

Housing under COVID-19: U.S. & Chicago

How is **COVID-19** impacting the economy and housing market?
July 2020

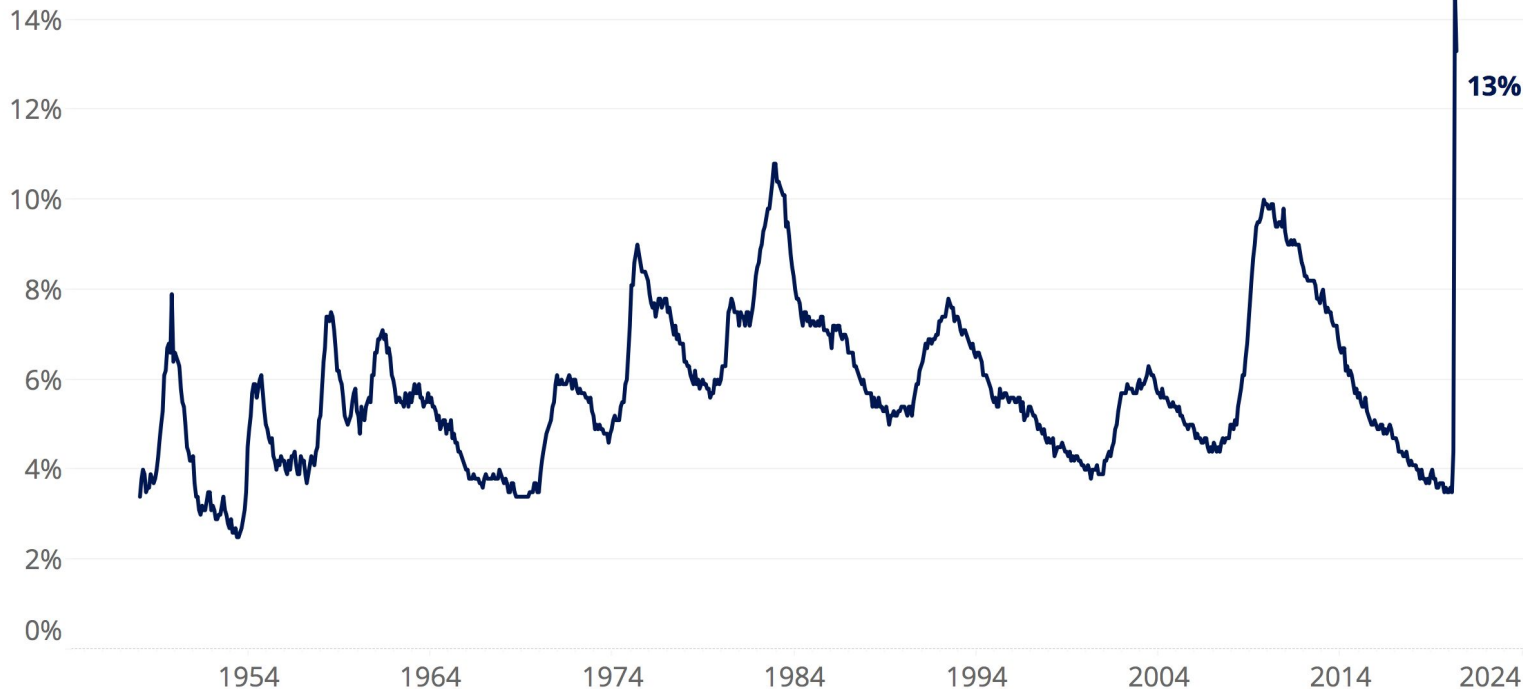
Jeff Tucker
Economist, Zillow



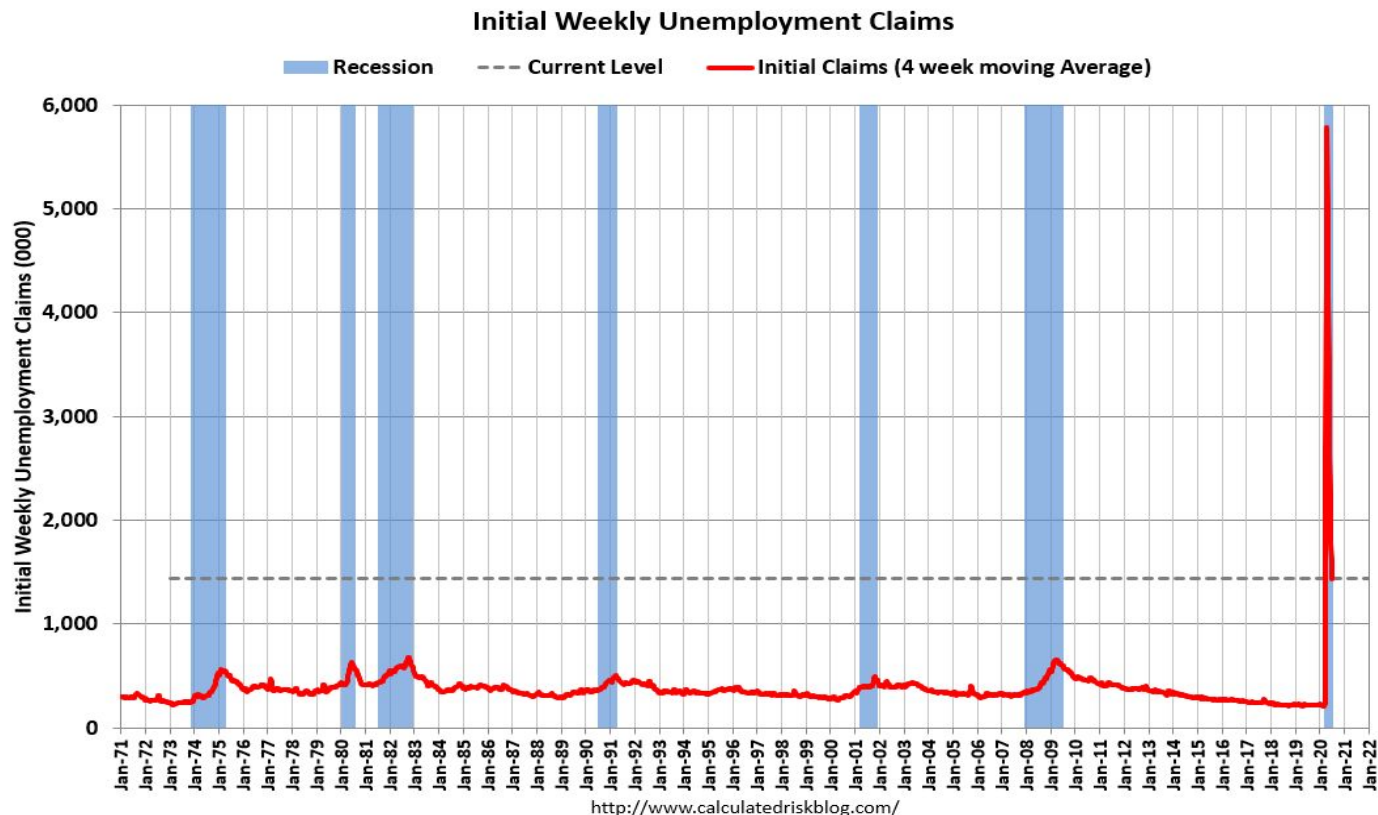
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Coronavirus pandemic pushes U.S. into deepest recession since Great Depression

