

The Housing Market Before & After the Coronavirus Crisis

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



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Pre-crisis market was on strong footing

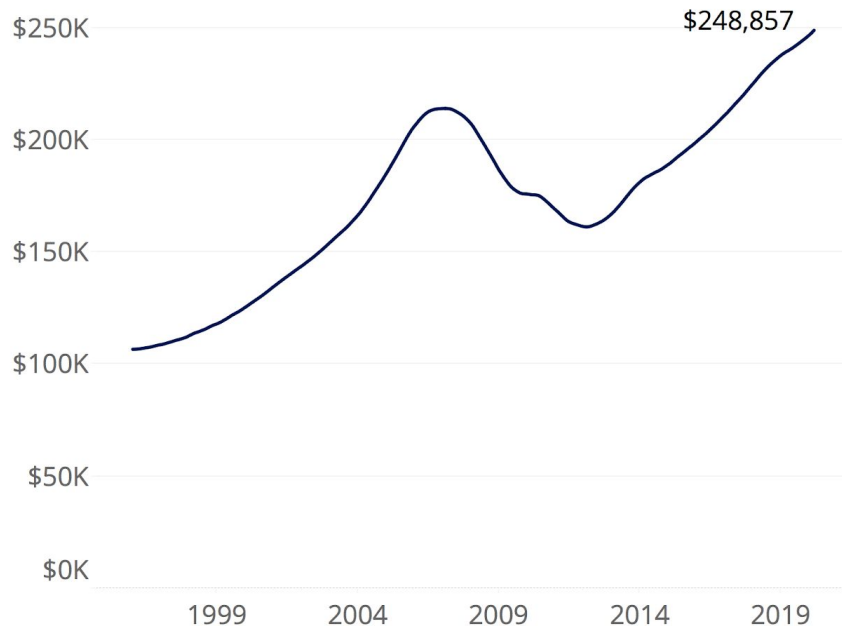
First look to the fundamentals - the housing
market conditions right before the crisis.



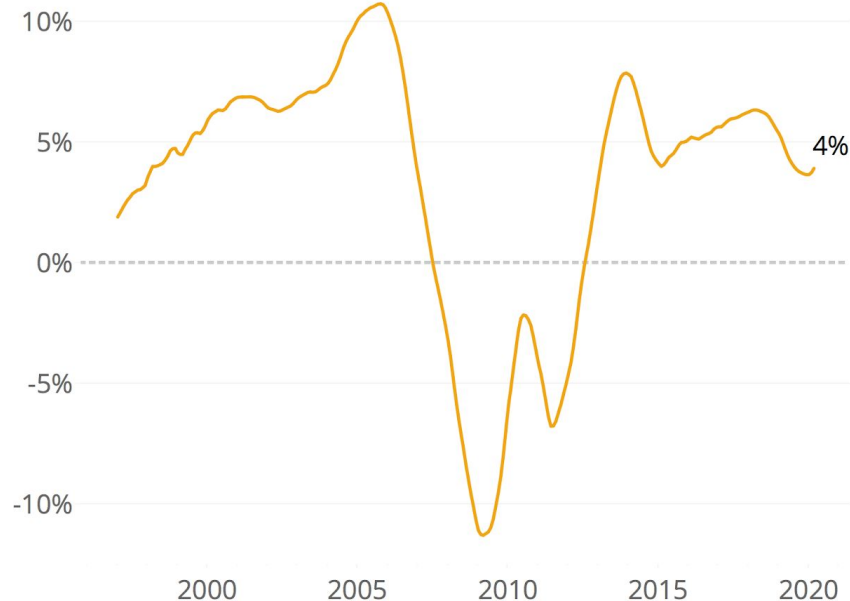
Home values had begun to speed up again

Low interest rates boosted buying power this winter

Zillow Home Value Index



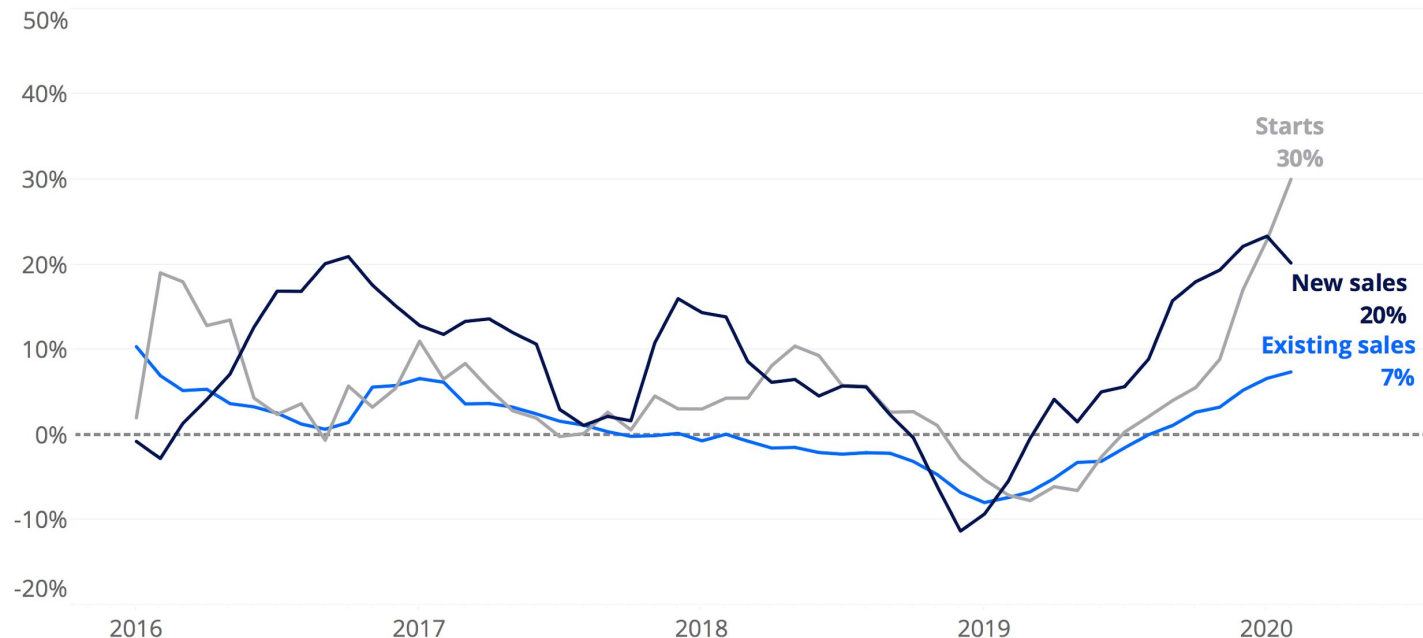
YoY



For-Sale Housing Volumes Pre-crisis: Solid

Sales and construction activity were all trending upward heading into crisis

Annual change

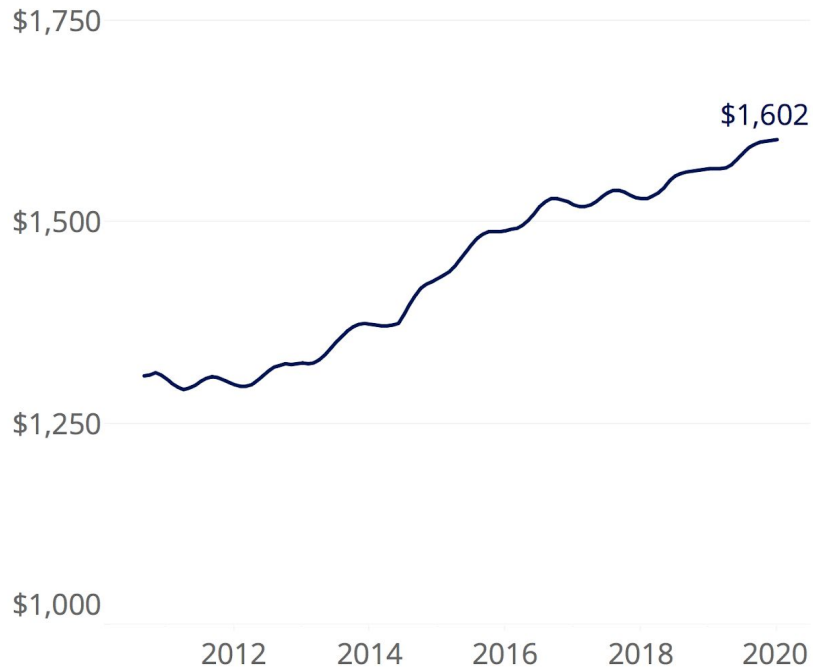


Sales of Existing Homes (SFR, Condo, Co-op) & New Homes (SFR) and New Construction Starts (SFR, Condo, Co-op). Annual Changes in Seasonally-Adjusted Annualized Rates, 3-month moving average.
Source: U.S. HUD (New sales and Starts) and N.A.R (Existing Sales)

