

# The Housing Market Before & After the Coronavirus Crisis

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How is **COVID-19 impacting** the economy and housing market?



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# Pre-crisis market was on strong footing

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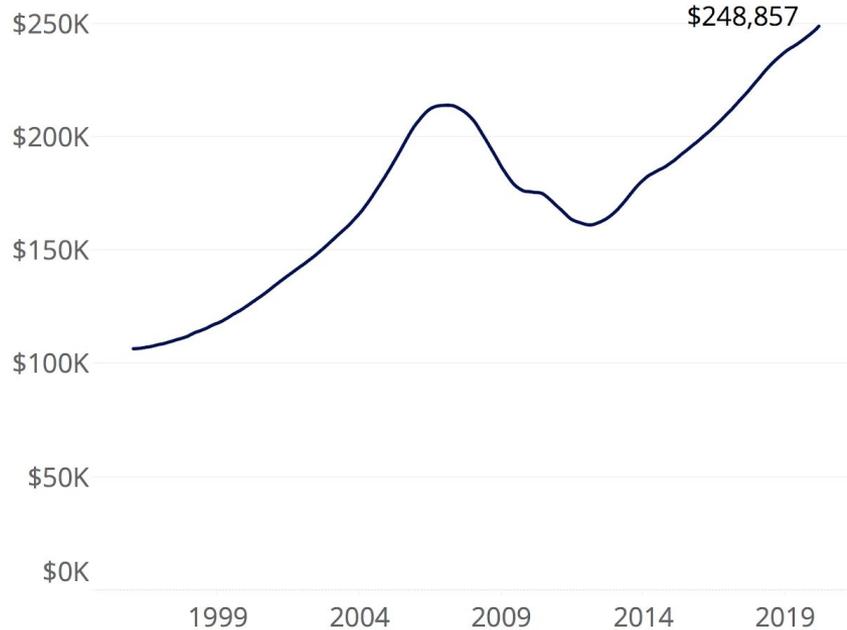
First look to the fundamentals - the housing market conditions right before the crisis.



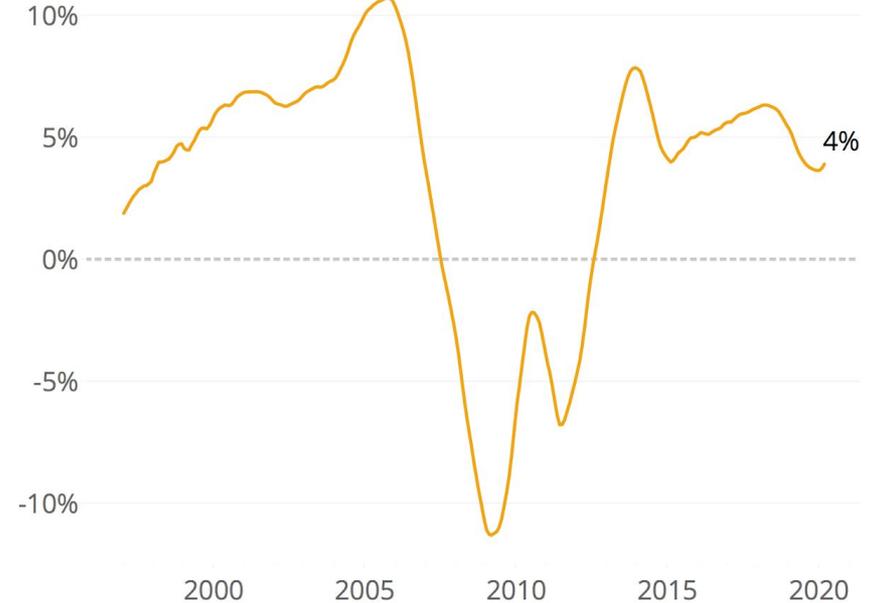
# Home values had begun to speed up again

Low interest rates boosted buying power this winter

Zillow Home Value Index



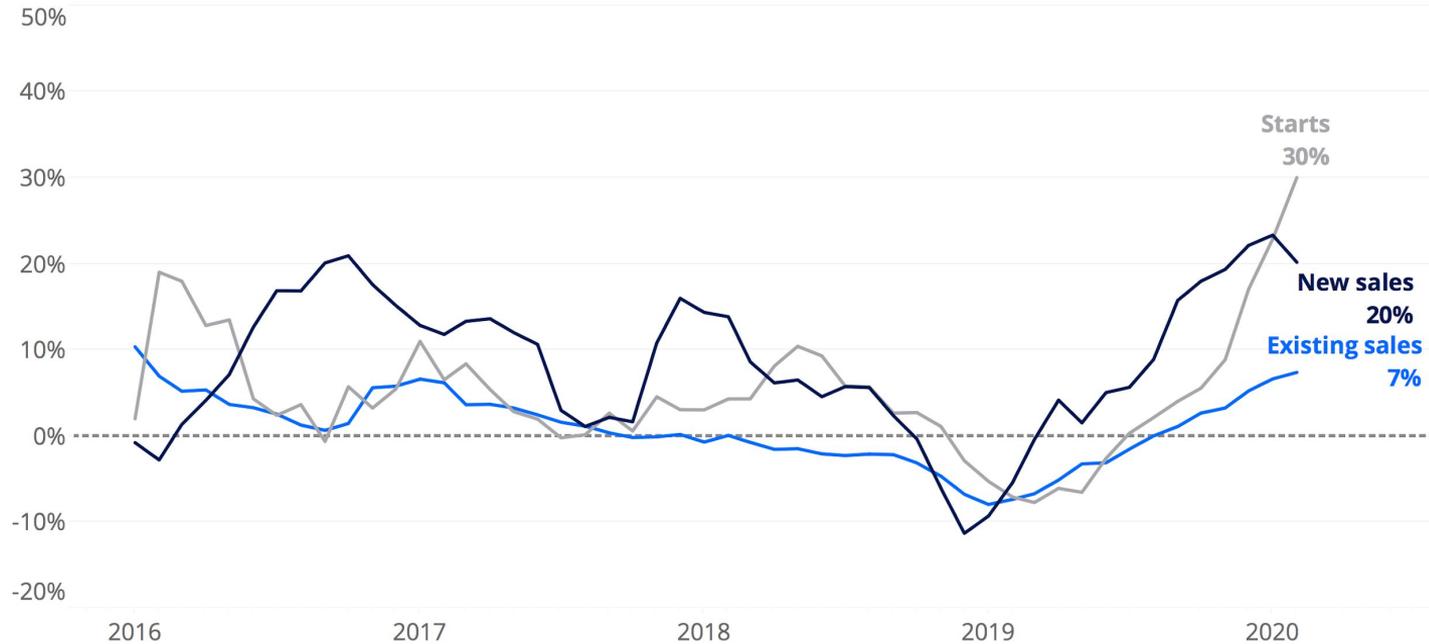
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# For-Sale Housing Volumes Pre-crisis: Solid

Sales and construction activity were all trending upward heading into crisis

## Annual change

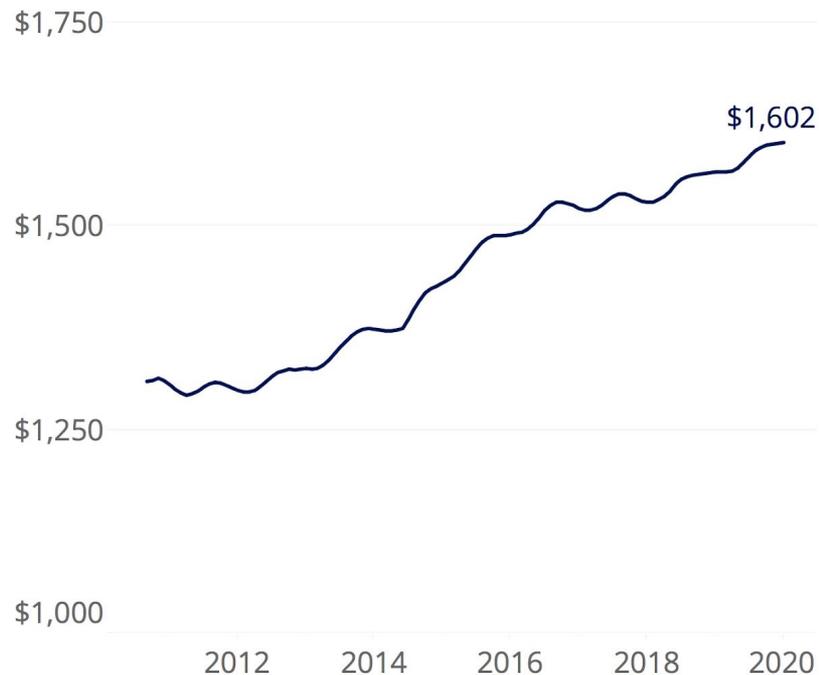


Sales of Existing Homes (SFR, Condo, Co-op) & New Homes (SFR) and New Construction Starts (SFR, Condo, Co-op). Annual Changes in Seasonally-Adjusted Annualized Rates, 3-month moving average.  
Source: U.S. HUD (New sales and Starts) and N.A.R (Existing Sales)

# Rents were steady as well

With the bulk of millenials active in rental markets ...