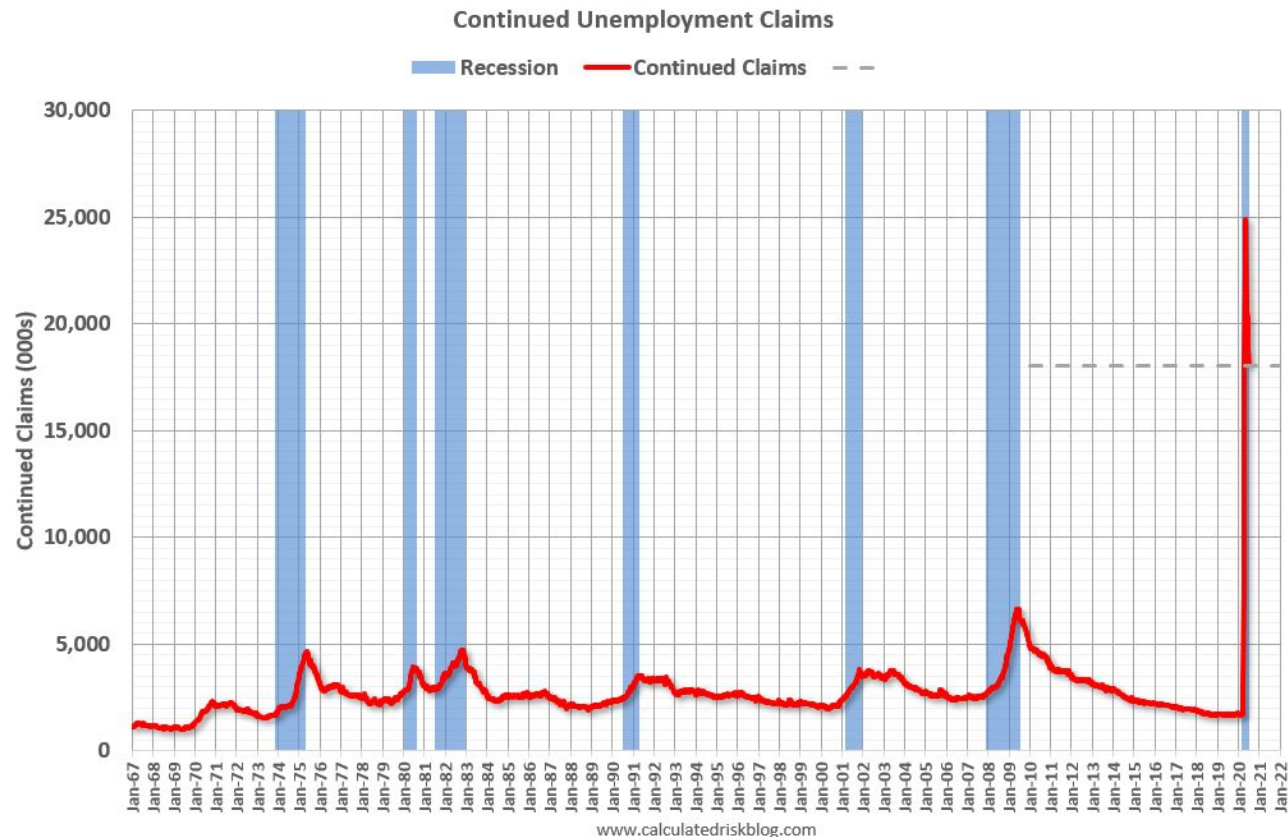
Unemployment Rate



The negative economic shock was so fast it broke the axis on most graphs



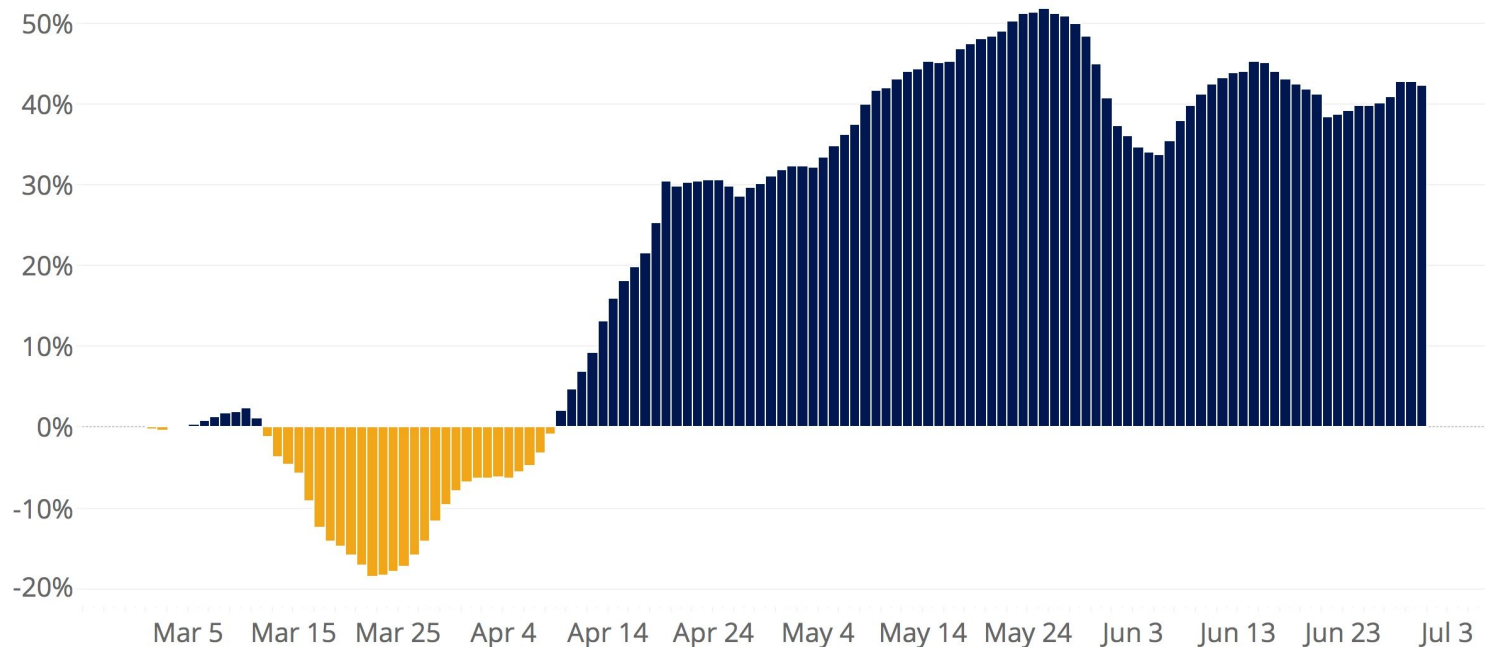
Initial wave of layoffs has receded but pain remains



Search on Zillow shows housing is top of mind

Page views of for-sale homes, 7-day moving average versus 2019, US

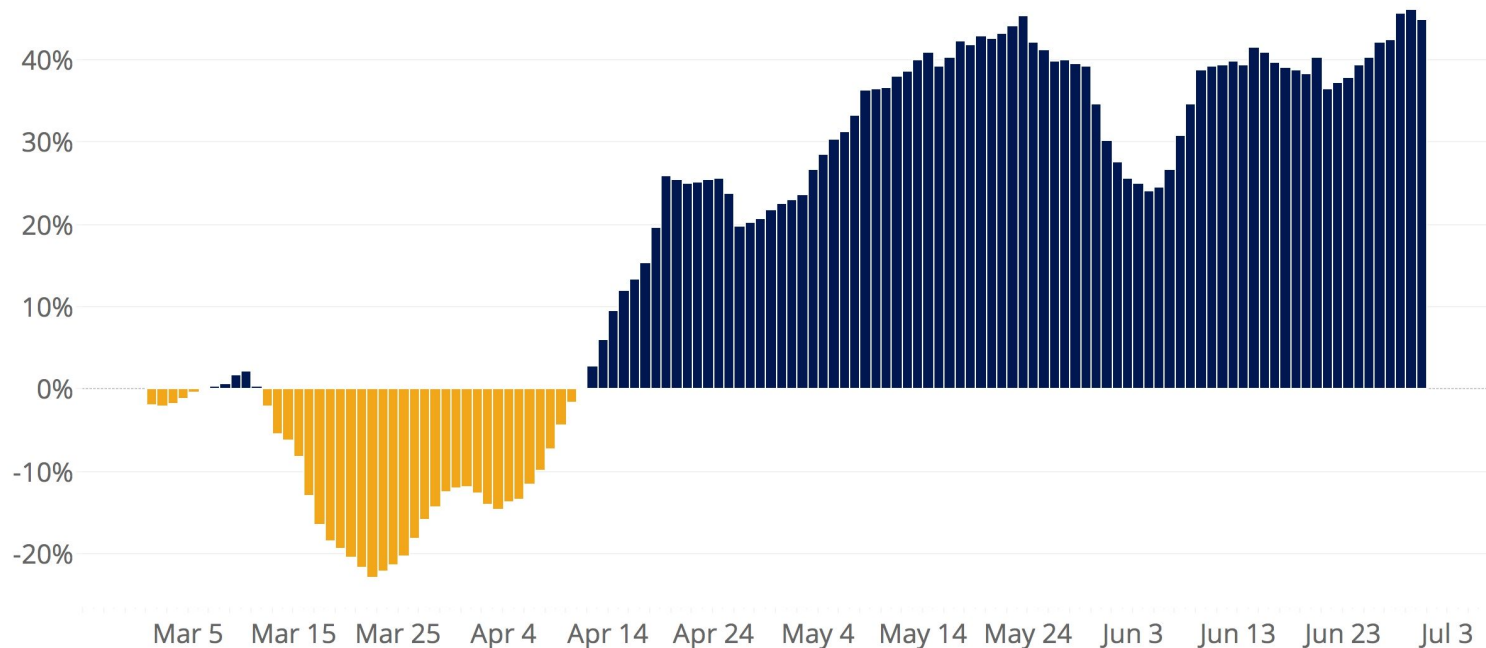
7-Day Moving Average Change in Page Views of For-Sale Homes on Zillow: Spring 2020 vs 2019



Chicago traffic to Zillow listings also up significantly

Page views of for-sale homes, 7-day moving average versus 2019, Chicago

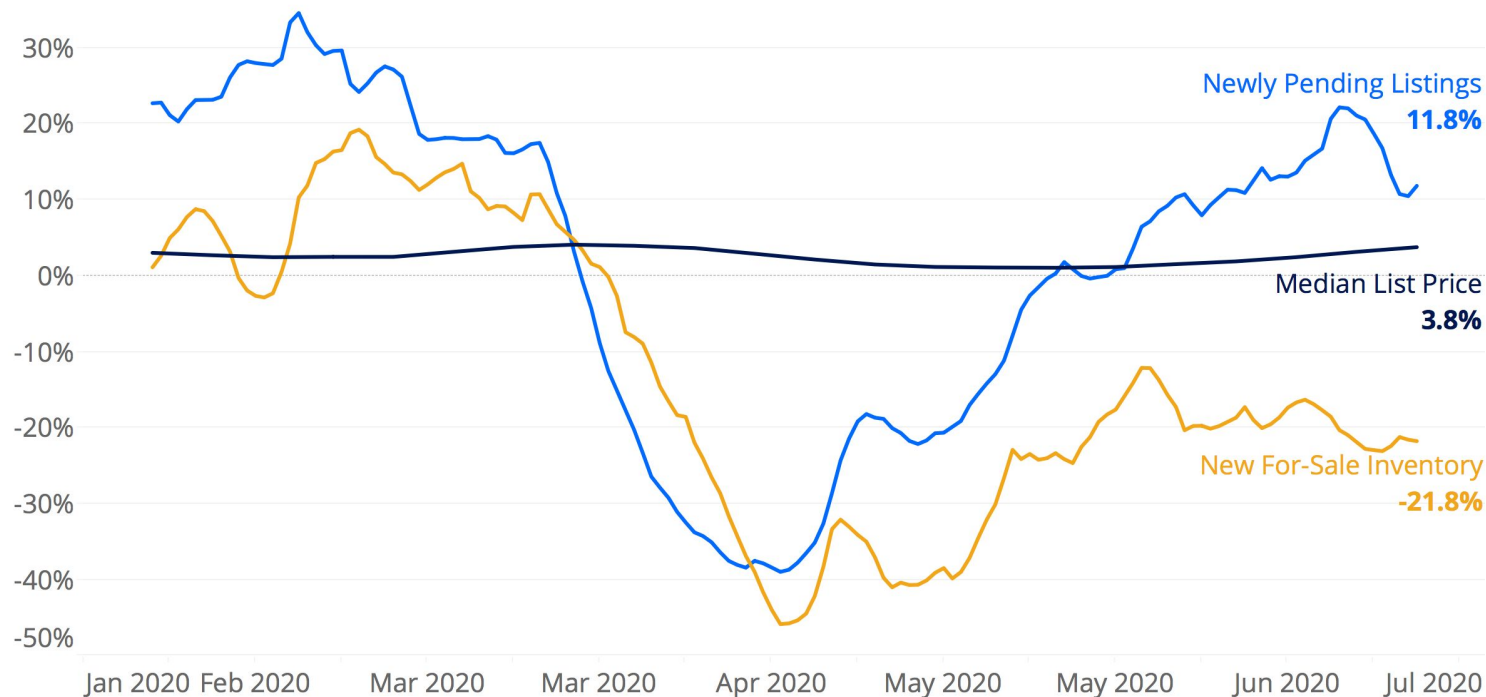
7-Day Moving Average Change in Page Views of For-Sale Homes on Zillow: Spring 2020 vs 2019