Rents were steady as well

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

Zillow Rent Index

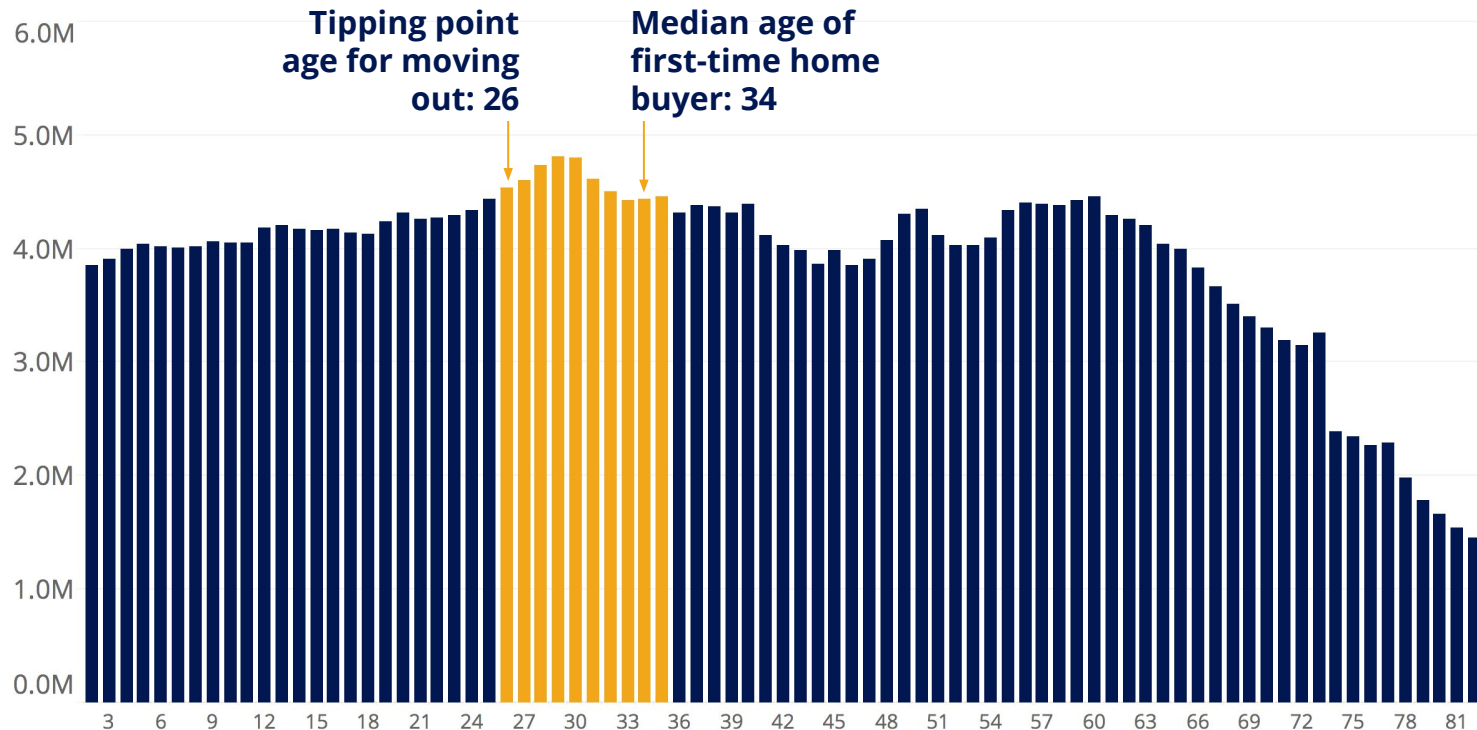


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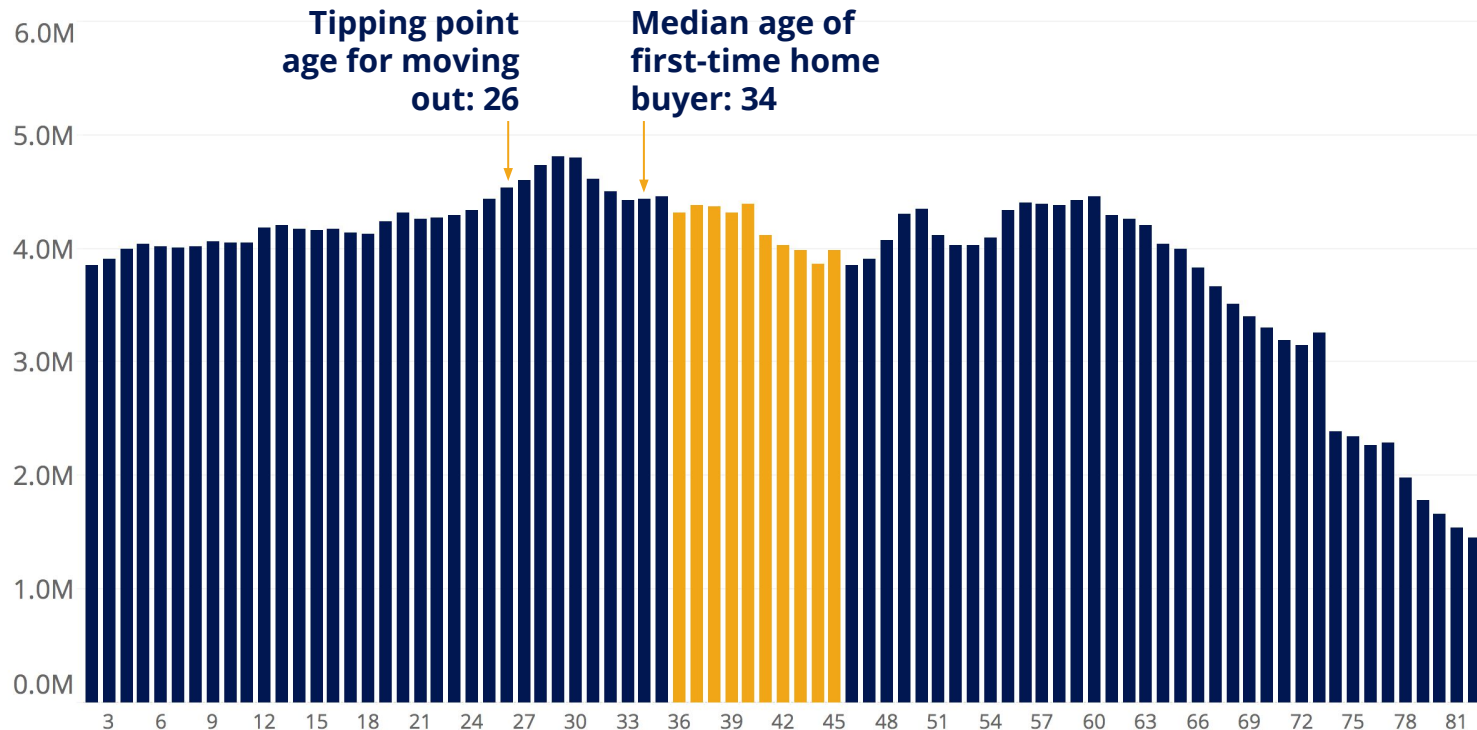
Housing demand powered by a demographic wave

