

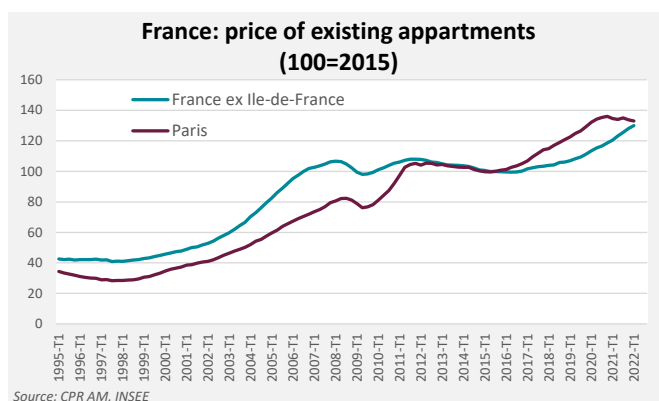
The impact of remote working on real estate prices is far from trivial

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The covid crisis has caused a sharp increase in the use of remote working, a significant part of which is permanent. It has been shown by many statistical institutes that this coincided with the departure of many households from large cities to live in smaller cities, and work remotely there. This is far from trivial for real estate prices and could even have consequences for monetary policy.

The example of France

The Covid crisis has profoundly changed the way of working. It is now well documented that because of remote working, a number of people have left the big cities to live in smaller cities and that this has propelled real estate prices out of the big cities. If we take the case of France, INSEE figures indicate that the average price of apartments in Paris barely changed between the beginning of 2020 and the beginning of 2022, while it increased by more than 8% in Ile-de-France excluding Paris and 15% for France outside Ile-de-France. This marked a change in dynamic from previous years.



In the United States, more than half of the rise in house prices

We feel with the example of France that remote working has affected real estate prices in a differentiated way according to the zones, but one of the questions that can be asked is that of the impact on real estate prices at the national level. Two researchers from the San Francisco Fed carried out this work in the case of the United States¹. They worked on 895 geographical areas of at least 10,000 inhabitants, which covers a very large part of the United States. They recovered for each zone the evolution of the share of employees practicing permanent telework: at the national level, this proportion increased from around 5% before the pandemic to more than 16% in 2020. They also gathered for each zone the net population migration, ie the balance of the population that moved into the zone and the population that left the zone. Finally, they also retrieved for each zone the evolution of real estate prices calculated by the company *Zillow* and for a slightly more restricted sample the evolution of rents calculated by the company *Apartment List*.

A first part of the study shows that the share of the use of remote working before the pandemic is strongly correlated with the increase in the use of remote working during the pandemic: in other words, it is in the areas that were most suitable for remote working before the pandemic that remote working has

¹ Mondragon J. and J. Wieland, 2022, "Housing demand and remote work", San Francisco Fed working paper n°2022-11.

increased the most, presumably due to specific characteristics, such as having a pleasant environment or different amenities.

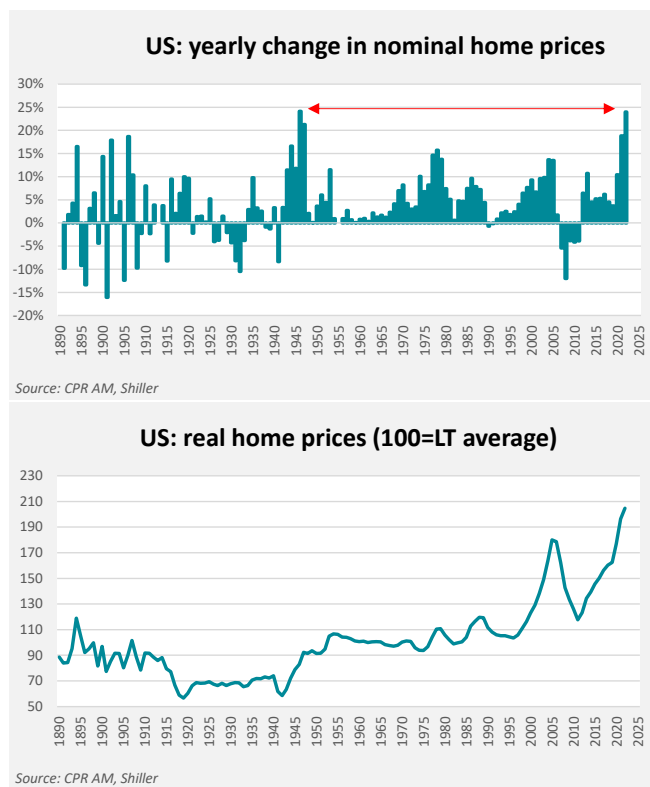
Next, the authors show that the areas with the highest shares of remote working experienced the largest house price increases. By performing cross-section regressions, they came to the result that each additional percentage point of remote working observed in 2020 is associated with an additional increase in housing prices of 1.5% over the period from December 2019 to November 2021. The results are very close for rents. An interesting point here is that the authors find no link between pre-pandemic price dynamics and the share of remote working among employees, suggesting that there was indeed an exogenous shock related to remote working during the pandemic.

