

ON POINT

ECONOMIC AND POLICY INSIGHT FROM THE OCC

Home Buyers Remain in Large Metropolitan Statistical Areas Despite COVID-19

The onset of the COVID-19 pandemic generated concerns over the pandemic's implications for the housing market, especially in large [metropolitan statistical areas \(MSA\)](#).¹ The pandemic was expected to result in downward pressure on home prices as lockdowns led to unemployment, which could have caused delinquencies, foreclosures, and distressed home sales.

Fortunately, that scenario did not materialize, and thus far the housing market in large MSAs, as well as elsewhere, has preserved its condition throughout the pandemic crisis. Nevertheless, much has been written in the news about the “urban exodus” and its potential impact on housing demand and home prices in large MSAs.² This paper examines mortgage data that lenders reported under the Home Mortgage Disclosure Act (HMDA) for evidence supporting the assertion of movement away from large MSAs in 2020.

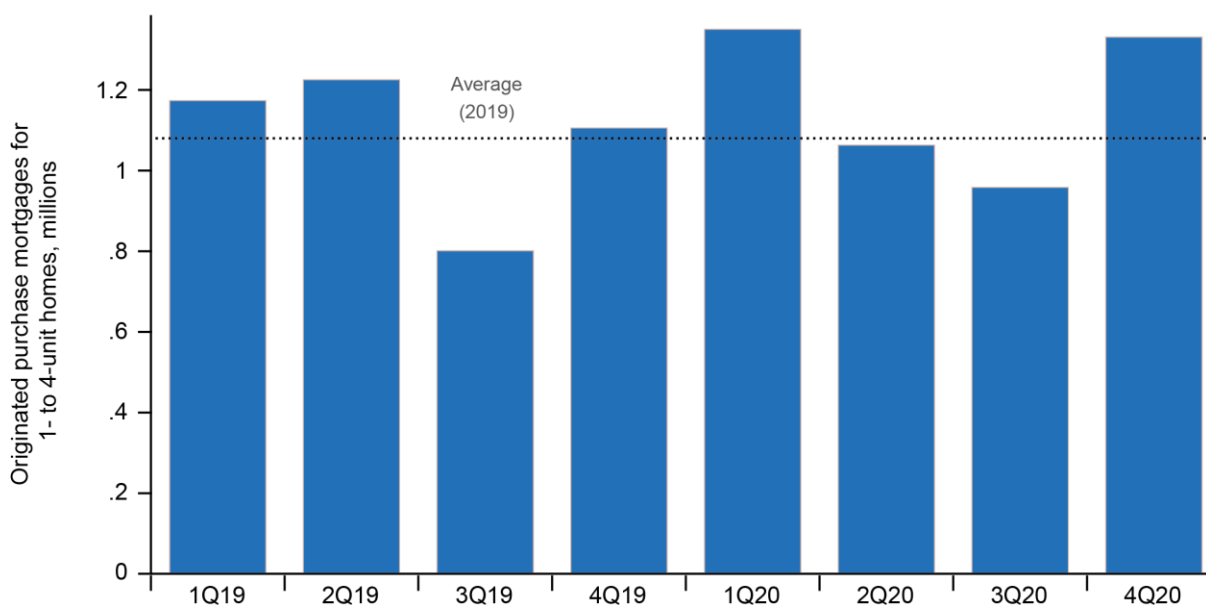
After Initial Slowdown, Rebound in Purchase Mortgages

Despite the COVID-19 pandemic and the resulting economic downturn, the number of purchase mortgages in 2020 was almost 10 percent greater than 2019 (see figure 1). Based on HMDA data, purchase mortgages for one- to four-family homes had an unusually strong start in 2020; during the first quarter, the number of purchase mortgages was more than 15 percent higher than in the first quarter of 2019 and more than 25 percent higher than the 2019 quarterly average. Then, as the COVID-19 pandemic triggered lockdowns and other restrictions at the beginning of the home-buying season in the second quarter of 2020, the number of purchase mortgages fell over 13 percent from the same time a year earlier and was 1.2 percent below the 2019 quarterly average.

¹ Metropolitan statistical areas (MSAs) are [defined](#) by the U.S. Census. This article defines large MSAs as those with a population of one million or more, medium MSAs as those with a population of 250,000 to 999,999, and small MSAs as those with a population of 50,000 to 249,999.