Zillow Rent Index

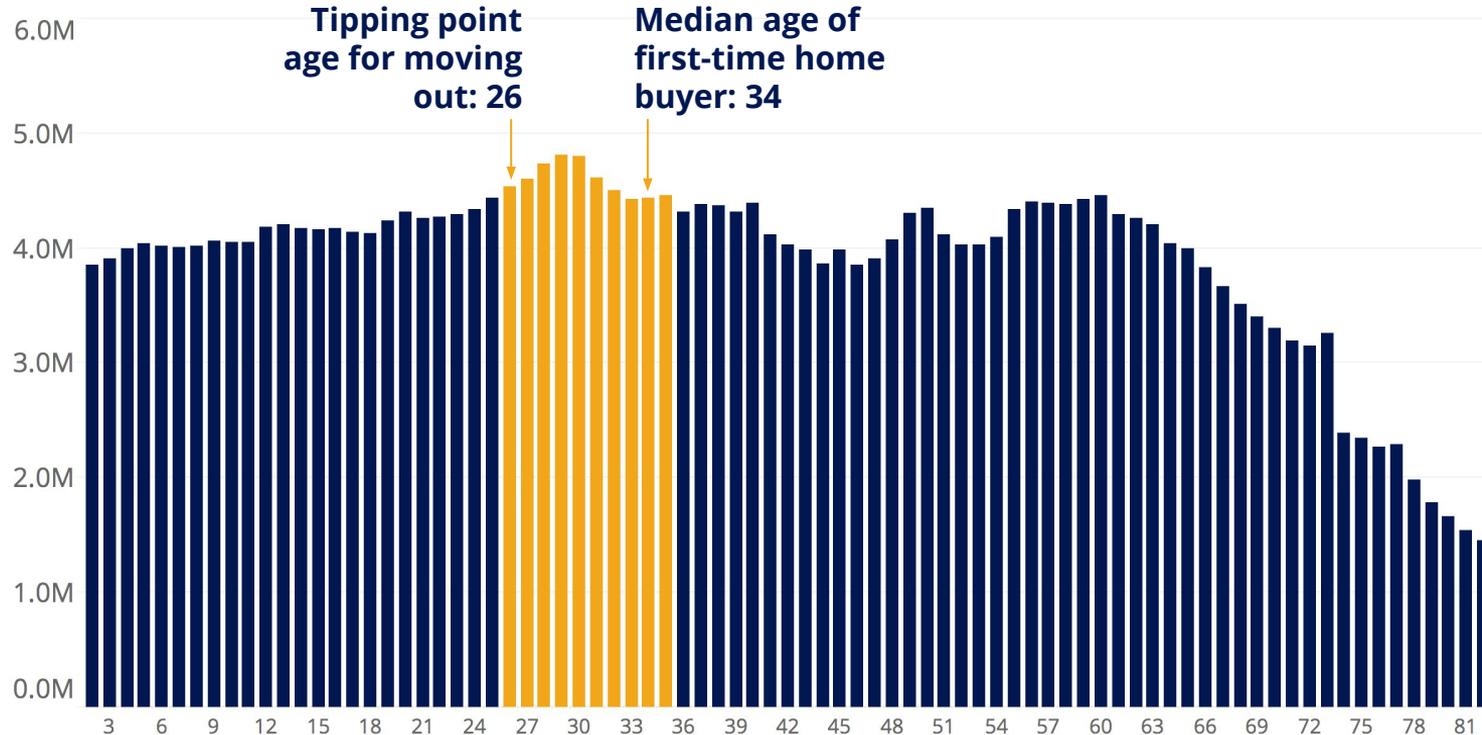


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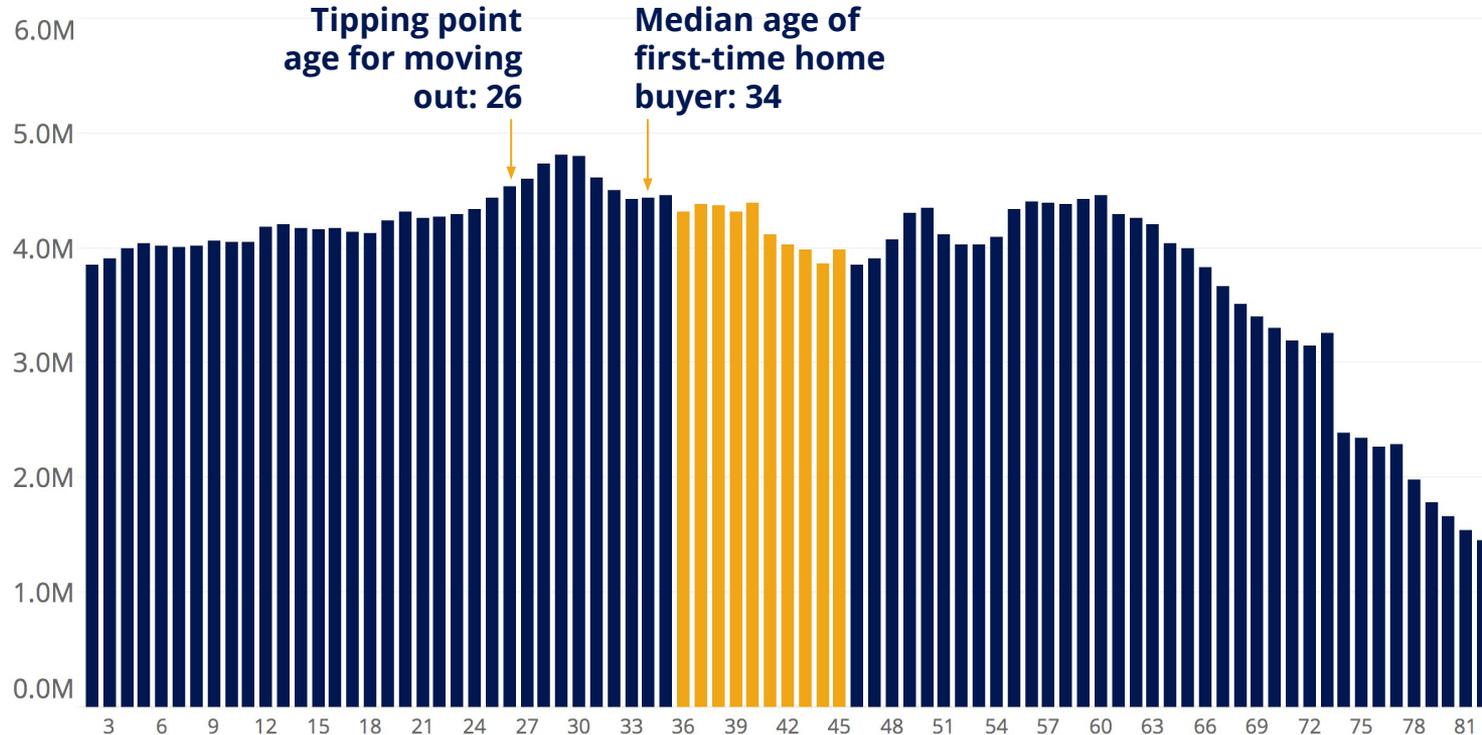
# Housing demand powered by a demographic wave

Hitting the market during a record long expansion.



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# Homebuilding: lackluster for over a decade

