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Forced Homeward: The Covid-19 Implications for Housing

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Abstract

Housing is a basic need. The Covid-19 pandemic has made that even a much greater need, especially during the lockdown restrictions. Some residents could meet that increased need relatively readily and some could not. As the eye of the Covid-19 storm appears to wane, the devastation is beginning to emerge with stark indications that it would take a very long time to rise and rebuild. It is also likely that the lockdown experience has made significant impacts on the tastes and preferences for housing. In this viewpoint, we speculate on several aspects of the Covid-19 implications for the housing market.

Keywords: Covid-19, Housing, Preference, Inequality, Health

JEL codes: R21, R31, R14, R52, I18

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Introduction

The Covid-19 pandemic has made 'home' an absolute focal point of our lives. While the lockdown restrictions are beginning to ease, it is also becoming clear that we will be 'consuming' our homes much more than the pre-pandemic levels in the foreseeable future, and we will need to adapt to some significant and more enduring changes in how we use our homes and to our perceptions of living and working at home. The concurrent use of homes by all householders across multiple generations (including school-going children and working adults) throughout the day may lead to different user behaviours and more intense use or 'consumption' of the home. This may entail different patterns in housing demand. However, those demand patterns cannot be matched with proportionate changes in housing supply as several housing markets around the world such as the UK housing market, are severely supply-constrained and typically slow to adjust. Usually, such demand-supply mismatch leads to rapid price fluctuation in the short-run (Thanos and White, 2014), causing much anxiety in the market for all stakeholders and uncertain impacts on housing outcomes for many residents. The economic fundamentals such as growth in population, income and jobs, and policy interventions such as interest rate changes, fiscal expenditures, land use policies, affordable housing etc. will weigh heavily on the final outcomes. In this paper, we examine the potential changes in housing preferences due to the Covid-19 pandemic and highlight the challenges for policy-making.

Changes in Choice of Housing Location

Housing location is a key factor for meeting people's daily needs. Presence of amenities and services (e.g., shops, supermarkets, health care facilities, schools, pubs, restaurants, parks, exercise facilities etc.), as well as the overall quality of the neighbourhood (e.g. safety and aesthetics) provide opportunities for satisfying a wide range of human utilitarian and recreational needs. The basic economic theory tells us that since the households are making their decisions in a world of scarce resources, each household has to make a trade-off between spending on housing and other goods. According to the monocentric city model, the location decisions are driven by transportation costs which increase when the distance from the city centre, typically where the jobs are located, get longer. Thus, the theory says that in a monocentric city, the price of housing (per m²) decreases concavely when the distance from the city centre increases (see Brueckner, 2011 for a comprehensive discussion). The solid line in Figure 1 represents the bid rent curve. If we assume that, due to the pandemic, the preferences of people lean towards bigger houses which tend to locate further away from the city centre and towards the countryside, the bid rent curve would shift to a position represented by the dashed line in Figure 1. The shift does not just reflect factors contributing to the changes in preferences for the size of the house but also the potential long-term changes in the working pattern with reduced importance on the access to the jobs in the city centre, e.g. due to working from home for most days of the work week and possible emergence of suburban employment hubs. When faced with a deep economic crisis as the one that is emerging now, it is likely that the values of properties everywhere might

decrease (i.e. the dashed line in Figure 1 will also shift downward, being lower at every part of the diagram than the pre-Covid solid line) but they will decrease more significantly closer to the city centre as reflected by the slope. This could spell difficult investment potential in the short-run for recently developed, often high-rise 'luxury', apartment buildings in the UK city centres.

