

HOUSING MARKET OVERVIEW 2018 Q3

Zillow Economic Research

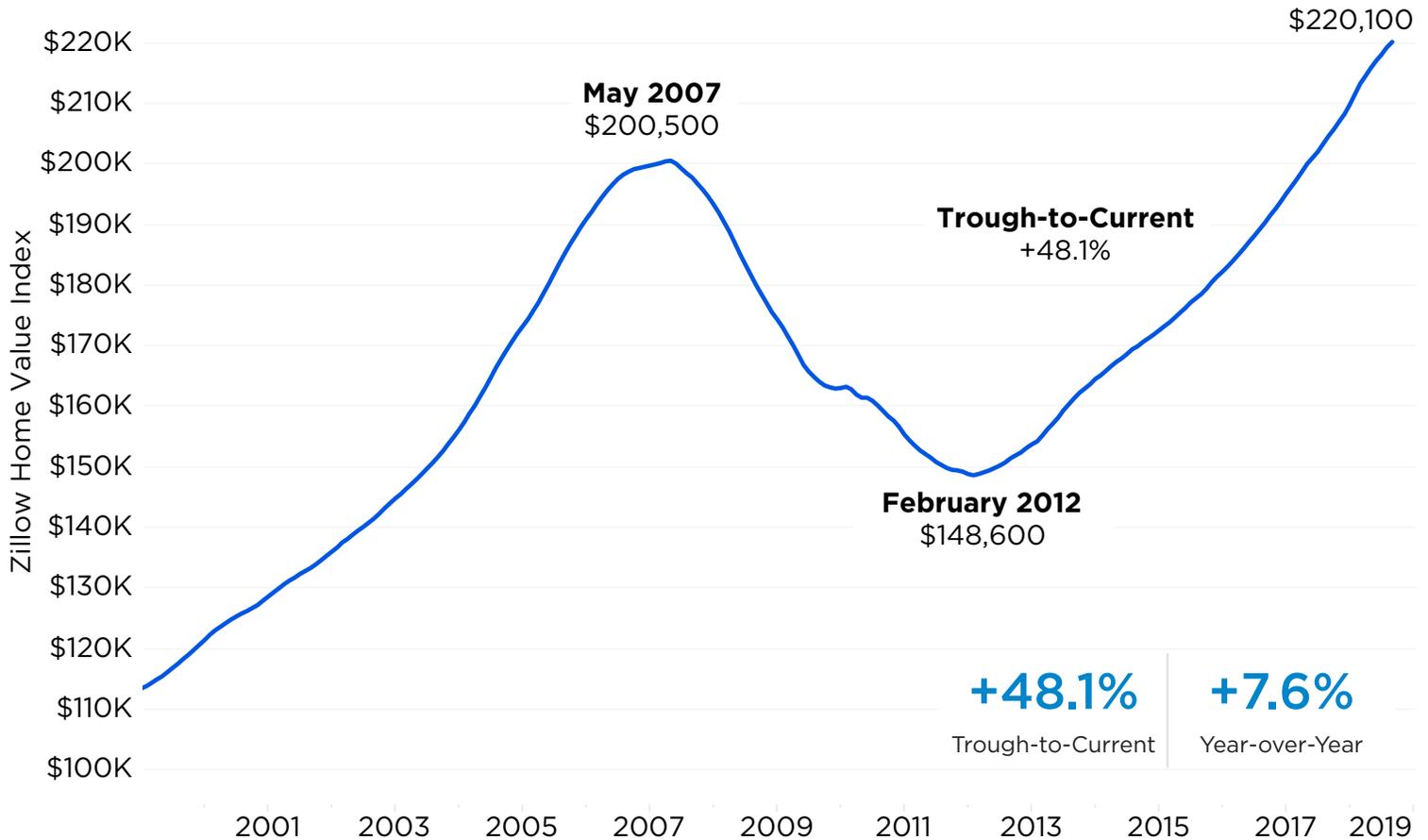


HOME VALUES AND RENTS

- U.S. home values are growing at a steady pace, and have surpassed pre-recession highs nationally and in a number of large markets. Driven largely by limited inventory and high demand, home values are growing fastest at the bottom end of the market.
- Regionally, markets in the Pacific Northwest, Texas, Florida and parts of the Southwest continue to outperform slower-moving markets in the Midwest and Mid-Atlantic.
- Growth in U.S. rents has slowed considerably over the past couple of years and has largely stabilized. Pockets of strong rent appreciation remain in the Pacific Northwest and California.

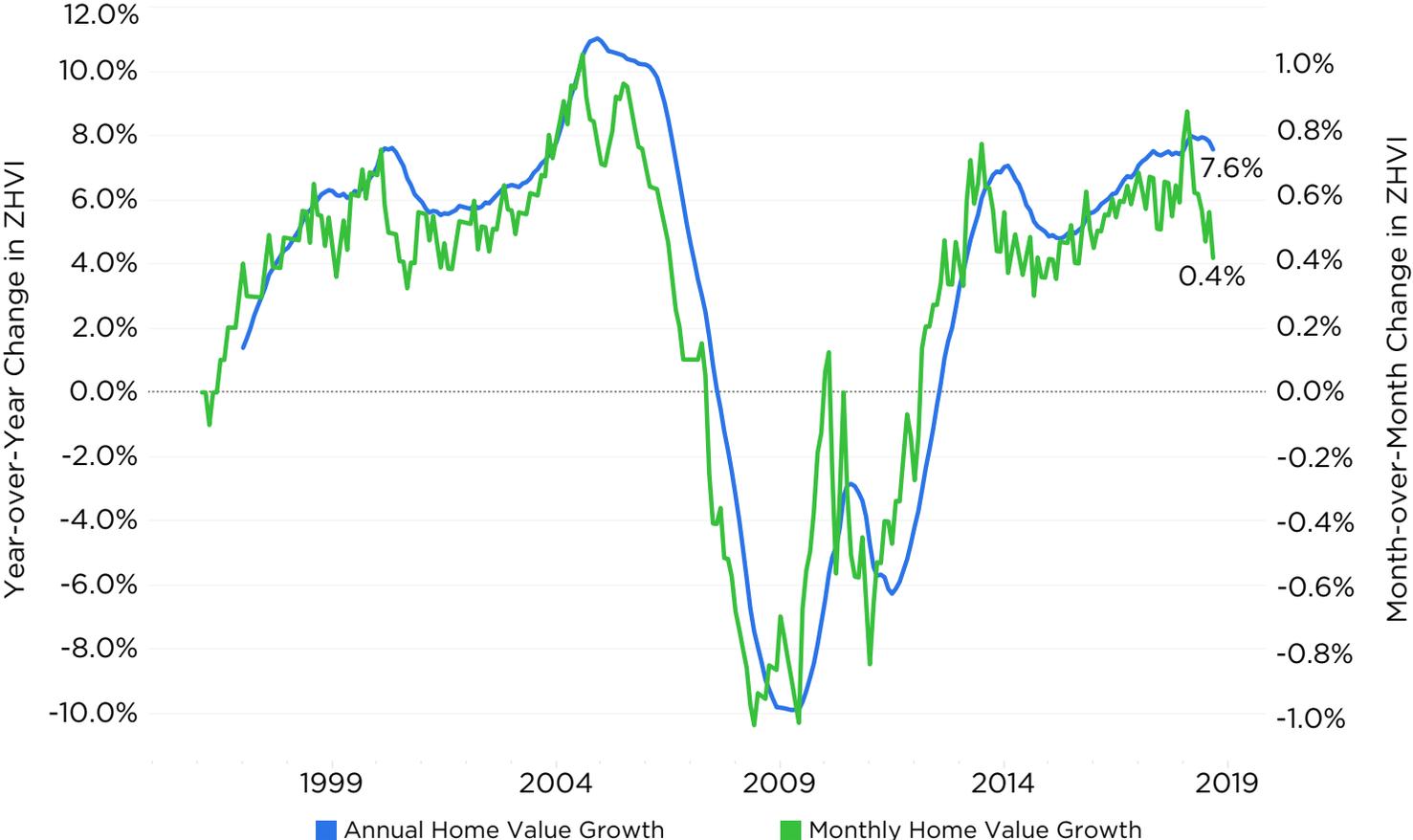
Zillow Home Value Index

U.S. home values have surpassed pre-recession highs.



