

SEPTEMBER 2013 (Q3)

Overview

Zillow's third quarter Real Estate Market Reports show home values increased 1.2 percent from the second quarter of 2013 to the third quarter of 2013 to \$163,000 (Figure 1). The quarterly pace of appreciation was roughly half that experienced in the second quarter. On an annual basis, the Zillow Home Value Index (ZHVI) rose 6.4 percent from September 2012 levels (Figure 2). On a monthly basis, home values are flat nationally. Overall, we are seeing a widening slowdown in home value appreciation. In fact, of the top 30 metros, half showed home value depreciation from August to September (note, the Zillow Home Value Index is seasonally adjusted). This slowdown was expected, and shouldn't come as a surprise, as home values have been growing at an unsustainable pace and affordability had been decreasing in light of higher home values and rising mortgage rates. Absent more substantial growth in incomes, some metros where affordability is already back in line with historical levels may see below-normal home value appreciation rates (or even modest declines) as mortgage rates return to normal.

According to the Zillow Home Value Forecast (ZHVF), we expect national home values to increase 3.8 percent over the next year (September 2013 to September 2014). Despite temporary adjustments in home values, of the 252 markets covered by the Zillow Home Value Forecast, 223 markets are expected to see increases in home values over the next year, with the largest increases expected in the Riverside metro (23.9 percent) and the Sacramento metro (16.7 percent). Many California markets follow closely at the top of the list of markets expected to see the highest home value appreciation over the next year. According to the ZHVF, 243 markets (96 percent) have already hit a bottom in home values, another five are expected to hit a bottom by June 2014 and four won't hit bottom this year. These markets are Atlantic City, Ocean City and Vineland in New Jersey and Salisbury in Maryland.

3.8%

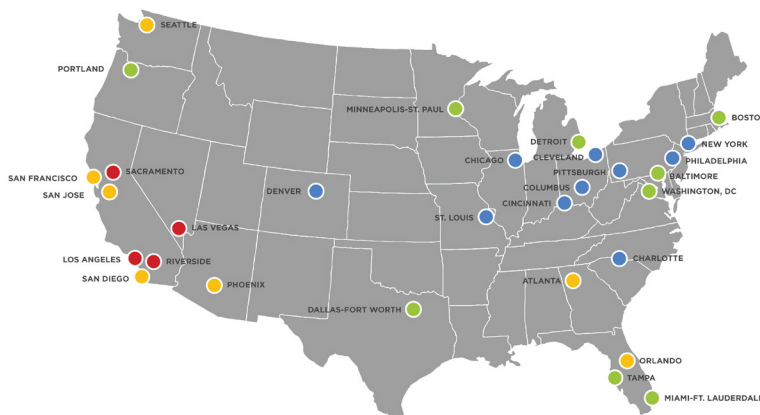
National Forecast

Zillow Housing Outlook

Zillow Home Value Forecast, September 2013 - September 2014

% Home Value Appreciation Over Next 12 Months

- Under 2%
- 2-5%
- 5-10%
- 10% and up



Highlights

- National home values rose 1.2% from the second to the third quarter. The quarterly pace of appreciation was roughly half that experienced in the second quarter.
- Of the 252 markets covered by the Zillow Home Value Forecast, 223 markets are expected to see increases in home values over the next year, with the largest increases expected in the Riverside metro (23.9%) and the Sacramento metro (16.7%).
- Approximately 86% of the metros covered by the Real Estate Market Reports posted annual increases in home values – a sign the national housing recovery is continuing, despite monthly depreciation in some markets.
- The Zillow Rent Index (ZRI) covers 510 metro areas, and 65% of those metros reported annual increases in rents in September. Nationally, rents increased 2% in September from year-ago levels, denoting a slowing. This is a significant annual decline in the rental appreciation rate from its peak appreciation of 6.3% nationally in September 2012.
- The monthly pace of home value appreciation has slowed significantly in many metros. The larger decreases can be seen in markets that we have been carefully watching as having potentially re-emerging home value bubbles, including San Francisco, San Jose, San Diego and Los Angeles. Slowing home value appreciation will help these markets stave off another housing bubble.

Home Values

The Zillow Real Estate Market Reports cover 390 metropolitan and micropolitan areas (metros) of which 291 showed quarterly home value appreciation. Four metros remained flat, while 95 metros show home value losses. Approximately 86 percent of the metros covered by the Real Estate Market Reports posted annual increases in home values – a sign the national housing recovery is continuing, despite monthly depreciation in some markets. Among the largest metros, Sacramento showed the largest annual increase with home values rising 34.1 percent from the third quarter of 2012 to the third quarter of 2013. Sacramento was also one of the metros that was hardest hit during the housing recession and home values are still down 32.5 percent from their October 2005 peak, despite the recent extreme increases in home values. Overall, national home values are back to October 2004 levels, down 16.2 percent since their peak in May 2007.