Unprecedented crisis meets for-sale market resilience

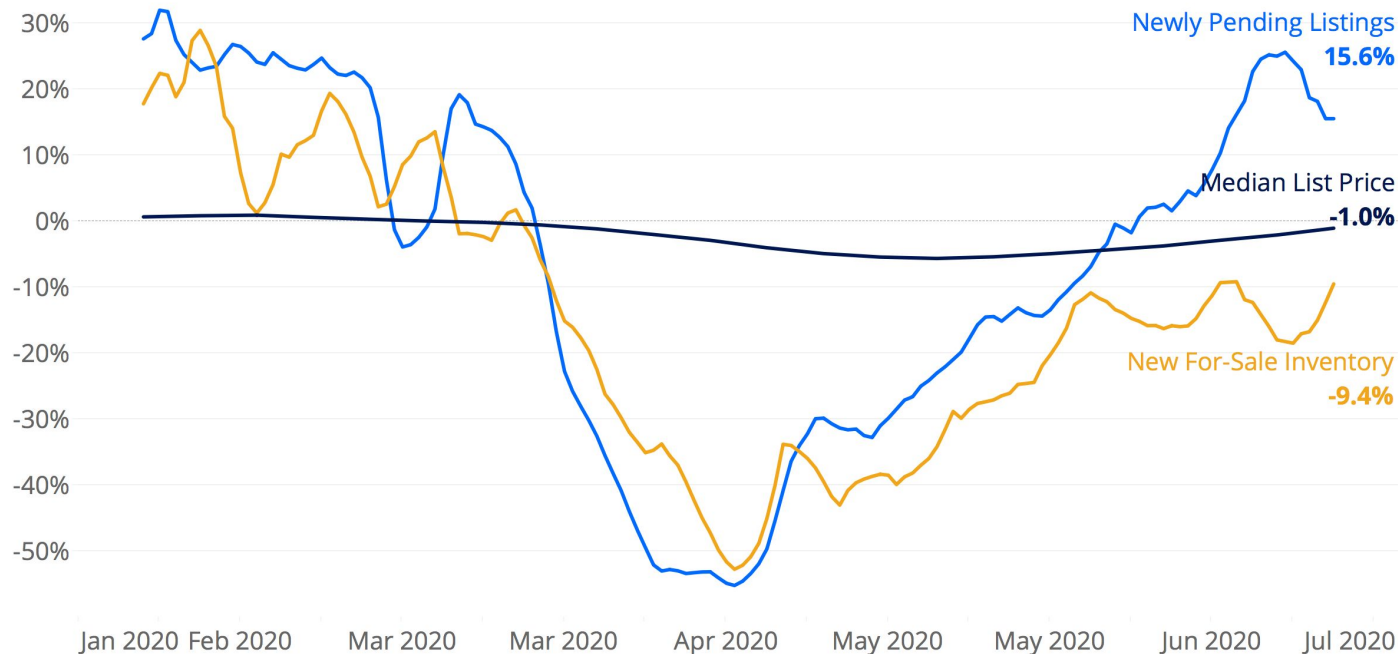
The pullback was huge, activity returns as we speak

Buyers return faster than sellers, pushing inventory down to historic lows.



Less of a sellers' market in Chicago

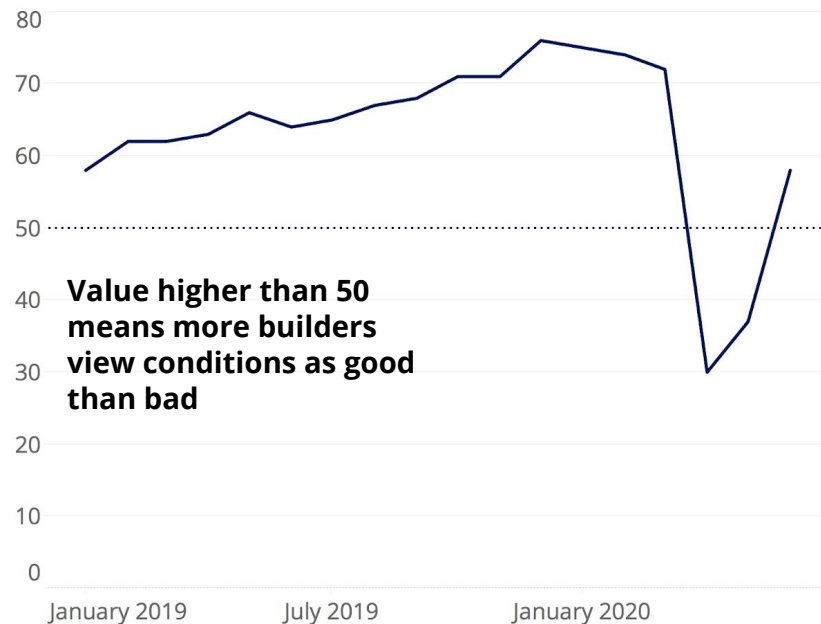
Median list price still lagging YoY but likely to cross 0 soon



Supply side also walloped

Builder confidence recovers some, but still down significantly from early season highs

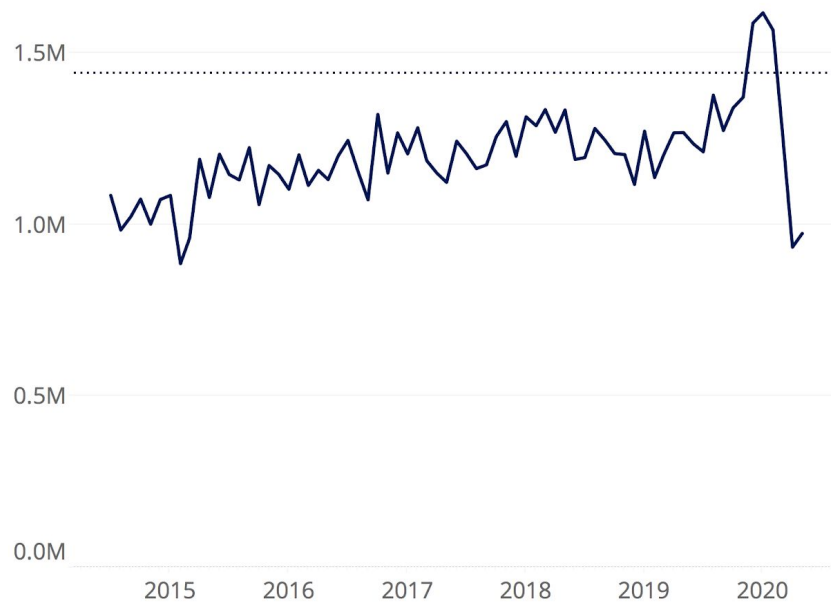
Homebuilder sentiment more than halved in April



Source: National Association of Homebuilders Market Index

March housing starts fell 25% from Jan high

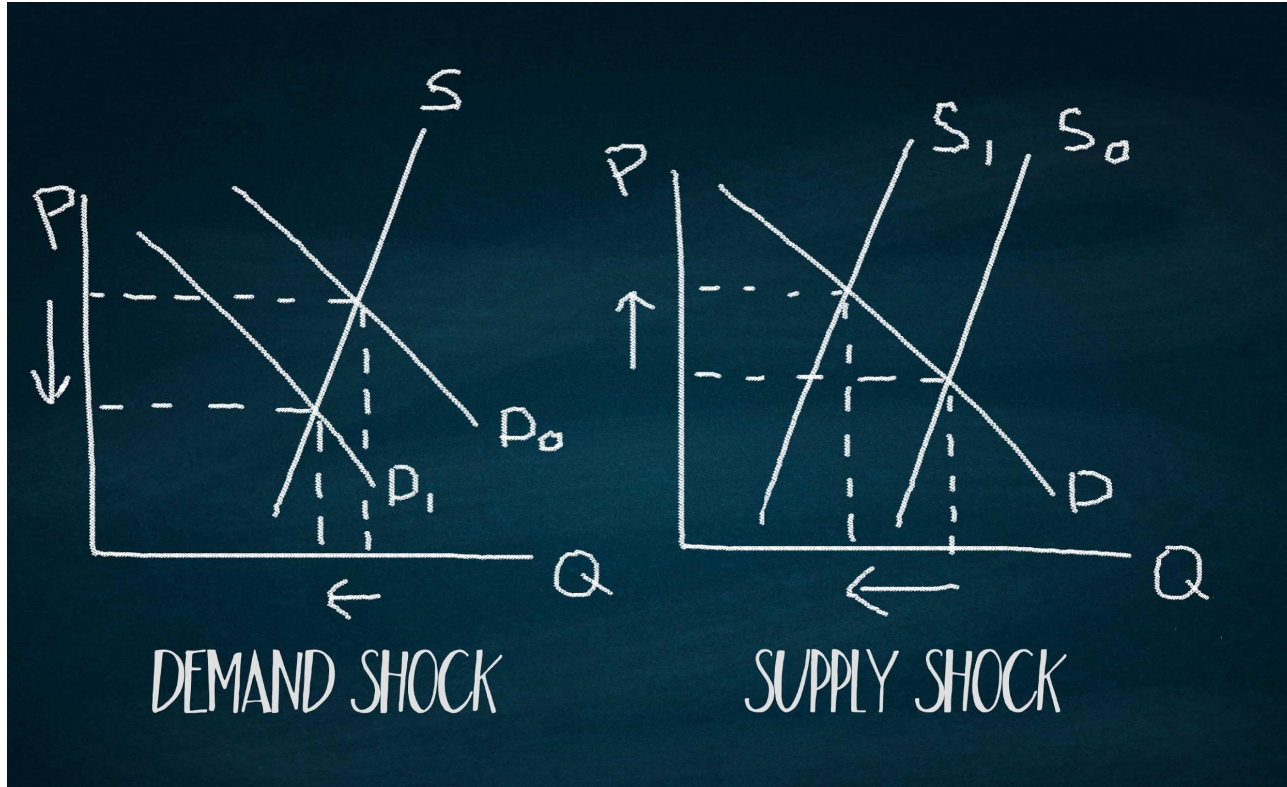
Jan starts numbers reached levels not seen since late 2006 before the Global Financial Crisis