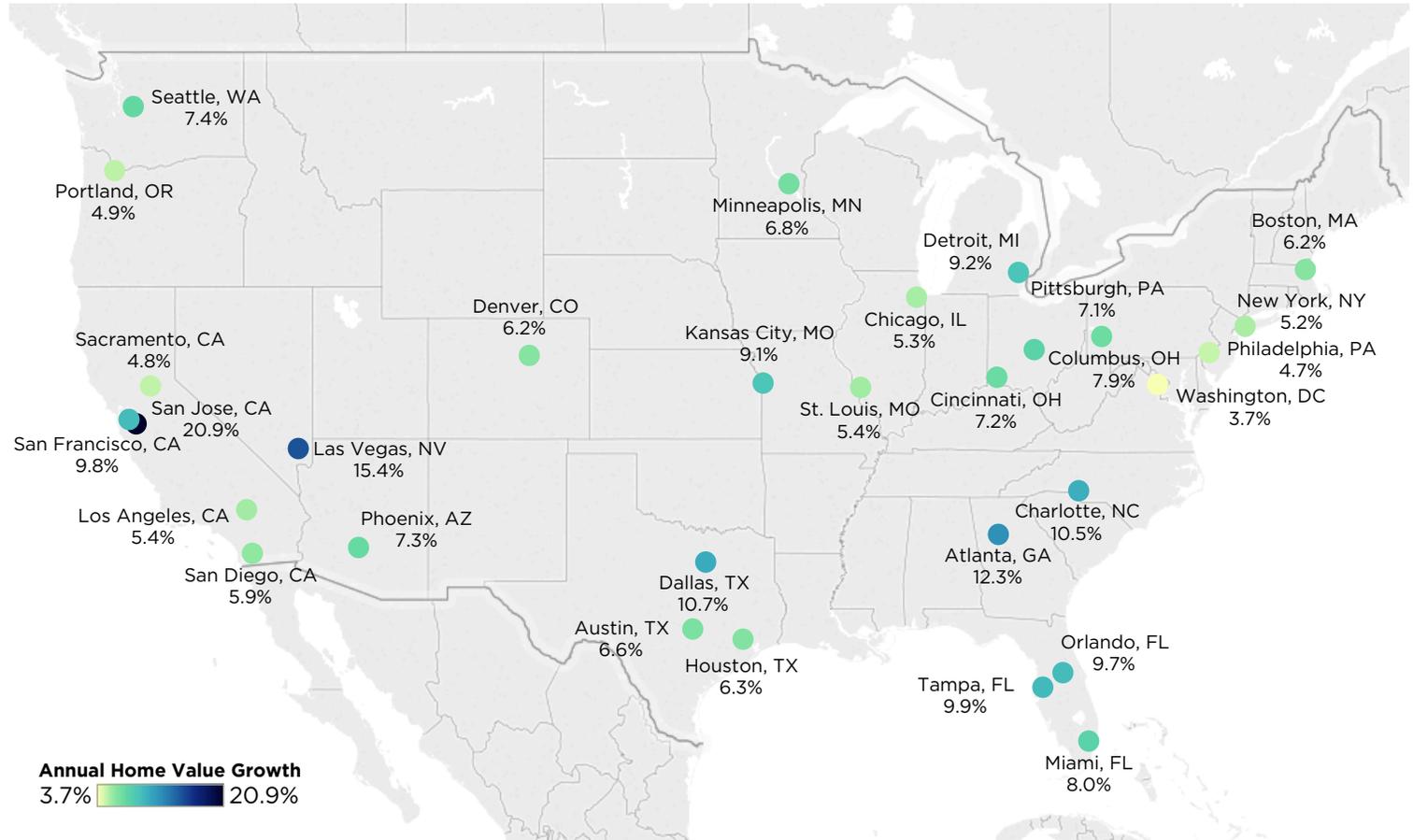
Zillow Home Value Index, Annual and Monthly Growth

The pace of annual U.S. home value growth has accelerated over the past few years.



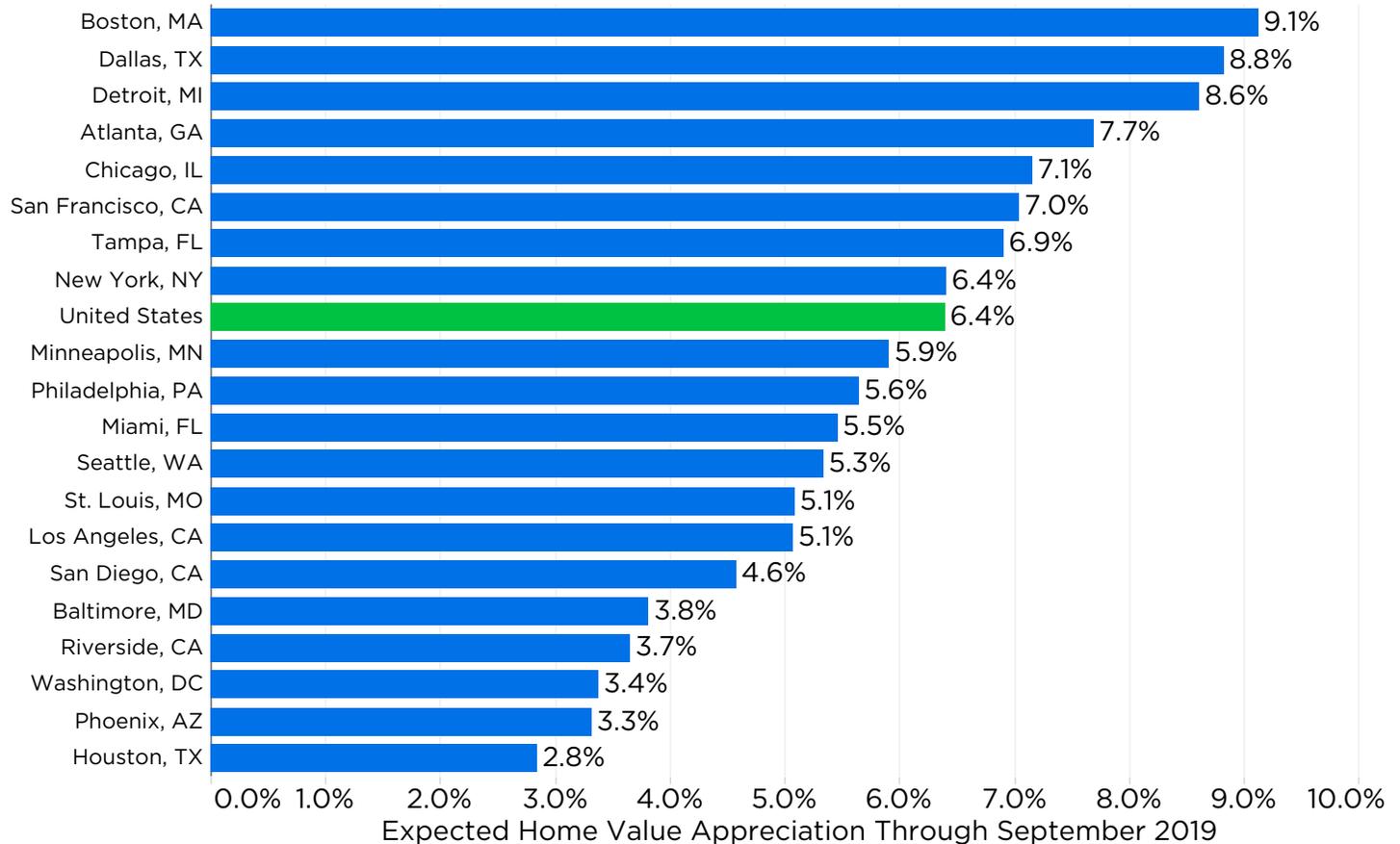
Annual Home Value Growth

Markets in the Pacific Northwest, Texas and Florida continue to outperform slower-moving markets in the Midwest and Mid-Atlantic.