Without enough truly new supply, active inventory driven down by strong demand

## Housing starts only JUST recovered to average

*Single-family housing starts*



## Inventory driven down by strong demand + anemic building

*For-sale, existing inventory*

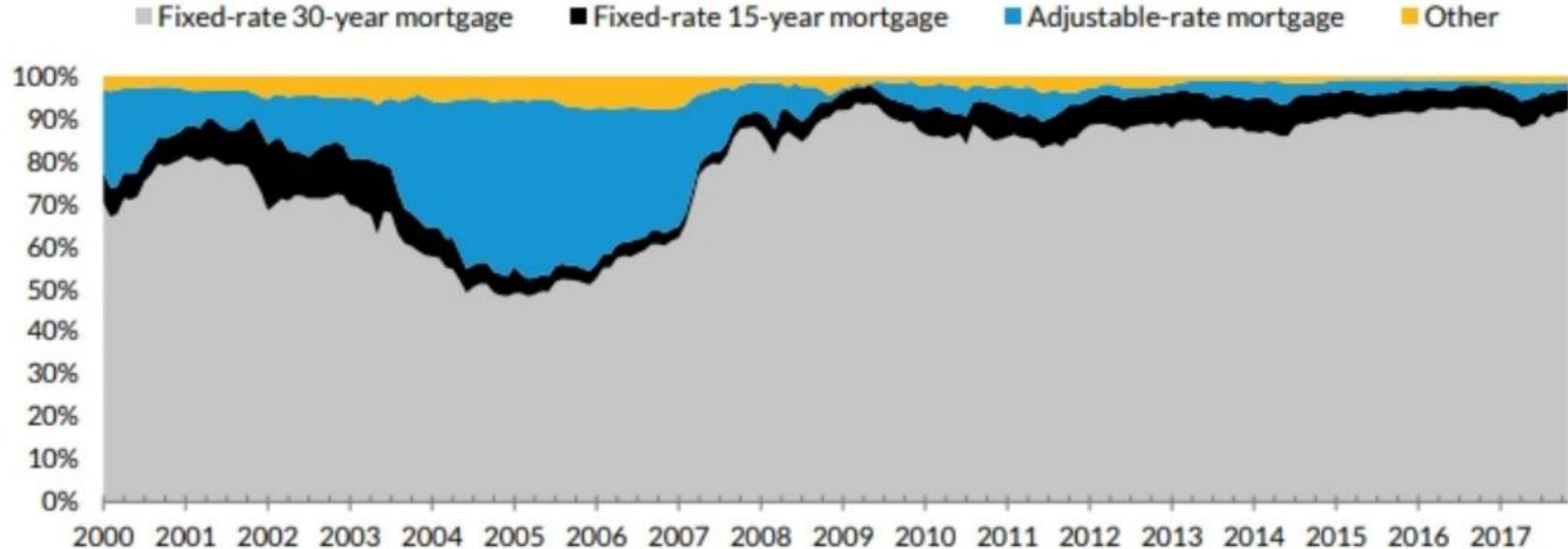


Source: NAR Existing Inventory

# Reform after crisis cut predatory lending

Borrowers now have reliable fixed monthly payments

## Purchase Mortgage Originations by Type

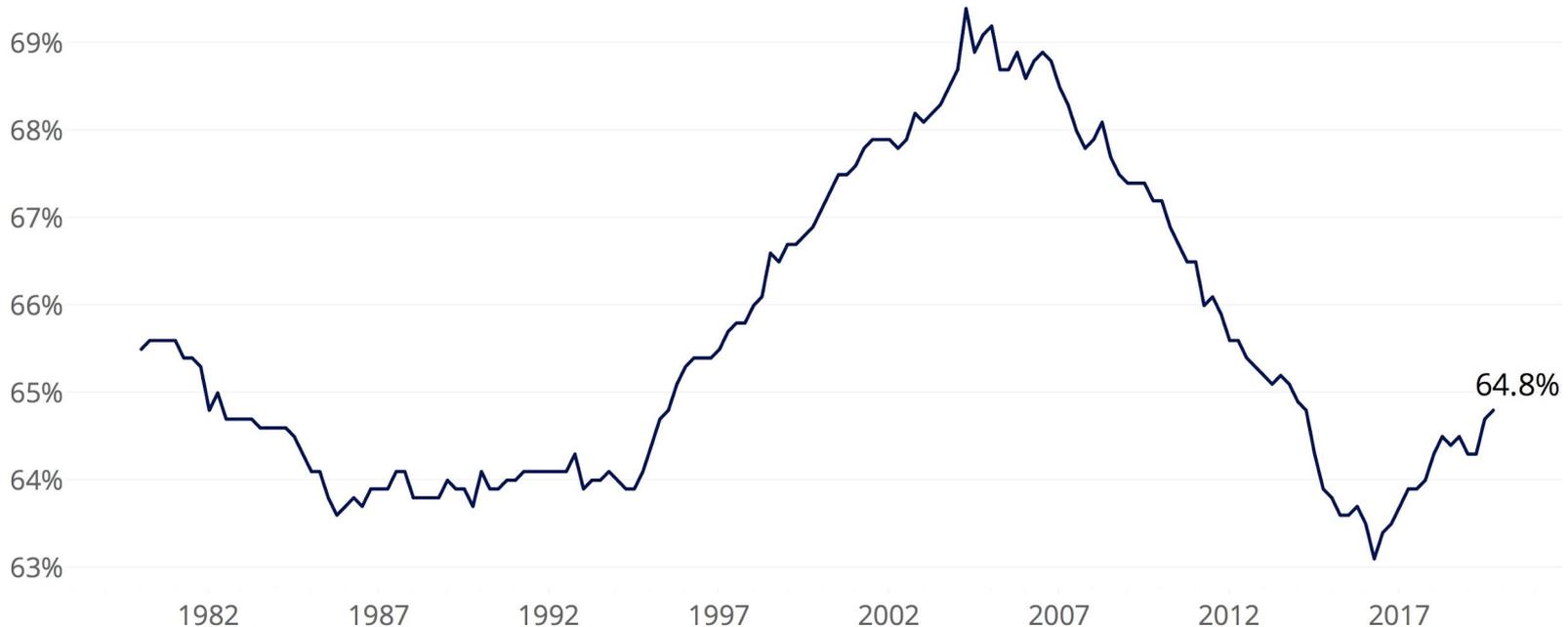


Source: CoreLogic, eMBS, HMDA, SIFMA and Urban Institute.

