

Housing under COVID-19

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



ZILLOWGROUP

What's happening

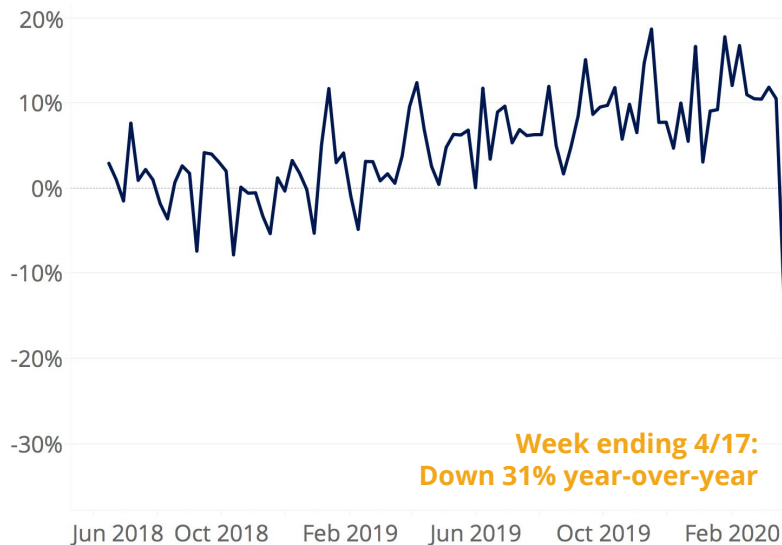
The scale of this crisis and impacts to the
economy at large and housing

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

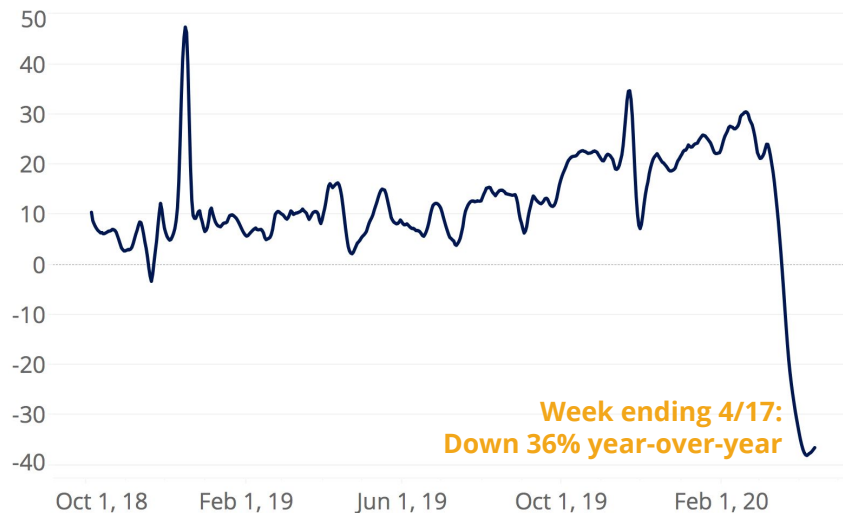
For-purchase mortgage applications have fallen sharply

Annual change



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

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



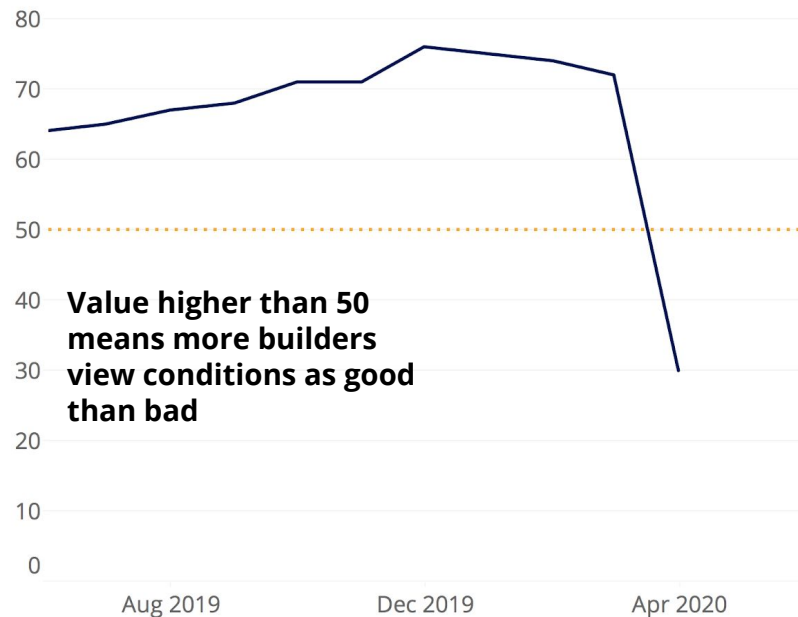
MBA Purchase Index (Measure of weekly mortgage application activity), SA
Source: Mortgage Bankers Association Weekly Applications Survey

Source: Zillow data.

Supply side also walloped

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

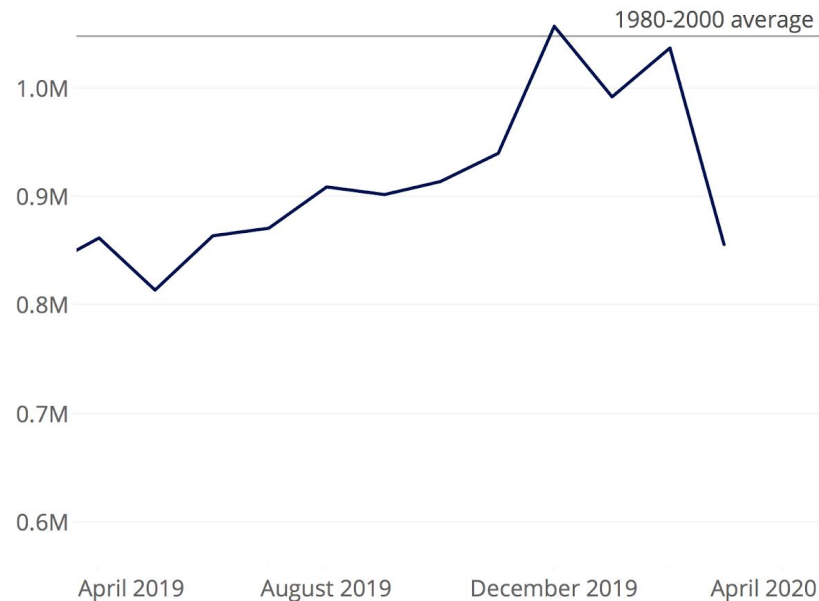
Homebuilder sentiment more than halved in April