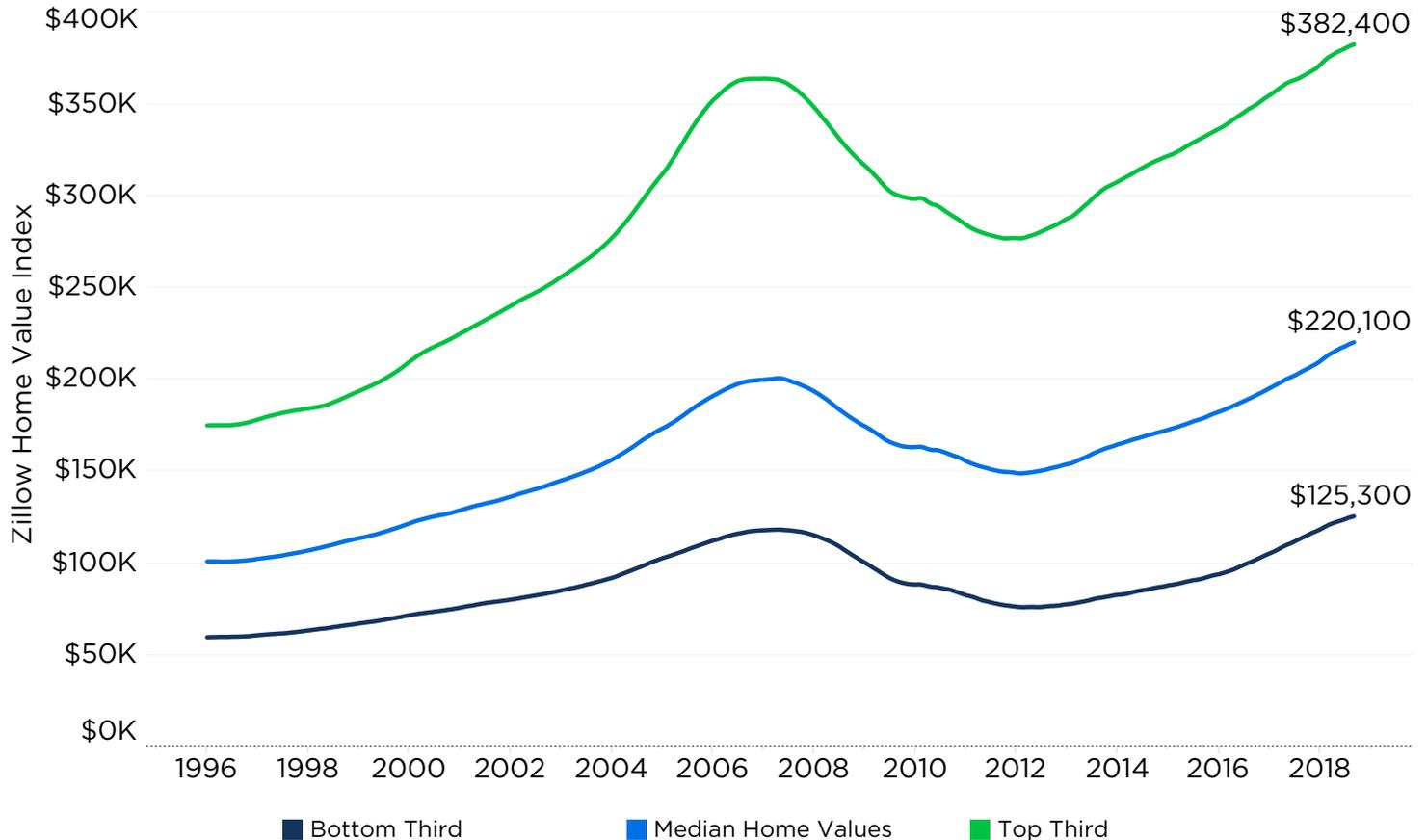
Zillow Home Value Forecast

Home value growth is expected to slow over the next 12 months.



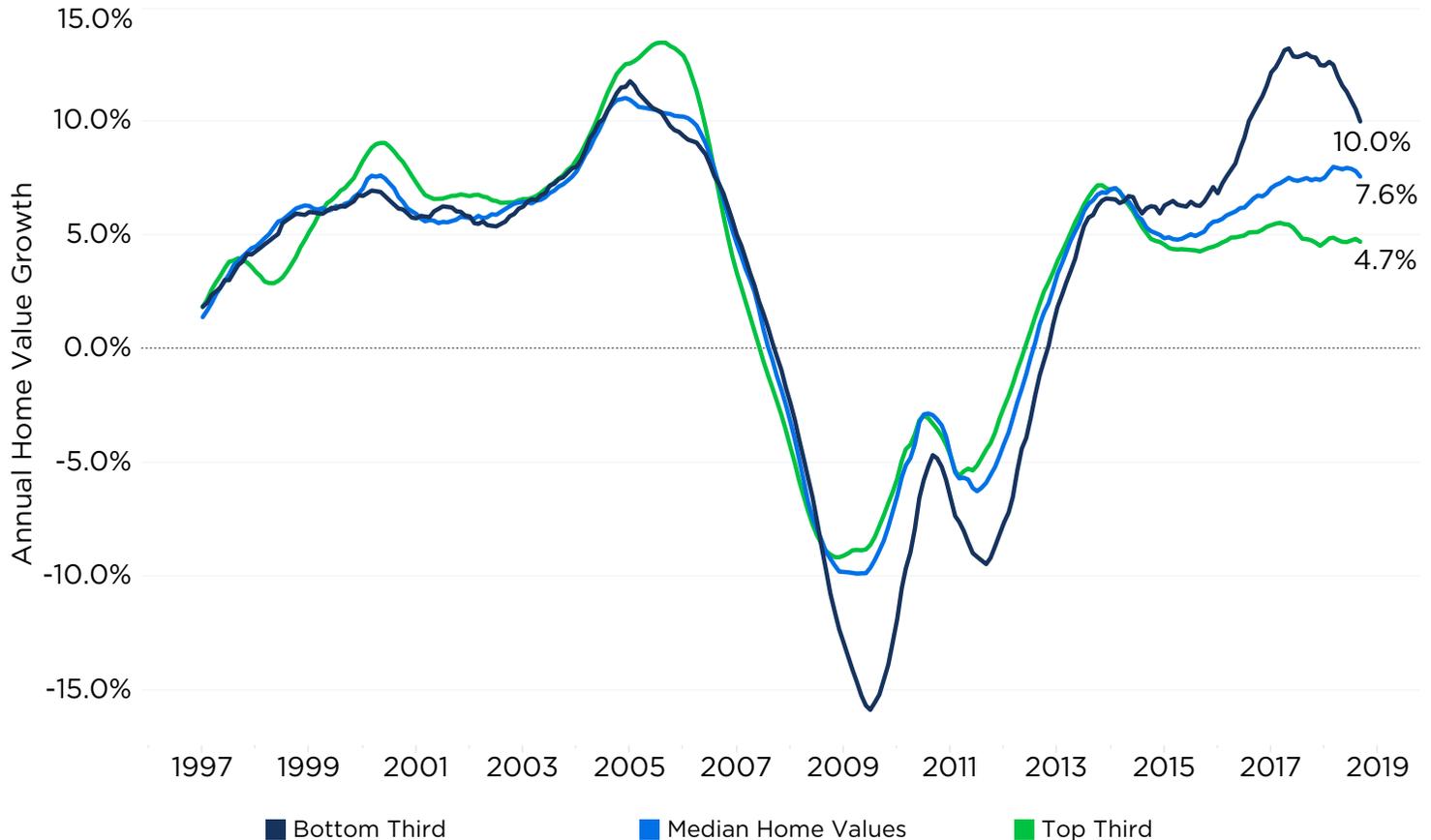
Zillow Home Value Index, by Thirds

Homes valued in the bottom-third of the market are growing in value the fastest.



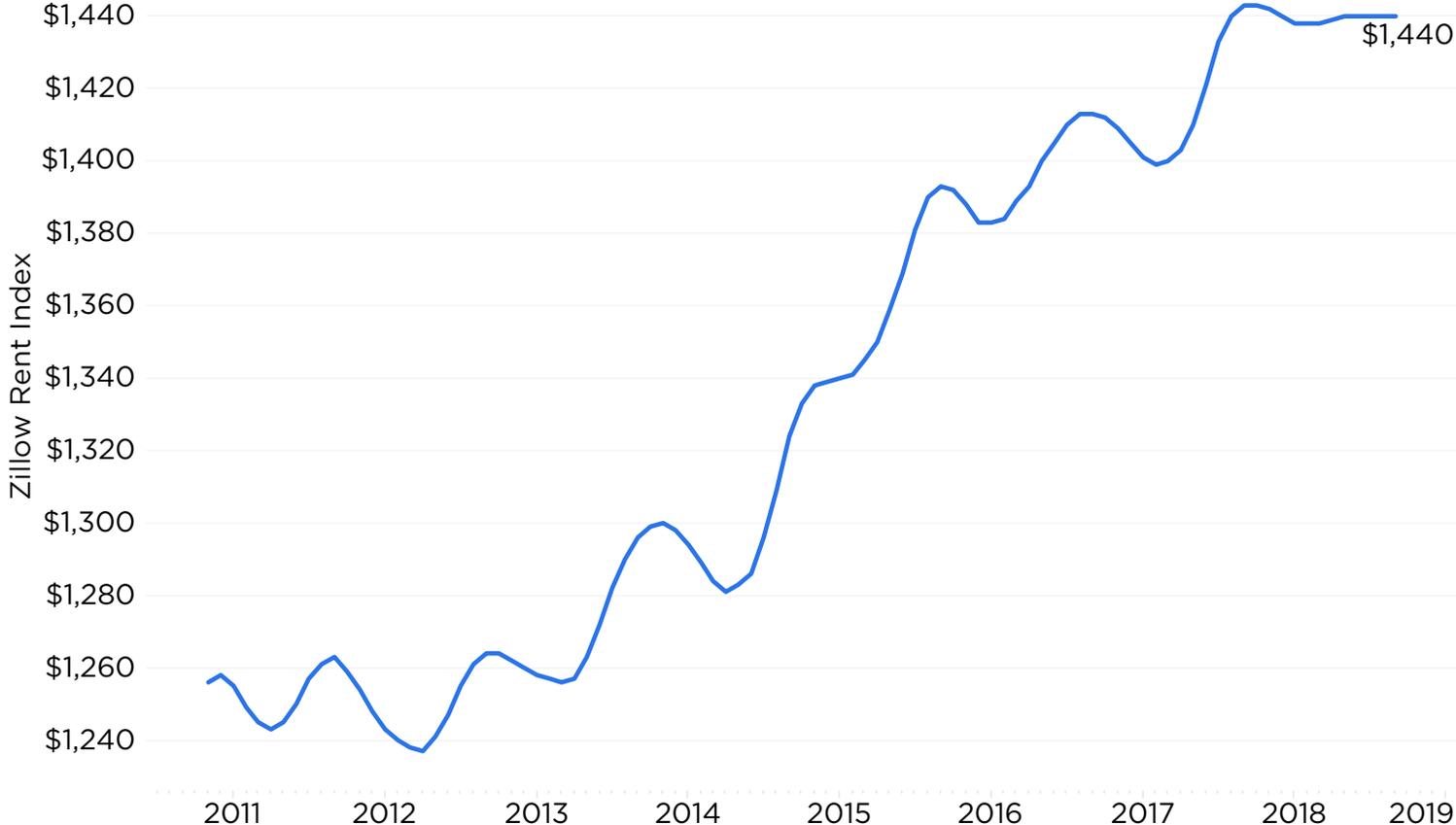
Annual Home Value Appreciation, by Thirds

Home value appreciation among homes valued in the bottom third has slowed somewhat, but the annual pace of growth is still more than double that of top-third homes.