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

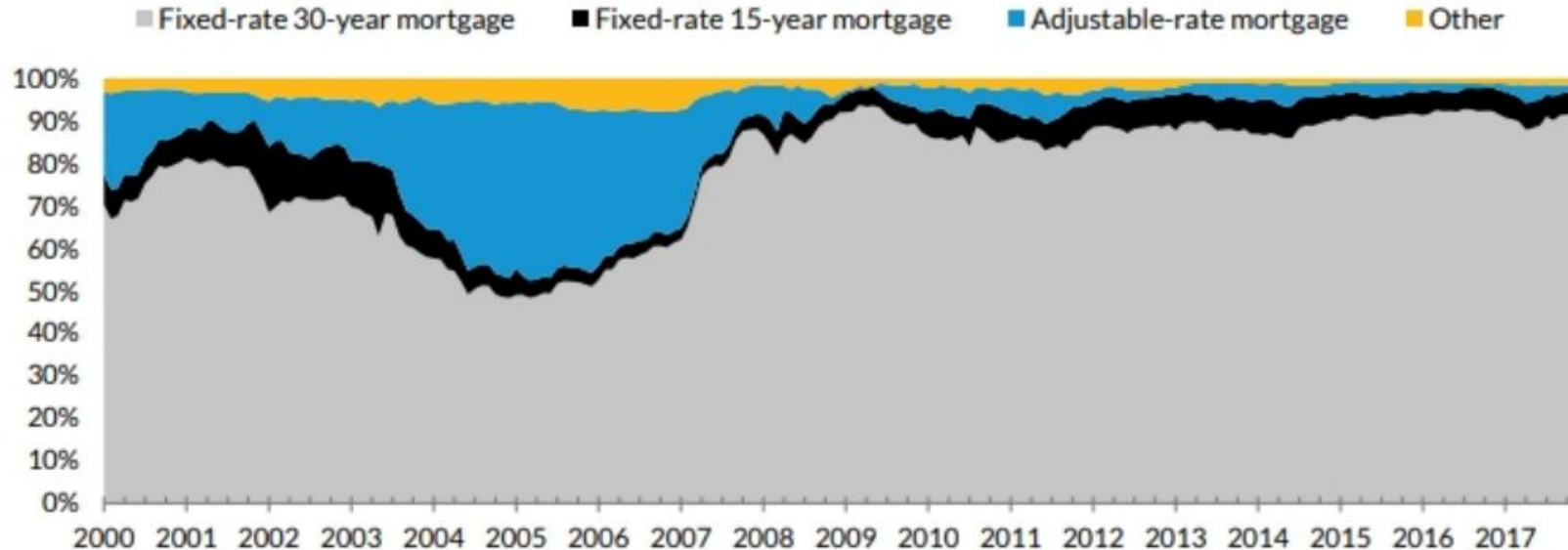


Source: NAR Existing Inventory

Reform after crisis cut predatory lending

Borrowers now have reliable fixed monthly payments

Purchase Mortgage Originations by Type

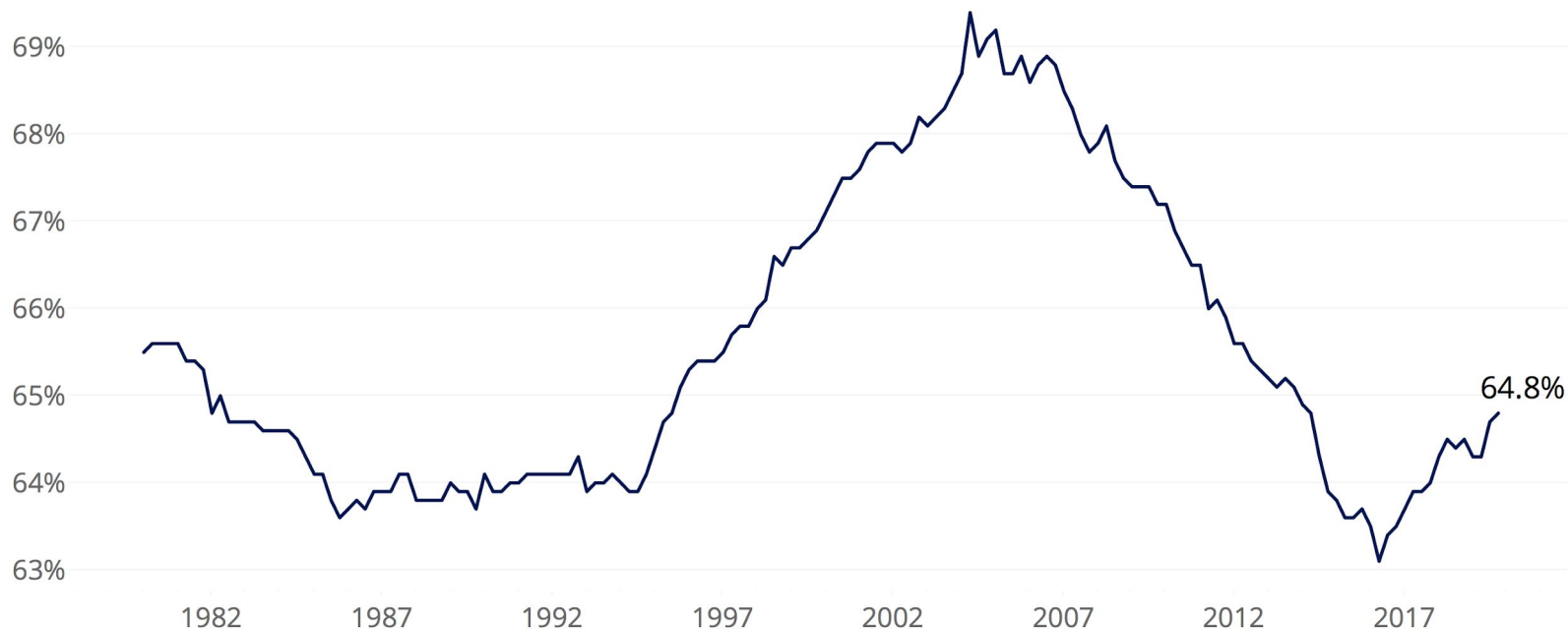


Source: CoreLogic, eMBS, HMDA, SIFMA and Urban Institute.