² [“Report: Where Americans Are Moving During the COVID-19 Pandemic,”](#) by HireAHelper; Polk, Milan, [“Young People Across the Country May Be Moving Due to COVID-19, but It’s Less Clear Whether Chicago Millennials Are Following Suit,”](#) *Chicago Tribune*, August 13, 2020; Patino, Marie, [“What We Actually Know About How Americans Are Moving During Covid,”](#) *Bloomberg City Lab*, September 16, 2020; Bowman, Cynthia Paez, [“Coronavirus Moving Study: People Left Big Cities, Temporary Moves Spike in First 6 Months of COVID-19 Pandemic,”](#) MyMove.com, June 1, 2021.

Figure 1: U.S. Purchase Mortgage Originations



Source: HMDA data.

Most housing markets showed early recovery signs in the third quarter of 2020. The prompt enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, historically low mortgage rates, adjustments to home sale practices such as virtual showings, and the rising desirability of homes as family shelters and workspaces for many workers reversed the home sale trend. Purchase mortgages surged by almost 20 percent in the third quarter of 2020 compared with the same period in 2019. This rebound grew further in the fourth quarter of 2020, as the number of purchase mortgages increased by more than 35 percent from the third quarter and by 20 percent from the same period a year earlier.

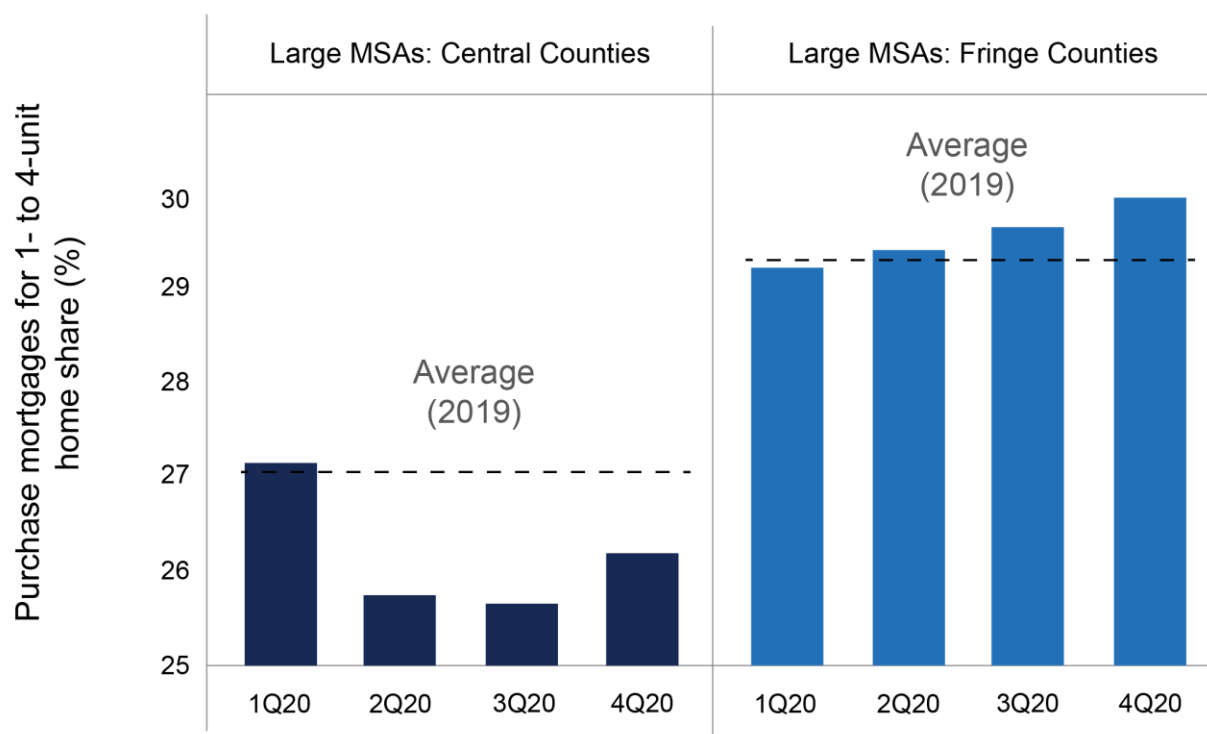
Purchase Mortgages in Central and Fringe Counties of Large MSAs

The impact of the pandemic on purchase mortgages varied by urbanization level. Based on HMDA data, more than half (56.3 percent) of all purchase mortgages in 2020 were for properties in large MSAs, only one basis point below the 2019 share.³ This does not suggest a massive shift in home purchases away from big cities.