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

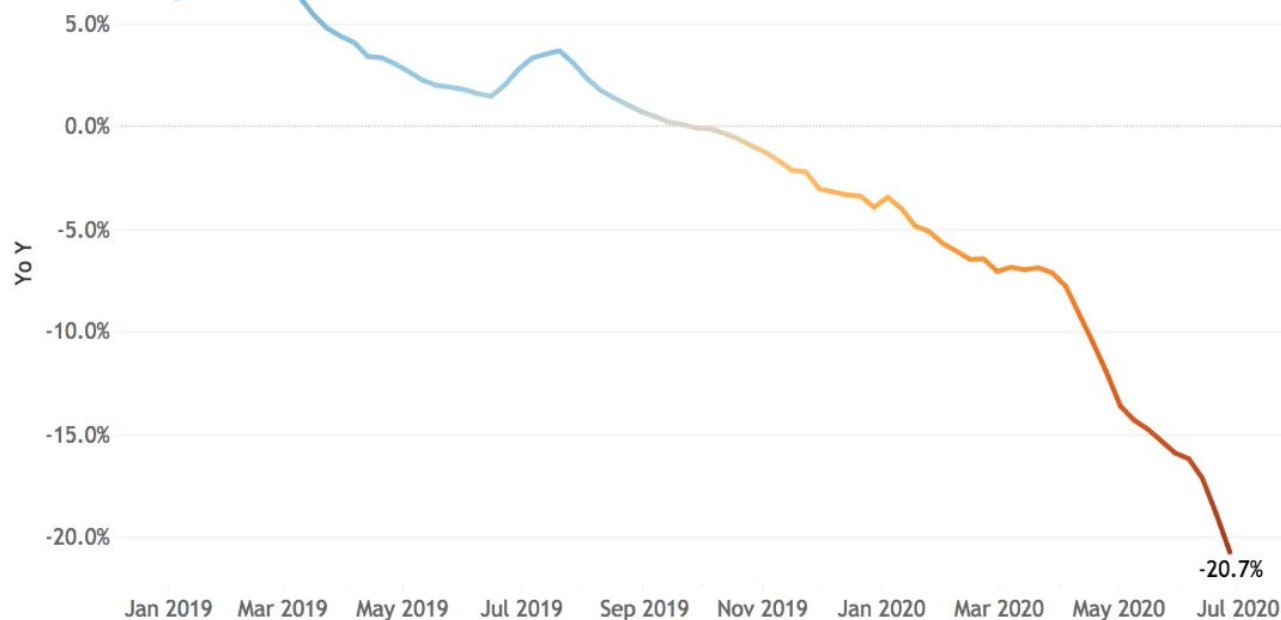
Simultaneous supply and demand shock

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



Pullback by sellers is starving the market

For-Sale Inventory



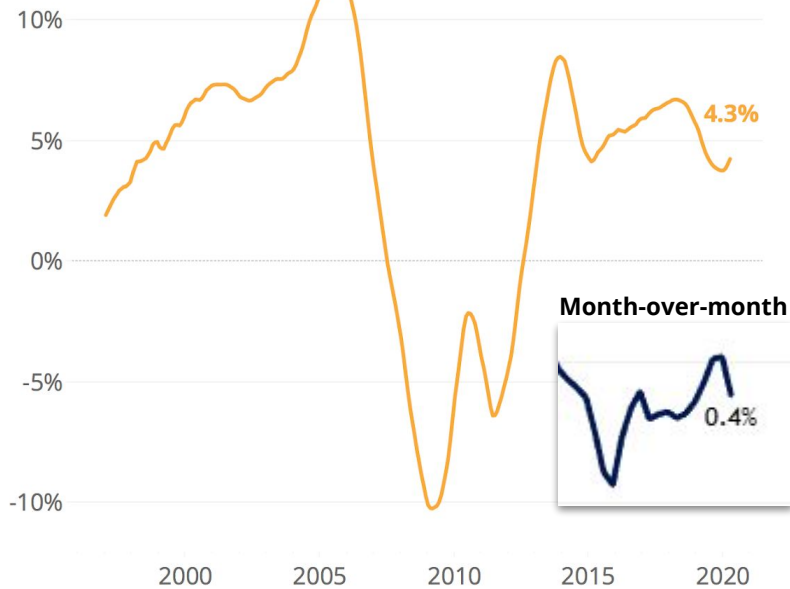
Record-low inventory stabilizes home prices

Buyers expecting to find a discount aren't finding it. The mortgage rate is the deal.

Median list price, Year-Over-Year

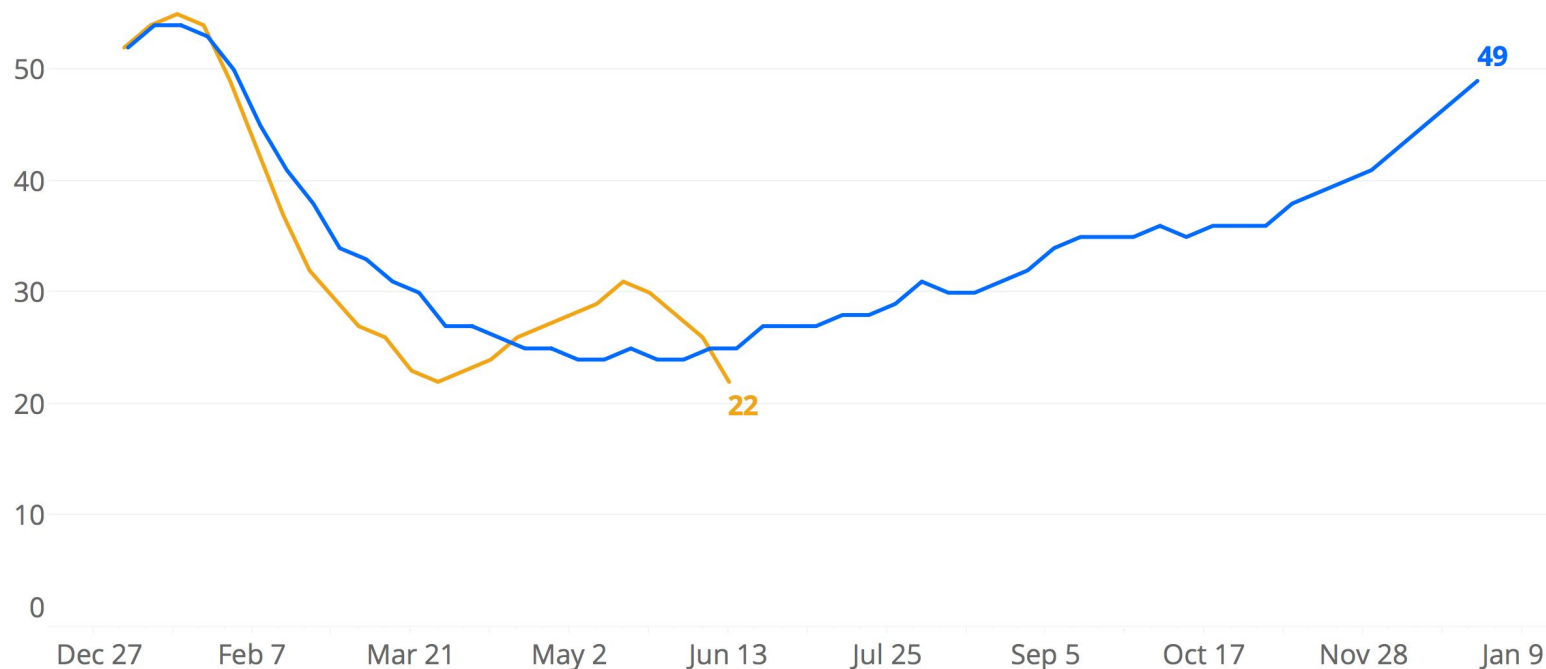


Typical home value, Year-Over-Year



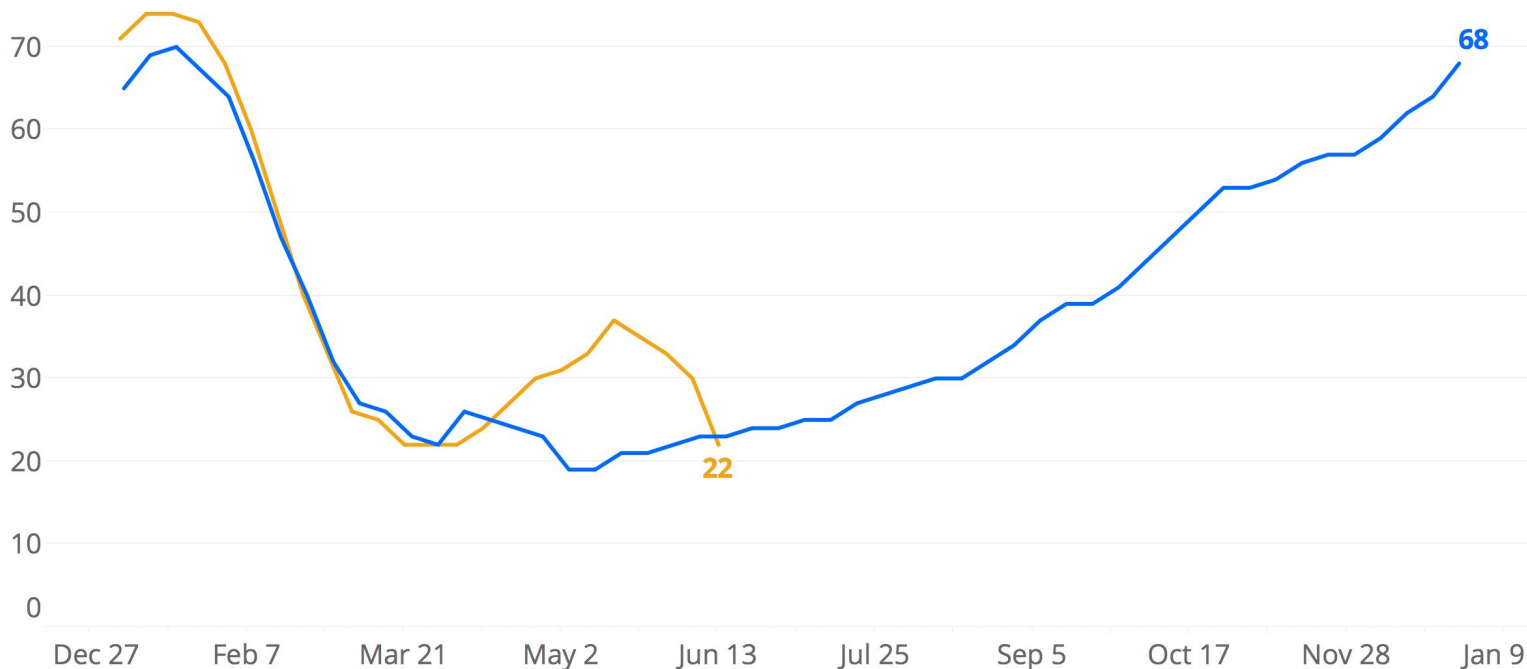
Homes selling more quickly than last June