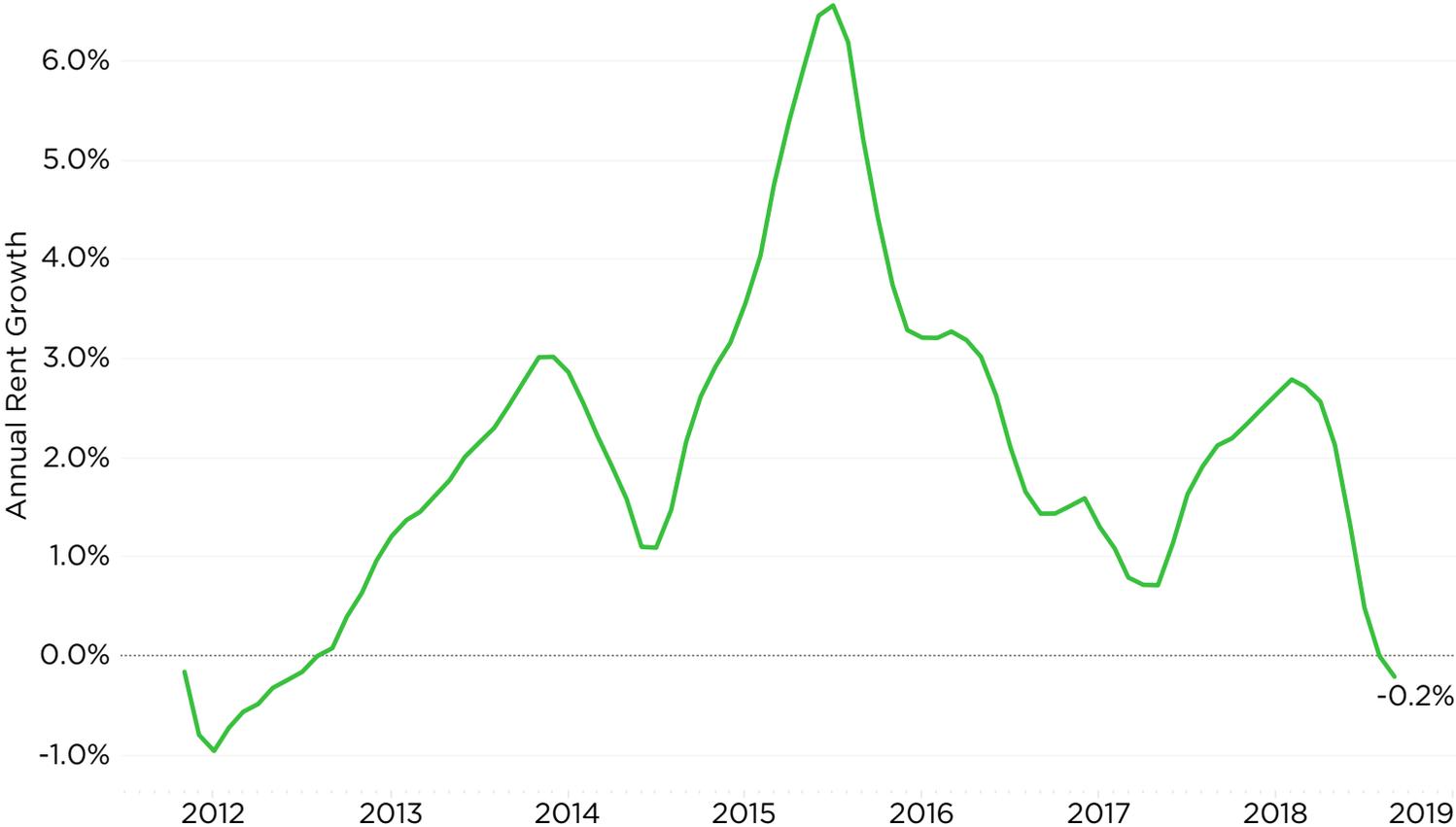
Zillow Rent Index

Annual growth in rents has slowed since the beginning of 2018.



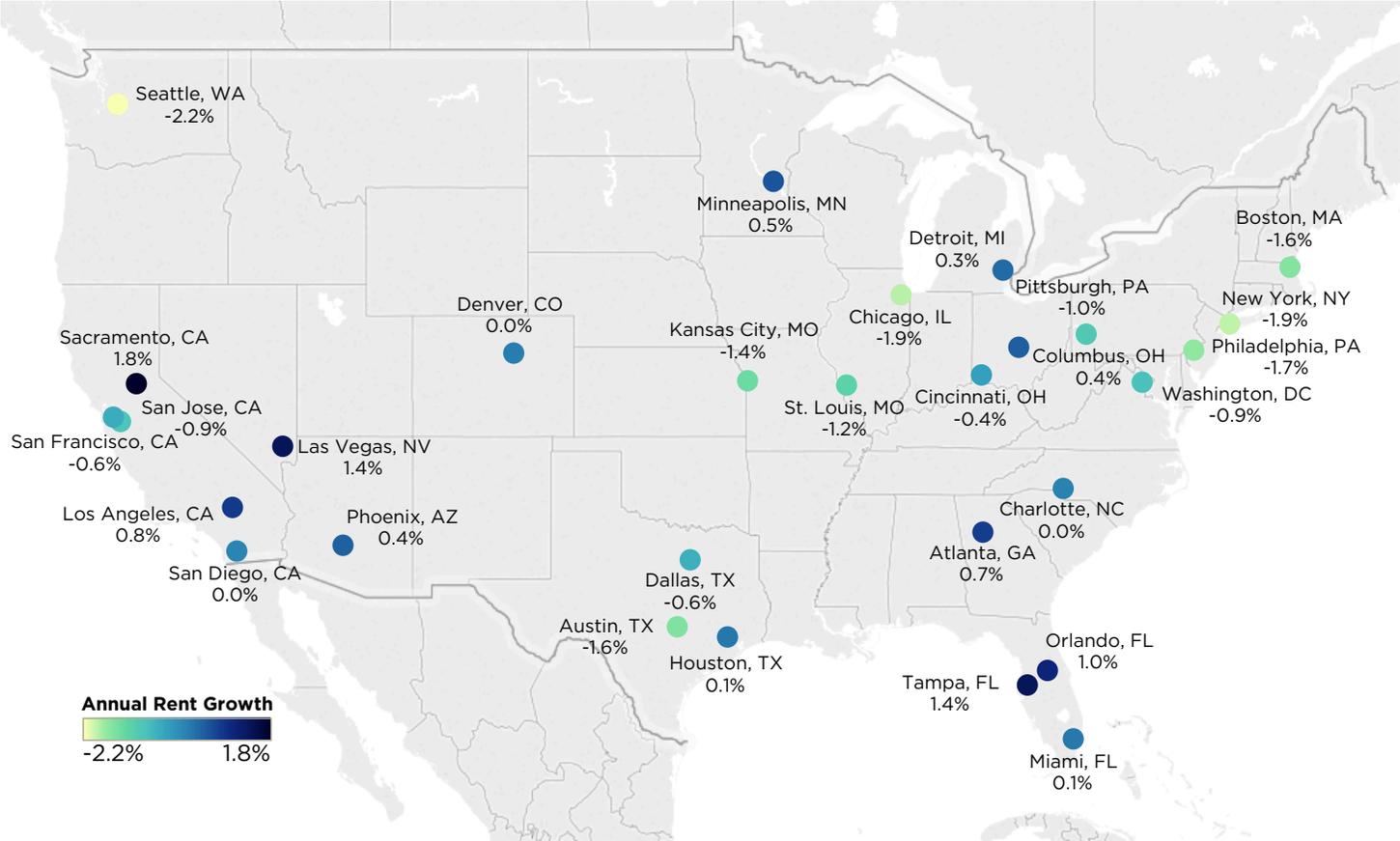
Zillow Rent Index

For the first time in six years, median rent is less than it was 12 months earlier.



