Puget Sound Housing Market Overview: Supply-Side Woes

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Key trends in the South Sound

1. Accelerating home value gains; all price-tiers in the South Sound are now above pre-crisis peaks
2. Seattle employment core driving regional demand
3. On-market inventory has contracted steadily for three years, but new inventory has been steady until recently
4. Nationwide, inventory has been looser in higher price tiers; that is not the case in the South Sound where inventory is tight across price points
5. Toward an uncertain future
Housing Market Trends
Pierce County home values are 14% above their pre-crisis peak and King County home values are 44% above peak

Source: Zillow Home Value Index, February 2018

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<table>
<thead>
<tr>
<th>County</th>
<th>Amount Above Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pierce</td>
<td>+ 43.6%</td>
</tr>
<tr>
<td>King</td>
<td>+ 43.6%</td>
</tr>
<tr>
<td>Snohomish</td>
<td>+25.7%</td>
</tr>
<tr>
<td>Thurston</td>
<td>+13.7%</td>
</tr>
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</table>
```
All market tiers are above their pre-crisis peaks

Source: Zillow Home Value Index, February 2018
Home value appreciation has *accelerated* from 3 years ago

Source: Zillow Home Value Index, February 2018
Suburban Seattle markets are seeing the strongest appreciation as millennials nest

<table>
<thead>
<tr>
<th>Top 6 Appreciating Markets</th>
<th>Bottom 6 Appreciating Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kirkland 22.2%</td>
<td>1. Enumclaw 8.5%</td>
</tr>
<tr>
<td>2. Kenmore 21.4%</td>
<td>2. Tukwila 9.7%</td>
</tr>
<tr>
<td>3. Bothell 19.7%</td>
<td>3. Yelm 10.1%</td>
</tr>
<tr>
<td>4. Shoreline 19.4%</td>
<td>4. Gig Harbor 10.6%</td>
</tr>
<tr>
<td>5. Redmond 18.8%</td>
<td>5. Mukilteo 11.2%</td>
</tr>
<tr>
<td>6. Bellevue 18.1%</td>
<td>6. University Place 11.3%</td>
</tr>
</tbody>
</table>

Source: Zillow Home Value Index, February 2018
Pierce County is seeing some of the strongest rent appreciation in the region – in both multifamily and SFRs

Source: Zillow Rent Index, February 2018
Multifamily rent appreciation has slowed in the King Co. urban core but accelerated in Pierce/Thurston Co. cities

<table>
<thead>
<tr>
<th>City</th>
<th>February 2016</th>
<th>February 2018</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle</td>
<td>9.1%</td>
<td>1.7%</td>
<td>-7.4 ppts</td>
</tr>
<tr>
<td>Bellevue</td>
<td>9.0%</td>
<td>4.1%</td>
<td>-4.9 ppts</td>
</tr>
<tr>
<td>Burien</td>
<td>9.5%</td>
<td>5.9%</td>
<td>-3.6 ppts</td>
</tr>
<tr>
<td>Renton</td>
<td>7.7%</td>
<td>5.6%</td>
<td>-2.1 ppts</td>
</tr>
<tr>
<td>Tukwila</td>
<td>4.6%</td>
<td>8.0%</td>
<td>3.4 ppts</td>
</tr>
<tr>
<td>Tacoma</td>
<td>2.9%</td>
<td>8.2%</td>
<td>5.3 ppts</td>
</tr>
<tr>
<td>Olympia</td>
<td>2.7%</td>
<td>8.6%</td>
<td>5.9 ppts</td>
</tr>
</tbody>
</table>

Source: Zillow Rent Index, February 2018
Nationwide, SFR rentals skew toward the bottom of the market, but in Puget Sound they skew toward the top.
Employment growth: The elephant in the region
As far south as Tacoma, as high as one-in-five employed adults works in Seattle

Source: Zillow analysis of U.S. Census Bureau, Longitudinal Employer-Household Dynamics (LEHD) data.
Big savings in the suburbs for Seattle workers

In Seattle, Driving for Savings

<table>
<thead>
<tr>
<th>Increasing your commute from...</th>
<th>could save you...</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 min to 30 min</td>
<td>$1,095</td>
</tr>
<tr>
<td>20 min to 40 min</td>
<td>$628</td>
</tr>
<tr>
<td>30 min to 50 min</td>
<td>$523</td>
</tr>
<tr>
<td>35 min to 60 min</td>
<td>$1,598</td>
</tr>
<tr>
<td>40 min to 60 min</td>
<td>$1,239</td>
</tr>
<tr>
<td>50 min to 75 min</td>
<td>$1,168</td>
</tr>
<tr>
<td>60 min to 75 min</td>
<td>$112</td>
</tr>
<tr>
<td>75 min to 90 min</td>
<td>$235</td>
</tr>
</tbody>
</table>

Source: Zillow analysis of Zillow home value data and Here Technologies commute data.
But it’s not just the South Sound

Source: Zillow Home Value Index, February 2018

* City level data

Source: Zillow Home Value Index, February 2018
Inventory has been on 3-year slide: There are 5.5K fewer homes for sales in the six counties than in 2015.

Source: Zillow For-Sale Inventory, February 2018
On average, inventory has declined more sharply in more affordable areas

Source: Zillow For-Sale Inventory and Zillow Home Value Index, February 2018
There are fewer homes on the market on any given day, but the number of homes hitting the market is ~stable

Source: Zillow For-Sale Inventory, February 2018
Strong, though not double-digit, home value appreciation expected over the next 12 months

Source: Zillow Home Value Forecast, February 2018
Issues to watch

Demand-side considerations:

Headwinds
• Mortgage rates
• Property taxes

Tailwinds
• Mortgage lending standards

Mixed
• Tax policy changes

Supply-side considerations:
• Building materials and labor costs
• Land costs and building restrictions
Limits to itemized deductions more important at the top of the market, and less for extensive margin
Unintended consequences of fiscal policy: Rising rates

Source: Zillow Daily Mortgage Rate data.
Mortgage rates should rise in 2018, but remain relatively low by historic standards
Mortgages will still be more affordable than historically.
Rising construction costs: Land and labor (old news), now materials prices surging as well

Import Price Index for Lumber

Source: BLS
Cities with stricter land use/building rules have seen a sharper drop in inventory.
Toward an uncertain future

What factors are most likely to trigger the next recession?

- Geopolitical Crisis: 138
- Monetary Policy: 111
- Stock Market Correction: 101
- Political Gridlock: 55
- Trade Policy: 51
- Fiscal Policy: 49
- Other Factor*: 41
- Military Action: 40
- Corporate Debt Downgrade(s): 24
- Housing Slowdown: 20
- Muni Debt Downgrade(s): 10

How will the next recession affect the U.S. housing market?

Impact of next recession on U.S. housing, by share of respondents and severity of expected impact.

Source: Zillow Home Price Expectations Survey, 2017 Q3

*Scores were computed by weighting the factors selected by each respondent according to their indicated importance ranking.
More research and data at www.zillow.com/research

Real Estate Metrics Include:

- Zillow Home Value Index
- Zillow Rent Index
- Zillow Home Value Forecast
- Negative equity
- Sale prices
- Rental prices
- Home sales
- $ value/square foot
- Price-to-income ratios
- Affordability

...and more