms larger, and many investors are looking to buy traditional inflation hedges, including homes. Though supply and demand dynamics differ from one market to another, they generally point upward. Before the pandemic arrived, supply was very tight, following a decade when developers (spooked in part by the crash of 2008) built new homes at an unusually slow pace. Demand was weak, as many

1 Haver, Redfin.
2 Haver, OECD as of Q3 2020.
3 MSIM, Citi, Evercore ISI.
young people chose to put off buying a home, and rent or stay with parents instead. In the United States, the number of existing homes for sale, relative to the adult population, fell to half the previous record lows, set in the 1990s and early 2000s.⁴

Then came COVID-19. City dwellers went looking for larger homes, often at a safer distance from the crowds. Bidding wars are driving up prices in a sellers’ market. Rural prices are rising faster than urban prices. By late last year, as developers scrambled to catch up with demand, some analysts were saying the boom could reach “epic proportions.”

The most common factor is easy mortgage rates. Led by the Federal Reserve, central banks have been lowering interest rates for decades, hoping to stimulate economic growth, but much of that newly issued money keeps flowing into financial markets. This unintended boost accelerated drastically during the pandemic.

As central banks flooded money into the credit markets, rates on 30-year mortgages, which had been falling for decades, plummeted to record lows—which around 3 percent in the United States and under 2 percent in Europe.⁷ To anyone pondering a move, cheap mortgages are an incentive to act fast.

Going back at least to the 1970s, housing had always slumped during recessions, both in the United States and worldwide.⁶ People lose jobs and stop dreaming of bigger homes. But through the third quarter of last year, which saw the worst global recession since the 1940s, the OECD data shows prices rising fast in developed markets from the United States to Germany, Canada and New Zealand, and in emerging markets from Mexico to Turkey and India to China.⁷

There is little sign of a letup now. Many buyers are looking at homes as a speculative investment, not shelter. More than half of prospective U.S. buyers are losing out to higher bids. The median price of existing homes in the United States passed $300,000 for the first time late last year and is now above $315,000.⁹ In China last week, the head of the banking and insurance regulatory commission warned that speculative buying was inflating “relatively large bubbles” in the real estate sector.

The global recovery is gaining momentum. The consensus forecast for GDP growth in 2021 is 5 percent in the U.S., and more than 5 percent worldwide.⁹ We think growth could be considerably faster, thanks to the release of excess savings and pent-up demand, as people emerge from lockdown and begin working and shopping in the real world again. Coupled with stimulus campaigns, which continue to roll out even as the recovery gains momentum, the likelihood that inflation will return is growing. If anything, the incentive to invest in homes as an inflation hedge is growing too.

One risk is the possible end of easy mortgages. In anticipation of higher inflation, credit markets are already starting to raise long-term rates. Mortgages however are still historically cheap.¹⁰ In many countries, disposable incomes rose last year thanks to generous government stimulus, leaving consumers with low debt and record savings.¹¹ They are well positioned to ignore at least the early stages of an increase in mortgage rates.

The biggest risk, however, is that the housing boom becomes a bubble. Since World War II, bank and particularly mortgage lending has played a growing role in developed economies. Increasingly, economic crises have been preceded by a run-up in prices for housing or stocks or both.¹²

Housing poses a particularly big threat. Worldwide, housing is worth a total of $220 trillion, or twice the value of stocks.¹⁳ And when home prices go bust, the correction is not swift, as it is in stocks. It takes time to unravel the bad mortgage debts, which ripple through the middle classes, lengthening and deepening the resulting recession.

To contain this risk, central banks need to rethink inflation. Central bankers see their job as containing prices for consumer goods, and consumer price indexes generally do not include a direct measure of home prices. We think they

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**DISPLAY 1**

**Global Housing Prices Rose Right Through the 2020 Recession**

**OECD Nominal House Price Index**

![Graph showing OECD nominal house price index from 1970 to 2020, indicating a rise in global housing prices despite the 2020 recession.](#)


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⁵ Citi, ECB, Federal Home Loan Mortgage Corporation, Bloomberg RDHNXAN1 and NMCMFU5 Indices. Data as of March 2021.
⁶ Haver, Federal Home Loan Mortgage Corporation.
⁷ Haver, OECD as of Q3 2020.
⁸ Haver, National Association of Realtors as of January 2021.
⁹ Bloomberg as of March 2021.
¹⁰ Citi, ECB, Federal Home Loan Mortgage Corporation, Bloomberg RDHNXAN1 and NMCMFU5 Indices. Data as of March 2021.
¹¹ Haver, J.P. Morgan.
¹² MSIM.
¹³ MSIM, Savills.
should, and have been looking for the Fed to show the way.
Instead, the initiative came from New Zealand. With home prices spiraling out of reach for many, the progressive government in Auckland last month changed the remit of the central bank, which is now required to assess the
impact of monetary policy on housing price stability.14 Once again tiny New Zealand, which pioneered the use of clear targets to fight inflation back in the 1990s, is leading the way for central banks.
Hopefully, others will follow. Including a direct measure of home prices in the consumer price indexes would not restrain central banks from rescuing an economy in crisis, when other concerns prevail. But it would nudge them to wind down rescue a bit earlier than they otherwise would have—before housing booms like the one we are in become bubbles.

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14 Bloomberg, February 2021.
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