Nevertheless, there are differences in mortgage activity within large MSAs. Fueled by low mortgage rates before the COVID-19 pandemic, the share of purchase mortgages for properties in the central counties of large MSAs was 15 basis points above their 2019 share as shown in figure 2. But as the pandemic emerged in the second and third quarters of 2020, the share of purchase mortgages for properties in those counties dipped below their 2019 share. Despite a rebound in the fourth quarter of 2020, the share of purchase mortgages in the central counties remained below their share in 2019.

³ A basis point is one-hundredth of 1 percent.

Figure 2: Purchase Mortgage Share in Large MSAs by Urbanization Level



Source: HMDA data.

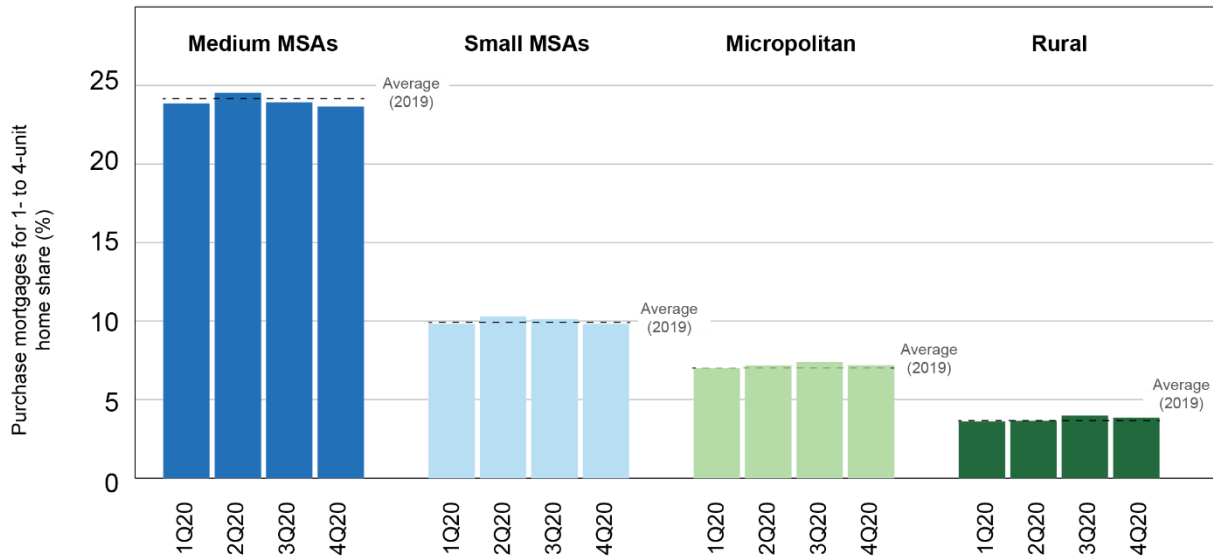
Note: Large MSA central counties are in MSAs with at least one million people and (1) contain the entire population of the largest principal city in the MSA, (2) are completely contained within the largest principal city of the MSA, or (3) contain at least 250,000 residents of any principal city in the MSA. Large MSA fringe counties are in MSAs with at least one million people and do not qualify as being within large central counties. The denominator for purchase mortgage share is total U.S. purchase mortgages.

The story is different for fringe counties in large MSAs. Though slightly below their share in 2019 in the first quarter of 2020, subsequent quarters saw growth in this share throughout the year. By the end of 2020, the share of purchase mortgages in fringe counties exceeded its 2019 level by 60 basis points, and these mortgages accounted for 30 percent of all purchase mortgages in the nation. This helped stabilize the overall share of purchase mortgages in large MSAs to essentially their 2019 share, despite the decline in the share in central counties.

Purchase Mortgages Outside of Large MSAs

As shown in figure 3, smaller cities and rural areas had less of a shift in their share of purchase mortgages than large MSAs.