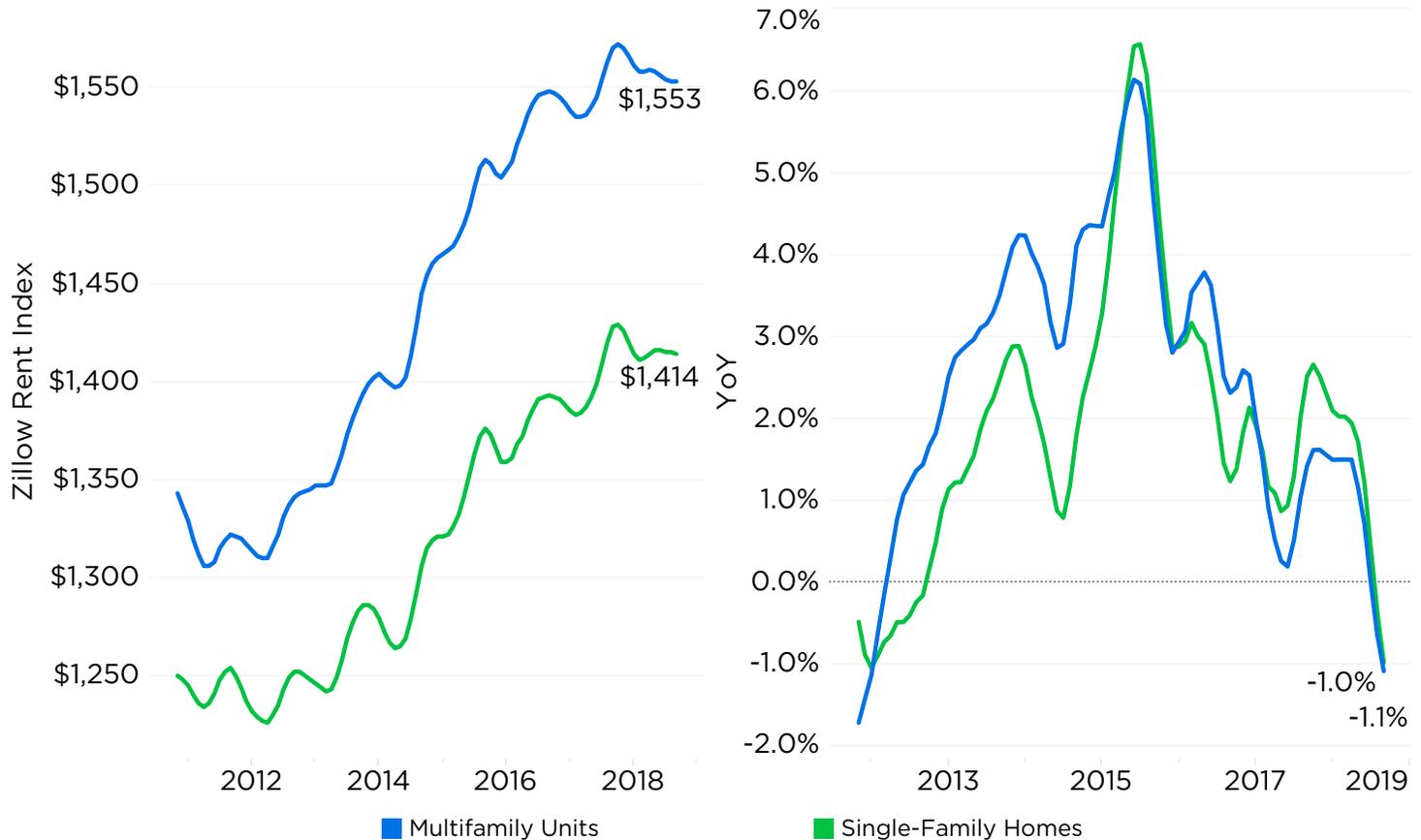
Annual Rent Appreciation

The annual pace of rent growth is largely sustainable in most large markets.



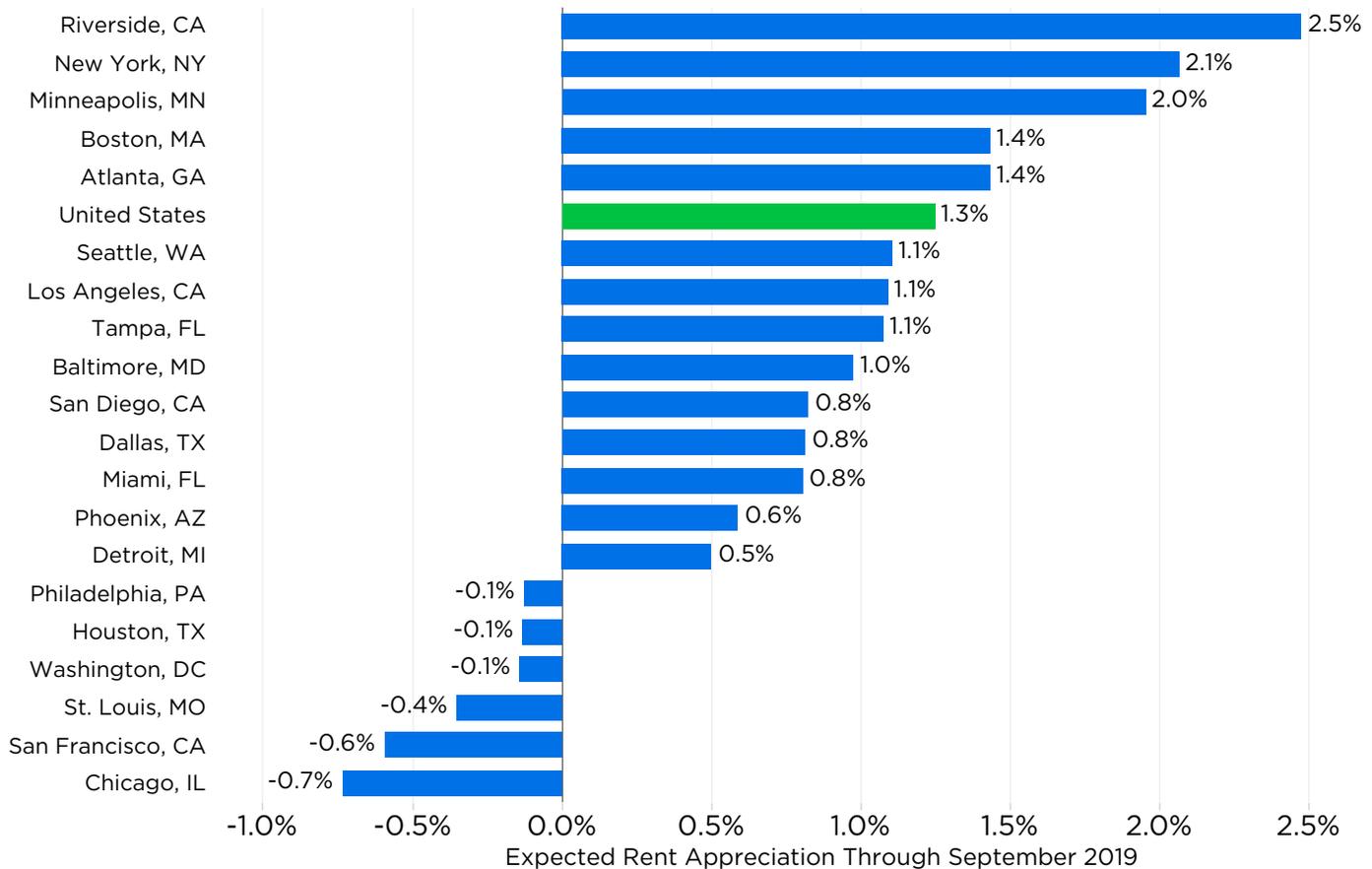
Multifamily and Single-Family Home Rents

Rents for single-family homes and units in larger multifamily buildings share similar trends.



Zillow Rent Forecast

Rental appreciation varies regionally.