Days to Pending in 2019 and 2020, United States



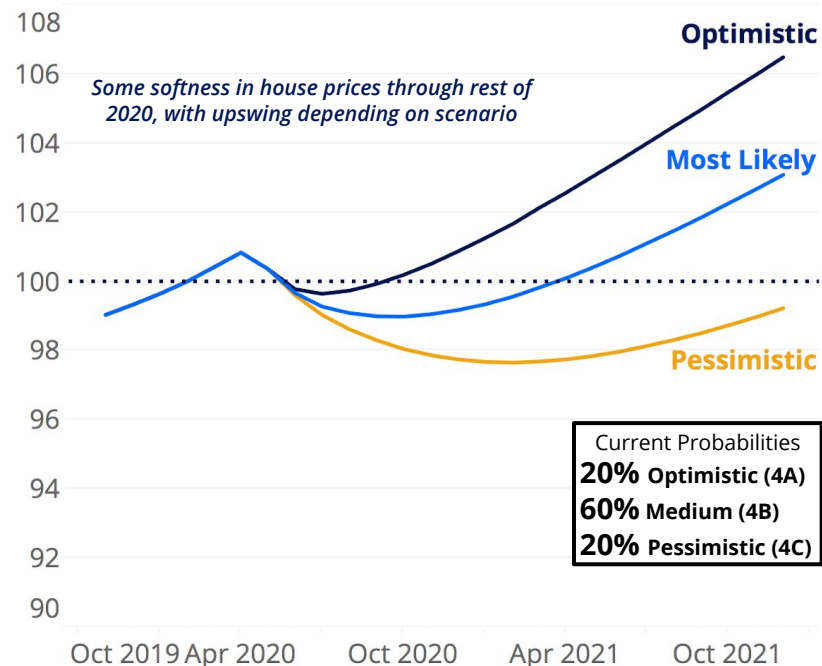
Homes selling more quickly than last June

Days to Pending in 2019 and 2020, Chicago, IL



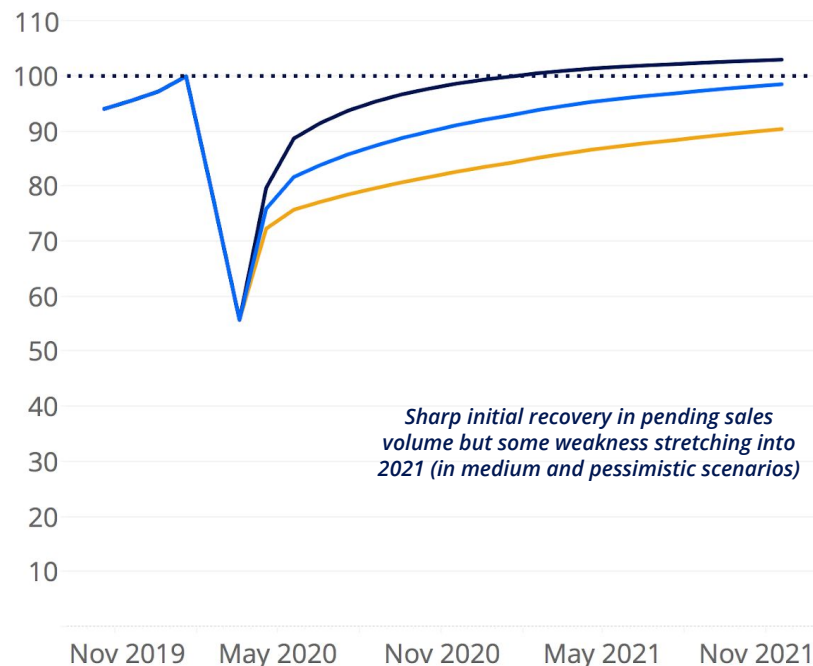
Zillow's formal home price and sales forecast

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



Source: Zillow Economic Data

Sales volume by scenario (Index Feb 2020 = 100)

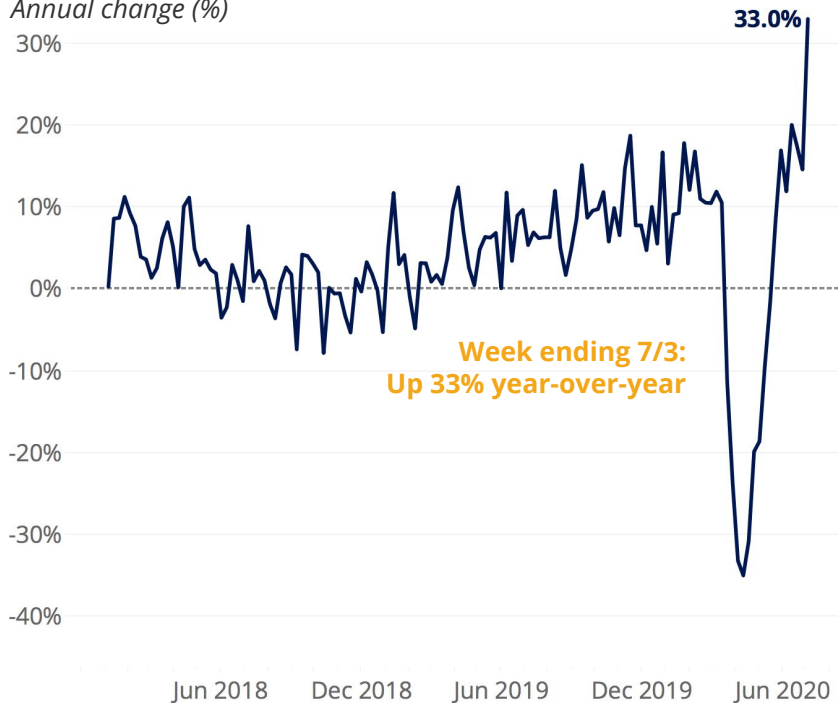


Source: Zillow Economic Data

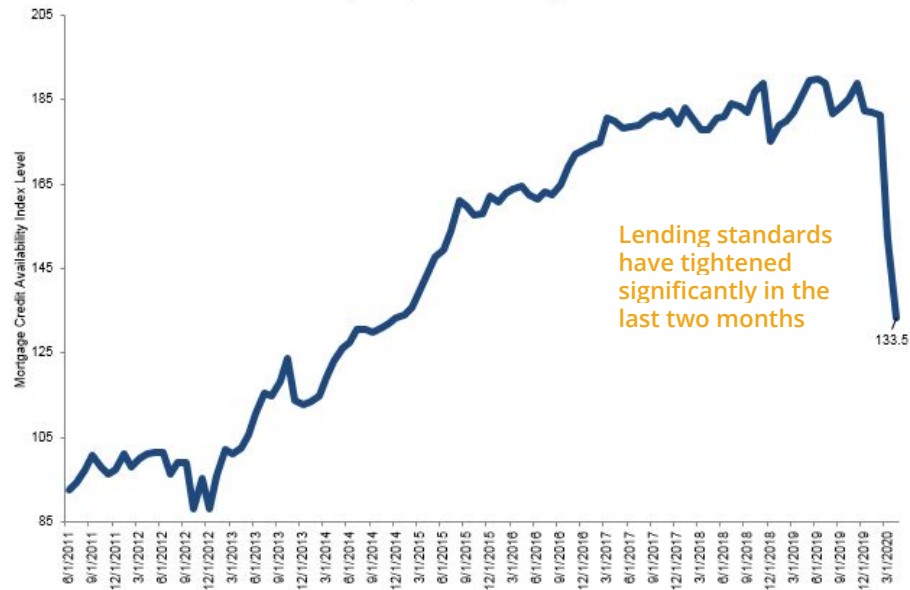
Plenty of applicants running the mortgage gauntlet

For-purchase mortgage applications fell sharply in April but have improved very strongly since

Annual change (%)



Mortgage Credit Availability Index, Index Level by Month
(NSA, 3/2012=100)



Mortgage Credit Availability Index
Measured monthly
Source: Mortgage Bankers Association

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

The government support is record breaking

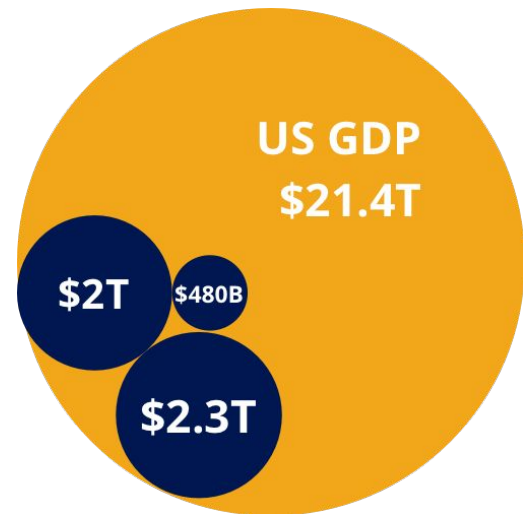
\$2.48 trillion in aid, up to \$2.3 trillion in Fed loans

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

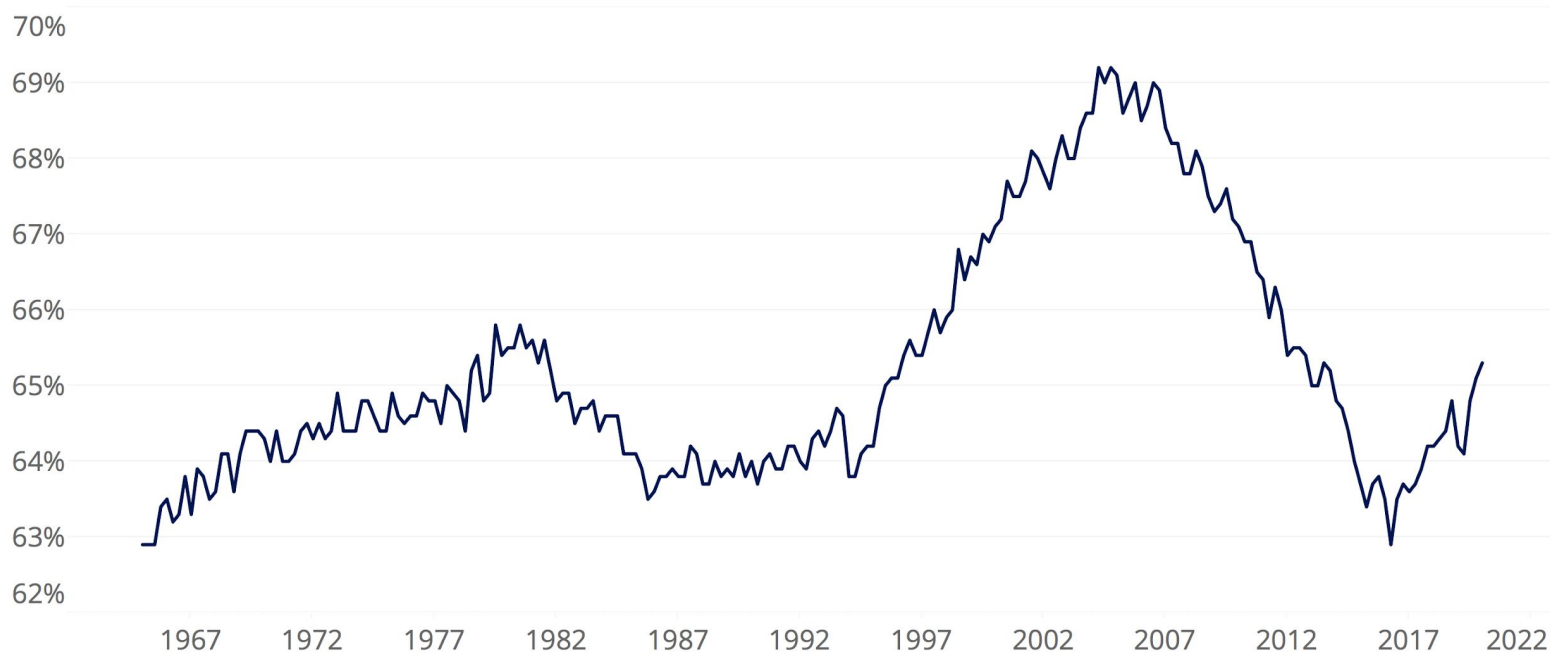
April 23: **\$480B** for small business support, hospitals, and virus testing capabilities