Source: National Association of Homebuilders Market Index

March housing starts fell 25% from Jan high

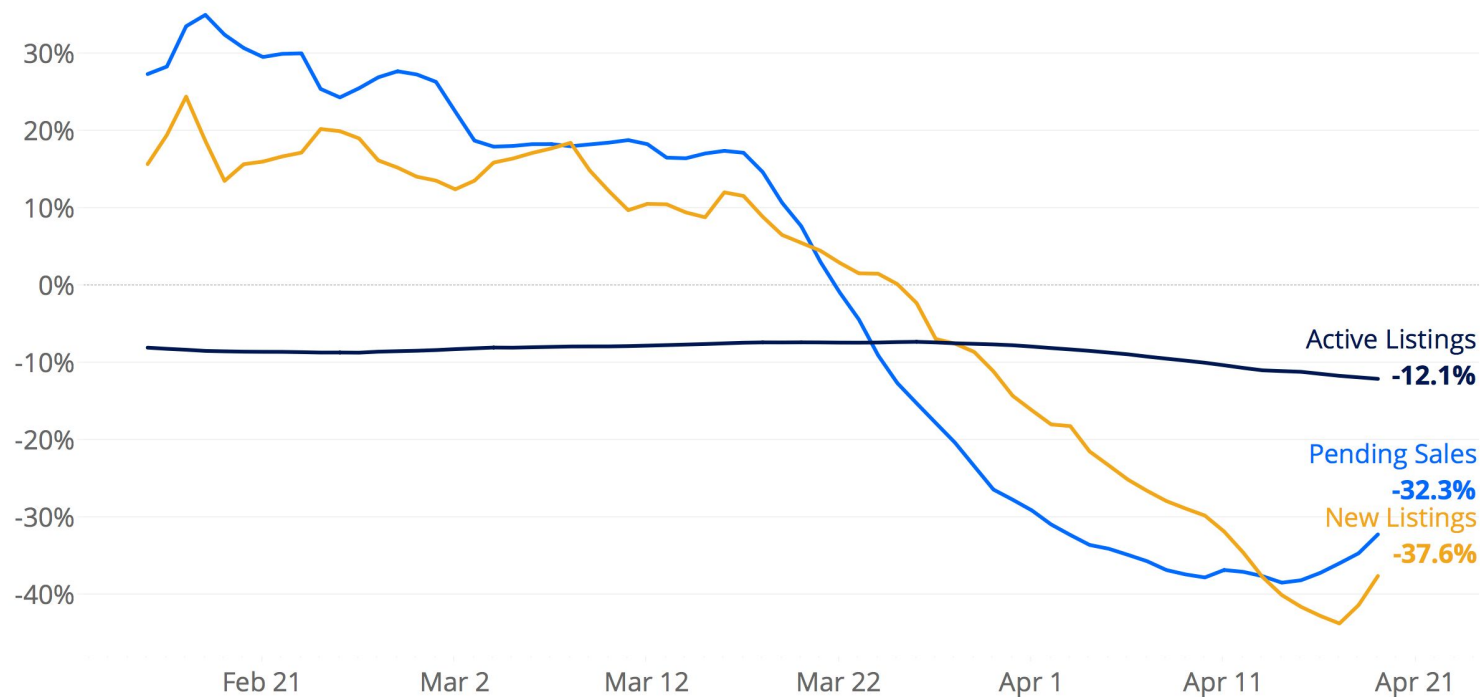
Jan starts numbers reached levels not seen since late 2006 before the Global Financial Crisis



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

Would-be sellers are missing - homeowners wait

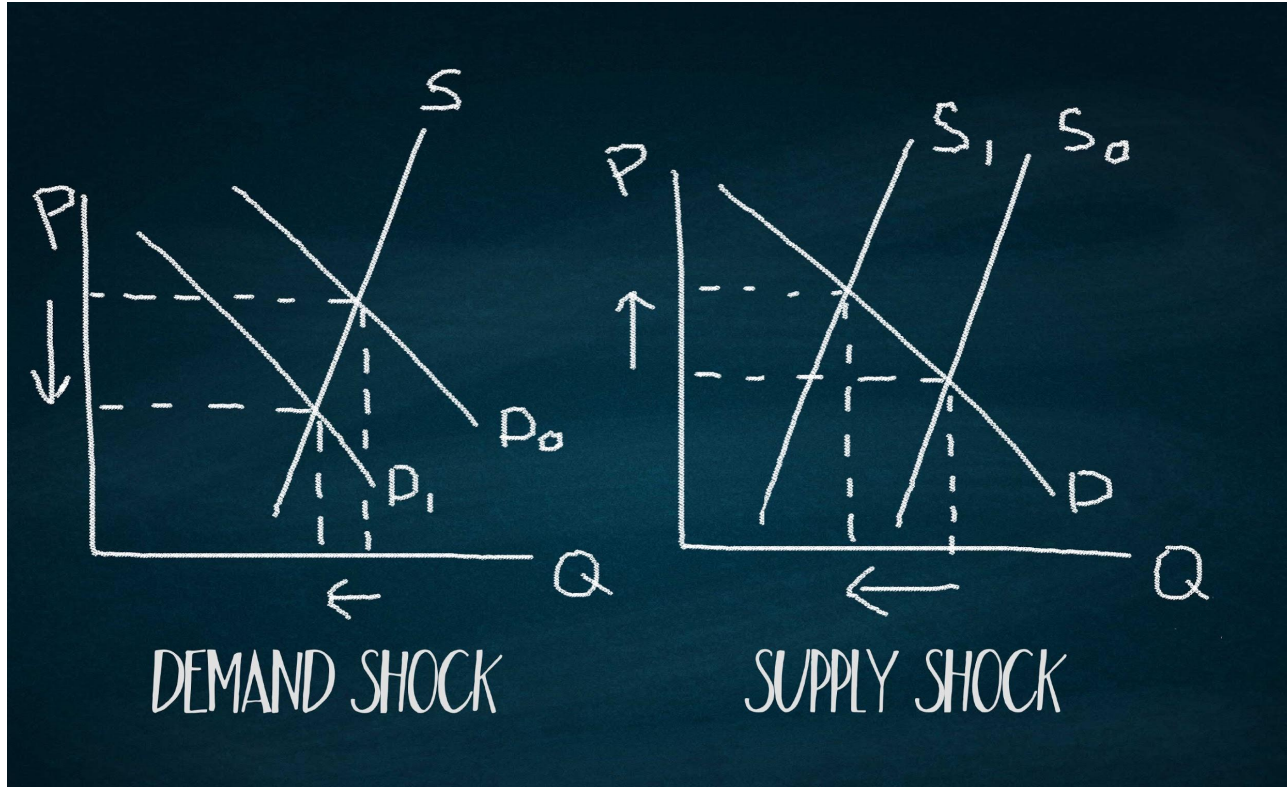
New listings hit a bottom of -44 percent year-over-year. Stock of active inventory falls too.



**Property values
more stable than
you think**

Supply and demand impact

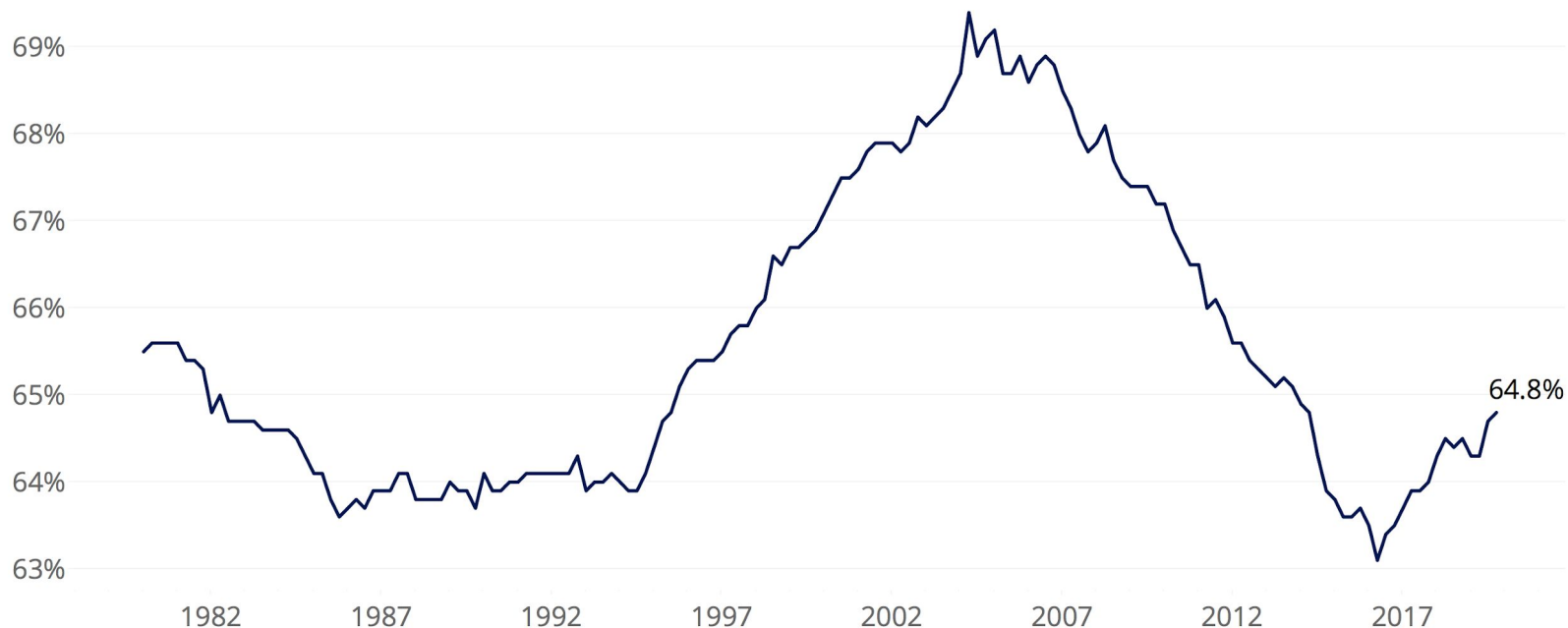
Opposing effect on prices, reinforcing impact on quantities (leases or sales)