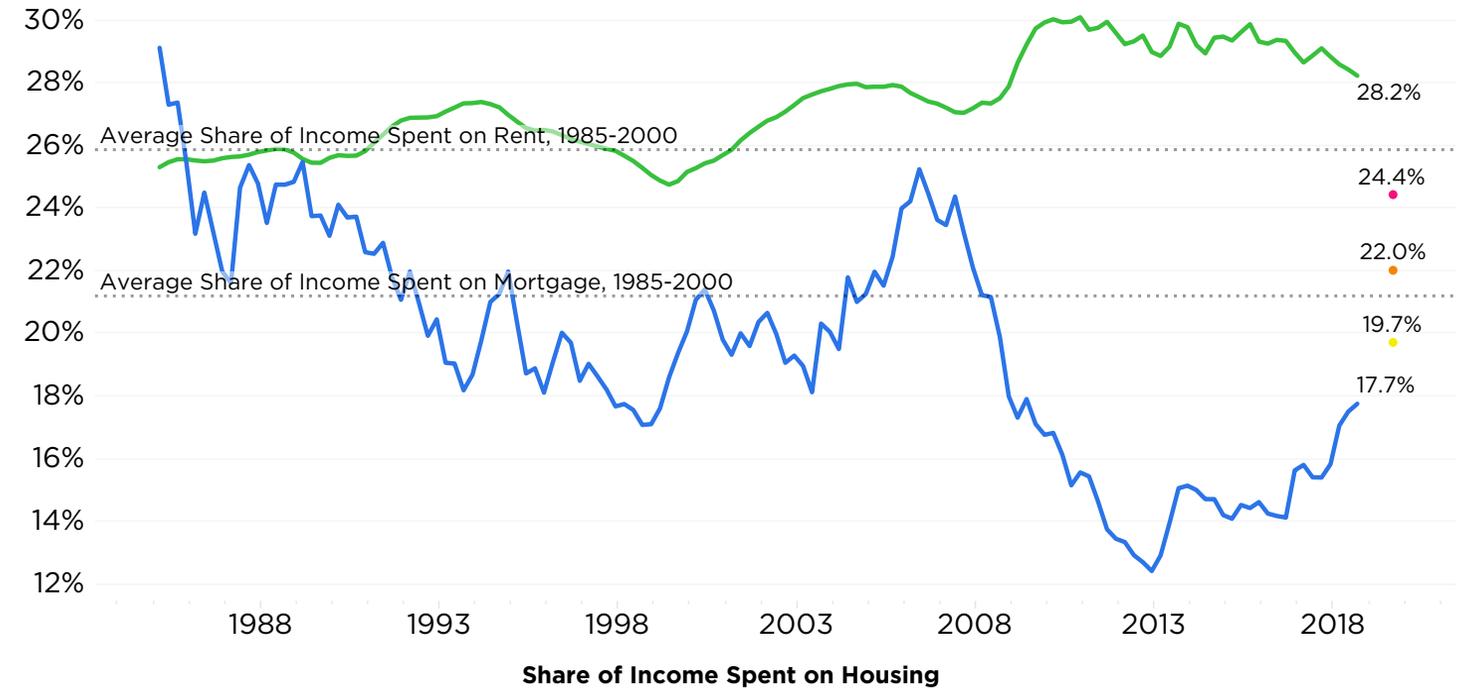


HOUSING AFFORDABILITY

- Overall, mortgage affordability – the share of income necessary to afford a typical mortgage payment – looks reasonable in most markets. But affordability is declining, especially at the bottom end of the market, as home values and interest rates rise and incomes fail to keep pace.
- As mortgage interest rates rise, some would-be home sellers with lower mortgage interest rates may decide not to sell and instead stay in their current home, choosing not to give up a lower monthly payment. This phenomenon of “mortgage rate lock-in” could end up negatively impacting inventory.
- Unlike mortgage affordability, rental affordability is worse today than it was historically, though the recent slowdown in rent growth has helped somewhat.
- Poor rent affordability is worrisome, as more money devoted to rent makes it more difficult to save for homeownership.

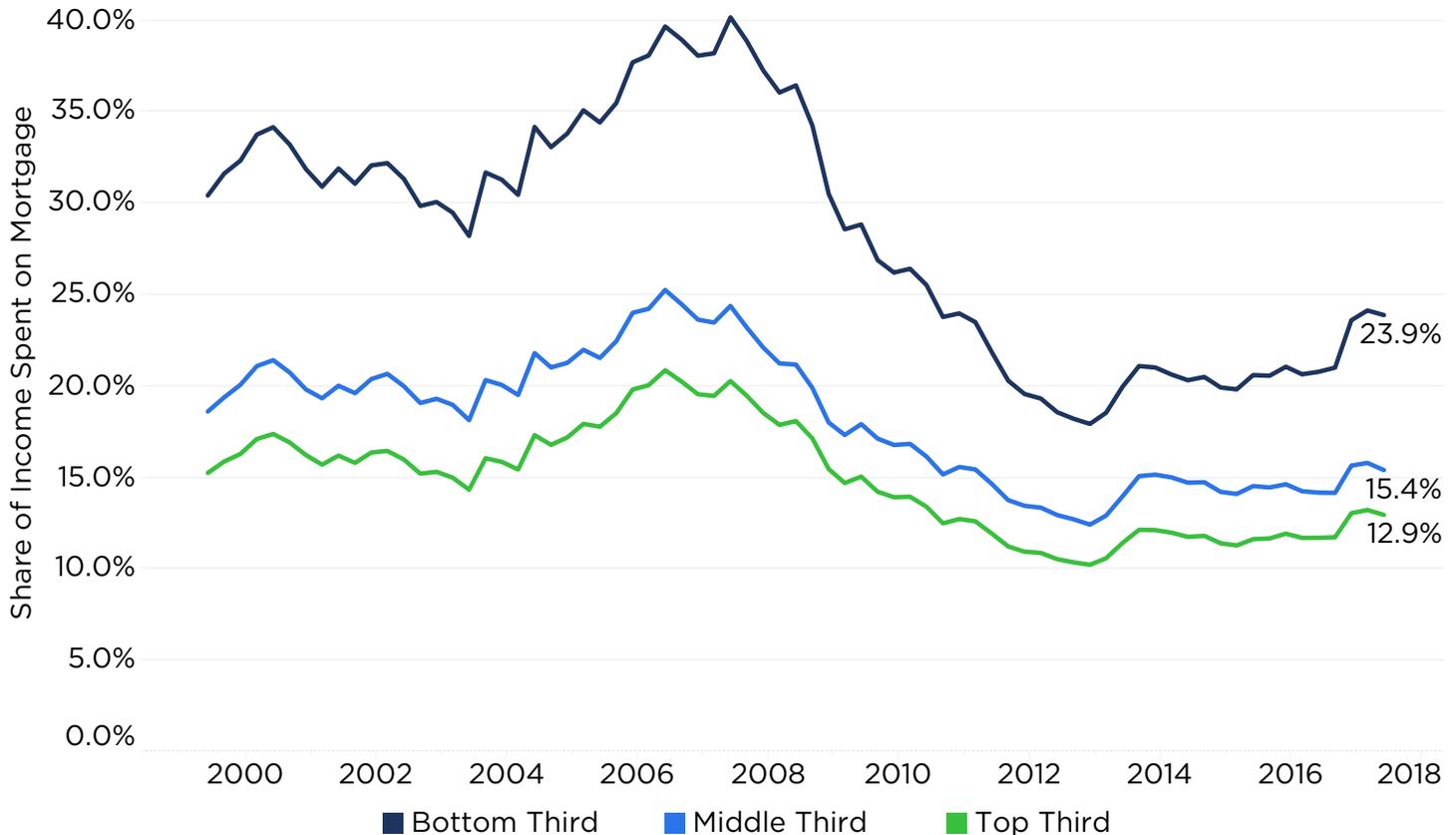
Zillow Mortgage and Rent Affordability

Nationwide, the share of income spent on a mortgage is well below historic norms.



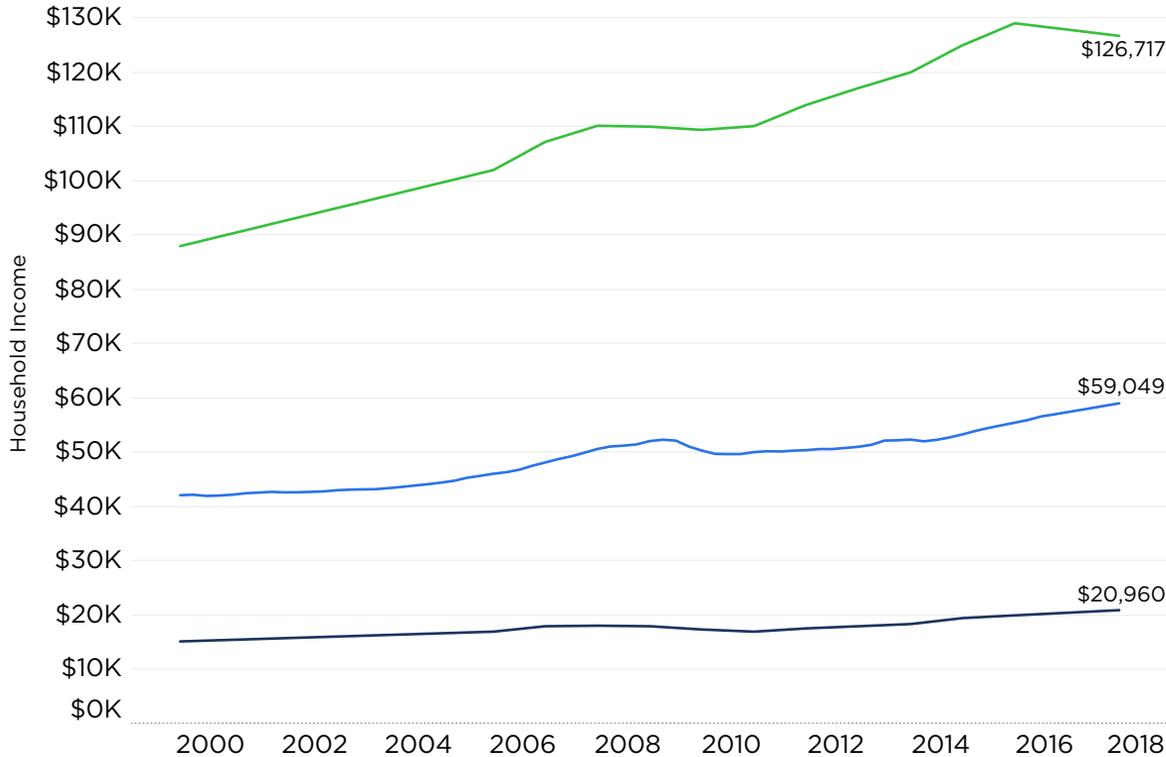
Zillow Mortgage Affordability, by Thirds

Weak income growth and rapid appreciation, even with very low mortgage interest rates, means homes are becoming more unaffordable, more quickly for buyers of homes valued in the bottom third.



Household Income, by Thirds

Income growth for the lowest earners has been especially weak.