Homeownership became more exclusive

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

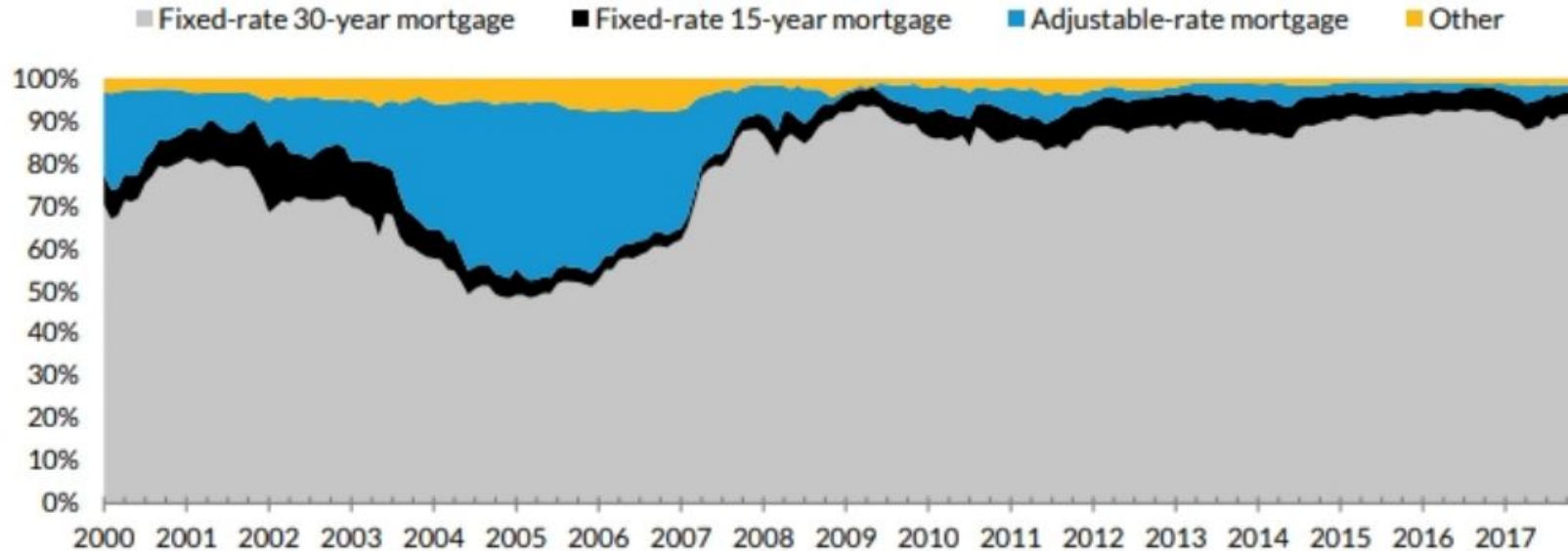
Homeownership rate



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 abundant 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

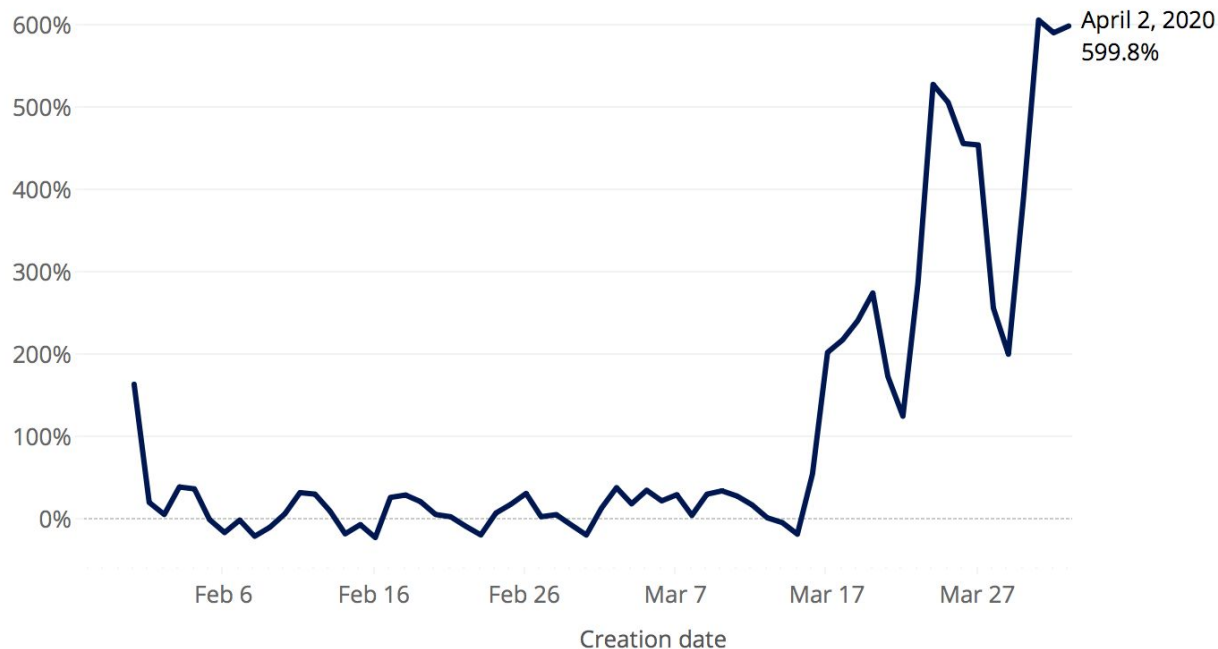
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**Keeping our
minds on the
future**

Sellers 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

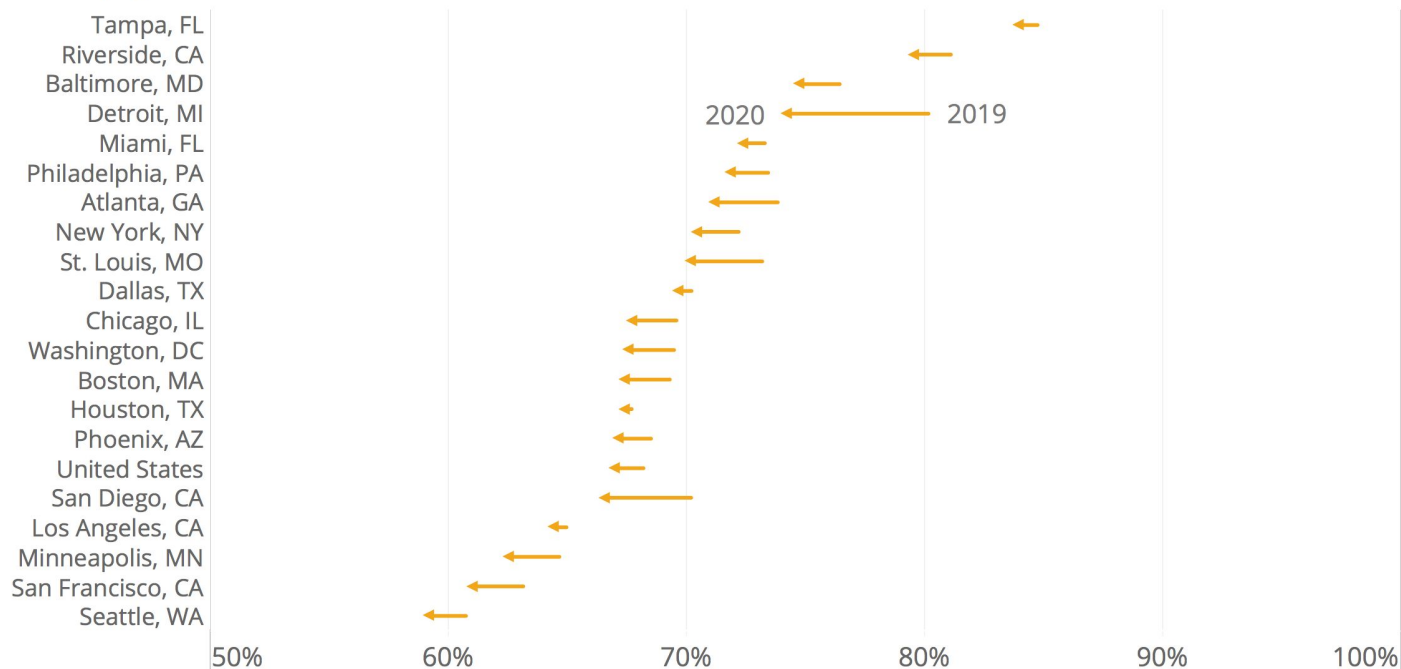


Widespread adoption of remote work could bring many moves in coming years

- About two-thirds of Zillow survey respondents say they're working from a room that's not a dedicated home office.
- Two-thirds say they would consider moving if working from home at least a few days a week in the future
- Listings mentioning a home office have jumped about 10% YOY
- Search on New Construction listings up 73% YOY (All for-sale 42%)

Contrary to popular imagination, share of search heading to the suburbs is shrinking

Share of total page views to suburban ZIPs from 2019 to 2020



Housing adult children delays downsizing

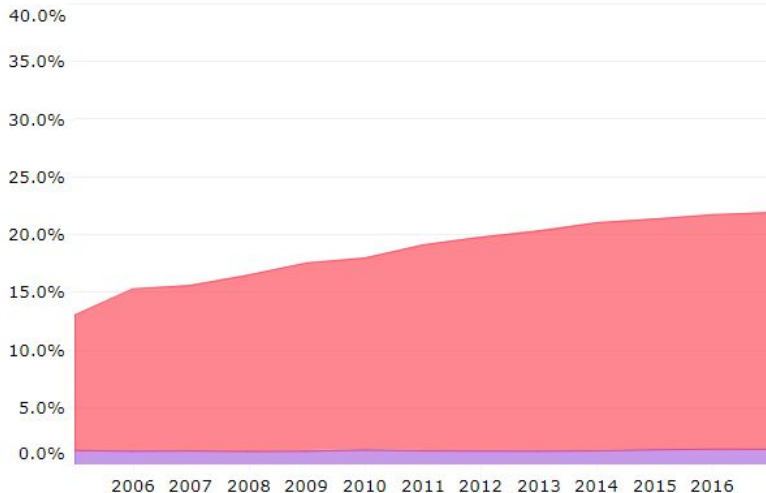
And so was another dynamic we use to explain low inventory pre-crisis. Now....