However, as the authors point out, it is difficult to extrapolate what these results represent at the national level because the upward pressure on prices created by households arriving in an area to work remotely there may be associated with downward pressure on prices in the area they just left. The authors therefore sought to neutralize the effects linked to net migration in order to isolate an effect “purely” linked to the search for real estate in areas suitable for remote working. They conclude that net migration accounts for about a third of the price effect mentioned above and that after controlling for the effect of net migration, an additional percentage point of remote working observed in 2020 is associated with an increase in real estate prices of almost 1% over the 2020/2021 period. For the authors, the sharp increase in the use of remote working would thus explain 15% of the 24% increase in average property prices observed in the United States between December 2019 and November 2021: **more than half of the increase in house prices in this period could thus be explained by the increase in the use of remote working.**

The authors therefore believe that the rise in house prices in 2020 and 2021 reflects more a fundamental development than a speculative bubble and that the Fed's monetary policy would have been of only secondary importance. They also make the assumption that the future evolution of house prices will depend a lot on the evolution of remote working. If it declines, one could imagine an unwind of the observed phenomenon... but if it persists and strengthens, the effect on house prices and therefore on inflation would be even stronger.

A challenge for the evolution of inflation over the coming quarters...

As we have just seen, the increase in the use of remote working seems to have contributed significantly to the recent rise in real estate prices in the United States. But it is important to point out that the scale of the price increase is extraordinary. Considering the long series compiled by Robert Shiller (dating back to 1890), we see that the only time when prices increased as quickly as in recent quarters was at the end of the Second World War. The real value of housing is almost 15% higher than the peak of 2005/2006. The configuration is very different from that of the cycle of the 2000s, since the latter was characterized by a phase of overinvestment, whereas the 2010s were marked by historic underinvestment.



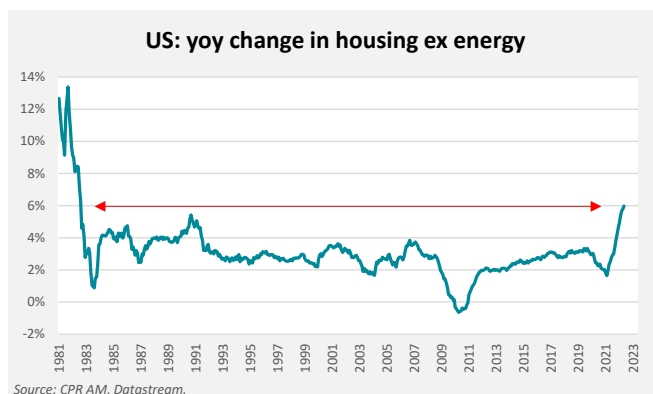
This is a subject that central banks must follow very closely. In the United States, rents (or equivalent rents for homeowners) are a very important component of consumer price indices (CPI or PCE). The sharp rise in housing prices has been accompanied by a sharp rise in rents, which generally takes about a year to be reflected in price indices. The ‘housing ex-energy’ component of the CPI has steadily accelerated in recent months and in June reached its highest level since 1982. A recently published NBER working paper² co-authored by Larry Summers predicts that "even if the rest of the CPI basket returns to the 2% target,

² Bolhuis M., J. Cramer and L. Summers, 2022, "The coming rise in residential inflation", NBER working paper n°29795.

housing will push the core CPI to almost 4% in December 2022". According to this study, underlying inflation should remain quite high in 2023 due to real estate.

The long-term effects of the digitalization shock that took place during the covid crisis are still poorly understood. Nevertheless, it seems that the sharp increase in the use of remote working has had a very significant impact on the real estate market in various countries, and in particular in the United States. The resulting rise in house prices will have a lasting impact on inflation and complicate the lives of central bankers for some time. This is a clear example that societal changes can have significant macro-economic consequences.

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