Homeownership became more exclusive

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

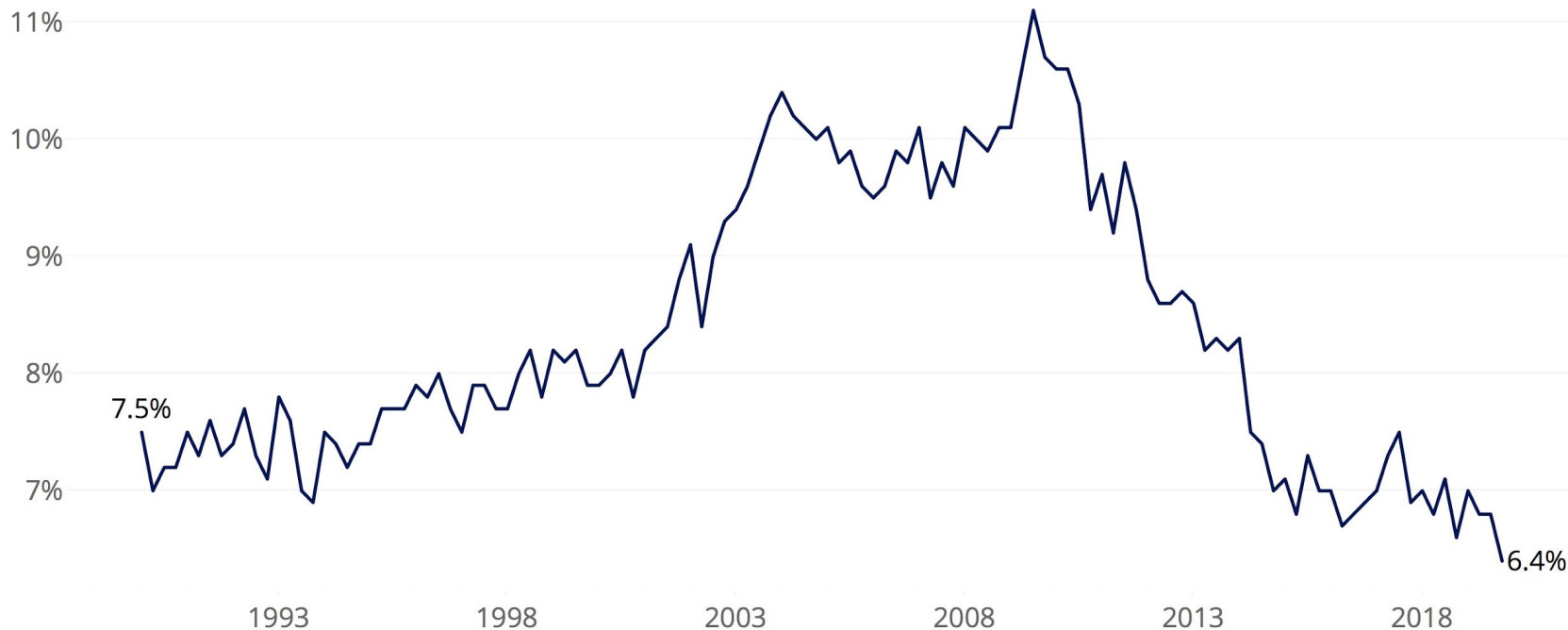
Homeownership rate



Rental vacancy rates lowest since mid 80s

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

Rental vacancy rate

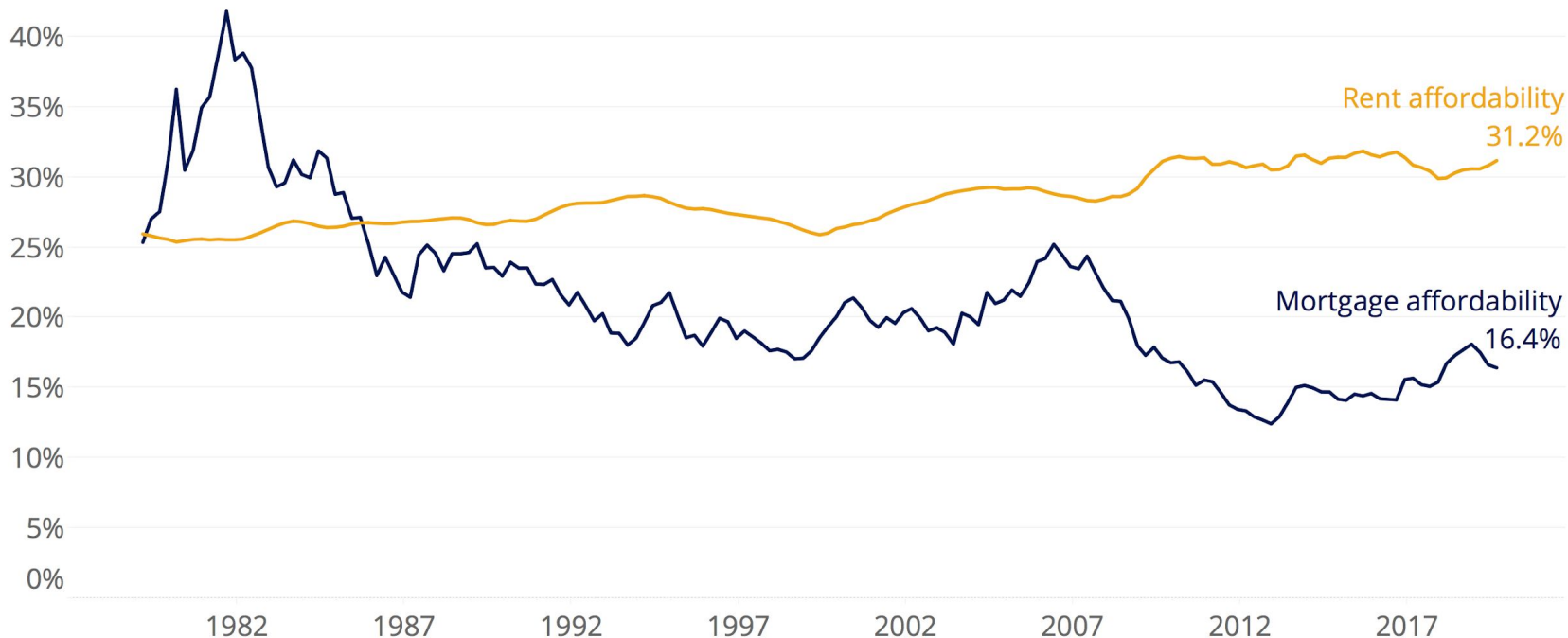


Source: U.S. Census Bureau, Housing Vacancies and Homeownership, 2019 Q4 release

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

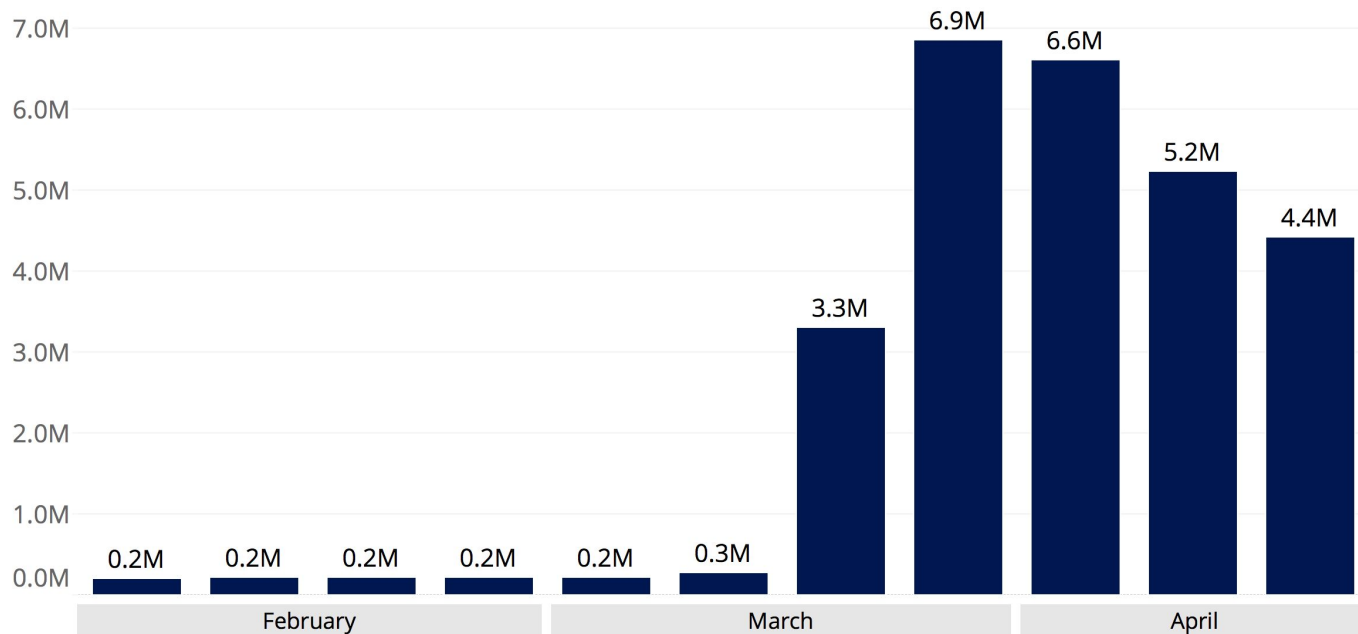
The scale of this crisis and impacts to the economy at large



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

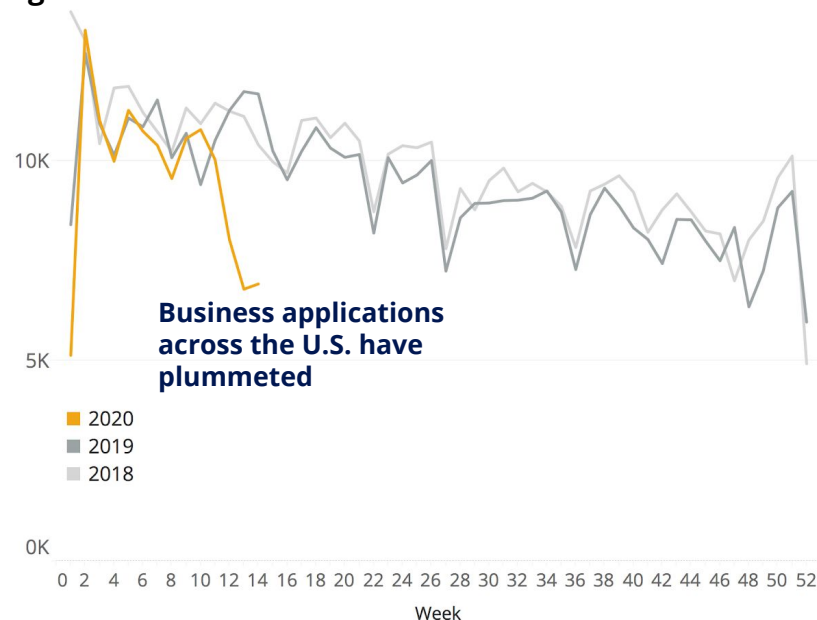
Advance real retail and food service sales



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

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Number of applications for businesses with planned wages



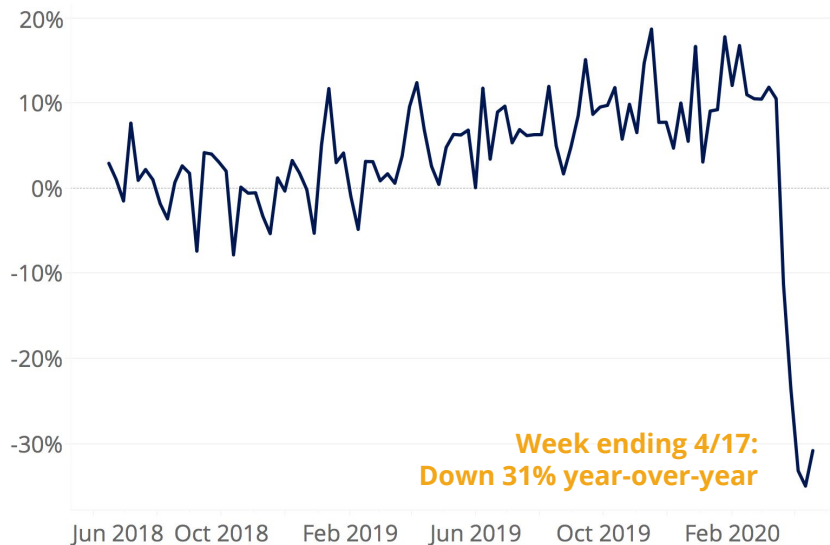
Source: U.S. Census Bureau, Department of Commerce

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

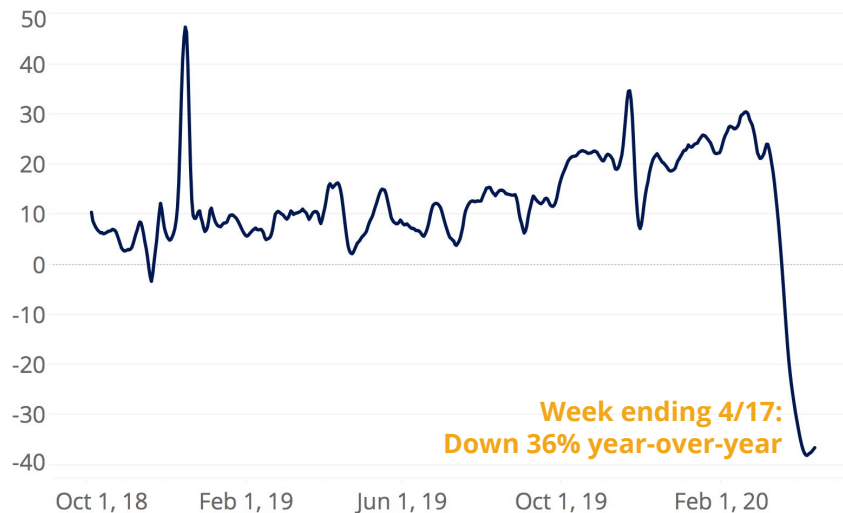
For-purchase mortgage applications have fallen sharply