Creditworthiness of recent buyers high

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

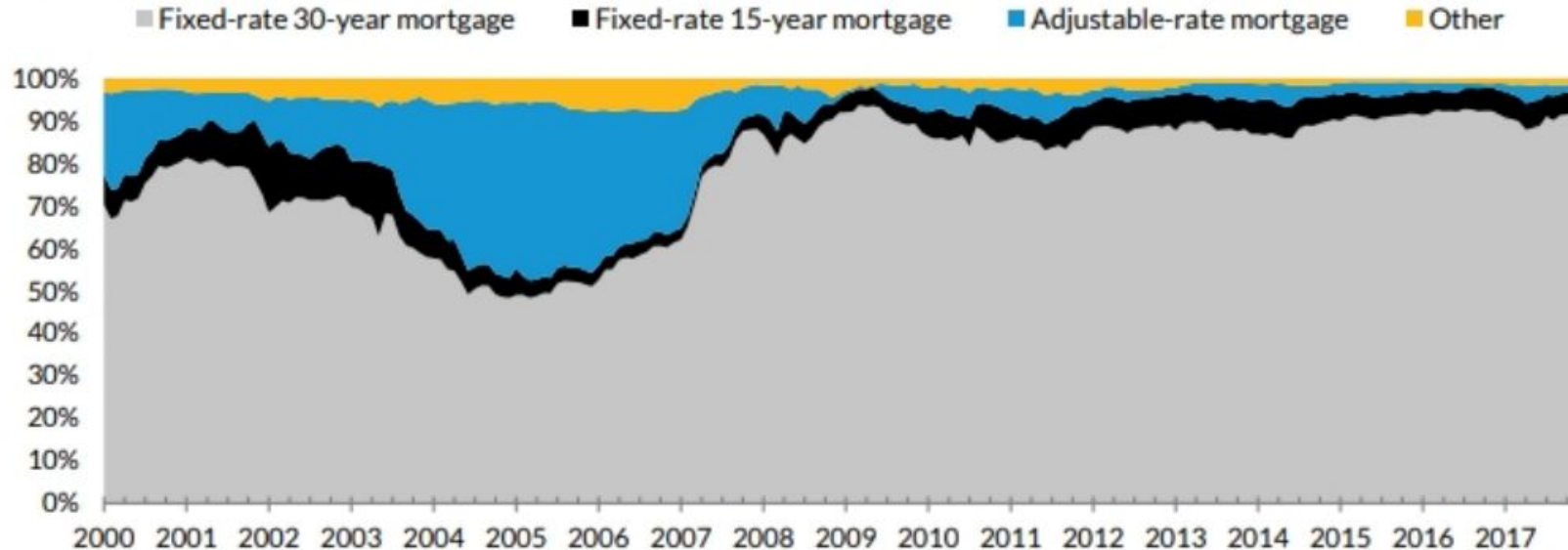
Homeownership rate



Reform after GFC reduced predatory lending

Strong home value appreciation drive by fundamentals, not excess credit.

Figure 7: Purchase Mortgage Originations by Type



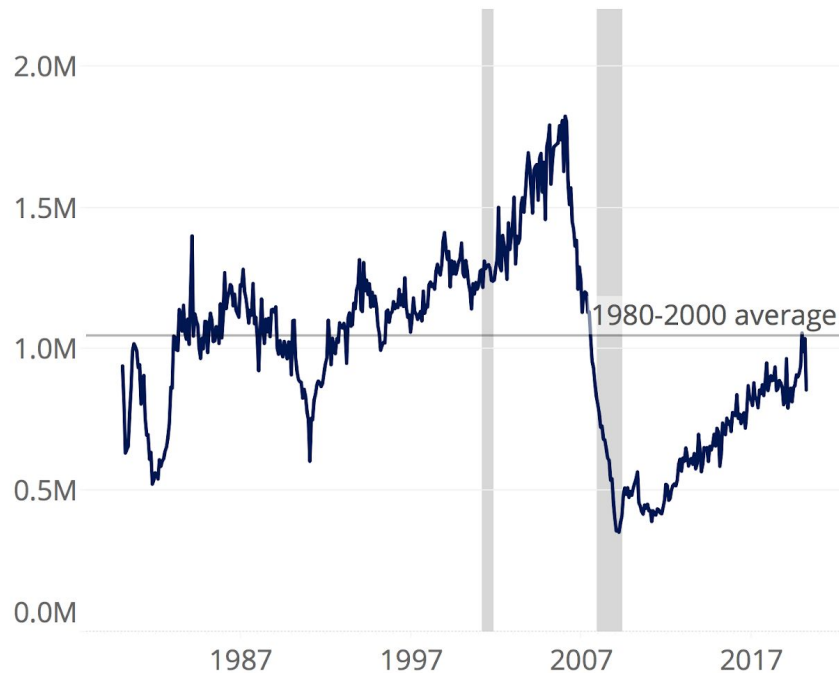
Source: CoreLogic, eMBS, HMDA, SIFMA and Urban Institute.