Figure 3: Purchase Mortgage Share in Less Urban Areas



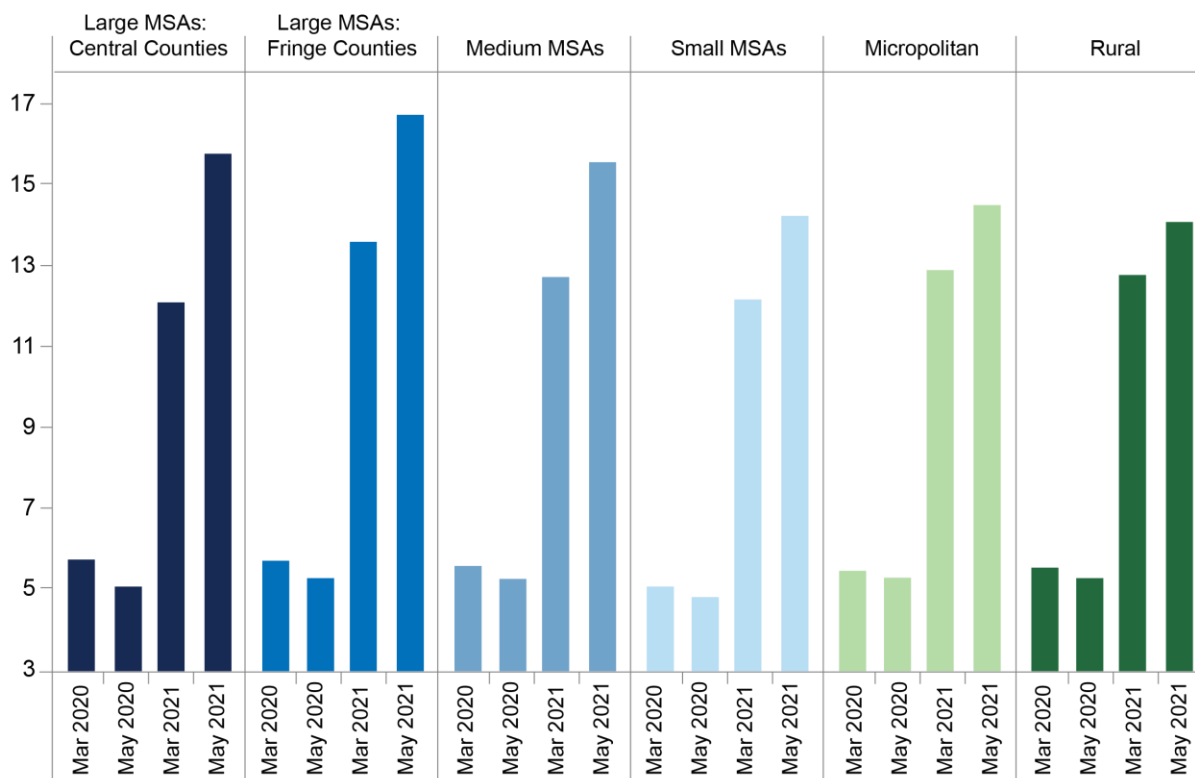
Source: HMDA

Note: Medium MSAs are counties in an MSA with 250,000 to 999,999 people. Small MSAs are counties in an MSA of 50,000 to 249,999 people. Nonmetropolitan areas include micropolitan areas and rural counties. Counties in a micropolitan area are centered on an urban cluster with a population of 10,000 to 50,000. Rural counties are not part of an MSA or micropolitan area and have fewer than 10,000 people. The denominator for purchase mortgage share is total U.S. purchase mortgages.

Overall, these figures do not suggest a significant shift in housing demand (as measured by the geographic distribution of purchase mortgages) away from large MSAs. Instead, demand moved toward the fringe counties in these areas.

Home price appreciation tells a similar story. Home prices have been growing faster in large MSA counties than in other areas as shown in figure 4. In March 2020, home prices were growing at 6 percent, averaged across different urbanization levels. By May 2020, home price growth slowed down slightly in all community types.

Figure 4: Average Home Price, Year-Over-Year Percent Change



Source: Black Knight Inc.

Note: Represents prices of nondistressed transactions. Large MSA central counties are in MSAs with at least one million people that (1) contain the entire population of the largest principal city in the MSA, (2) are completely contained within the largest principal city of the MSA, or (3) contain at least 250,000 residents of any principal city in the MSA. Large MSA fringe counties are in MSAs with at least one million people and do not qualify as being within large MSA central counties. Medium MSAs are counties in MSAs with 250,000 to 999,999 people. Small MSAs are counties in an MSA of 50,000 to 249,999 people. Nonmetropolitan areas are micropolitan areas and rural counties. Counties in a micropolitan area are centered on an urban cluster with a population of 10,000 to 50,000. Rural counties are not part of an MSA or micropolitan area and have fewer than 10,000 people.

As the initial shock from the pandemic waned, home price growth accelerated, exceeding 10 percent in all community types by March 2021. Further, growth was fastest in the fringe counties of large MSAs, reaching 13.6 percent annualized. The trend continued in subsequent months, and by May 2021 home price growth was still fastest in the fringe counties at 16.8 percent. The central counties in large MSAs posted the next highest growth rates. This strong home price growth in big cities is not indicative of an urban flight and, in fact, is consistent with the picture arising from the examination of mortgage originations.

The Point?

The pandemic shifted mortgage demand more toward fringe counties within large MSAs areas than areas outside—indicating that fears of an urban exodus may be overblown.