# Homeownership became more exclusive

Tight credit, tight inventory, and prohibitive down payments are major barriers

## Homeownership rate



# Rental vacancy rates lowest since mid 80s

Driven down by expansion + big Millennial gen + rising barriers to homeownership

## Rental vacancy rate

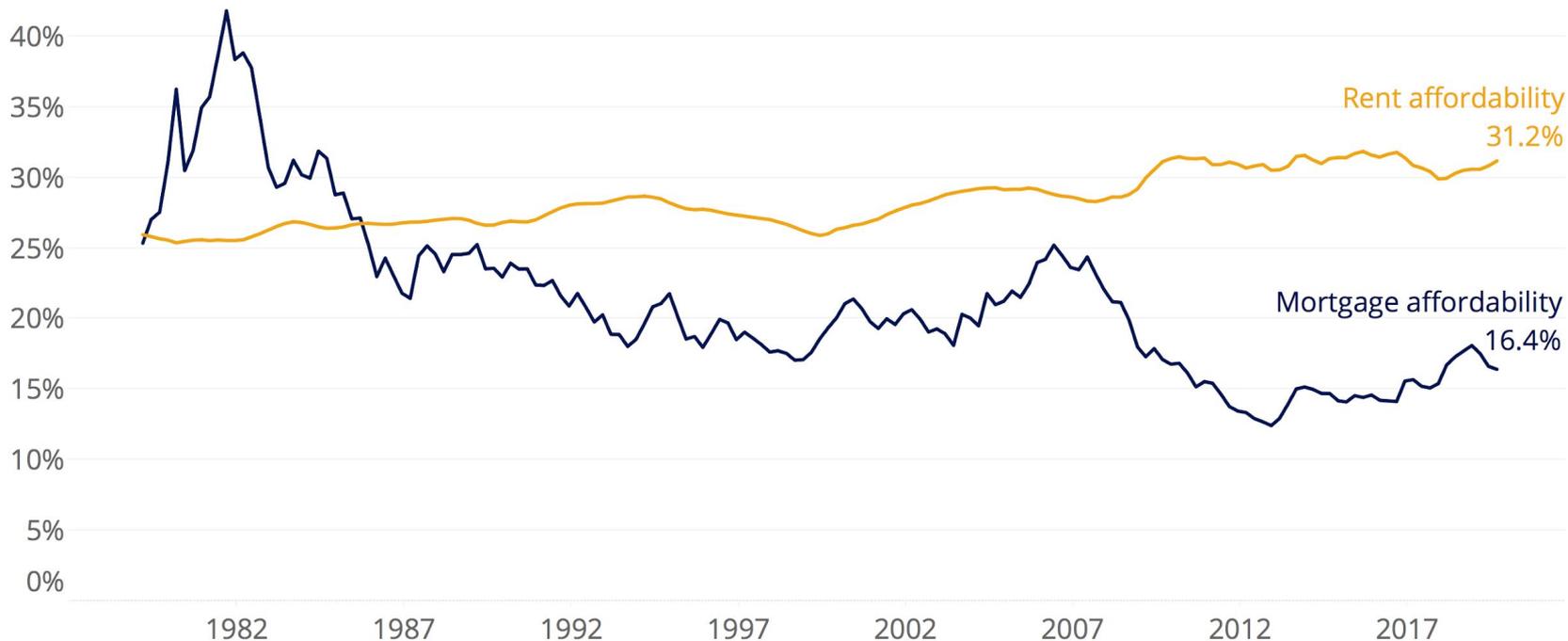


Source: U.S. Census Bureau, Housing Vacancies and Homeownership, 2019 Q4 release

# Affordability of housing worse for renters

Due to pressure on supply + slow income growth + no ability to harness low rates

## Share of income spent on rent



# And then... this

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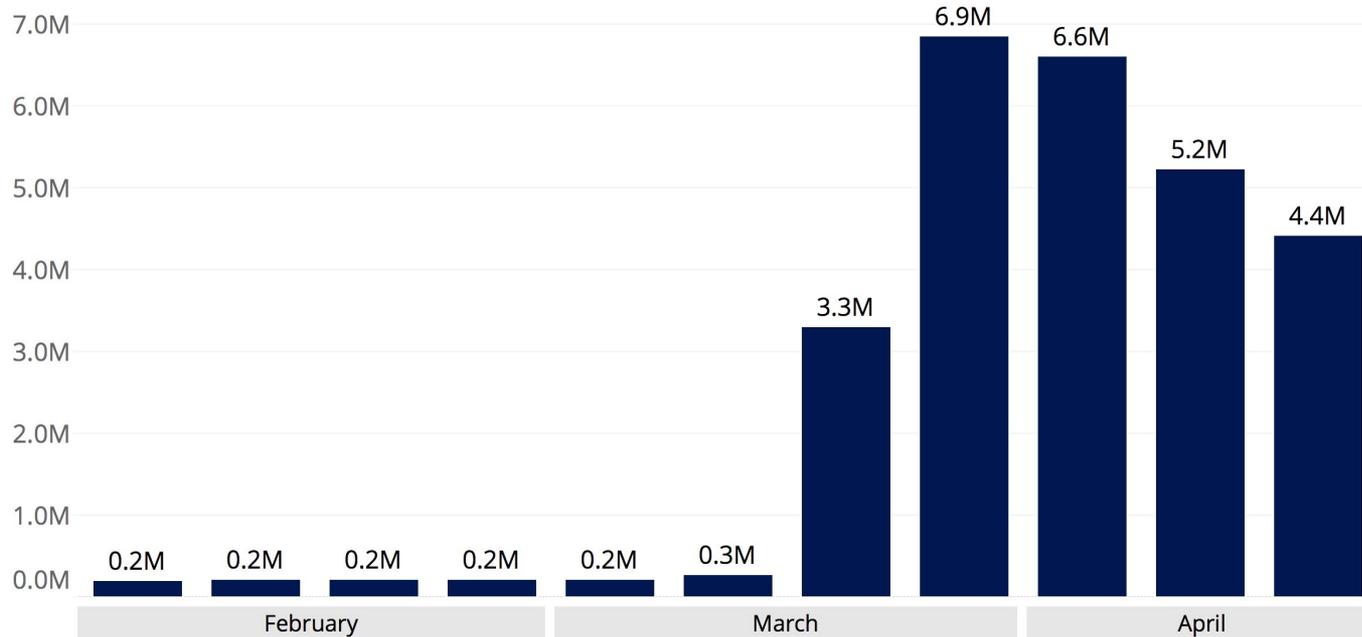
The scale of this crisis and impacts to the economy at large



# Economic impact has been stunning, unprecedented

26.9 million initial claims for unemployment insurance in March and April

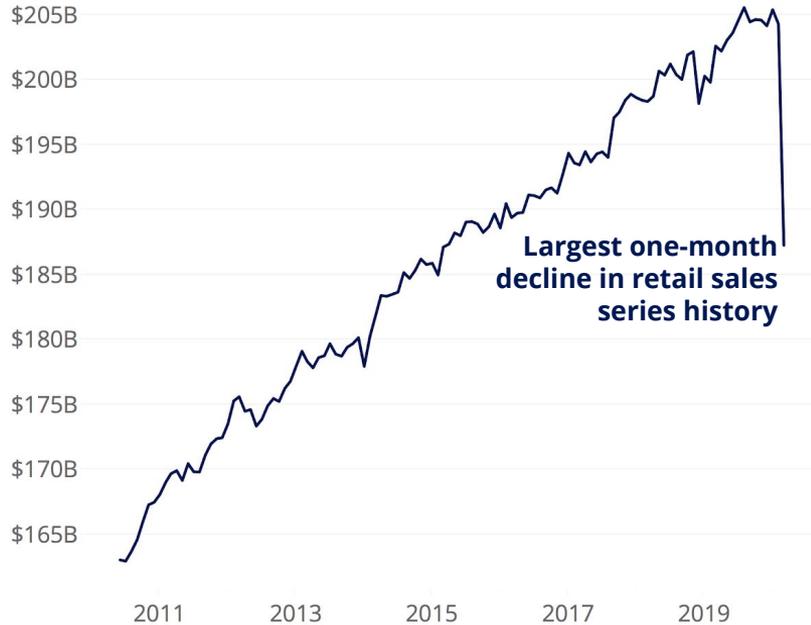
## Initial claims for unemployment



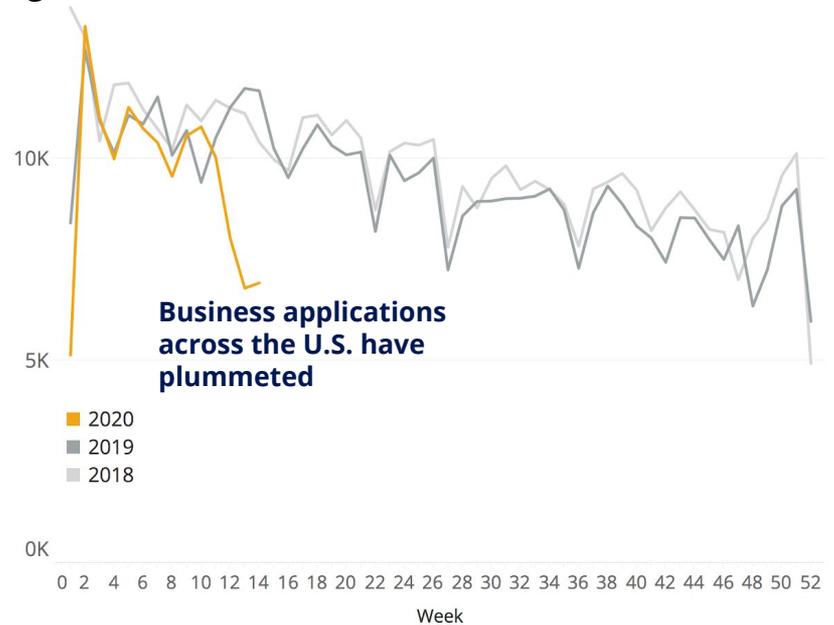
# Major economic indicators also show drop

Both consumers and producers are taking a deep breath

## Advance real retail and food service sales



## Number of applications for businesses with planned wages



Source: U.S. Census Bureau, Advance Retail Sales: Retail and Food Services

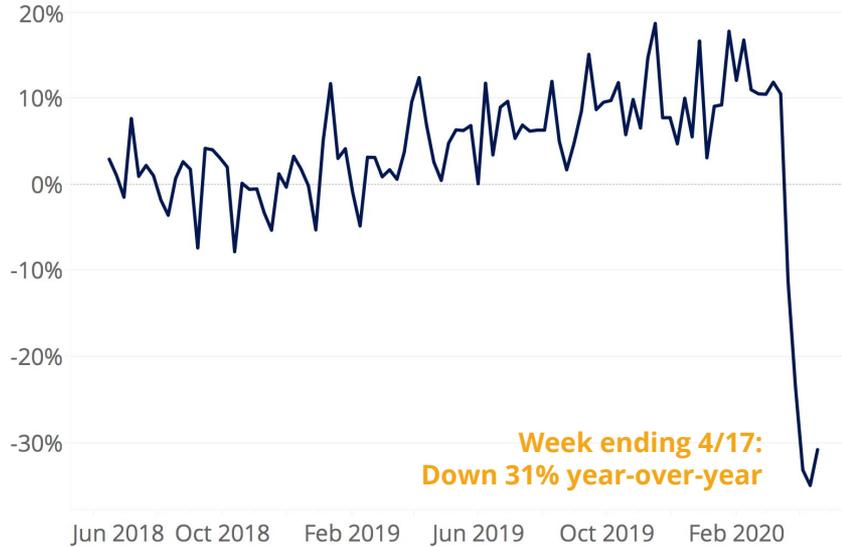
Source: U.S. Census Bureau, Department of Commerce

# Buying activity faces serious logistical challenges

Having plummeted, mortgage applications and active-to-pending listings appear to have stabilized slightly at less than two-thirds 2019 volumes

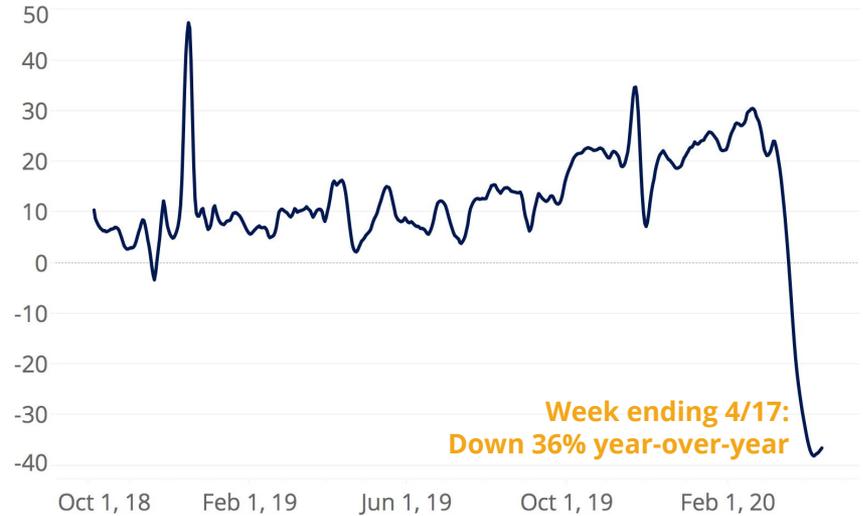
## For-purchase mortgage applications have fallen sharply