More young adults live with mom – in her house

Share of young adults living with mom and share of young adults that have mom living with them

Region Name

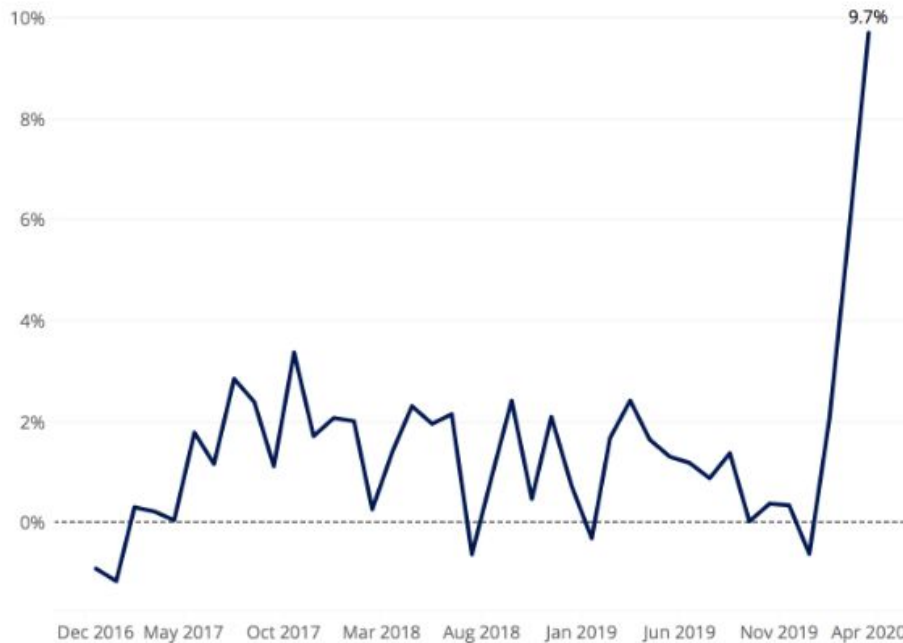
United States



Zillow Economic Research | Source: Zillow analysis of U.S. Census, American Community Survey, 2005-2017, made available by the University of Minnesota, IPUMS-USA.

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The number of adults living with a parent or grandparent is at an all-time high
Annual change in number of adults living in a parent's or grandparent's home

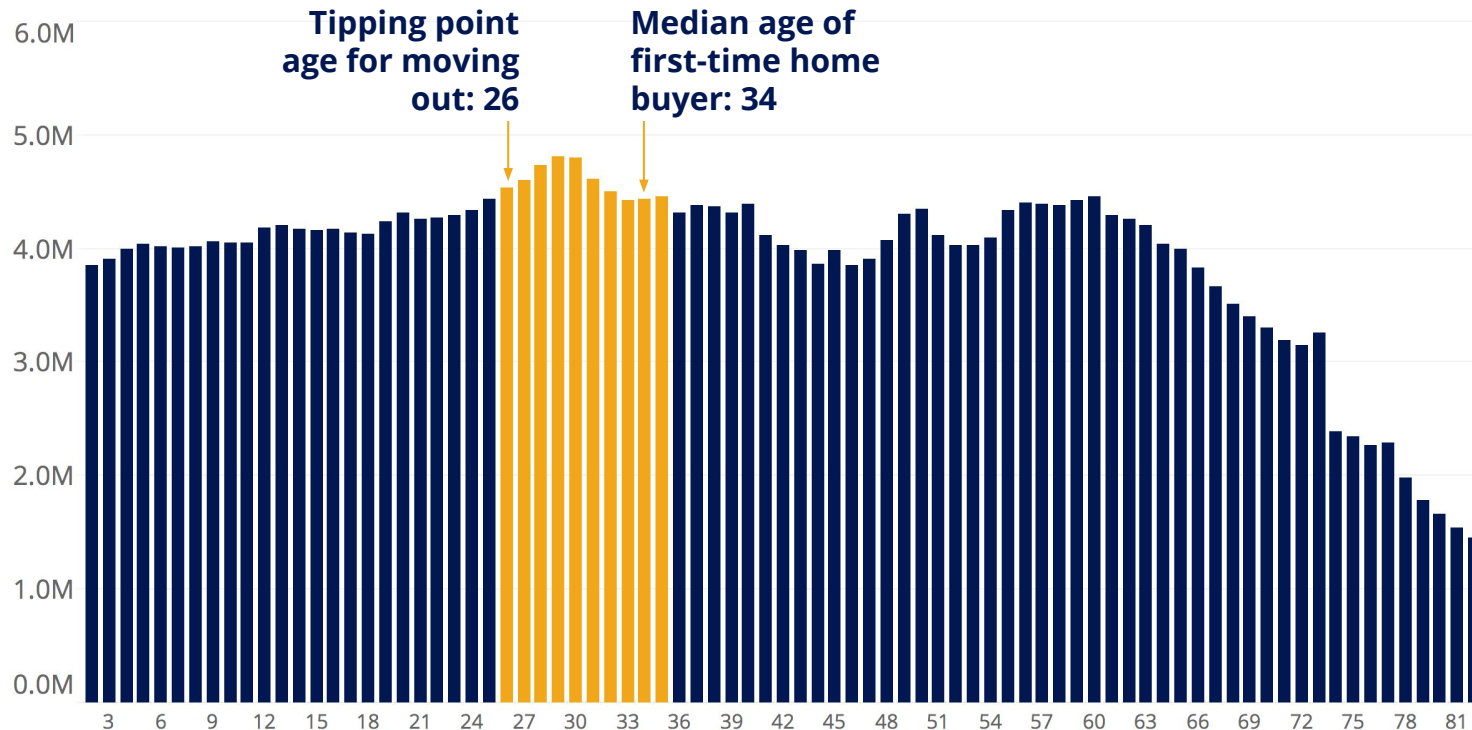


Zillow Economic Research | Source: U.S. Census Bureau, Current Population Survey.

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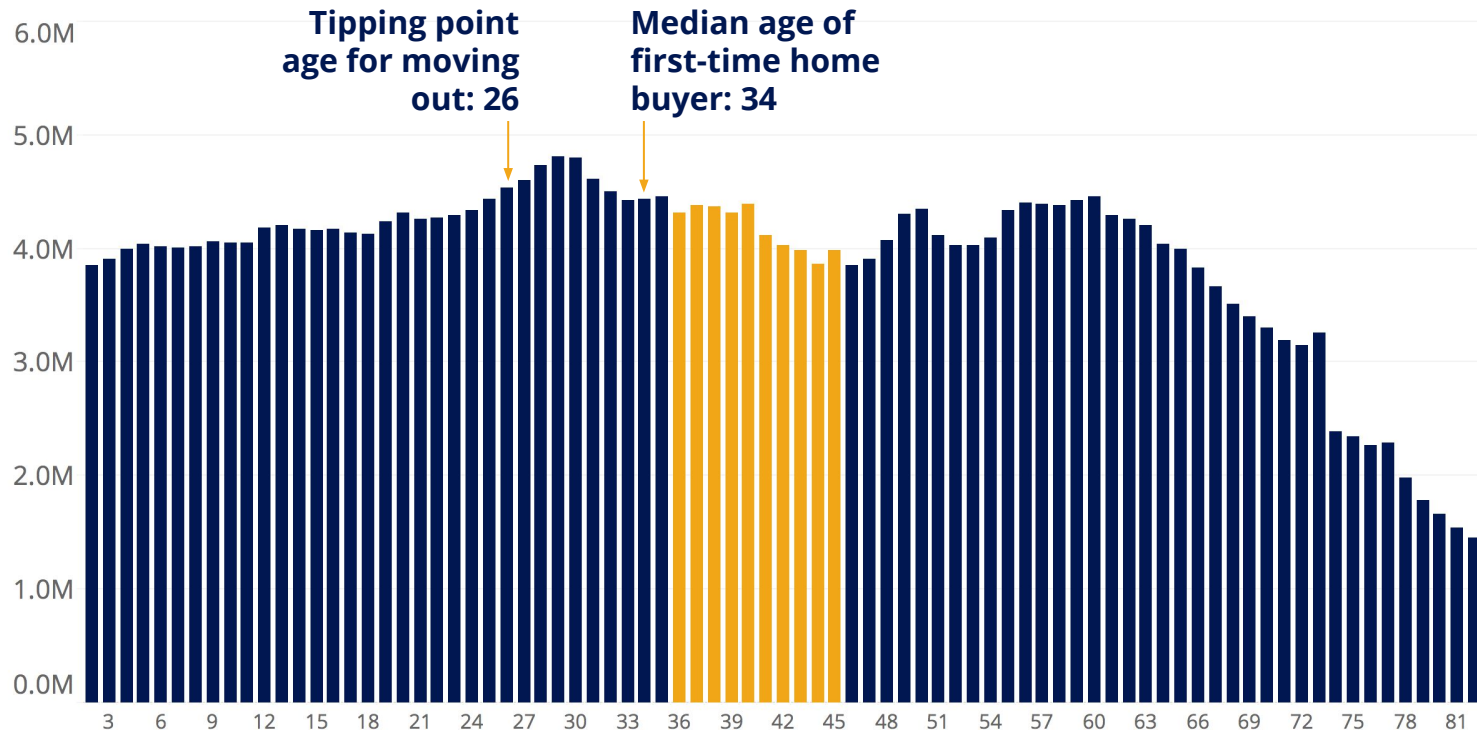
Purchase demand powered by demographic wave