Nominal Income Growth, 2000-2016

Top Third

50.5%

Middle Third

35.2%

Bottom Third

30.5%

Housing Affordability Table

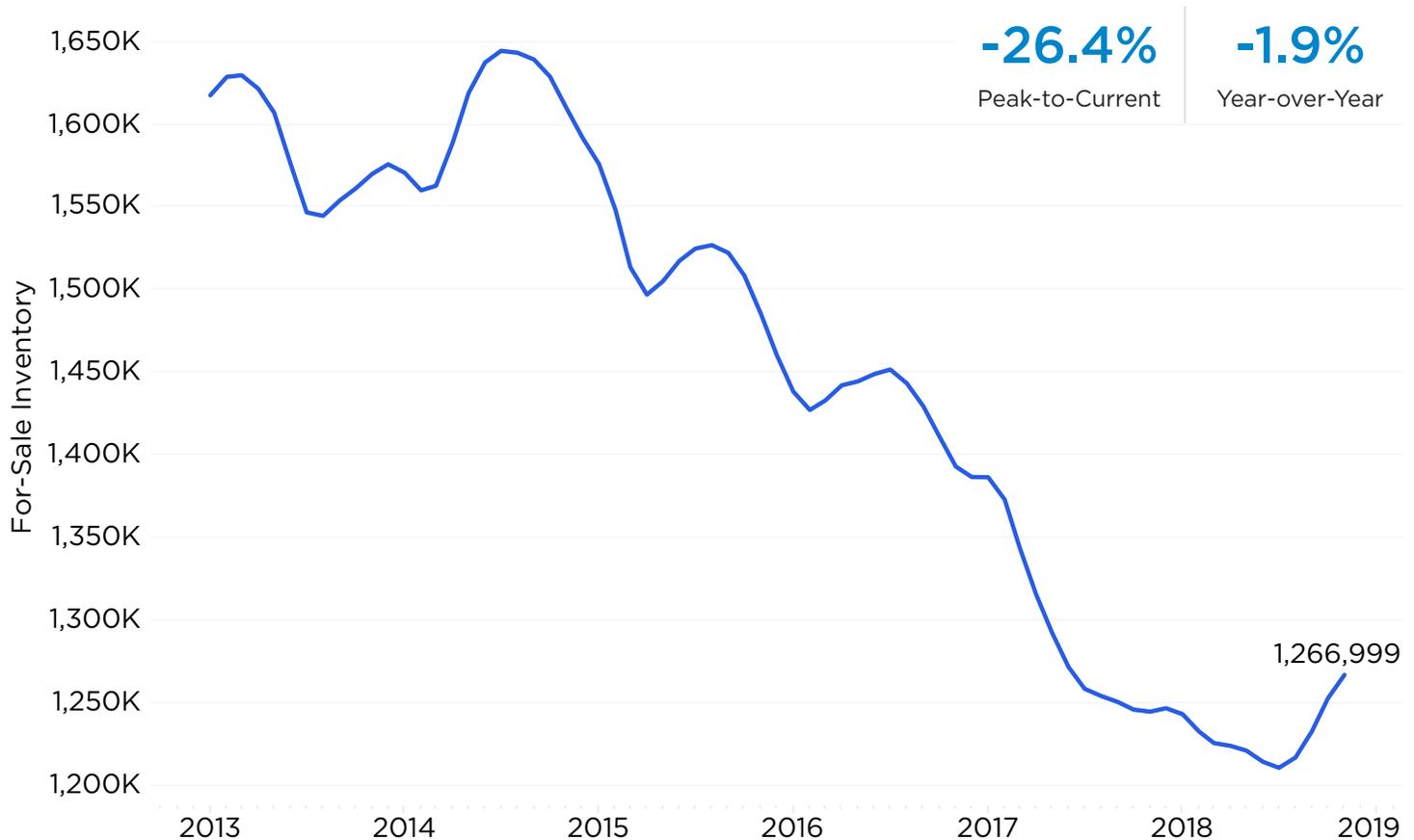
Region Name	Median Income	Mortgage Affordability, 2018 Q3	Historic Mortgage Affordability, 1985-2000	Forecast Mortgage Affordability (5% Interest Rate)	Forecast Mortgage Affordability (6% Interest Rate)	Forecast Mortgage Affordability (7% Interest Rate)	Rent Affordability, 2018 Q3	Historic Rent Affordability 1985-2000
United States	\$62,807	17.3%	21.2%	19.2%	21.5%	23.9%	27.5%	25.8%
New York, NY	\$78,538	27.1%	29.1%	30.0%	33.5%	37.1%	36.2%	26.4%
Los Angeles, CA	\$72,999	43.8%	34.7%	48.0%	53.6%	59.5%	45.2%	36.3%
Chicago, IL	\$70,887	15.5%	23.1%	16.9%	18.9%	21.0%	27.7%	25.3%
Dallas, TX	\$69,924	16.5%	22.8%	18.7%	20.9%	23.2%	27.4%	21.7%
Philadelphia, PA	\$70,826	16.0%	20.4%	17.8%	19.9%	22.1%	26.5%	21.4%
Houston, TX	\$65,654	15.1%	20.9%	16.4%	18.4%	20.4%	28.3%	24.3%
Miami, FL	\$102,978	19.2%	22.6%	20.8%	23.2%	25.7%	24.9%	17.8%
Atlanta, GA	\$56,215	24.5%	20.3%	26.9%	30.1%	33.4%	39.6%	28.5%
Boston, MA	\$67,576	15.3%	18.2%	17.4%	19.4%	21.6%	24.8%	19.2%
San Francisco, CA	\$89,142	25.4%	26.4%	28.9%	32.3%	35.8%	31.9%	26.4%
Detroit, MI	\$106,777	44.3%	38.6%	49.1%	54.8%	60.8%	38.2%	30.7%
Riverside, CA	\$60,489	12.8%	16.0%	14.4%	16.1%	17.9%	23.7%	20.0%
Phoenix, AZ	\$64,800	27.7%	27.9%	30.0%	33.5%	37.2%	35.2%	32.7%
Seattle, WA	\$64,151	19.9%	21.0%	21.6%	24.1%	26.7%	25.4%	22.7%
Minneapolis, MN	\$85,406	28.1%	25.9%	30.6%	34.2%	38.0%	30.5%	23.8%
San Diego, CA	\$79,282	16.4%	17.8%	18.0%	20.1%	22.3%	24.8%	21.3%
St. Louis, MO	\$79,934	36.4%	33.6%	39.6%	44.2%	49.1%	38.1%	34.6%
Tampa, FL	\$63,729	12.7%	16.9%	13.9%	15.5%	17.2%	21.4%	21.2%
Baltimore, MD	\$53,740	19.2%	18.8%	21.4%	23.9%	26.5%	31.0%	27.7%
Denver, CO	\$79,199	16.6%	21.8%	17.9%	20.0%	22.2%	26.4%	26.9%

INVENTORY, CONSTRUCTION AND DEMOGRAPHICS

- Inventory of homes for sale is very low, and getting lower. Inventory constraints are particularly acute among entry-level and median homes – the exact homes sought by first-time homebuyers and young families.
- New construction has thus far failed to get back to pre-recession levels, especially for single-family homes.
- Homes that are on the market are selling faster – currently, homes spend ten days less on the market before selling than they did a year ago.
- Millennials do value homeownership, but many are finding it difficult to attain, and more young adults are living with their parents.