Figure 1: U.S. Zillow Home Value Index
September 2013

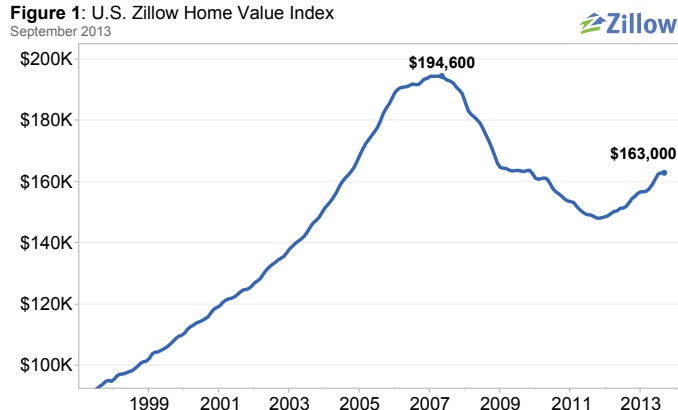
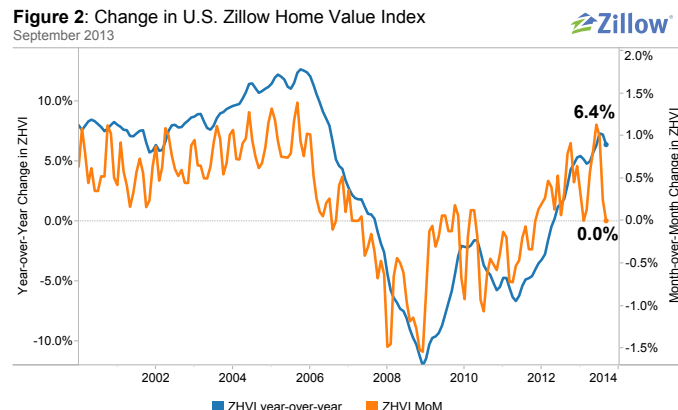


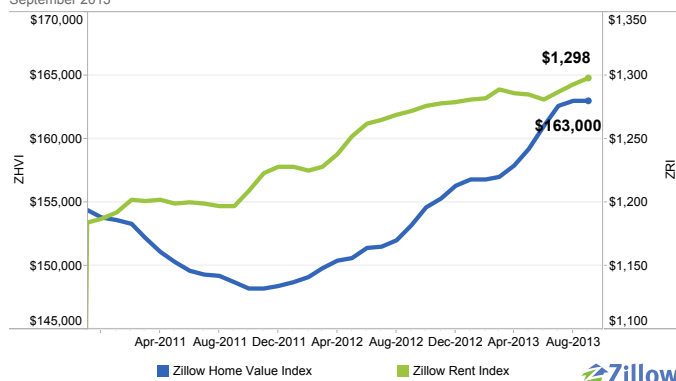
Figure 2: Change in U.S. Zillow Home Value Index
September 2013



Rents

The Zillow Rent Index (ZRI) covers 510 metro areas, and 65 percent of those metros reported annual increases in rents in September. As a point of comparison, approximately 86 percent of the metro areas covered by the ZHVI experienced annual home value increases. Nationally, rents increased 2 percent in September from year-ago levels, denoting a slowing in national rents from their peak appreciation of 6.3 percent nationally in September 2012. Rising home values in the for-sale market paired with lower rates of rental appreciation in many markets is slowing the appetite of real estate investors who are not seeing the same rates of return as earlier. Markets that continue to see extremely strong year-over-year rent increases include New York (7.5 percent), Denver (6.8 percent) and Cincinnati (5 percent).