Annual change



## Daily Measure of Active -> Pending Listings Falling but Showing Faint Signs of Stabilization

Annual Change in Active -> Pending Listings (% , measured daily)



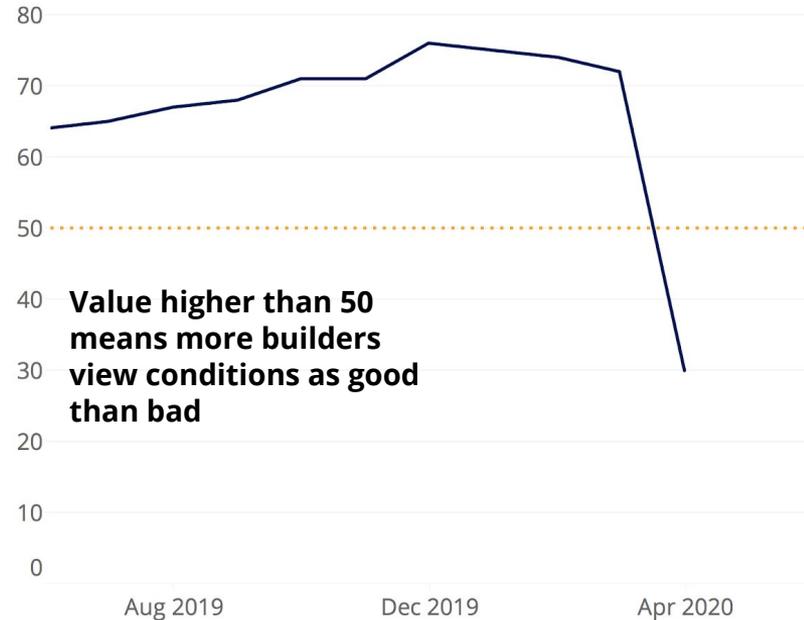
MBA Purchase Index (Measure of weekly mortgage application activity), SA  
Source: Mortgage Bankers Association Weekly Applications Survey

Source: Zillow data.

# Supply side also walloped

Builders stop projects and lose confidence - disappointing what would have been golden year

## Homebuilder sentiment more than halved in April



Source: National Association of Homebuilders Market Index

## March housing starts fell 25% from Jan high

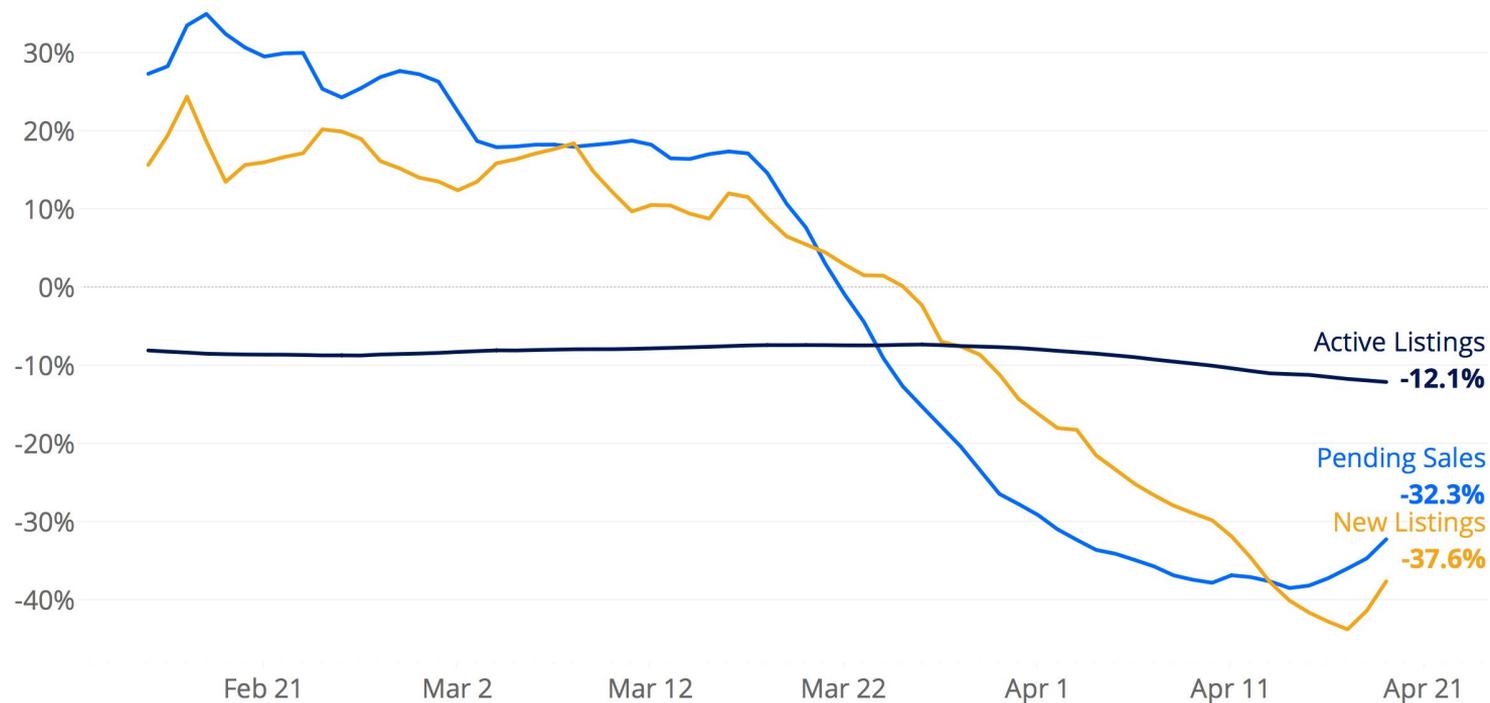
Jan starts numbers reached levels not seen since late 2006 before the Global Financial Crisis



Source: U.S. Census, Survey of New Residential Construction

# Would-be sellers are missing - homeowners wait

New listings drop 37 percent year-over-year. As pendings fall, active inventory rises.



# So, now what?!

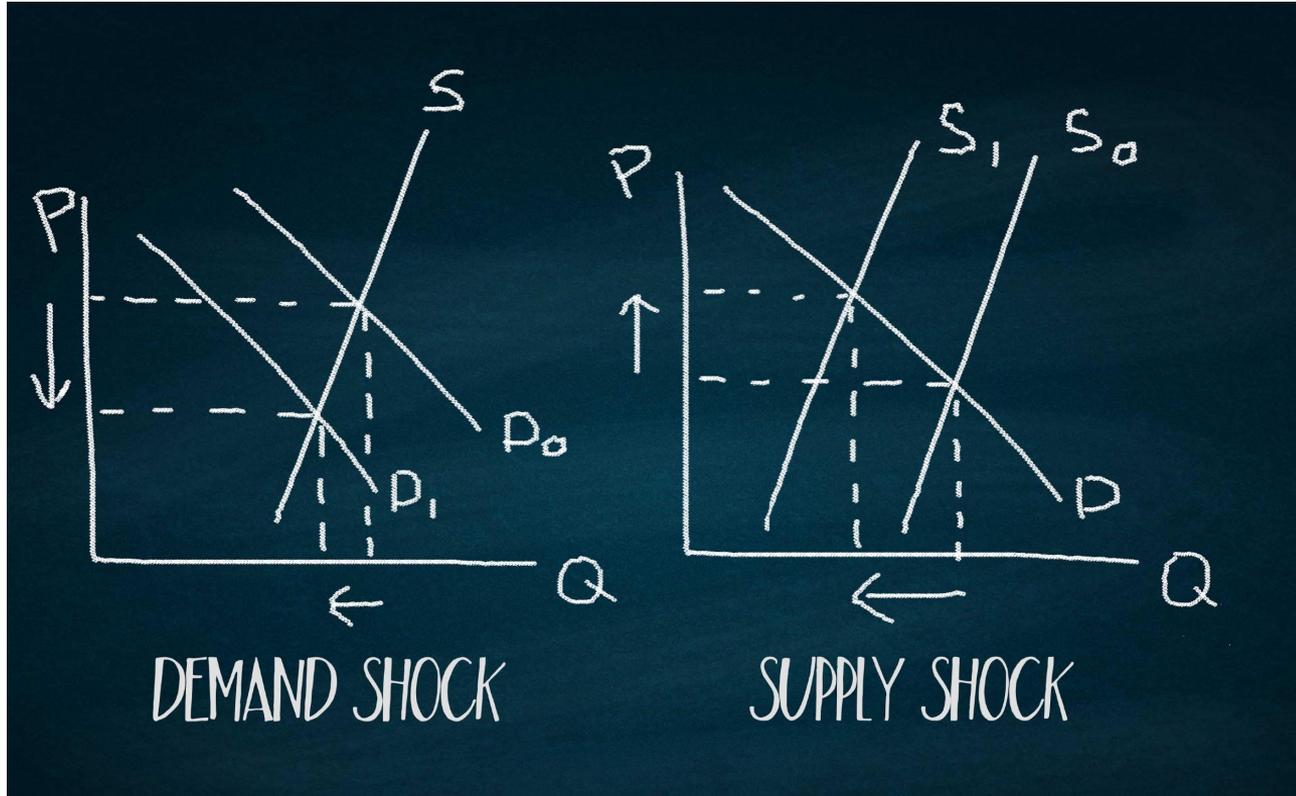
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What is already being done, what impact might it have and when might we get back to “normal”??