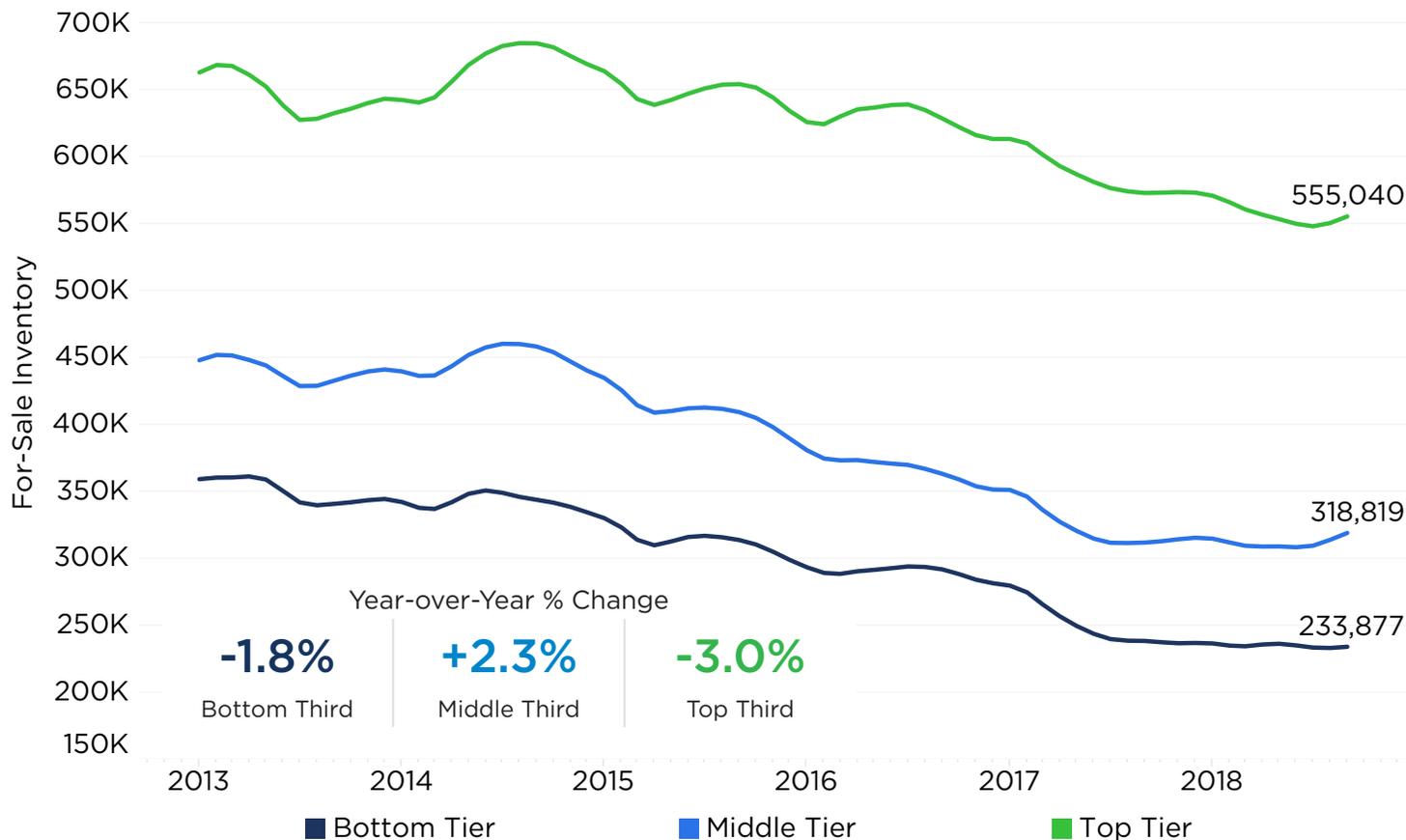
Zillow For-Sale Inventory

The number of U.S. homes for sale is low, and falling



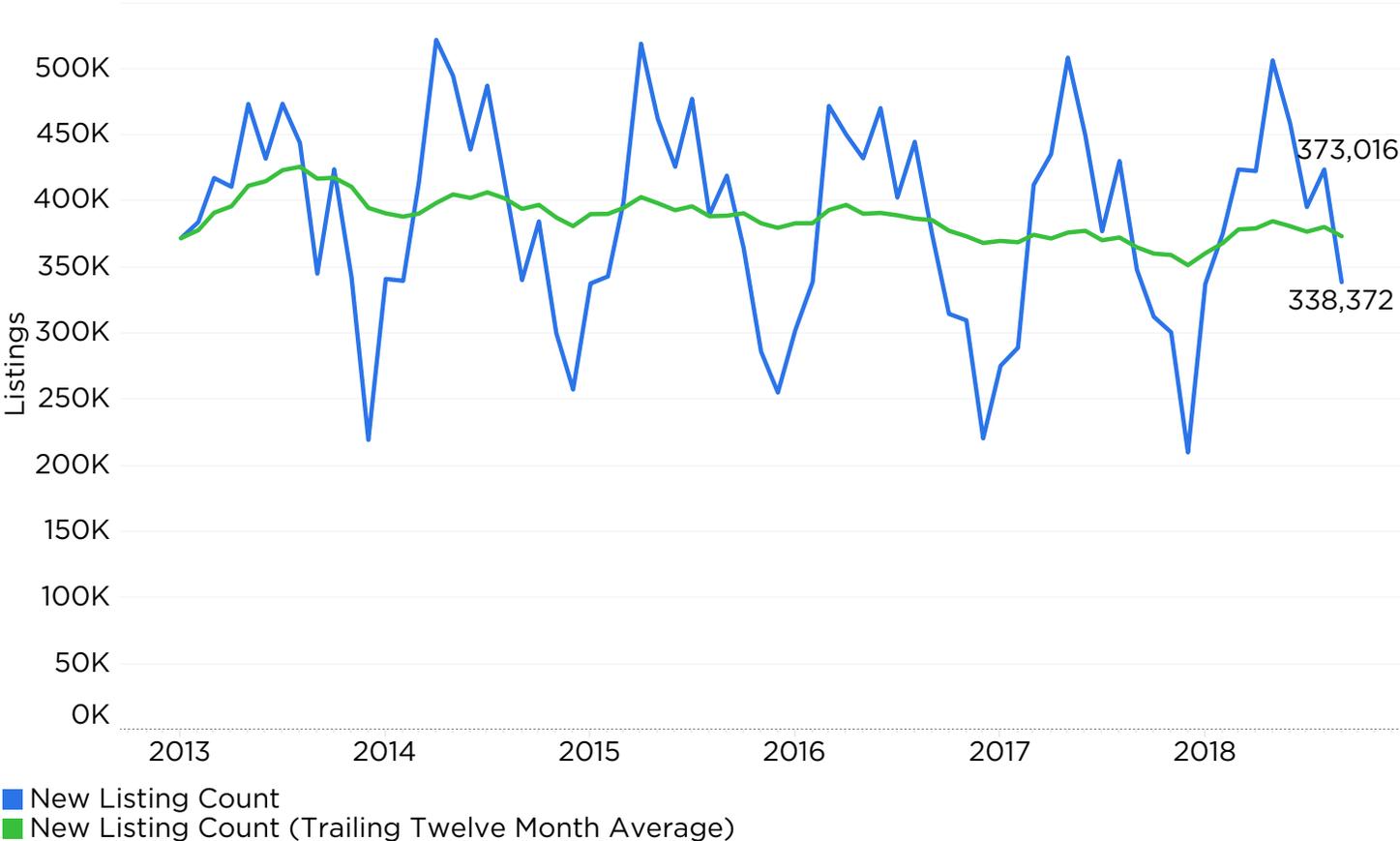
Zillow For-Sale Inventory, by Thirds

Inventory shortages are particularly acute among bottom- and middle-third homes.



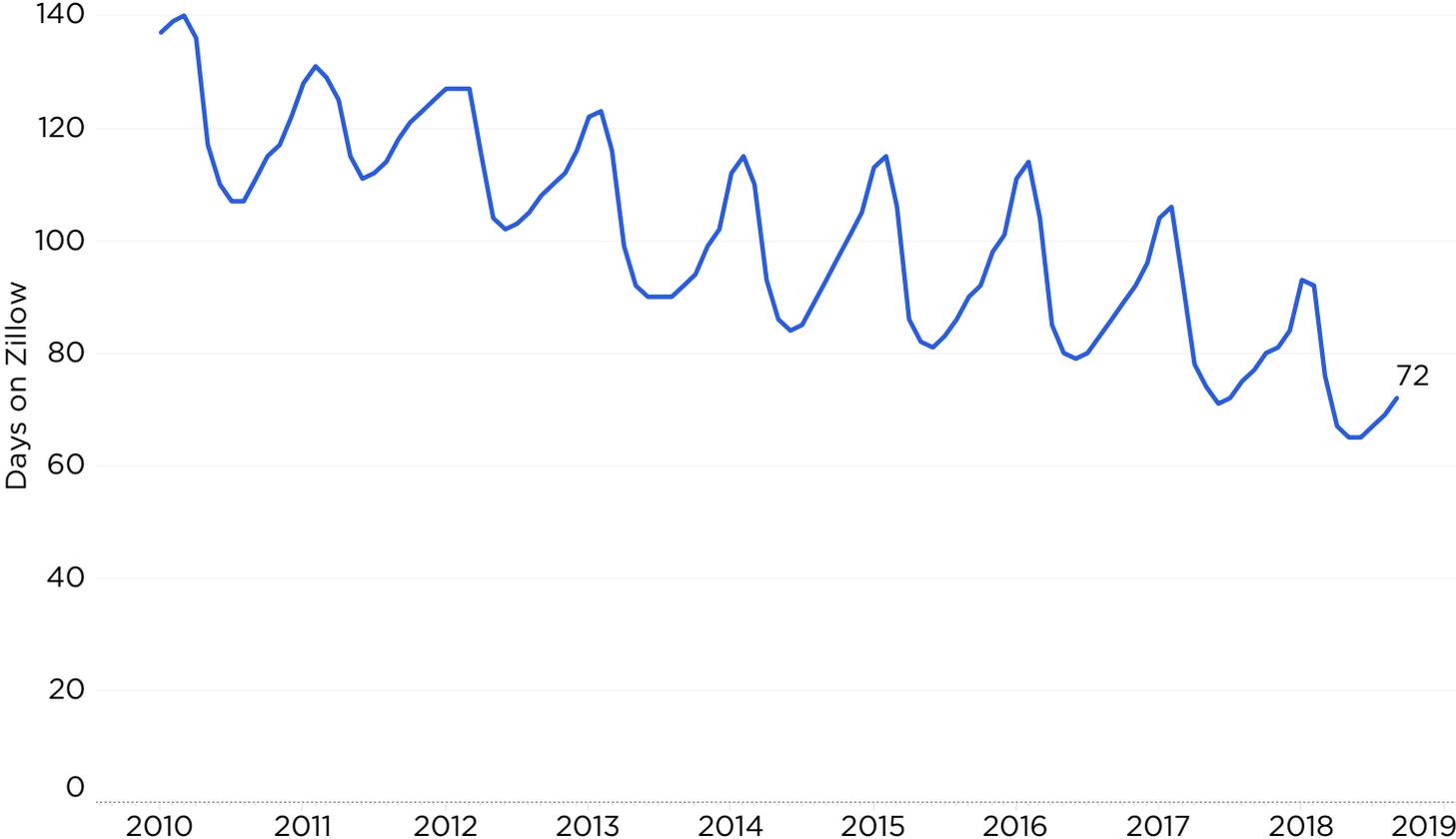
New Homes Listed For Sale

The number of listings hitting the market has remained consistent



Days on Zillow

Homes listed for sale are selling more quickly than in the past few years.



Source: Zillow Days on Zillow, Including REOs (September 2018).