Last time we had too much inventory at the start

Leading up to this cycle, inventory was at record lows

Housing starts only JUST recovered to average

Single-family housing starts



Inventory driven down by strong demand + anemic building

For-sale, existing inventory

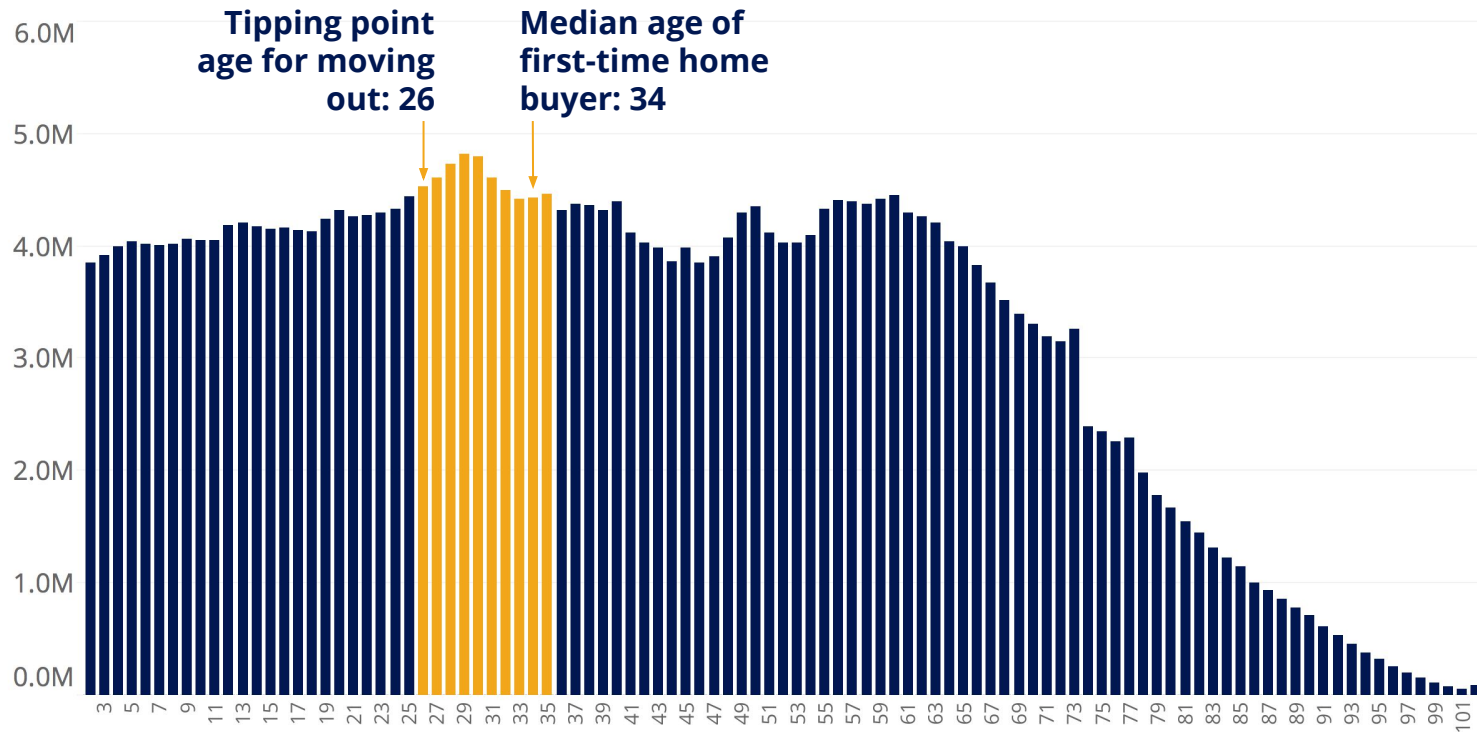


Source: NAR Existing Inventory

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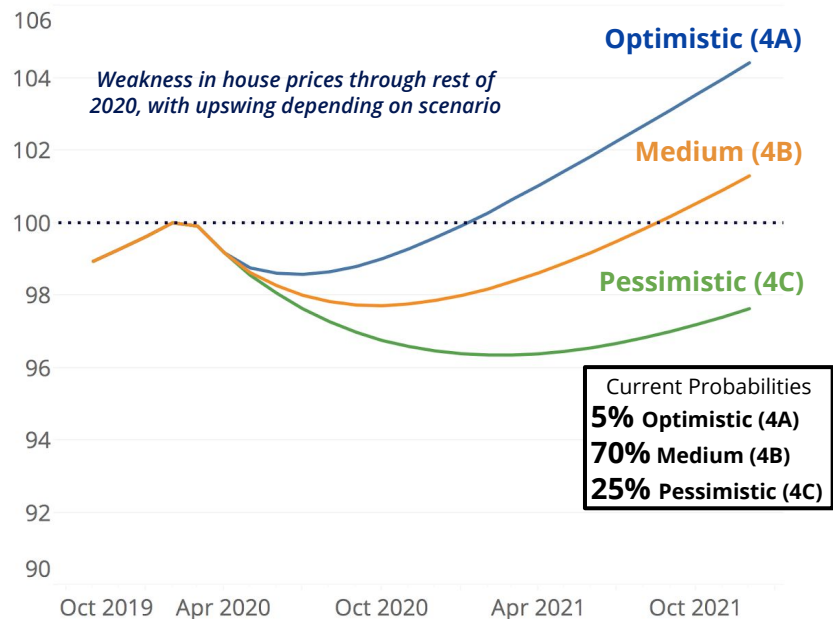
Housing demand powered by a demographic wave

Hitting the market during a record long expansion.



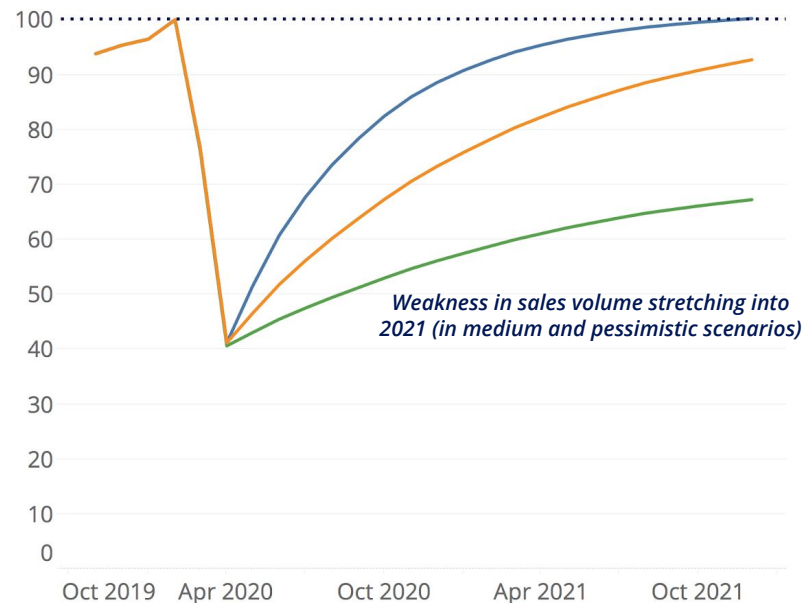
Scenarios & Where We Are Now

Home price changes by scenario (Index Feb 2020 = 100)



Estimated Monthly Home Prices, by Scenario (normalized relative to Feb 2020 = 100)
Source: Zillow Economic Data

Sales volume over time (Index Feb 2020 = 100)



Estimated Sales Volume, by Scenario (normalized relative to Feb 2020 = 100)
Source: Zillow Economic Data

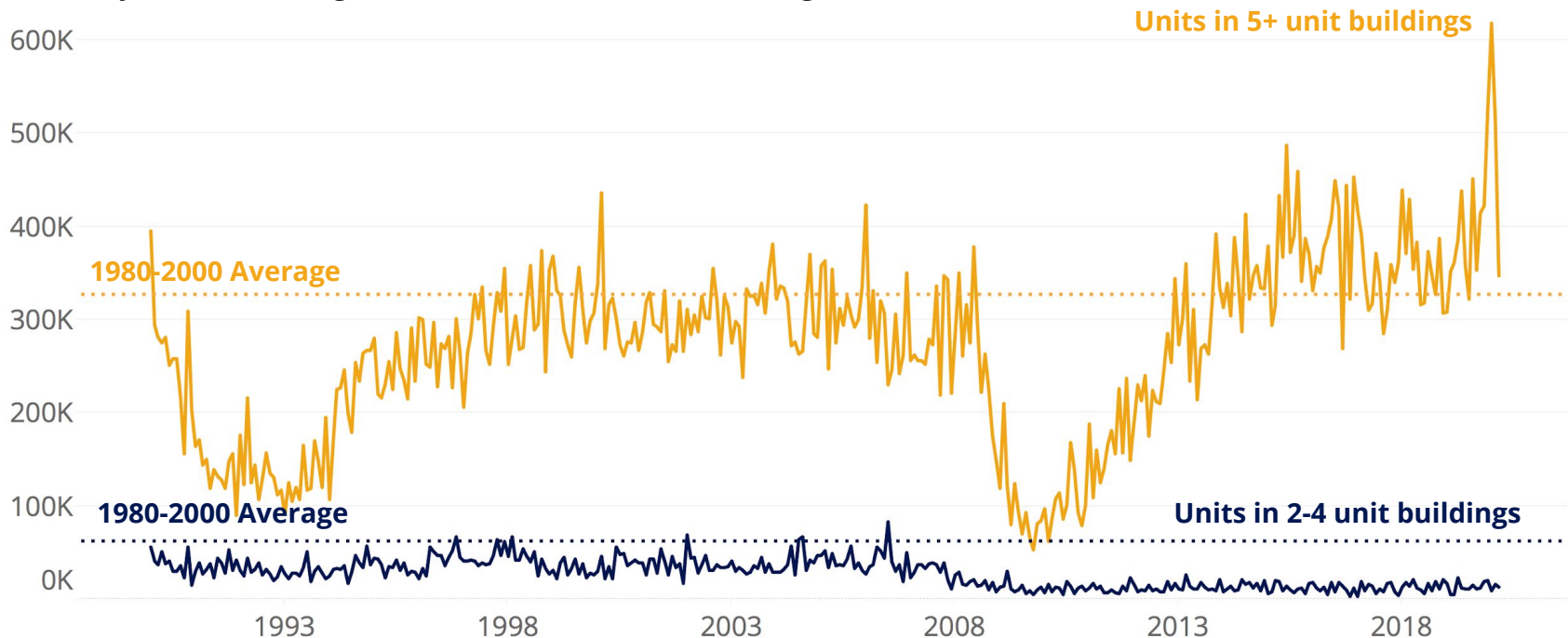
So property values are set up for greater resilience.