# Supply and demand impact

Opposing effect on prices, reinforcing impact on quantities (leases or sales)



# Ultimate price and rent declines depend on...

...the relative size of the demand and supply shocks

## How deep and drawn out is the COVID recession?

- Is joblessness or income loss levied more heavily on renters or homeowners?
- Are renters and homeowners able to withstand job loss and economic hardship?

## Will government aid be sufficient to prevent distressed units from hitting the market?

- Rental market: vacancies due to eviction or increase in doubling-up
- For-sale market: foreclosures and short sales

# The government support is record breaking

\$2.48 trillion in aid, up to \$2.3 trillion in Fed loans

**Mar 27:** CARES act providing **\$2T** in aid signed into law

- Direct cash payments (\$1200/adult or \$2400 married + \$500/kid)
- Extra \$600/WEEK of unemployment benefit (39 week max and only available April 1- July 31)
- Small business loans: \$350B (gone in 2 weeks)

**Apr 9:** Fed announces **\$2.3T** in loans to support recovery

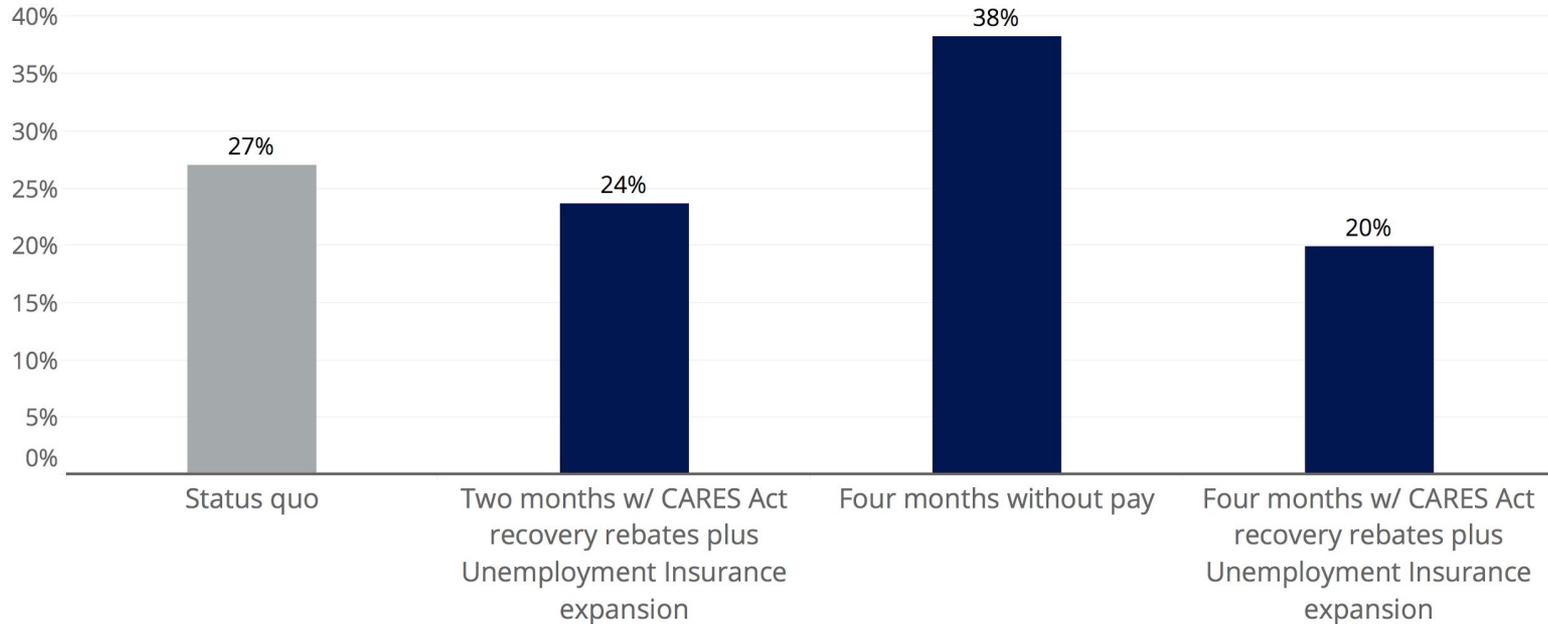
**April 23:** **\$480B** for small business support, hospitals, and virus testing capabilities



# CARES act and renter affordability

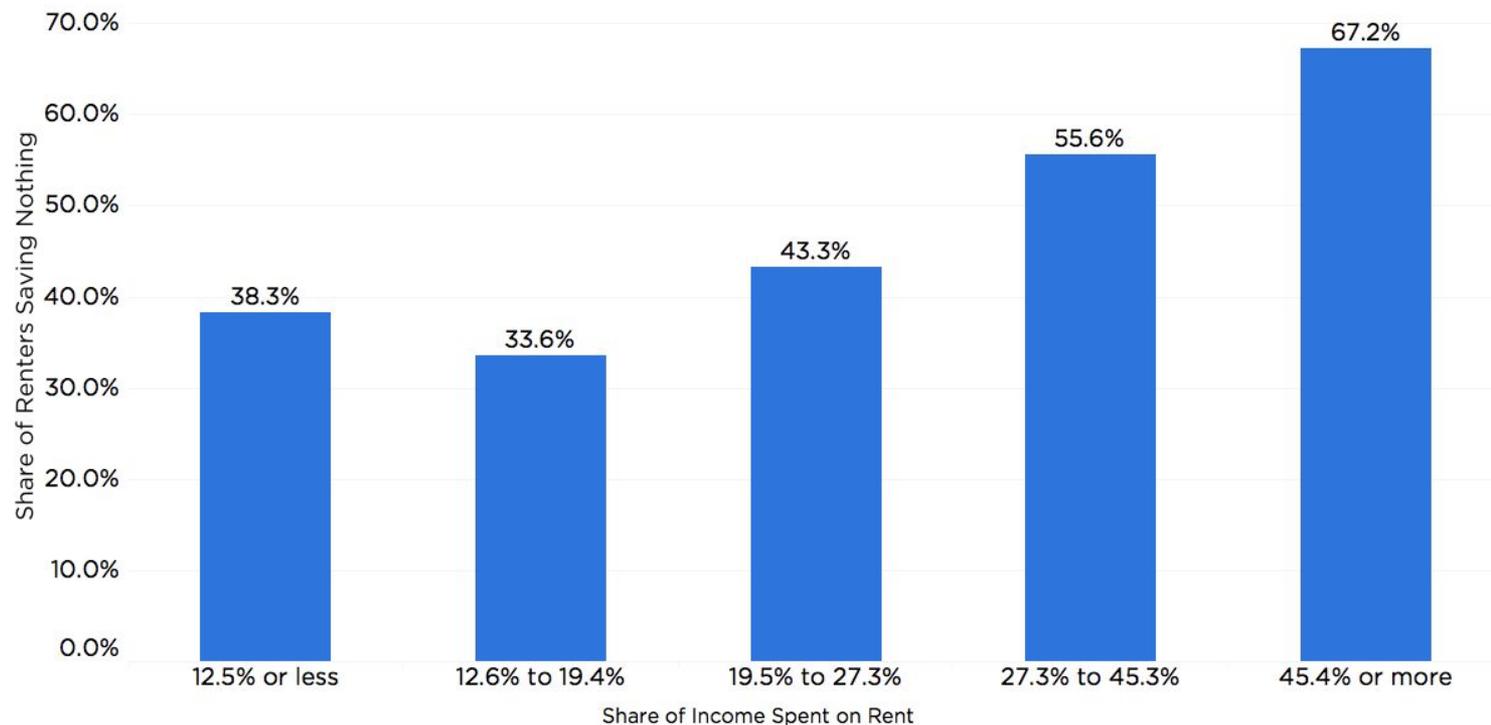
Gov't support is necessary to prevent many renters from falling into housing insecurity