Annual change



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

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



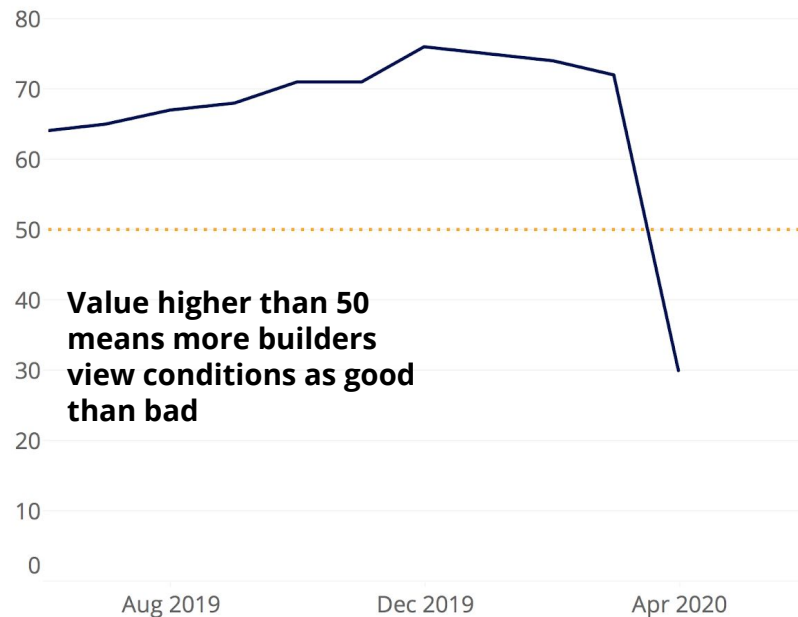
MBA Purchase Index (Measure of weekly mortgage application activity), SA
Source: Mortgage Bankers Association Weekly Applications Survey

Source: Zillow data.

Supply side also walloped

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

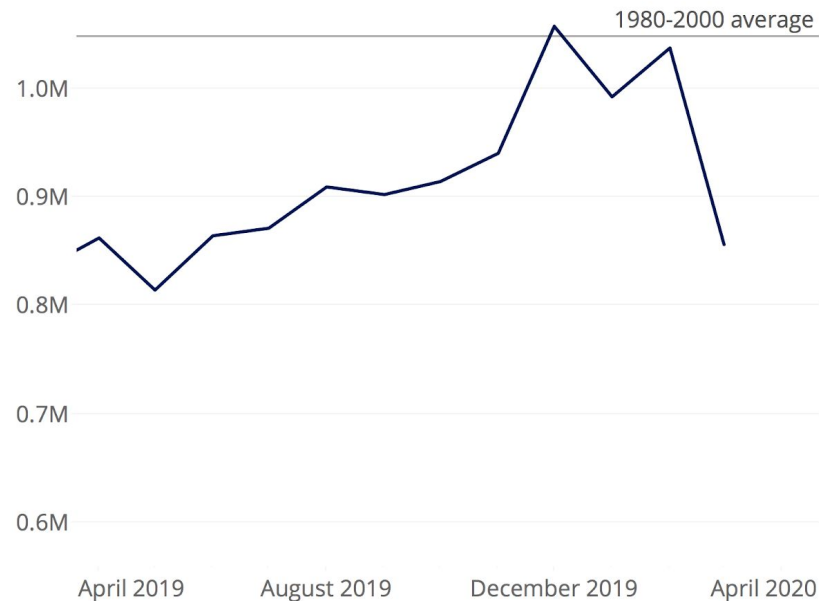
Homebuilder sentiment more than halved in April



Source: National Association of Homebuilders Market Index

March housing starts fell 25% from Jan high

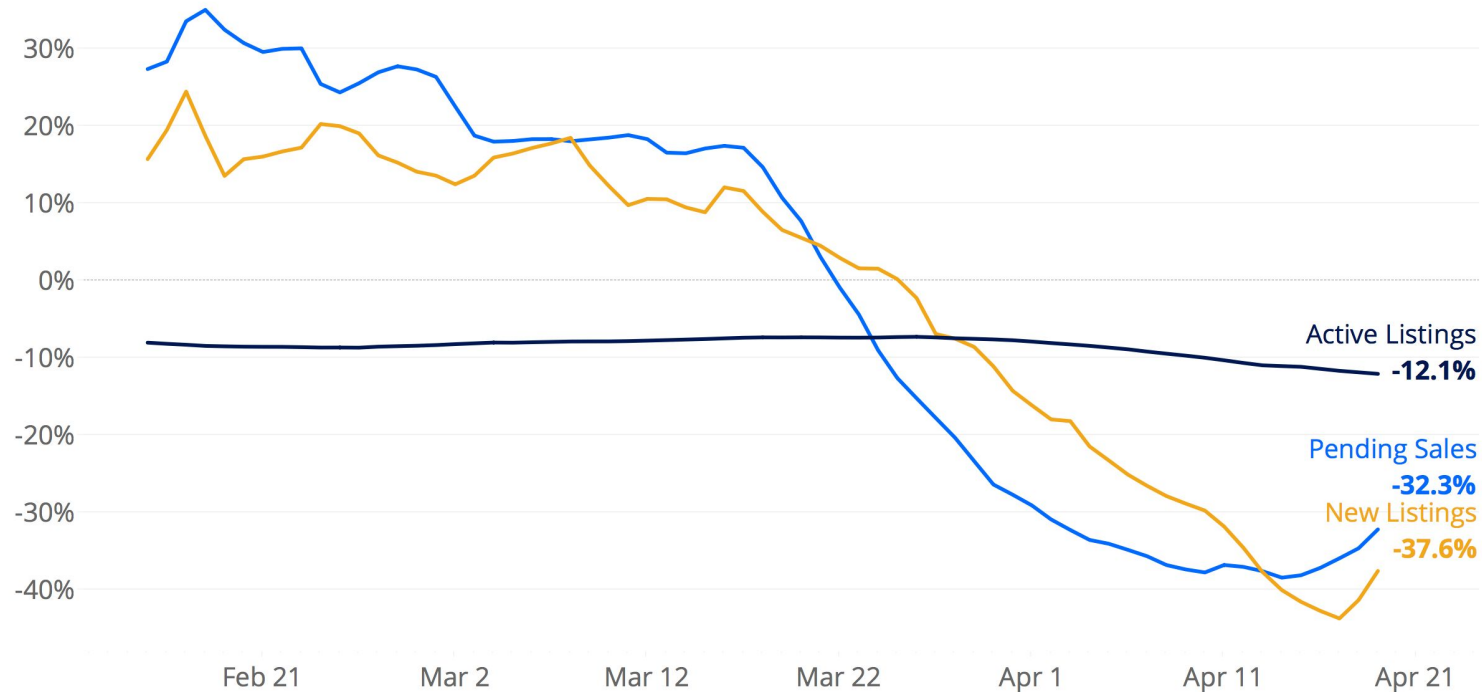
Jan starts numbers reached levels not seen since late 2006 before the Global Financial Crisis



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.