How about the rents?

Record construction of multi-family units

Unlike SF construction, recent multi-family construction far beyond historic levels

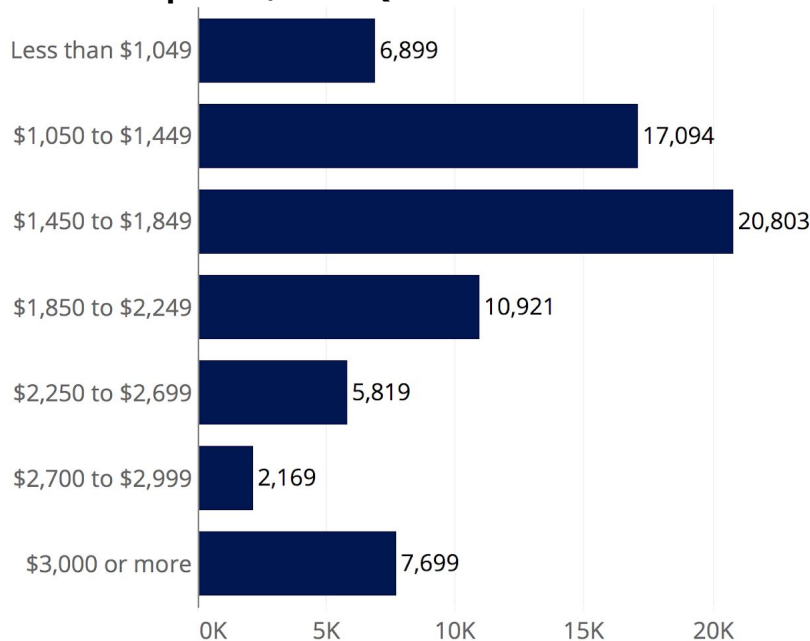
Privately owned housing starts: units in multi-unit buildings



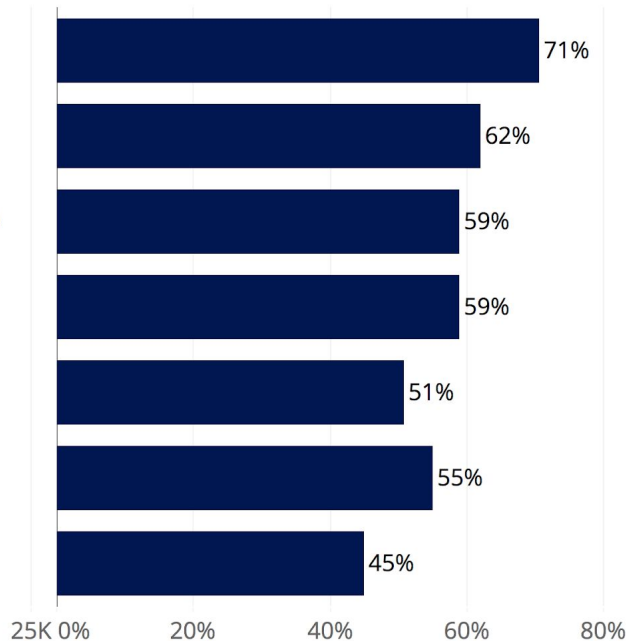
MF construction concentrated, so absorption varies

Affordable projects are almost impossible to finance, so deliveries are skewed to high end

