Housing Market Overview: Western Region
Summer 2018

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Outline

• Price trends
• Supply-side factors
• Demand-side factors
• Toward an uncertain future
Part 1: Price Trends
Sharply diverging home value trends across the region over the past two decades
No Western state entirely escaped the boom-bust cycle

Zillow Home Value Index, April 2018
Western urban and suburban markets are seeing nation’s fastest home value appreciation
For most markets nationwide, the top tier has outperformed the bottom tier, but there are key exceptions.
Across most Western markets, home value appreciation is strongest at the bottom of the market.
Urban submarkets are leading in many Western markets, but the suburbs remain strong as well

<table>
<thead>
<tr>
<th>Metro</th>
<th>Suburban</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albuquerque, NM</td>
<td>2.7%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Anchorage, AK</td>
<td>0.0%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Denver, CO</td>
<td>9.4%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>7.2%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Phoenix, AZ</td>
<td>7.2%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>8.2%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Salt Lake City, UT</td>
<td>9.1%</td>
<td>11.2%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>-1.9%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Seattle, WA</td>
<td>13.6%</td>
<td>17.8%</td>
</tr>
</tbody>
</table>
The inland West is now seeing the country’s fastest rent appreciation.
Part 2: Supply-Side Factors
Tight inventory has been part of what’s driving price gains

Source: Zillow For-Sale Inventory, April 2018
For-sale inventory has been on a 3-year slide

<table>
<thead>
<tr>
<th>Metro</th>
<th>All</th>
<th>Bottom Third</th>
<th>Middle Third</th>
<th>Top Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albuquerque, NM</td>
<td>-11.2%</td>
<td>-18.8%</td>
<td>-7.6%</td>
<td>-9.9%</td>
</tr>
<tr>
<td>Anchorage, AK</td>
<td>1.0%</td>
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<td>4.3%</td>
<td>1.0%</td>
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<tr>
<td>Boise City, ID</td>
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<td>-24.1%</td>
<td>-31.3%</td>
<td>-22.8%</td>
</tr>
<tr>
<td>Denver, CO</td>
<td>-12.7%</td>
<td>-22.4%</td>
<td>-10.7%</td>
<td>-9.9%</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>-2.7%</td>
<td>0.7%</td>
<td>-3.8%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Los Angeles, CA</td>
<td>-3.9%</td>
<td>-3.3%</td>
<td>0.2%</td>
<td>-7.3%</td>
</tr>
<tr>
<td>Phoenix, AZ</td>
<td>-13.1%</td>
<td>-13.3%</td>
<td>-10.5%</td>
<td>-14.5%</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>12.7%</td>
<td>22.9%</td>
<td>12.3%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Salt Lake City, UT</td>
<td>28.9%</td>
<td>20.2%</td>
<td>43.0%</td>
<td>24.7%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>-6.1%</td>
<td>-0.8%</td>
<td>-12.6%</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Seattle, WA</td>
<td>-11.7%</td>
<td>-23.7%</td>
<td>-7.7%</td>
<td>-5.8%</td>
</tr>
</tbody>
</table>

Source: Zillow For-Sale Inventory, April 2018
This trend has been exacerbated by market velocity

Source: Zillow Days on Zillow, March 2018
West is no longer primary concentration of negative equity

Source: Zillow Negative Equity
But pockets of deep negative equity remain, with no prospects for an easy recovery.
Home builders are facing tough cost headwinds: Part 1

Import Price Index for Lumber

Source: Bureau of Labor Statistics
Home builders are facing tough cost headwinds: Part 2

...Which is one reason they are targeting upscale
Past decade has seen a boom in SFR rentals

Source: Zillow analysis of U.S. Census Bureau, Current Population Survey, March Socio-Economic Supplement, made available by the University of Minnesota, IPUMS-USA.
SFR rentals concentrated toward middle/bottom of the market inland, but toward the top on the coasts

- Los Angeles, CA: Bottom Tier 29.0%, Middle Tier 35.2%, Top Tier 35.8%
- Dallas, TX: Bottom Tier 34.4%, Middle Tier 43.2%, Top Tier 22.4%
- Houston, TX: Bottom Tier 36.4%, Middle Tier 37.5%, Top Tier 26.1%
- San Francisco, CA: Bottom Tier 33.2%, Middle Tier 33.4%, Top Tier 33.4%
- Phoenix, AZ: Bottom Tier 34.7%, Middle Tier 42.1%, Top Tier 23.1%
- Seattle, WA: Bottom Tier 31.7%, Middle Tier 27.7%, Top Tier 40.6%
- Denver, CO: Bottom Tier 30.2%, Middle Tier 38.3%, Top Tier 31.4%
- Portland, OR: Bottom Tier 34.0%, Middle Tier 35.9%, Top Tier 30.2%
Part 3: Demand-Side Factors
Millennials believe in “The American Dream”
And still aspire to a traditional-style home

Describe your ideal home (age 24-34)

Source: Zillow Homeownership Aspirations Report, April 2018
Homeownership has rebounded toward 1990s rates

Household formation has shifted recently toward owners...

...Driven by millennials, but there’s a long way to go still

Funding a down payment is still a key concern

Mortgage affordability still ok in most places, but that will shift as rates rise more dramatically
For the lowest-earning households, affordability is bleak

<table>
<thead>
<tr>
<th>Region Name</th>
<th>Bottom Third</th>
<th>Middle Third</th>
<th>Top Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>36.4%</td>
<td>20.5%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>20.9%</td>
<td>12.1%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Phoenix, AZ</td>
<td>30.5%</td>
<td>17.0%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>42.7%</td>
<td>22.5%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Salt Lake City, UT</td>
<td>27.4%</td>
<td>15.6%</td>
<td>12.2%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>70.6%</td>
<td>38.5%</td>
<td>28.2%</td>
</tr>
<tr>
<td>Seattle, WA</td>
<td>38.0%</td>
<td>22.3%</td>
<td>18.0%</td>
</tr>
<tr>
<td>United States</td>
<td>23.0%</td>
<td>14.2%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

Source: Zillow Mortgage Affordability, 2016 Q2
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**
- Housing costs (e.g., buy or rent a bigger home) 4%
- Other 31%
- Paying off debt 21%
- Savings and investment 29%
- Home renovations 15%

**Renters**
- Housing costs (e.g., buy or rent a bigger home) 11%
- Other 31%
- Paying off debt 27%
- Savings and investment 29%
- Home renovations 2%
Part 4: Toward an Uncertain Future
Mortgage rates should rise in 2018, but remain relatively low by historic standards
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).
Near-term macro outlook solid, but risks rise toward 2020

Source: Zillow Home Price Expectations Survey, 2018 Q2
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
Thank you.