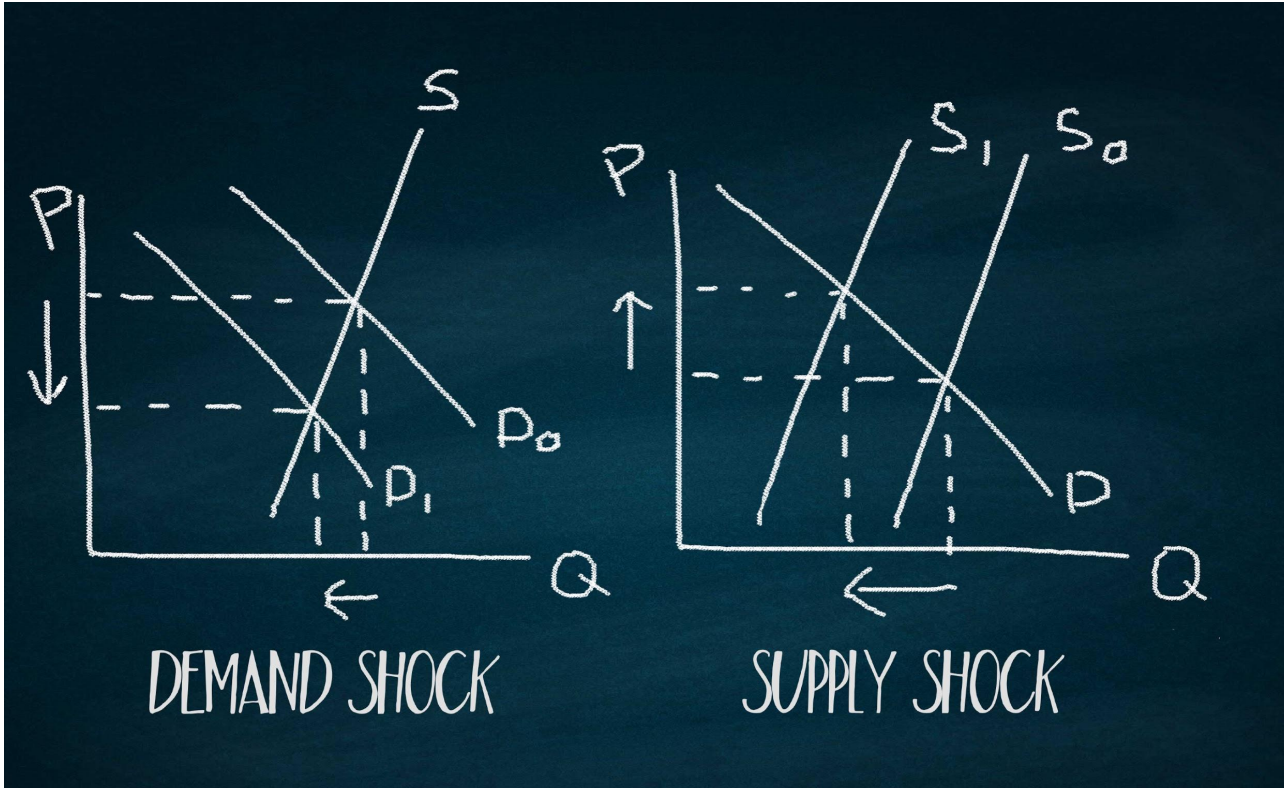
So, now what?!

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

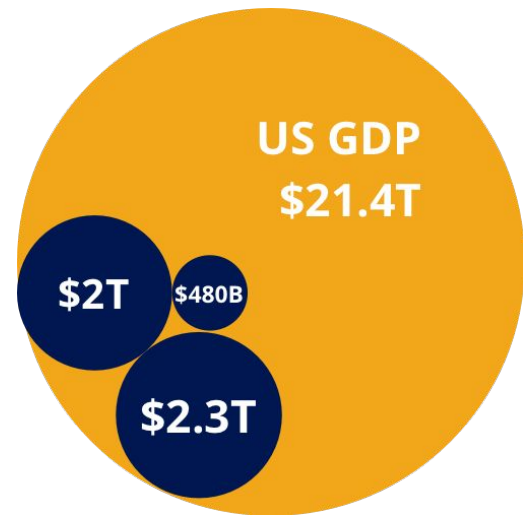
\$2.48 trillion in aid, up to \$2.3 trillion in Fed loans

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

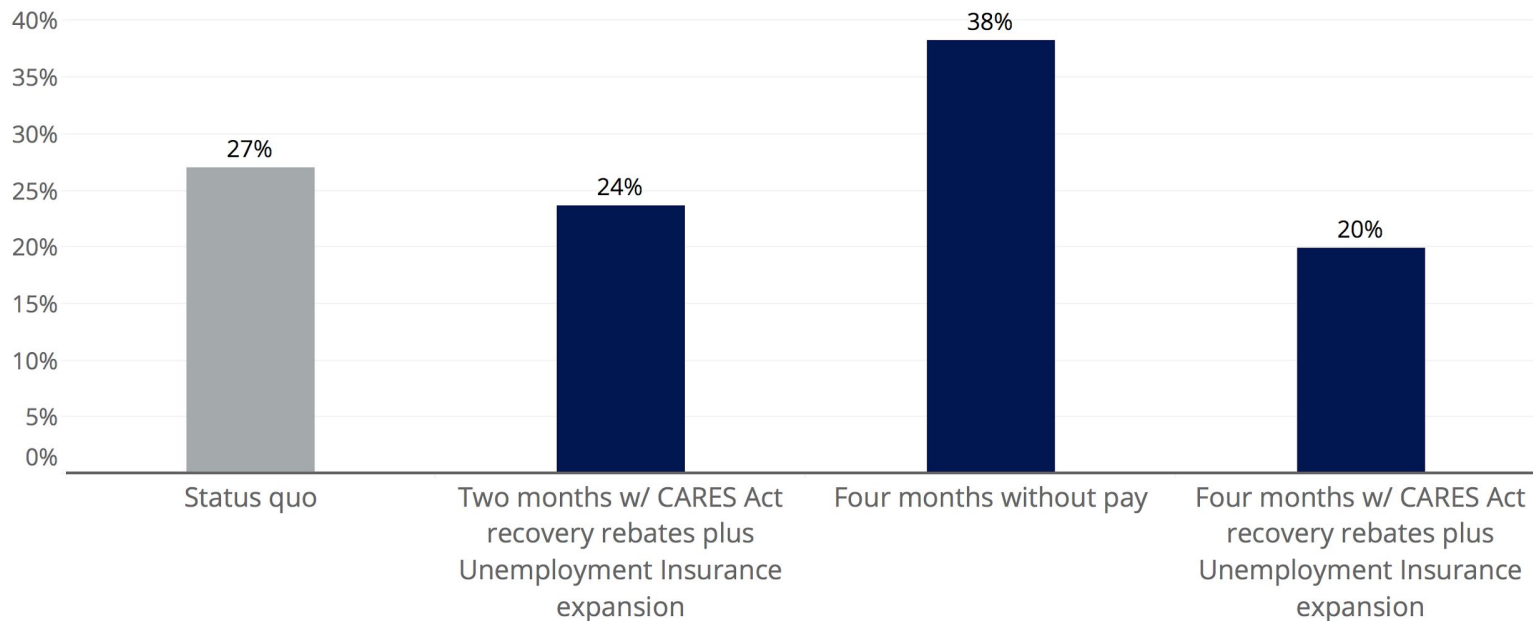
April 23: **\$480B** for small business support, hospitals, and virus testing capabilities



CARES act and renter affordability

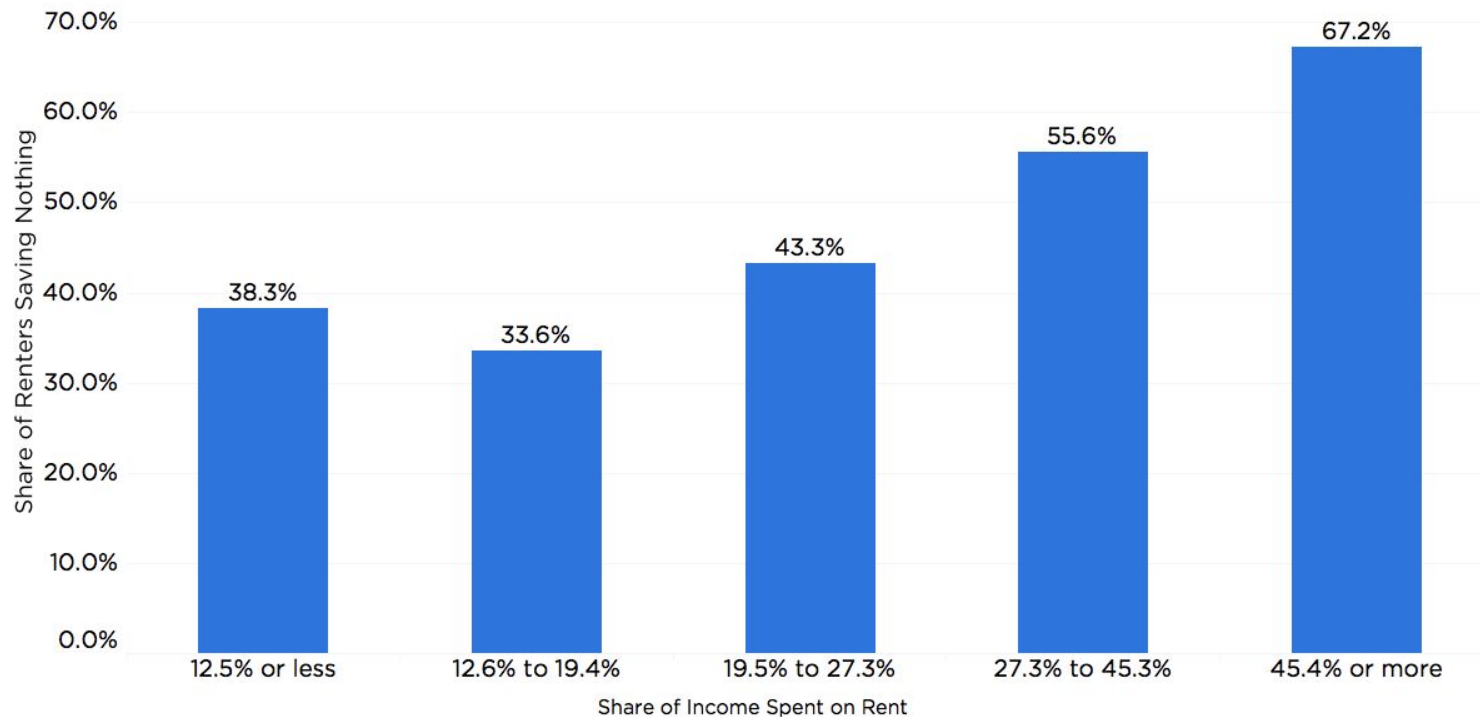
Gov't support is necessary to prevent many renters from falling into housing insecurity