Figure 3: U.S. Zillow Home Value Index and U.S. Zillow Rent Index
September 2013

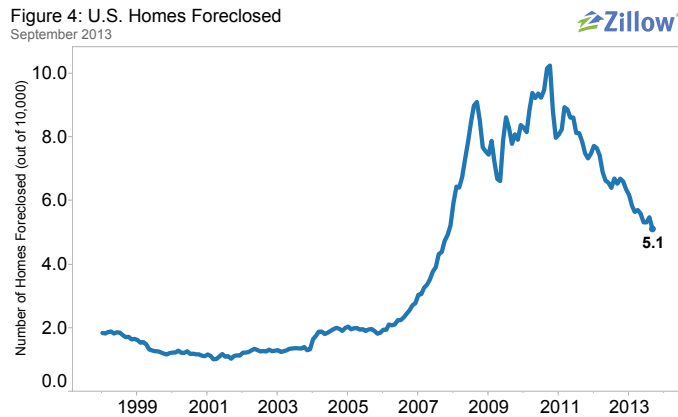


Foreclosures

The rate of homes foreclosed continued to decline in September with 5.12 out of every 10,000 homes in the country being liquidated through foreclosure. With home values having appreciated for almost two years, foreclosures are becoming less and less common. Nationally, foreclosure resales continue to decline, making up 8.32 percent of all sales in September, down 2.7 percentage points from the third quarter of 2012. For-sale inventory levels remain constrained, although constraints are beginning to ease slowly as negative equity rates decrease. The national negative equity rate

stood at 23.8 percent in the second quarter of 2013 with only 8 percent (down from 9.2 percent a year ago) of underwater homeowners being delinquent.

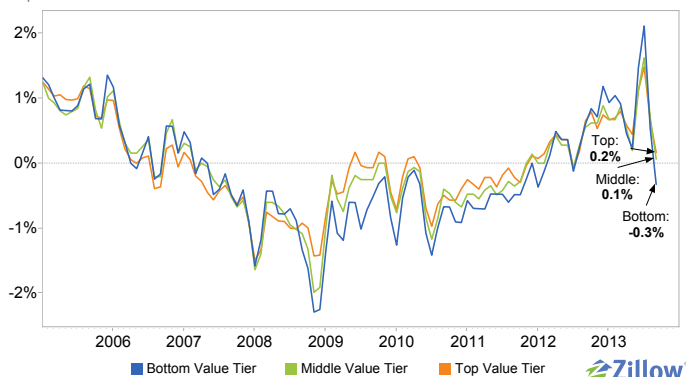
Figure 4: U.S. Homes Foreclosed
September 2013



Price Tiers

Figure 5 shows how the different price tiers of the housing market have been trending over time. We divide the market into the top, middle and bottom third of housing stock by home value. In general, the bottom tier has fared worse during the housing bust and has also been more volatile as it has experienced more extreme swings. Month-over-month depreciation was more pronounced for low-end homes in the midst of the housing recession and despite recent spikes in home value appreciation – especially for low-end homes – they are now the first tier to show depreciation on a national level again. This may be a result of slower demand from real estate investors who have been a major segment in the bottom tier.

Figure 5: Monthly Change in Zillow Home Value Index by Home Value Tier
September 2013



Outlook

The monthly pace of home value appreciation has slowed significantly in many metros. The larger decreases (home values decreasing more than 1 percent per month) can be seen in markets that we have been carefully watching as potentially re-emerging home value bubbles. After becoming enormously affordable during the housing recession, affordability levels in markets like San Francisco, San Jose, San Diego and Los Angeles are again close to historical averages and will become less affordable with rising home values and mortgage rates. Slowing home value appreciation will help these markets stave off another housing bubble. We expect the 30-year fixed mortgage rate to continue increasing and reach 5 percent next year, up from roughly 4.15 percent currently, according to the Zillow Mortgage Marketplace. It is important to remember that this slowdown in home value appreciation was expected and indeed a healthy next step in the housing recovery as appreciation rates get back to a more normal, steady pace.

National Summary

	Oct 2012	Nov 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013	May 2013	Jun 2013	Jul 2013	Aug 2013	Sept 2013
ZHVI (\$)	154,600	155,300	156,300	156,800	156,800	157,000	157,900	159,200	161,000	162,600	163,000	163,000
MoM	0.9%	0.5%	0.6%	0.3%	0.0%	0.1%	0.6%	0.8%	1.1%	1.0%	0.2%	0.0%
YoY	4.3%	4.8%	5.3%	5.4%	5.2%	4.8%	5.0%	5.7%	6.3%	7.3%	7.2%	6.4%
Change from Peak	-20.6%	-20.2%	-19.7%	-19.4%	-19.4%	-19.3%	-18.9%	-18.2%	-17.3%	-16.4%	-16.2%	-16.2%
ZRI (\$)	1,276	1,278	1,279	1,281	1,282	1,289	1,286	1,285	1,281	1,287	1,293	1,298
MoM	0.3%	0.2%	0.1%	0.2%	0.1%	0.5%	-0.2%	-0.1%	-0.3%	0.5%	0.5%	0.4%
YoY	5.5%	4.5%	4.2%	4.3%	4.7%	5.0%	3.9%	2.6%	1.5%	1.7%	1.9%	2.0%
Foreclosure Re-sales	11.0%	10.7%	10.6%	11.5%	12.4%	12.2%	11.3%	10.2%	9.2%	8.4%	8.1%	8.3%