**Rent burden of households where the majority of income comes from workers in food, arts, retail**



# Lack of savings keenly felt by renters

The longer this goes, the more support households, especially renters, will need

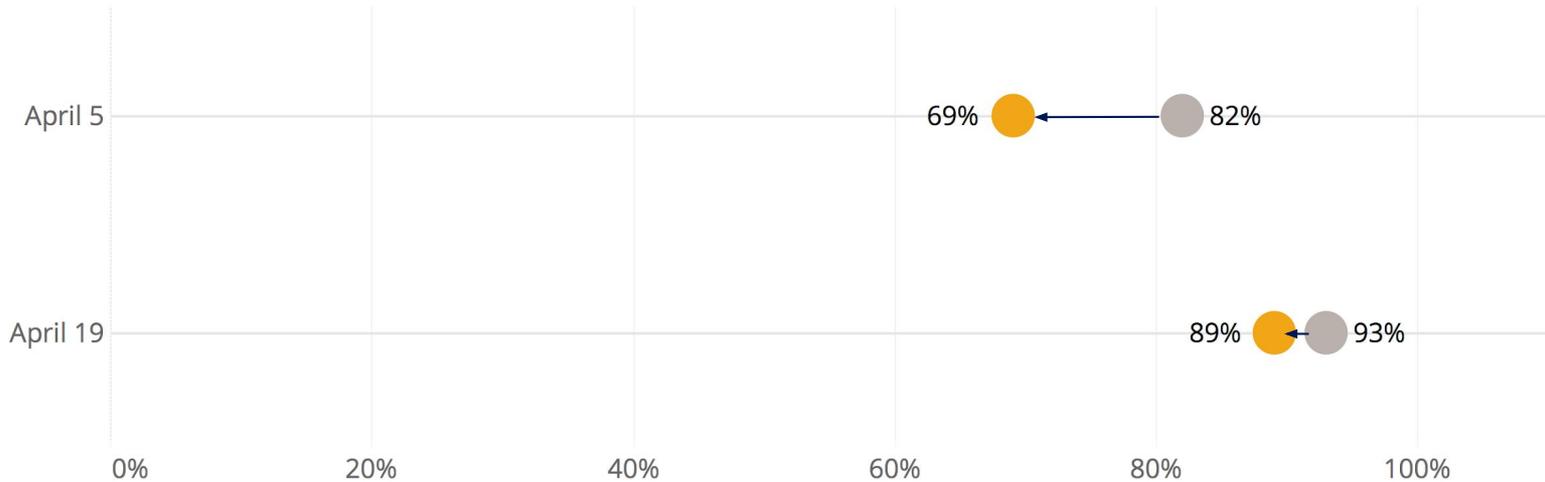


<sup>Z</sup>Source: Zillow analysis of NY Fed Survey of Consumer Finances, 2016

# Renters struggle to pay rent this April

Due to the sheer scale of joblessness, income loss plus delays in government aid

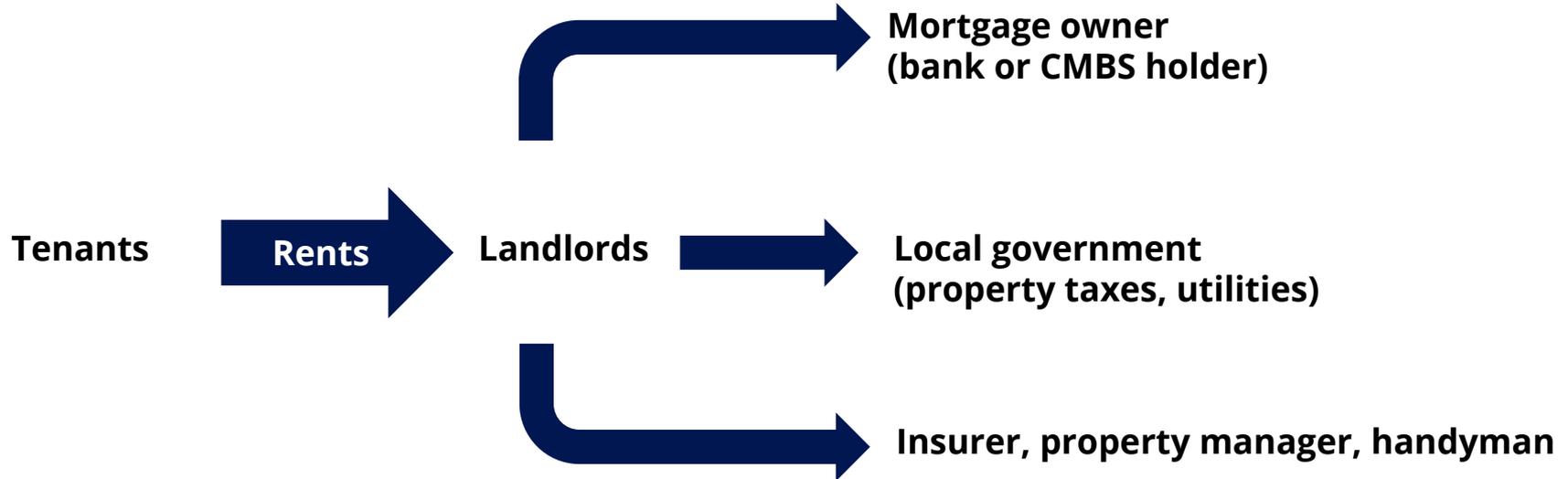
Share of apartment households who made a full or partial rent payment in April 2020 vs 2019:



Source: National Multifamily Housing Council (NMHC) survey, 11.5 million units of professionally managed apartments

# Fix not as simple as eviction moratorium

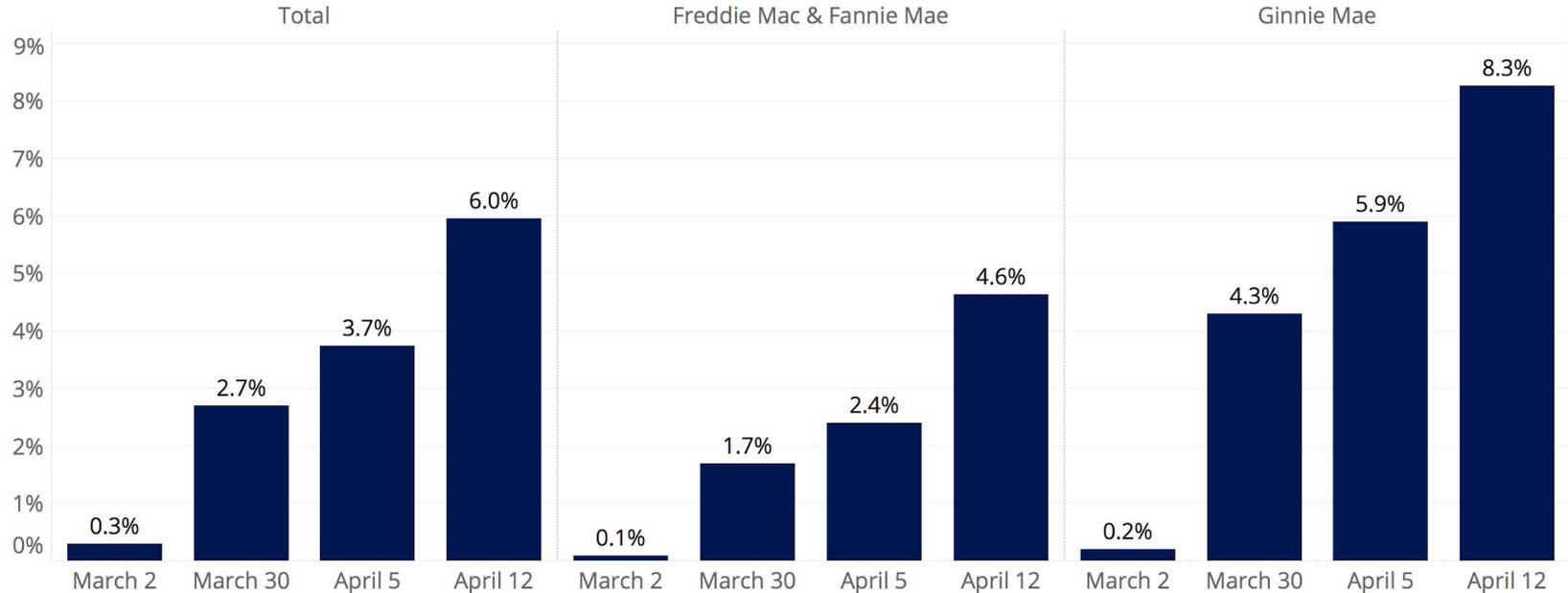
Rent non-payment creates chain reactions for strained local government, rental industry



# Getting straight to the homeowner, easier

Extension of forbearance (up to ~3M) should keep distressed homes out of the market