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

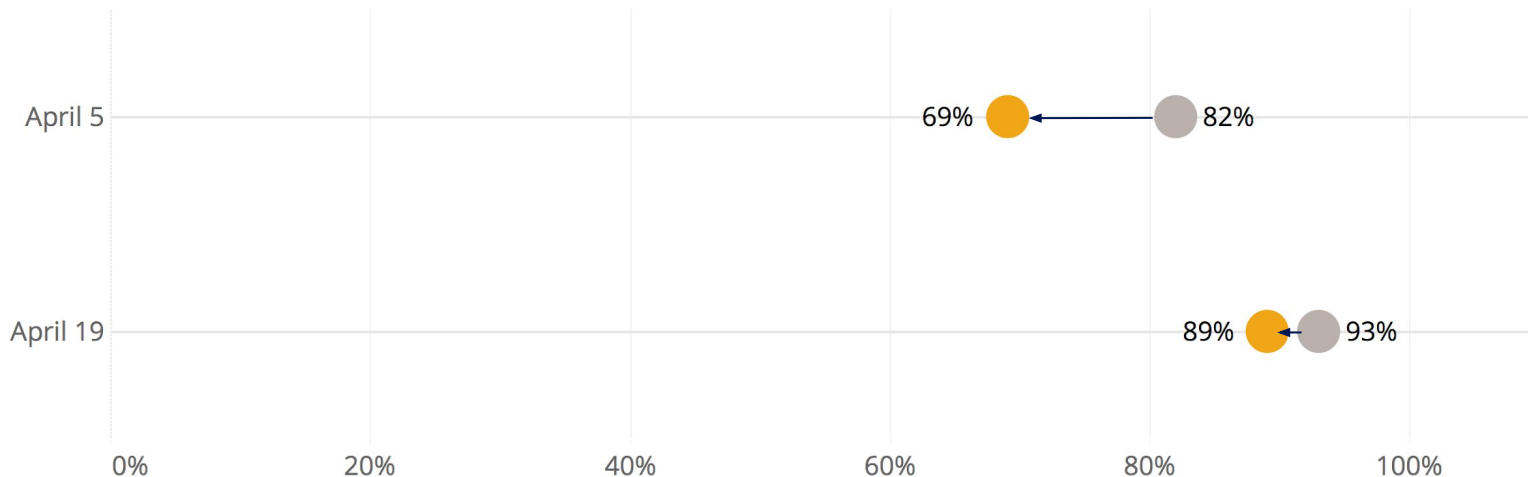


²¹Source: Zillow analysis of NY Fed Survey of Consumer Finances, 2016

Renters struggle to pay rent this April

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

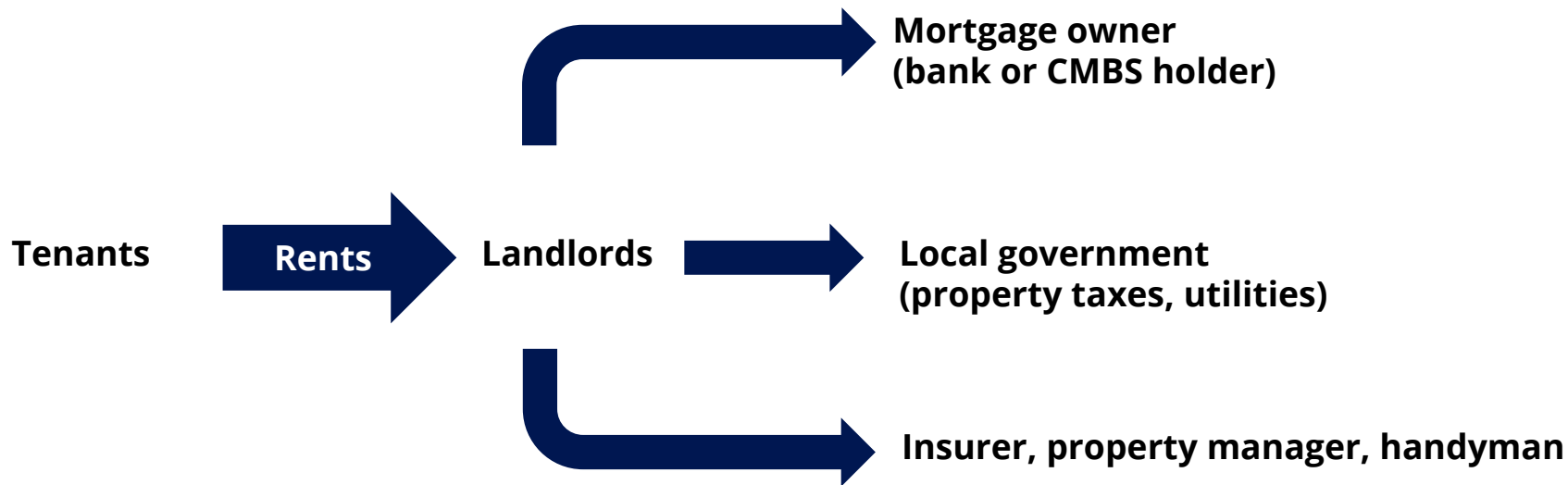
Share of apartment households who made a full or partial rent payment in April 2020 vs 2019:



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

Fix not as simple as eviction moratorium

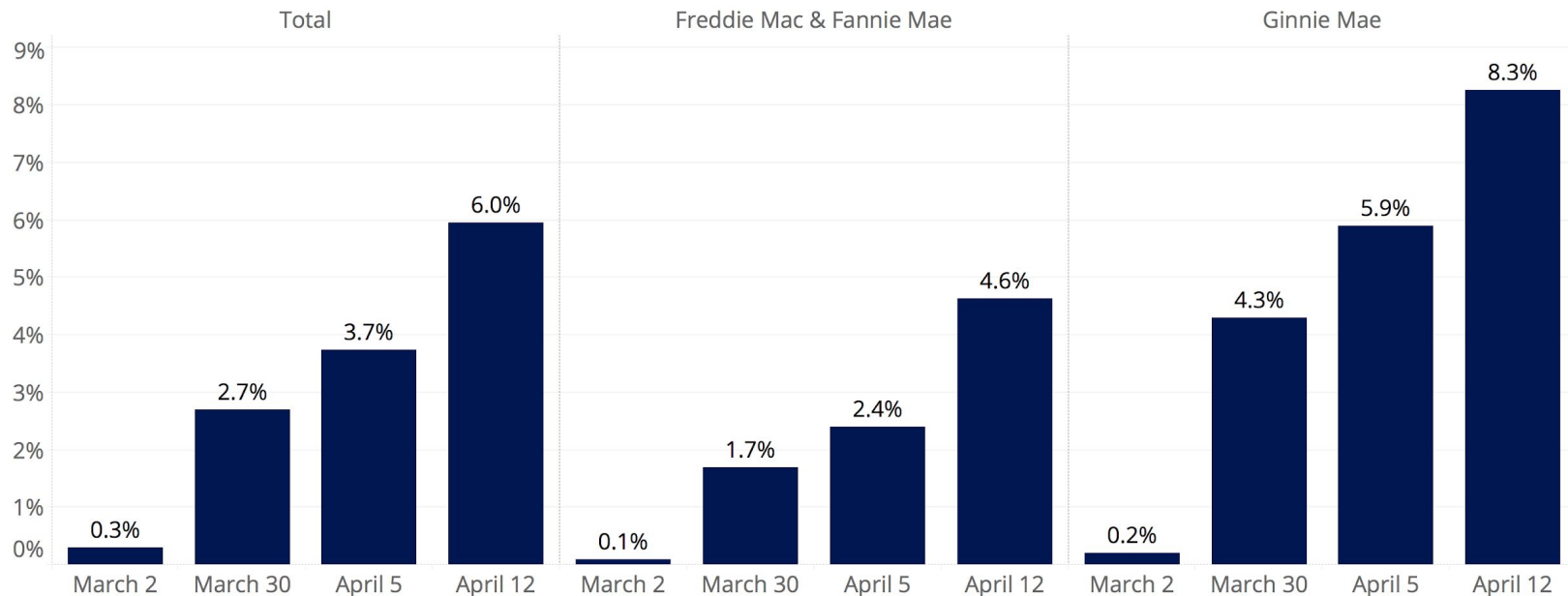
Rent non-payment creates chain reactions for strained local government, rental industry