Largest 30 Metropolitan Statistical Areas Covered by Zillow (Data for September 2013)

	ZHVI (\$)	ZHVI MoM	ZHVI YoY	Peak Month	Change from ZHVI Peak	ZRI (\$)	ZRI YoY	Change in ZHVI, Sept. 2013 - Sept. 2014	Bottom in Home Values	Foreclosure Re-Sales (%)
New York, NY	354,200	-0.2%	3.7%	2006-04	-22.1%	2,317	7.5%	0.0%	2012 Q1	1.1%
Los Angeles, CA	479,400	-1.1%	19.9%	2006-02	-22.3%	2,329	2%	10.6%	2012 Q1	7.6%
Chicago, IL	171,800	0.0%	6.2%	2007-01	-34.0%	1,555	2.4%	1.4%	2012 Q1	
Dallas-Fort Worth, TX	143,900	-0.1%	12.3%	2007-11	-2.3%	1,352	3.0%	3.3%	2011 Q4	8.3%
Philadelphia, PA	190,300	-0.5%	3.0%	2007-04	-17.7%	1,503	1.1%	0.2%	2012 Q2	
Washington, DC	342,600	0.1%	8.8%	2005-12	-20.8%	2,092	1.7%	2.2%	2012 Q1	6.4%
Miami-Fort Lauderdale, FL	172,400	0.0%	15.6%	2006-04	-44.2%	1,668	4.7%	2.1%	2011 Q4	
Atlanta, GA	128,500	0.7%	15.7%	2007-03	-26.8%	1,147	2.1%	5.2%	2012 Q3	
Boston, MA	343,200	0.5%	10.2%	2005-07	-9.6%	1,999	2.9%	2.9%	2011 Q4	
San Francisco, CA	629,100	-0.1%	25.0%	2006-01	-11.2%	2,567	3.2%	8.1%	2012 Q1	6.4%
Detroit, MI	96,900	0.4%	23.3%	2005-05	-38.0%	1,048	2.6%	4.6%	2011 Q3	
Riverside, CA	248,400	1.8%	31.8%	2006-04	-38.8%	1,587	2.2%	23.9%	2012 Q1	13.3%
Phoenix, AZ	184,800	1.1%	20.9%	2006-03	-34.6%	1,145	-0.5%	9.0%	2011 Q3	12.1%
Seattle, WA	306,200	-0.1%	15.2%	2007-06	-19.3%	1,688	4.7%	8.1%	2012 Q1	8.5%
Minneapolis-St Paul, MN	199,100	0.5%	16.6%	2006-03	-17.4%	1,467	2.1%	3.6%	2012 Q1	12.1%
San Diego, CA	431,500	-1.2%	20.5%	2005-10	-19.6%	2,157	2.2%	8.4%	2012 Q1	5.8%
St. Louis, MO	128,700	-1.2%	1.8%	2007-03	-18.1%	1,108	0.5%	-1.3%	2012 Q1	
Tampa, FL	128,100	-0.1%	16.0%	2006-05	-41.2%	1,210	2.9%	4.2%	2011 Q3	
Baltimore, MD	231,600	0.0%	6.0%	2007-03	-18.9%	1,685	0.7%	2.0%	2012 Q1	7.9%
Denver, CO	247,000	-0.2%	11.8%	2013-08	-0.2%	1,595	6.8%	1.3%	2011 Q3	5.4%
Pittsburgh, PA	112,700	-0.1%	3.8%	2013-02	-0.4%	1,021	1.5%	1.3%	2008 Q4	2.9%
Portland, OR	259,200	0.5%	15.6%	2007-04	-11.4%	1,443	3.8%	4.6%	2012 Q1	4.2%
Sacramento, CA	284,700	1.1%	34.1%	2005-10	-32.5%	1,470	0.8%	16.7%	2012 Q1	9.4%
Orlando, FL	146,300	1.1%	19.5%	2006-06	-43.4%	1,254	4.6%	8.3%	2012 Q1	
Cincinnati, OH	128,500	-0.1%	4.5%	2008-01	-10.2%	1,113	5.0%	0.2%	2012 Q1	8.1%
Cleveland, OH	114,500	-0.9%	4.1%	2005-11	-19.8%	1,113	3.7%	0.6%	2012 Q1	16.1%
Las Vegas, NV	162,300	2.9%	33.3%	2006-04	-47.5%	1,165	1.6%	11.7%	2012 Q1	12.2%
San Jose, CA	732,300	0.3%	21.6%	2007-01	-0.9%	2,712	4.9%	7.4%	2009 Q2	3.3%
Columbus, OH	132,800	-0.1%	5.7%	2007-02	-9.2%	1,200	4.5%	0.5%	2012 Q1	14.5%
Charlotte, NC	140,300	-0.1%	3.5%	2008-04	-10.1%	1,142	0.0%	-0.2%	2011 Q2	9.0%