Units completed, 2019 Q3



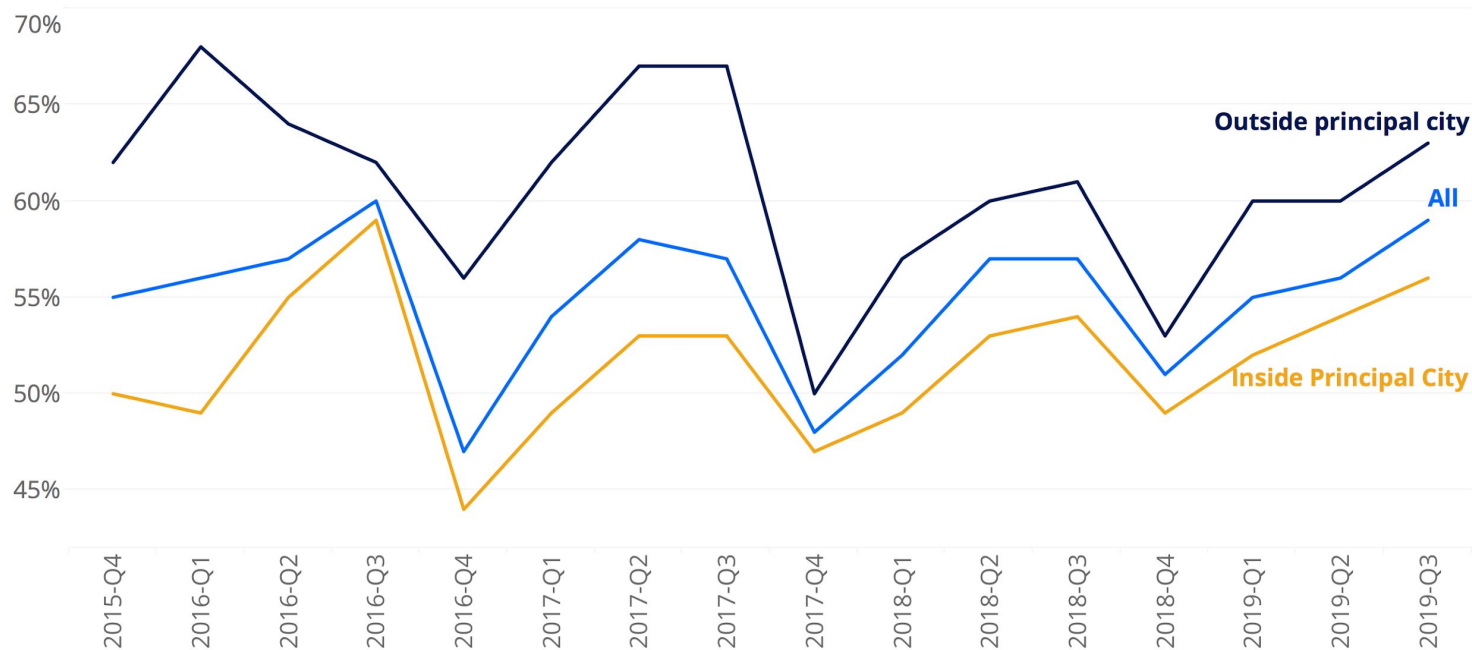
Units absorbed within 3 months



MF construction concentrated, so absorption varies

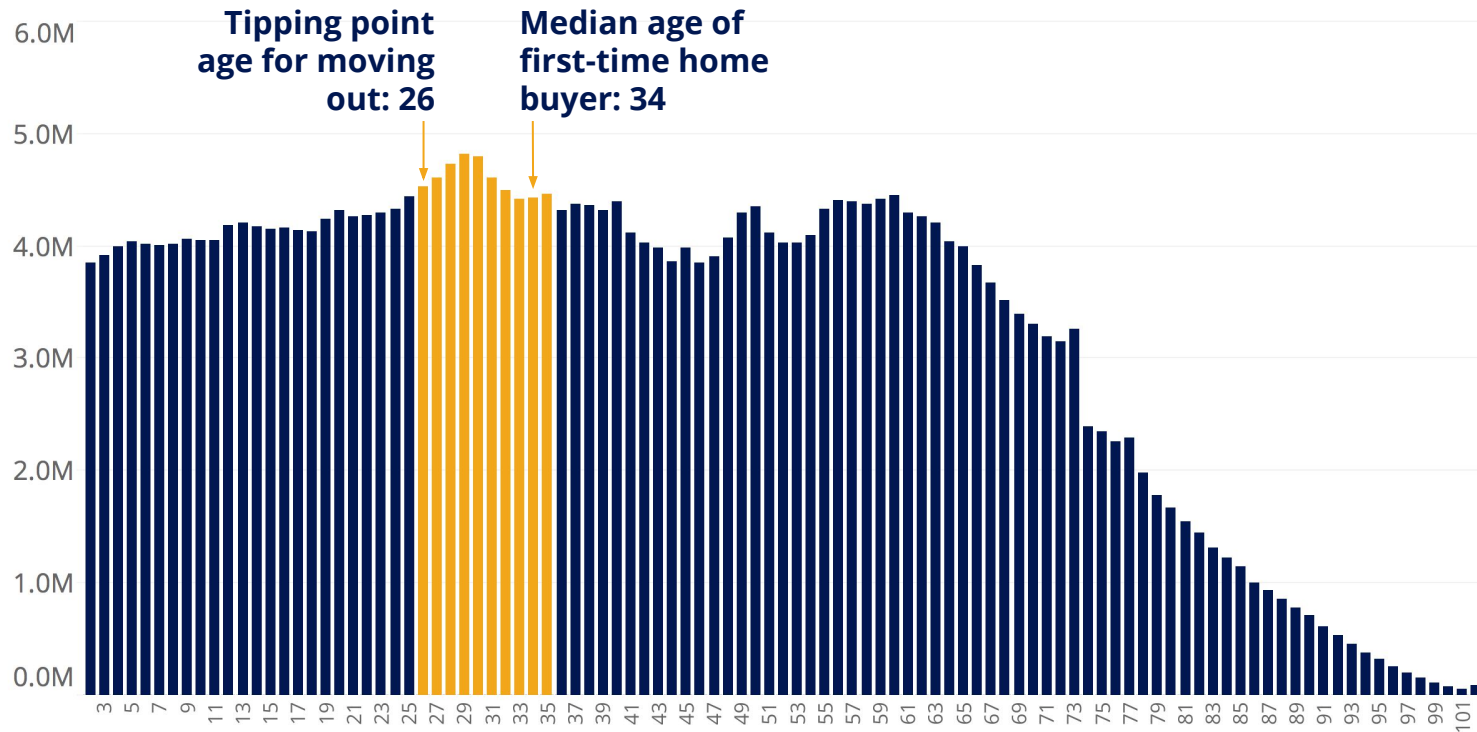
Apartments outside principal city absorbed fastest due to geographic concentration of new units

3-month absorption rate by location within CBSA



Housing demand powered by a demographic wave

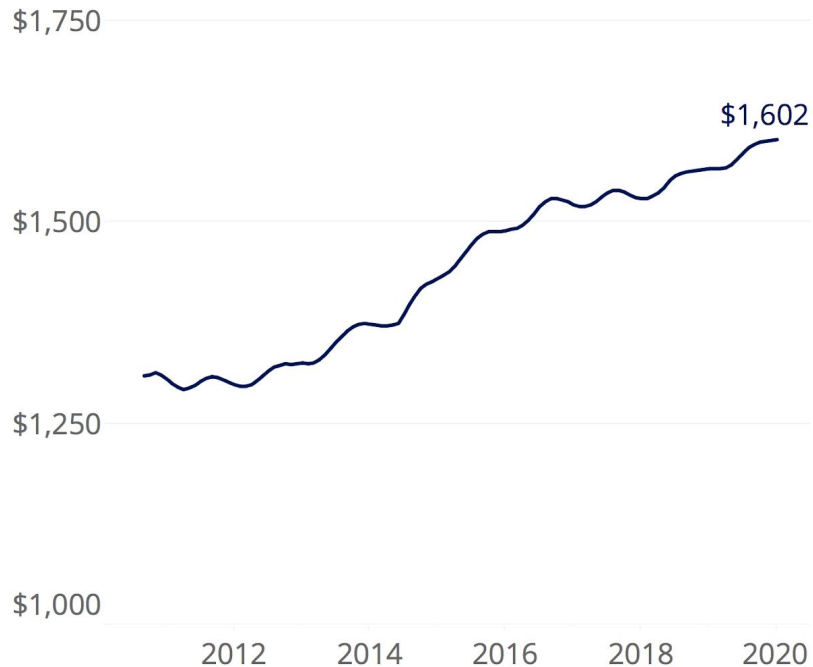
Hitting the market during a record long expansion.



Rents were back on the fast track as well

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

Zillow Rent Index



YoY



Renters are vulnerable

So rental market will be more impacted.

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?

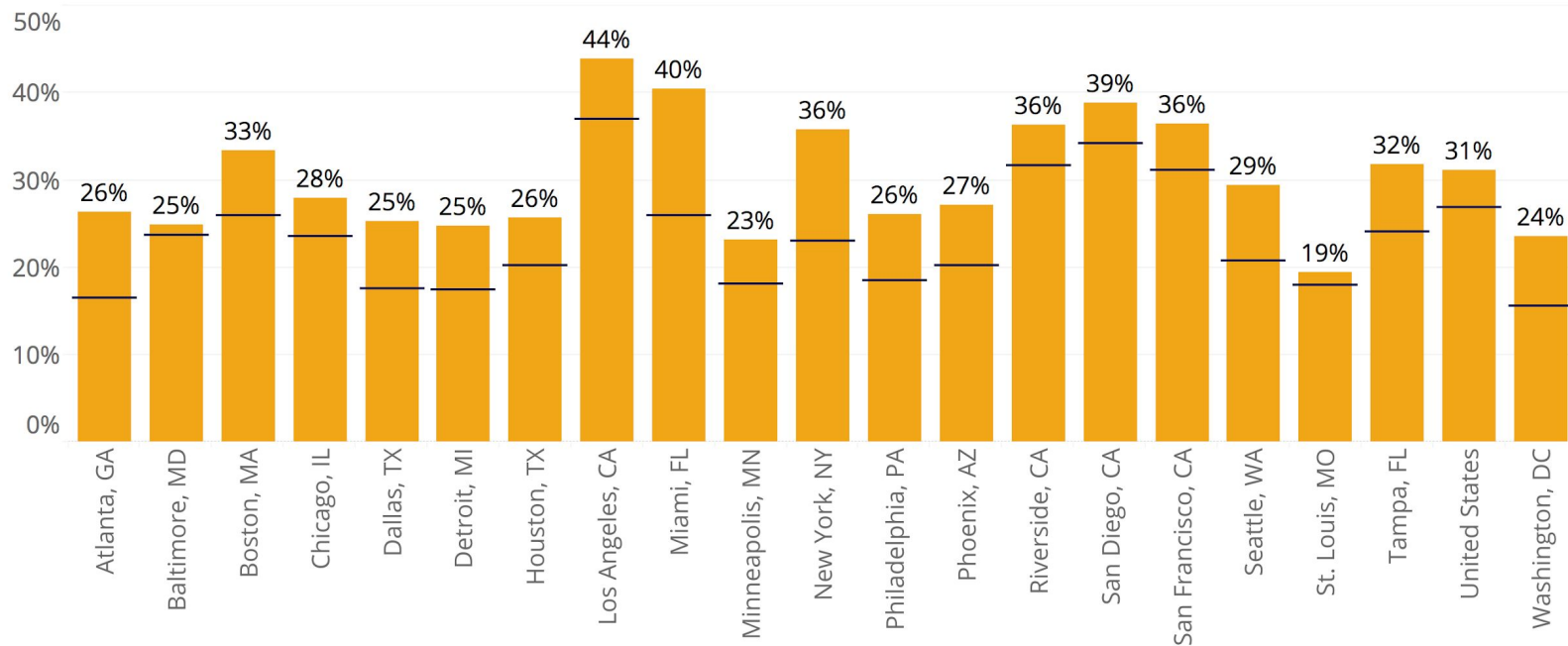
Will government aid be sufficient to prevent distressed units from hitting the market?