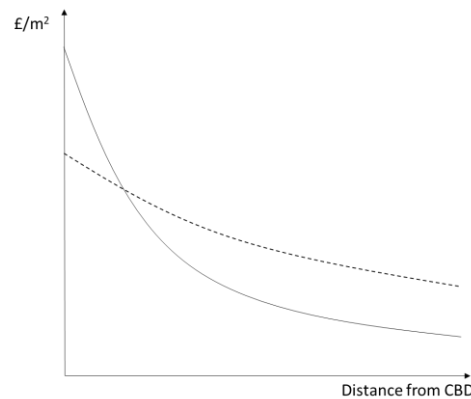


Figure 1: Bid rent curves before (solid line) and after (dashed line) Covid-19

Of course, the monocentric city model is an oversimplification of households' location decisions. Brueckner (2011) provides an overview of the assumptions and what happens when those are relaxed. The model assumes that for a household, the only important consideration is the access to the city centre, whereas, in reality, location decisions are quite complex, capturing a multitude of both observable and unobservable factors. For example, Schirmer, van Eggermond and Axhausen (2014) suggest that individuals' and households' location choice is mainly influenced by four sets of attributes including: (1) built environment – such as built density, structural density (or compactness), transport network, green space, and land use (e.g., integration of residential and commercial uses etc.); (2) points of interest - such as education, services and retails, recreation and sport, distance to city centre etc.; (3) socioeconomic environment – such as population density and household type, household income, and school quality; and (4) access and accessibility – such as access to work and commuting time, and spatial distribution of facilities and services. All these factors came under scrutiny during the Covid-19 lockdown.

Coping with the new lifestyle and meeting utilitarian and recreational needs during the lockdown were more challenging for some individuals and households, due to their housing locations. People living in compact areas of the city (e.g., city centres) have limited access to green spaces (Haaland and van Den Bosch, 2015). Moreover, lack of safe and walkable streets may discourage people to take a walk in the streets near their homes. Therefore, such housing locations may offer limited opportunities to meet recreational needs. People living in suburbs (or urban periphery) may have ample green spaces around their homes (Haaland and van Den Bosch, 2015), however, they may have limited access to facilities (e.g., shops, takeaways, and deliveries). Although people may find temporary solutions to meet their minimum

utilitarian and recreational needs, the lockdown situation raises a key question: to what extent would the Covid-19 pandemic cause significant shifts in people's choice of housing locations?

Changes in Choice of Physical Attributes of Housing

Housing is a multidimensional good with both consumption and investment demand motivations. For the consumption motivation, in addition to location characteristics as explained above, each housing unit reflects a unique bundle of physical/structural attributes e.g. size, age, number of bedrooms, private outdoor space and so on (see chs. 2 & 4 in Nanda, 2019). There is a long-standing literature with numerous theoretical and econometric studies exploring how these attributes matter in determining transacted house prices within the hedonic model framework (Kain and Quigley, 1970; Rosen, 1974). We discuss below how the preference for some of these hedonic physical attributes may change due to the Covid-19 pandemic.

Work-related considerations

Almost the entire country has been pushed into work-from-home (WFH) mode and people, for whom work-from-home is viable, had to turn their bedrooms, living rooms, or even kitchen areas into pop-up offices. Two factors have proved most important: space and connectivity. WFH requires specific space for work. Most residents had to make a few changes at home to accommodate WFH. In this sense, the availability of the additional room, usable workspace in loft or basement or a conservatory in a house can be expected to feature prominently in home buyer's or renter's preference list. Unsurprisingly, with more work expected to be completed at home, extra storage space will also be likely in demand.

An important aspect of modern life is the internet connection. The digital platforms have become absolute necessities for all parts of daily life during the lockdown. From meetings over Skype, Zoom, Microsoft teams etc to neighbourhood updates via WhatsApp group messaging to online learning for school-goers and the Netflix time for the whole family, technology platforms have become the windows to the outside world and life's experience. It has been a dramatic shift in a few weeks and much of these new habits are likely to have a degree of permanency. This will crucially depend on a reliable and high quality internet connection and will perhaps be one of the most valuable factors on a home buyer's or renter's preference list. This is also a locational attribute as the availability of fibre-optic broadband services is not uniform across geographical areas.