Zillow Home Value Index (ZHVI)	The Zillow Home Value Index is the median Zestimate® valuation for a given geographic area on a given day and includes the value of all single-family residences, condominiums and cooperatives, regardless of whether they sold within a given period. The ZHVI at the national level is calculated as the median Zestimate of all homes in the U.S. It is expressed in dollars.
Zillow Rent Index (ZRI)	The Zillow Rent Index is the median Rent Zestimate (estimated monthly rental price) for a given geographic area on a given day, and includes the value of all single-family residences, condominiums, cooperatives and apartments in Zillow's database, regardless of whether they are currently listed for rent. It is expressed in dollars.
Foreclosure Re-sales / REOs	The percentage of sales in a given geography that were foreclosure re-sales (a sale of a home that occurred within 12 months after the home was foreclosed). This metric captures mostly bank-owned sales. Reported monthly and compiled from data dating back to 1998. Each data point is a weighted average of the value in the prior three months (with the most recent month weighted highest). The historical percent of foreclosure re-sales is re-computed twice a month.
Homes Foreclosed	Also referred to the foreclosure liquidation rate. The number out of 10,000 homes in a given geography that have been foreclosed on in a given month. A foreclosure is when a homeowner loses their home to their lending institution or if it is sold to a third party at an auction. Reported monthly and compiled from data dating back to 1998. Each data point is a weighted average of the value in the prior three months (with the most recent month weighted highest). The historical percent of homes foreclosed is re-computed twice a month.
Sold for Loss (%)	The percentage of homes in a given geography that sold for less than the previous purchase price. This excludes foreclosed homes and sales and the consecutive sale of the foreclosed home. Reported monthly and compiled from data dating back to 1998. Each data point is a weighted average of the value in the prior three months (with the most recent month weighted highest). The historical percent of homes sold for a loss is re-computed twice a month.
Peak Month	The month that recorded the highest Zillow Home Value Index to date. For the United States, the peak month was May 2007.
Change from Peak	The percentage change from the month that recorded the highest Zillow Home Value Index to the current month.

About Zillow Real Estate Market Reports

The Zillow Real Estate Market Reports are a monthly overview of the national and local real estate markets. The reports are compiled by Zillow Real Estate Research. For more information visit www.zillow.com/research. The data in Zillow's Real Estate Market Reports is aggregated from public sources by a number of data providers for 929 metropolitan and micropolitan areas dating back to 1996. Mortgage and home loan data is typically recorded in each county and publicly available through a county recorder's office.

About Dr. Stan Humphries, Zillow Chief Economist

Humphries is in charge of data and analytics. He spearheaded the creation of the Zestimate, its algorithm and, in turn, the Zillow Home Value Index. Humphries has a Bachelor of Arts from Davidson College, a Masters of Science in Foreign Service from Georgetown University, and a Ph.D. in Government from the University of Virginia.

About Dr. Svenja Gudell, Zillow Senior Economist

Gudell helps oversee negative equity valuations, forecasting and foreclosure research, among other research topics. She is also involved in research collaborations with other organizations and academics. Gudell holds a Ph.D. in Finance from the University of Rochester, a Masters of Arts in Economics from New York University and a Bachelor of Arts from the University of Rochester.

About Zillow, Inc.

Zillow, Inc. (NASDAQ: Z) operates the largest home-related marketplaces on mobile and the Web, with a complementary portfolio of brands and products that help people find vital information about homes, and connect with the best local professionals. In addition, Zillow operates an industry-leading economics and analytics bureau led by Zillow's Chief Economist Dr. Stan Humphries. Dr. Humphries and his team of economists and data analysts produce extensive housing data and research covering more than 350 markets at Zillow Real Estate Research. Zillow also sponsors the quarterly Zillow Home Price Expectations Survey, which asks more than 100 leading economists, real estate experts and investment and market strategists to predict the path of the Zillow Home Value Index over the next five years. The Zillow, Inc. portfolio includes Zillow.com®, Zillow Mobile, Zillow Mortgage Marketplace, Zillow Rentals, Zillow Digs™, Postlets®, Diverse Solutions®, Agentfolio™, Mortech®, HotPads™ and StreetEasy®. The company is headquartered in Seattle.

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