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

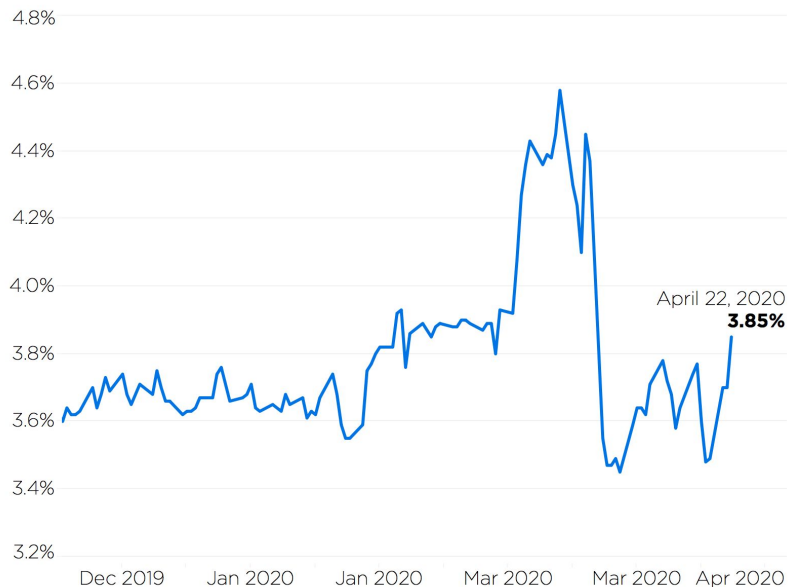
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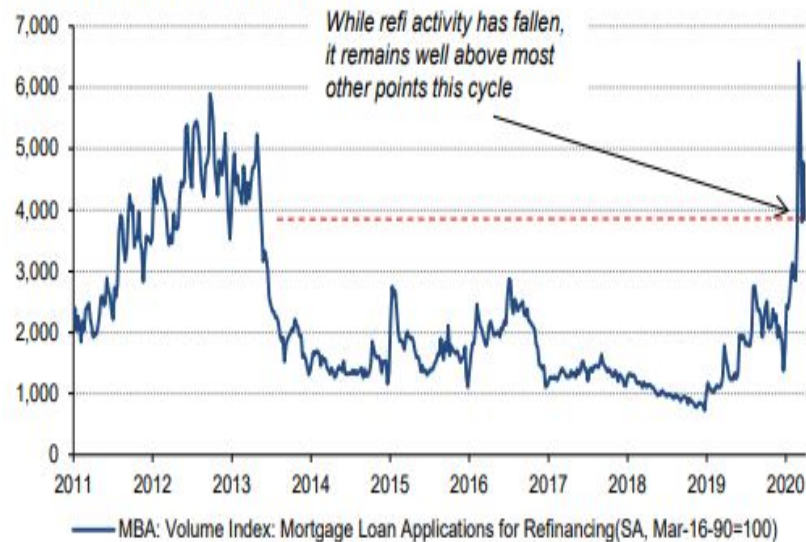
Refinance can provide affordability to owners

But the sheer volume of applications can impact access

Fixed 30-year mortgage rate



Refinance Mortgage Loan Application Index

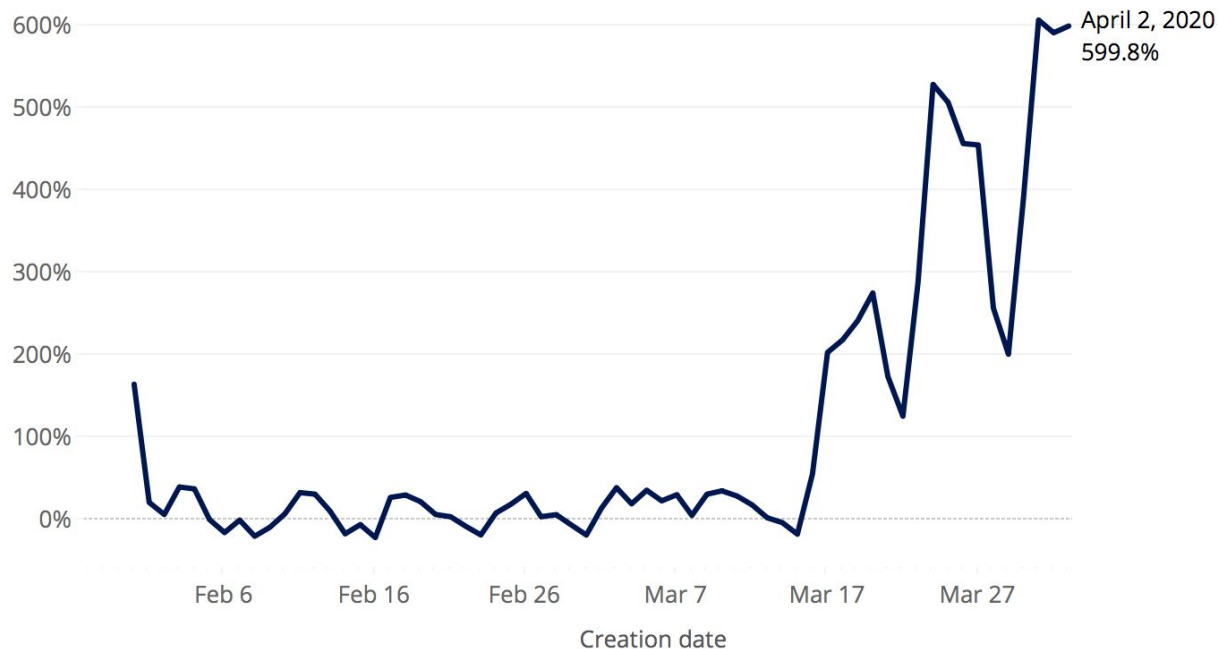


Source: Mortgage Bankers Association, Evercore ISI Research

Sellers and property managers - making it work

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

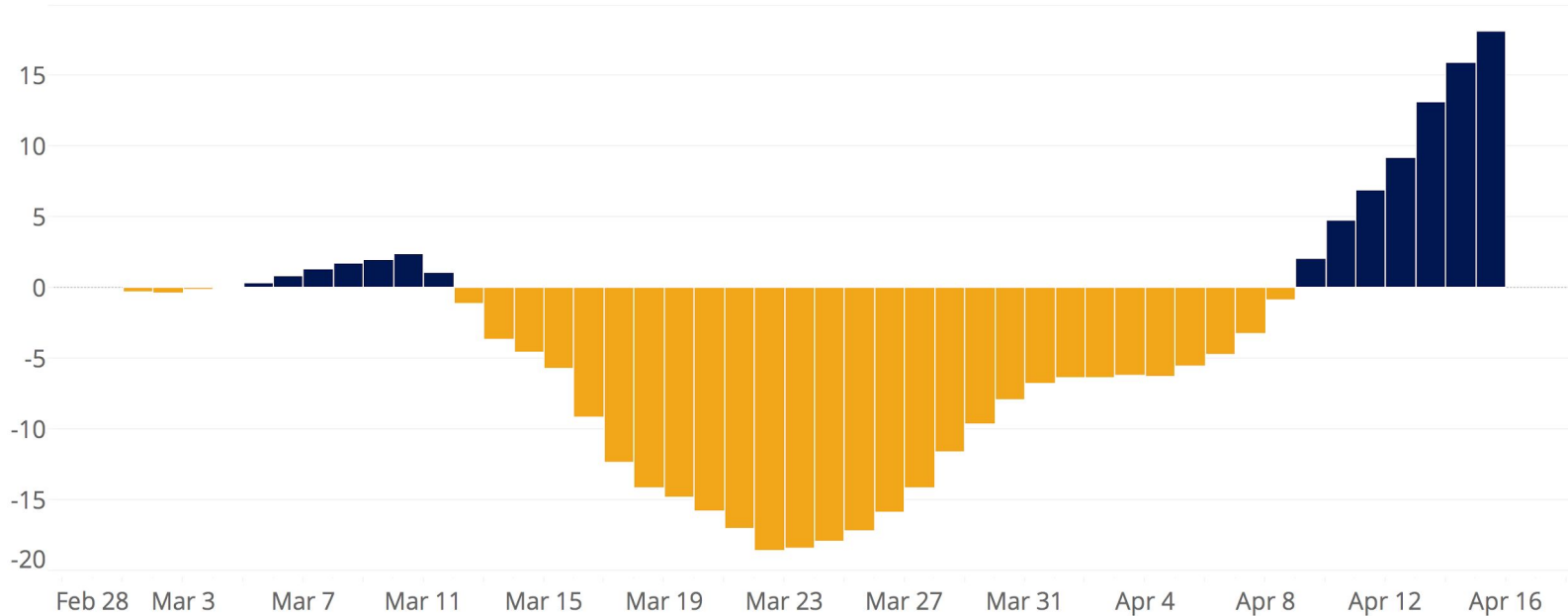
% change from 30 days ago in number of completed 3D Home tours nationwide created through Zillow



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