Recreational aspects

With more time being spent at home, an overall larger space may be demanded and extension features such as a conservatory can meet such demand relatively easily for many households. In future, the private room for each householder may become a vital factor while the private garden, private outhouse or shed or even balcony (for flats) may be in higher demand. As we spend more time at home performing various energy-consuming activities (e.g. working/computing, heating/air-conditioning, cooking etc.), energy

consumption will be much higher and the cost of energy may become an important consideration for housing choice, which implies, houses with superior energy-efficient features (e.g. with low energy fittings and appliances, double or triple glazed windows) and higher efficiency ratings may see higher demand (Fuerst et al., 2016). A related factor is noise-reducing features of the housing unit, which has become an issue during the lockdown with reports of a higher than normal level of complaints made due to increased noise level from neighbours.

Health and safety features

It is likely that home buyers or renters will be willing to pay a premium to live in a property with security features (i.e. security alarm system, CCTV, concierge) for their own safety. As we spend much more time at home, health aspects will gain importance, from indoor air quality to spaciousness to safety of building materials. Space is important as it allows options and flexibility to perform various activities including work, leisure, schooling, exercise and relaxation. Recent research documents housing-health nexus. For example, compared to homeowners, private renters tend to have a higher level of C-reactive protein (CRP), a biomarker associated with stress and infection, in their blood samples (Clair and Hughes, 2019). As many as 700,000 private rented households live in unsafe housing in England according to a 2016 estimate (Aldridge, 2016). The extended time spent in suboptimal homes under the lockdown can potentially aggravate the adverse health effects.

Harsh Realities of Demand-Supply Mismatch and Housing Inequality

Access to housing in the UK has been fraught with perennial inequalities, regardless of the disciplinary lenses we look through (McKee and Muir, 2013). The pandemic has taken everybody by surprise, with some being ill-prepared yet otherwise 'house-rich' and some of us being unprepared and 'house-poor' due to our socio-economic conditions. Taking an economic perspective, fast growth in housing costs coupled with slow income growth in recent decades has contributed heavily towards widening gaps amongst the full spectrum of 'house rich' and 'house poor' residents. We can identify four categories of housing-income profiles, namely, house-rich-income-rich, house-rich-income-poor, house-poor-income-rich, house poor-income-poor. And, mismatch in demand-supply and resulting price fluctuations often hit the 'house-poor' much harder than the 'house-rich' due to lack of ample financial cushion. Housing inequality has depended on socio-economic and demographic factors such as income, access to jobs, ethnicity, age, migration status etc. During the pandemic, being 'house-poor' has also impacted livelihoods for some of us who had to accommodate the day job (possibly for multiple family members) into inadequate domestic spaces. There are also cross-generational impacts. It is not only the current cohorts of 'house poor' adult householders who are affected by the Covid-19 crisis, but children of those households may also suffer as their educational attainment has been somewhat inhibited and wellbeing impaired due to confinement, lack of activity, increased parental anxiety and strains in familial relationships.

If the current state of affairs with regards to the quality of rental stock and a minimalist approach to new builds continue, the 'house-poor' residents may suffer long-term health implications, continued vulnerability to the next pandemics and path-dependent life outcomes. A recent Public Health England study (2020) suggests being disabled, old or belonging to an ethnic minority group has made residents much more susceptible to Covid-19 and we often find these groups living in sub-optimal housing conditions. Spatial inequalities have also played a key role with the deprived areas reporting much higher infection rates from Covid-19 compared to less deprived areas (Guardian, 2020).

Conclusion

The socio-economic upheaval experienced so far is unlikely to end soon, and more complex and possibly much more severe socio-economic impacts might follow as the Covid-19 repercussions travel through our ramified world with layers of economic (national and local) and institutional structures. Much will depend on how local and national governments attempt to intervene at various territorial scales over time. Regardless, there seems to be little doubt that policy needs are significant, without those the impacts will be much deeper, affecting the wellbeing of millions of people with inadequate financial cushion and housing endowment. The views from this article can, therefore, be used to understand the focus areas better for policy-making purposes.

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