- Rental market: vacancies due to eviction and affordability strategies (doubling, delay household formation, moving down)
- For-sale market: foreclosures and short sales

Affordability of housing worse for renters

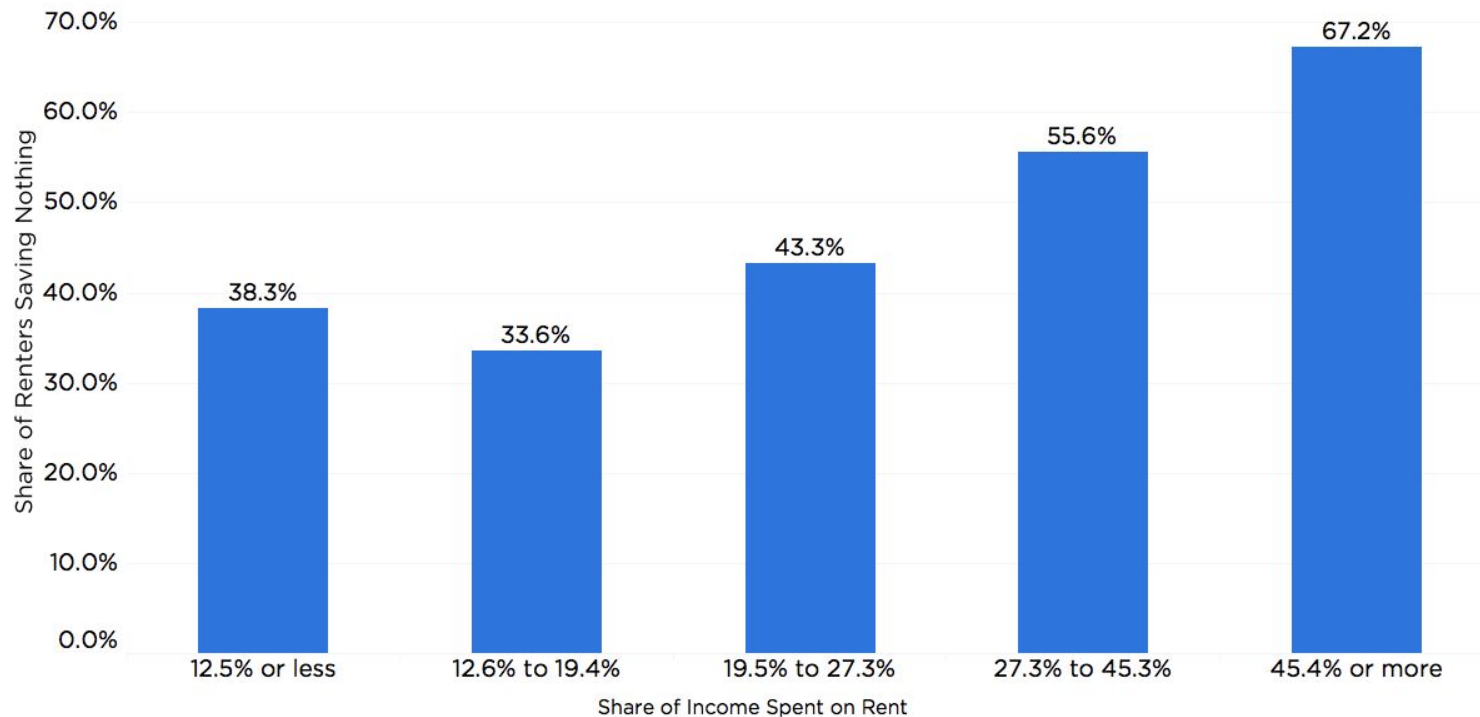
Due to pressure on supply + slow income growth + no ability to harness low rates

Share of income spent on rent



Lack of savings keenly felt by renters

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



²¹Source: Zillow analysis of NY Fed Survey of Consumer Finances, 2016

The government support is record breaking

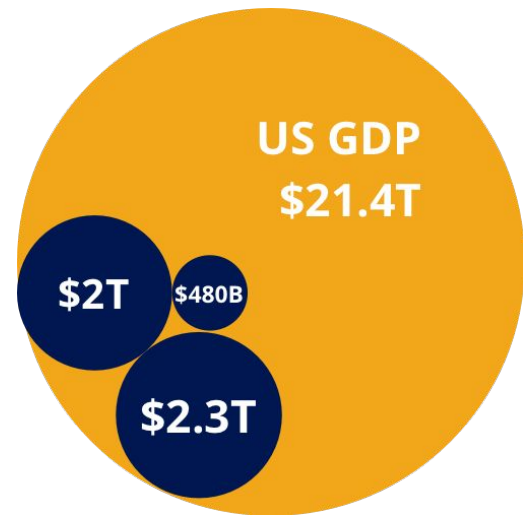
\$2.48 trillion in aid, up to \$2.3 trillion in Fed loans

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

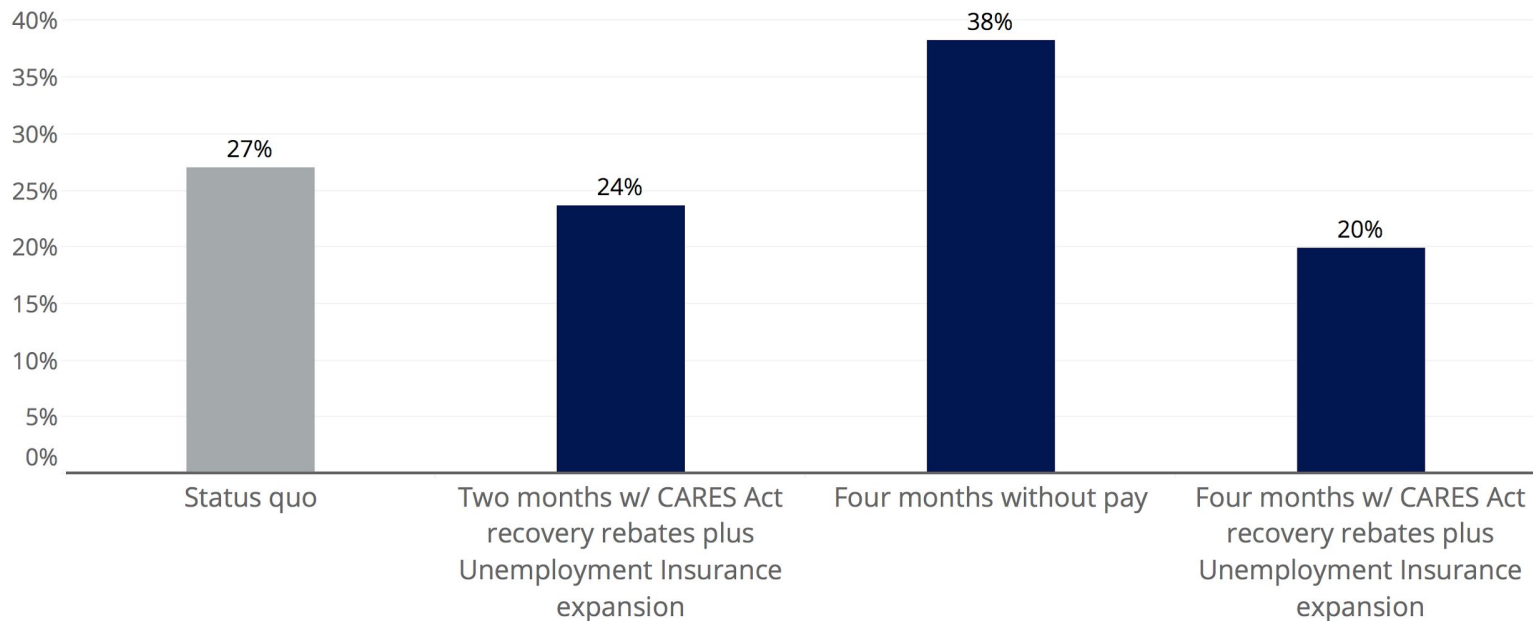
April 23: **\$480B** for small business support, hospitals, and virus testing capabilities