Hitting the market during a record long expansion



Purchase demand powered by demographic wave

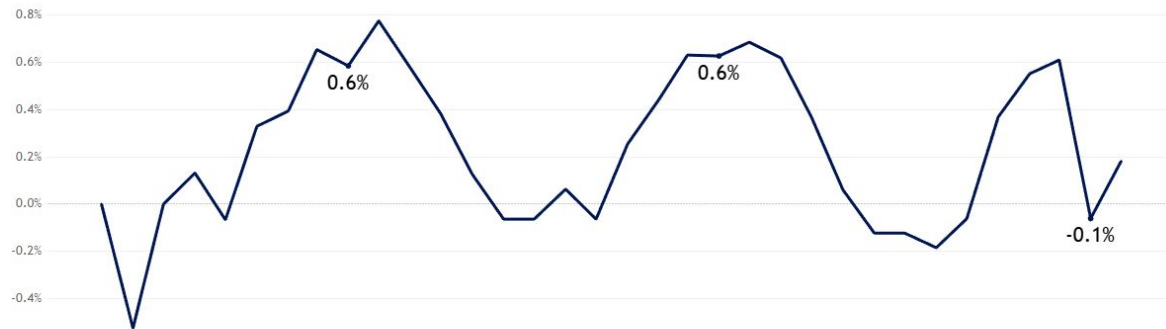
Same cohort 10 years ago was 4.4 million people smaller



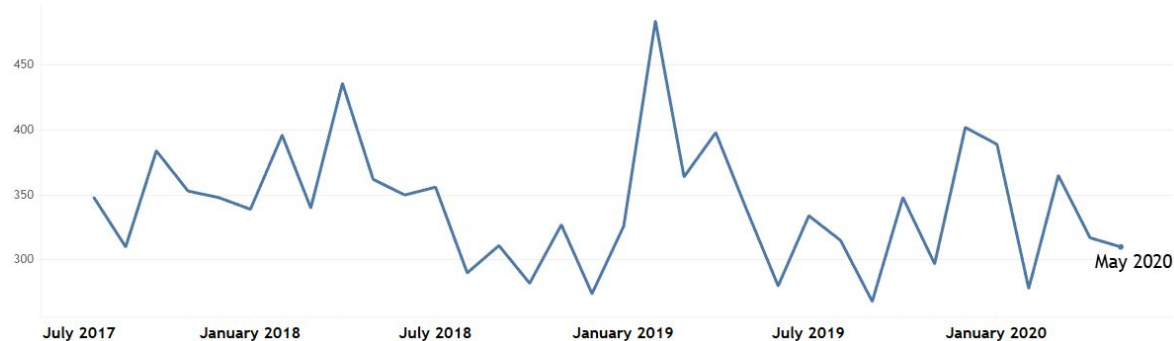
Trouble in the rental market

Rent softening reflects vulnerability of renters. Implications for homeowner pipeline.

Zillow Observed Rent Index, Month-over-month



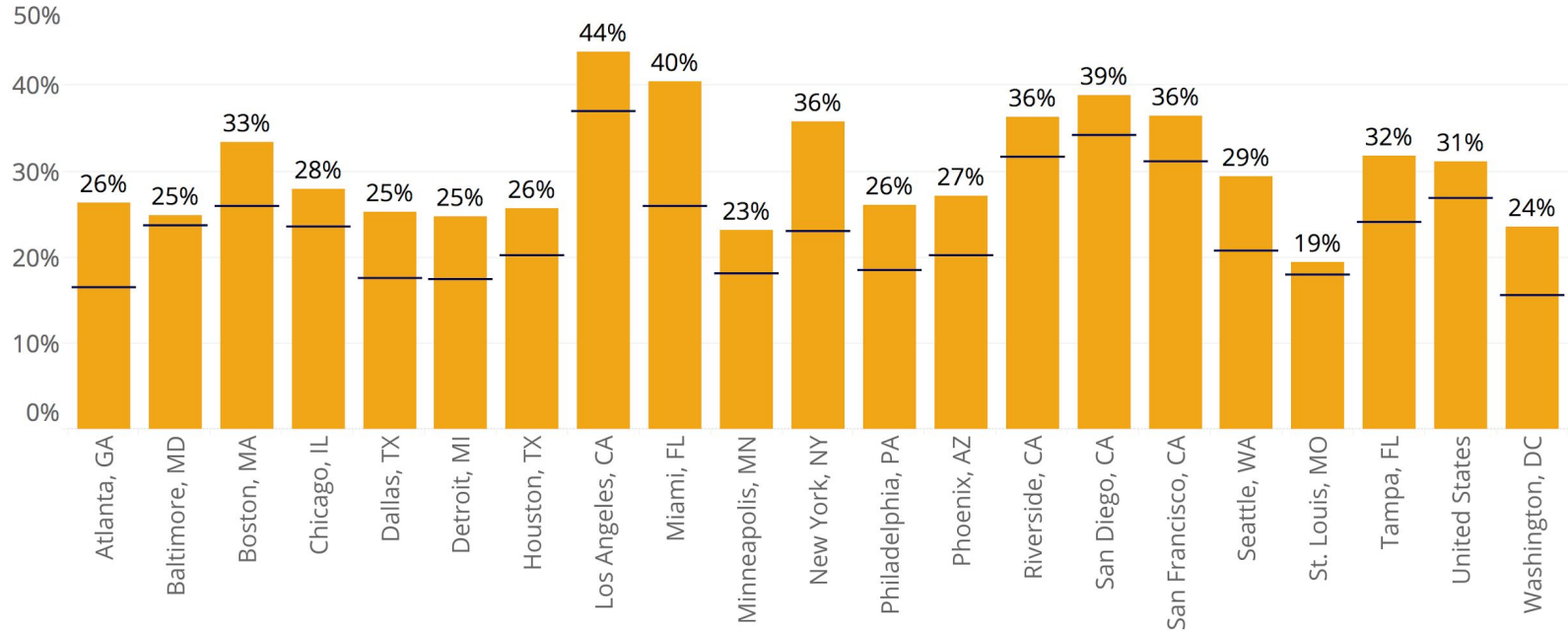
Housing units completed in 5+ unit buildings, seasonally adjusted annualized rate



Rent affordability eroded pre-crisis

Rent softness means fewer apartment projects. Despite rent softness now, long-run rent burdens could get worse.

Share of income spent on rent



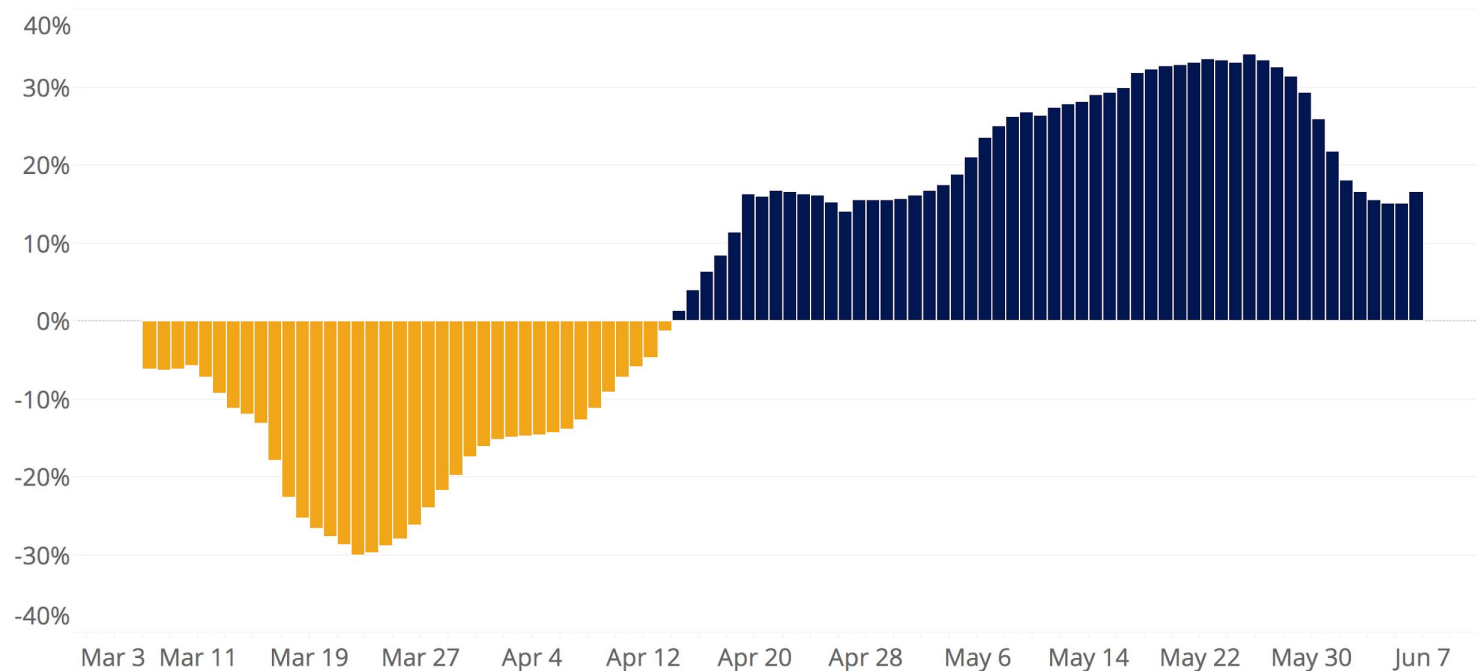
Potential impacts to the rental market expected if recovery slow or aid insufficient

- **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

Rentals traffic has more than recovered on Zillow

Distinct dip in March was followed by big bounceback and sustained growth

Zillow.com rentals visits, 7-day moving average versus 2019



Work Still to Be Done

If you're asking it, the Zillow Economic
Research team is trying to answer it



We are going through something huge.

And that leaves us with so many open questions

- Will the rise of remote work transform the option set of buyers and renters?
 - Premium on core proximity declines?
 - Premium on dense coastal metros declines?
 - A second wind for devastated vacation communities?
- Another roadblock for Millennials on path to homeownership?
 - Will income loss this spring disqualify many first-time mortgage applicants?
 - Will delayed home purchases delay the decline in renter households?
- All about savings:
 - What share of potential buyers held their savings in stock?
 - What share of savings will get burned through during lean time? Can level of saving by metro predict recovery paths?

Thank you!

- Find our work at [Zillow.com/research](https://www.zillow.com/research)
- You can reach out to me with questions directly at jefft@zillow.com

Housing demand powered by demographic waves

Record long expansion: gone. Demographics: still there. Tipping point ages: more delay?