## Share of loans in forbearance



Source: Mortgage Bankers Association

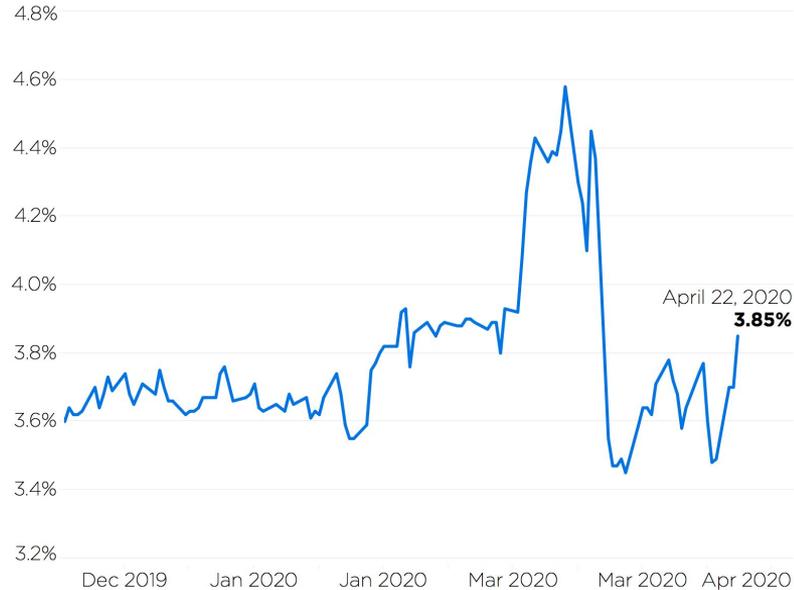
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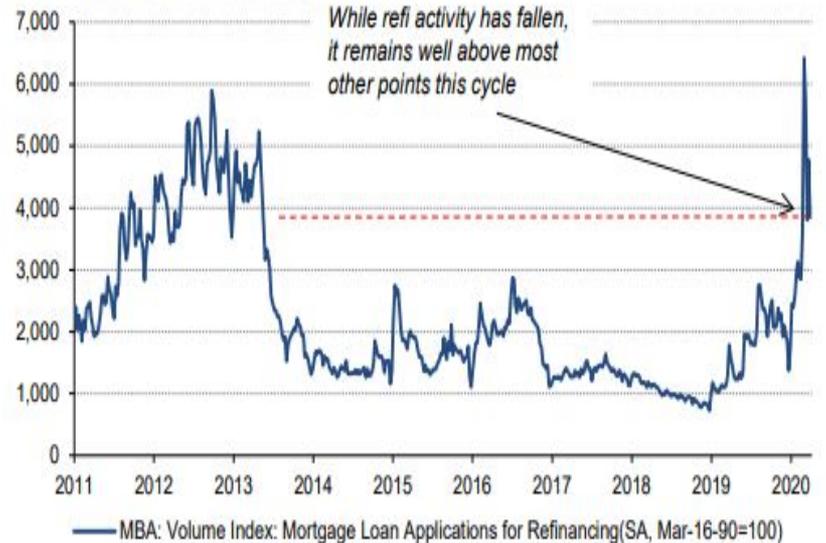
# Refinance can provide affordability to owners

But the sheer volume of applications can impact access

## Fixed 30-year mortgage rate



## Refinance Mortgage Loan Application Index

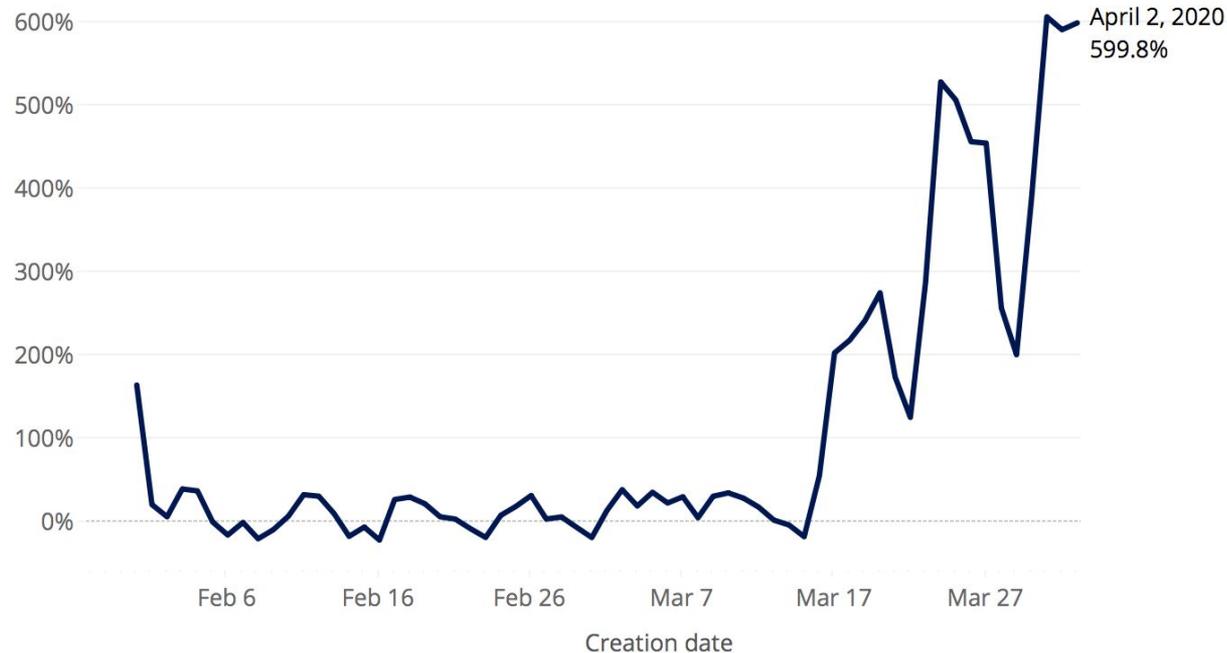


Source: Mortgage Bankers Association, Evercore ISI Research

# Sellers and property managers - making it work

## Creation of 3D Home tours soared as stay-at-home orders expanded

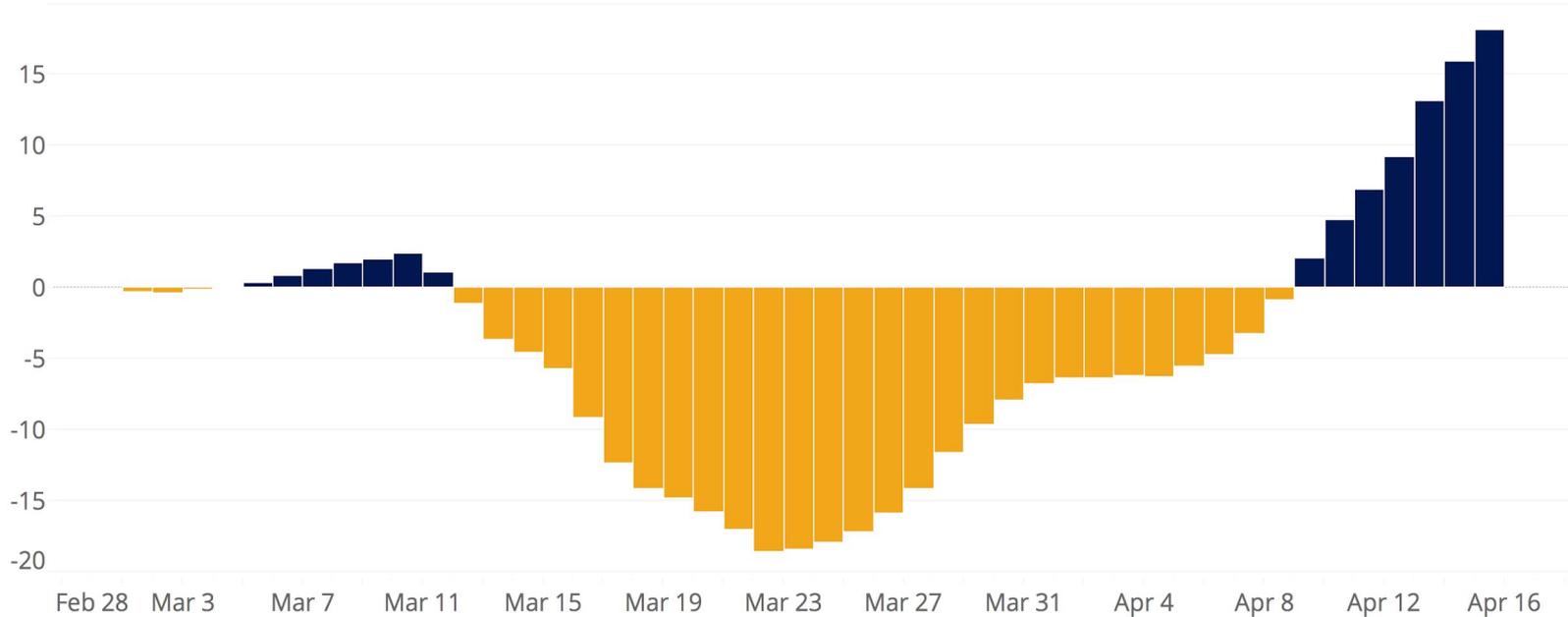
% change from 30 days ago in number of completed 3D Home tours nationwide created through Zillow



# Search on for-sale homes: a sign of hope?

Search activity on homes bottomed out mid-late March, since rose far beyond 2019 levels

Change in page views of for-sale homes on Zillow, 2019 vs 2020



# Initially robust in China, recovery slowed

The growing scale of the global crisis puts expectations for recovery further out

## Improvements in Chinese consumer activity has leveled off in recent days

Annual change in consumer activity in China (measures traffic congestion, box-office revenue, other metrics)



## China's home sales recovery has wavered in recent weeks

Annual change in residential real estate transactions in China



Source: Goldman Sachs Economic Research