CARES act and renter affordability

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

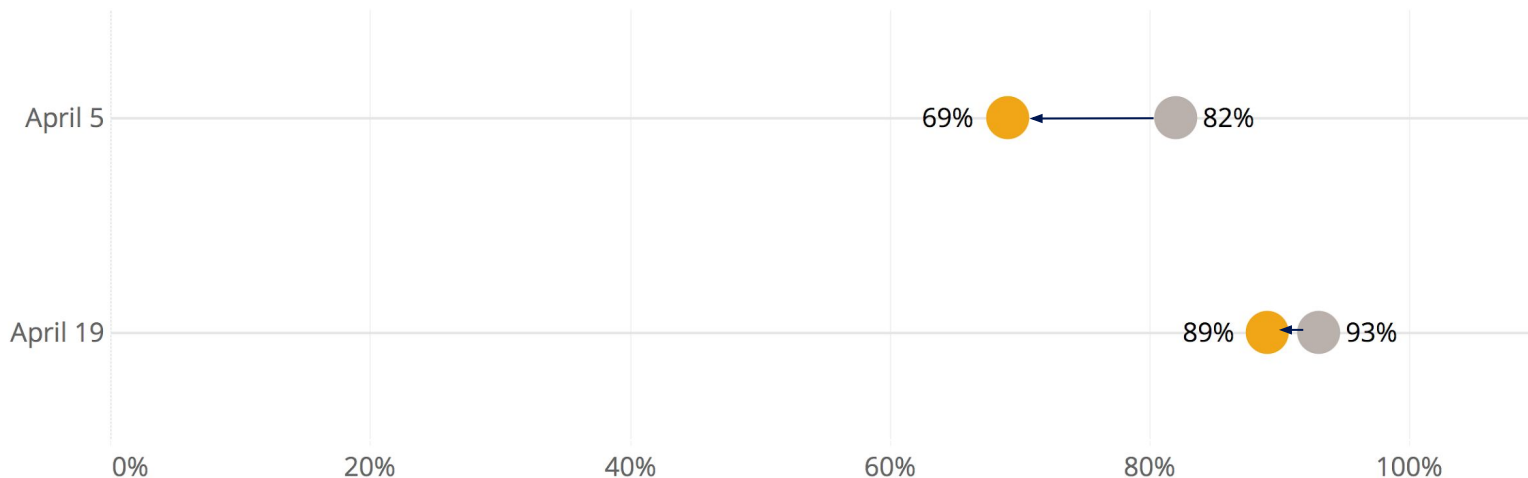
Rent burden of households where the majority of income comes from workers in food, arts, retail



Renters struggle to pay rent this April

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

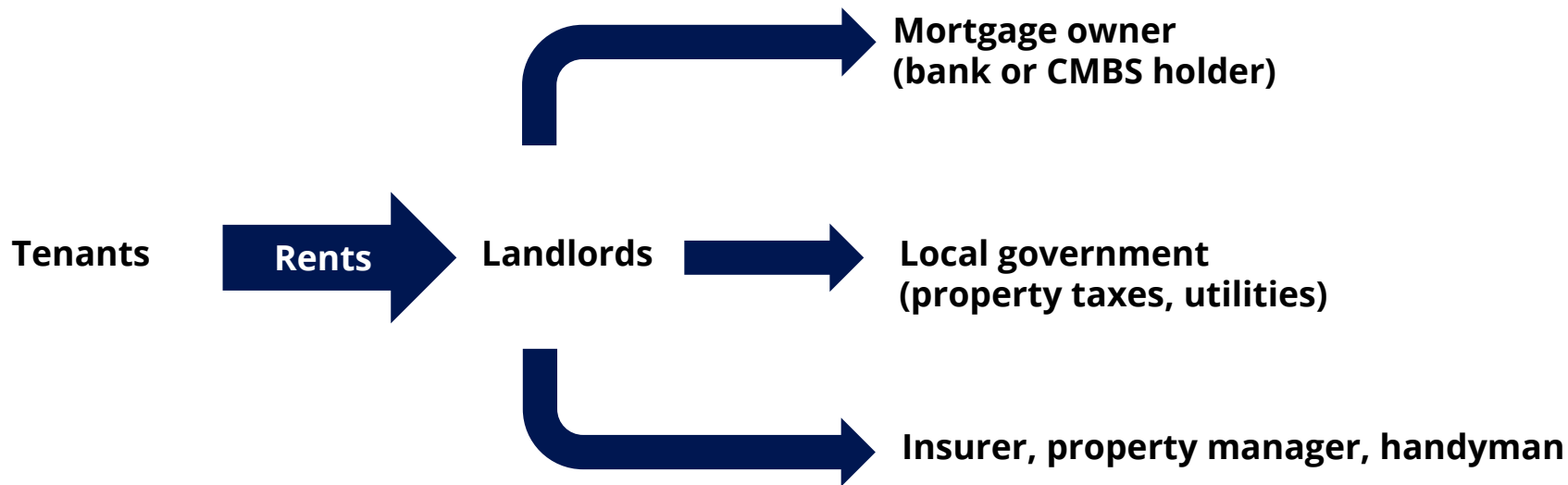
Share of apartment households who made a full or partial rent payment in April 2020 vs 2019:



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



Potential impacts to the rental market expected if recovery slow or aid insufficient

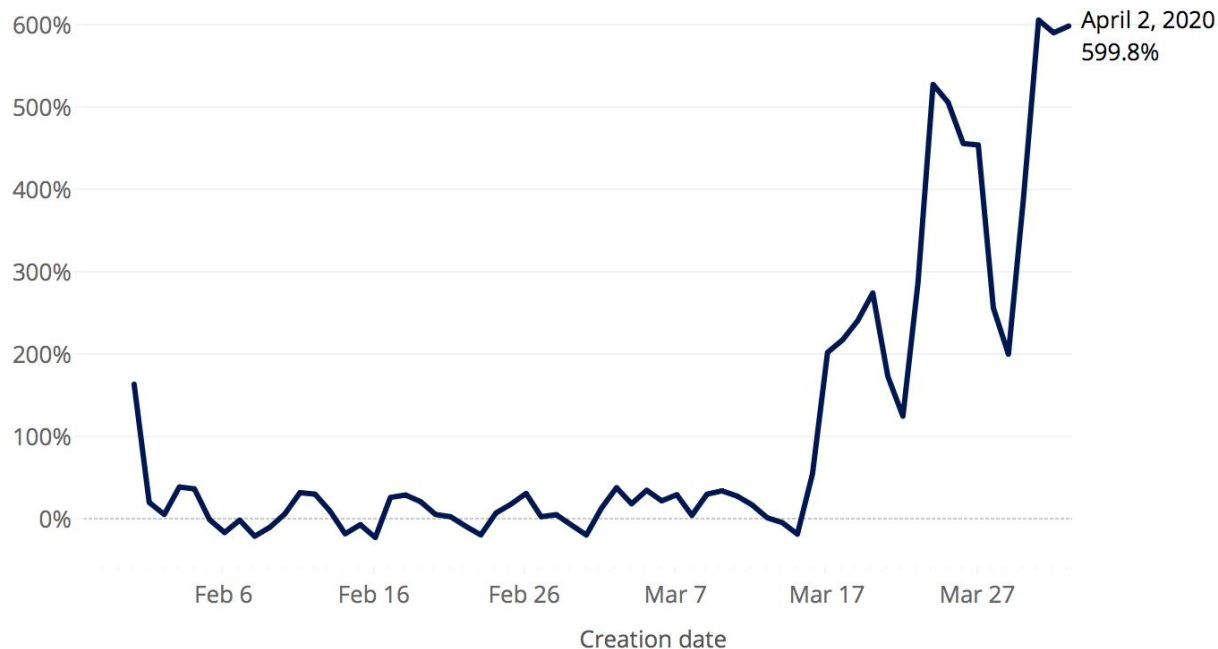
- **Rapid change in renter affordability and/or ability to pay means leads to renters pursuing affordability strategies after the crisis and over the course of the recovery**
 - Doubling, delay in moving out (household formation to fall)
 - Move to smaller and cheaper
 - Move farther out
- **Vacancies rise (especially on the high end, recall absorption data above)**
- **Rent growth softens, mostly on the high end.**
 - Landlords negotiate rent with existing tenants to lower rent and avoid vacancy
 - Offer lower rent and concessions to searching renters
 - In harder cases, back rent forgiveness in exchange for lease release is likely.
- **As demand overwhelms the scarce supply of affordable units, rent growth is bolstered at lower price points.**
- **Long run impacts to rental market:**
 - Investment into apartment buildings in principal cities slows, further depleting the supply of more affordable units in the future

Making it work

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 for rental units exceeds expectations

Zillow.com rentals visits, 7-day moving average versus baseline

