U.S. Housing Market Outlook
Summer 2018

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Part I: Price Trends
Home value growth accelerating to fastest pace since 2006

Source: Zillow Home Value Index, April 2018
Appreciation is strongest in pricey coastal markets

Source: Zillow Home Value Index, April 2018
Rents growth has slowed but SFR rents have outpaced the apartment sector for almost a year and a half.

Source: Zillow Rent Index, April 2018.
Rent growth remains strong in inland West Coast markets.

Source: Zillow Rent Index, April 2018
Part II: Supply-Side Factors
Tight inventory has been part of what’s driving price gains

Source: Zillow For-Sale Inventory, April 2018
On-market inventory skewing toward the top of the market

Source: Zillow For-Sale Inventory, April 2018
New construction isn’t going to rescue the for-sale market

Import Price Index for Lumber

Source: Bureau of Labor Statistics
Strong cost headwinds for home builders...

...Which is one reason they are targeting upscale

Source: Zillow Median Sale Price
Part III: Demand-Side Factors
Homeownership rate still low by historic standards

Household formation has shifted recently toward owners...
Driven by millennials, but there’s a long way to go still

Describe your ideal home (age 24-34)

- **Tenure**
  - Own: 92.0%
  - Rent: 8.0%

- **Community Type**
  - Rural: 15.0%
  - Suburban: 51.0%
  - Urban: 35.0%

- **Structure Type**
  - Condo/Coop: 12.0%
  - Detached SFR: 80.0%
  - Townhouse: 8.0%

Source: Zillow Homeownership Aspirations Report, April 2018
Marginal rates will fall for most taxpayers under Tax Reform

Source: Internal Revenue Service
Most itemizers take the State and Local Tax deduction; fewer take the Mortgage Interest Deduction

Higher earners will take a bigger hit from the State and Local Tax cap than from the MID limits.

Source: Internal Revenue Service, Statistics of Income, Tax Year 2015
Tax cuts will spur some renters to upgrade

*If you were to receive a 4% raise, how much of this money, if any, would you spend on...?*

**Owners**
- Home renovations: 15%
- Housing costs (e.g., buy or rent a bigger home): 4%
- Other: 31%
- Savings and investment: 29%
- Paying off debt: 21%

**Renters**
- Housing costs (e.g., buy or rent a bigger home): 11%
- Other: 31%
- Savings and investment: 29%
- Paying off debt: 27%
- Home renovations: 2%
Particularly lower-income renters, who probably won’t buy

*If you were to receive a 4% raise, how much of this money, if any, would you spend on...?*

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Housing costs (e.g., buy or rent a bigger home)</th>
<th>Home renovations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $30,000</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>$30,000 to $50,000</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>$50,000 to $100,000</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>More than $100,000</td>
<td>4%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Zillow Homeownership Aspirations Report, April 2018
The last time the labor market was this strong, mortgage rates were above 8 percent.

Source: Civilian Unemployment Rate, average 30-year fixed mortgage rate, Natural Rate of Unemployment (short-term), and NBER Recessions made available by the Federal Reserve Bank of St. Louis Economic Data (FRED).
Sooner or later, rising mortgage rates will bite buyers

Source: Zillow Affordability, 2018 Q1
Gen Z rising: Rental demand not going away
Generation Z will spend more on rent than any previous generation

A member of Generation Z will spend $203,902 over the 11 years they are expected to rent.

Millennials will spend $202,013 over the 12 years they are expected to rent.

Baby Boomers spent $148,879 over the 10 years they were expected to rent.

Source: HotPads rent data
Years spent renting will ease from recent highs, but continue above historic levels

Source: HotPads rent data
Part IV: Into the Unknown
Near-term macro outlook solid, but risks rise toward 2020

Experts Say Recession Could Hit by Early 2020

When will the next U.S. recession begin?

Source: Zillow Home Price Expectations Survey, 2018 Q2
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