A RENTAL REVOLUTION: HOW RENTS ARE CHANGING ACROSS THE US

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Rents continue to grow, albeit at a slower pace

Source: Zillow (February 2016)
San Francisco is still seeing double-digit annual rent gains

Source: Zillow (February 2016)
Land Use Regulation

Urban, Suburban rents

Source: Zillow (December 2015)
Share of single-family residences that are rentals

Source: Zillow Analysis of U.S. Census Bureau, Current Population Survey 2000-2014, made available by University of Minnesota, IPUMS-USA
Multi- and single-family markets share general trends

Source: Zillow (March 2016)
Bottom-tier income growth has been flat

Over the 1999-2014 period:
- Top tier incomes grew 36%
- All incomes grew 24%
- Bottom tier incomes grew 16%

Source: Zillow (June 2014)
Nationwide, the share of income spent on rent is well above historic norms

Source: Zillow (2015 Q4)

1985-1999 Average: 26%
2015 Q4: 30%

Source: Zillow (2015 Q4)
Rental affordability is lower than it has ever been in many markets

Source: Zillow (2015 Q4)
Why have rents been rising?

• Rapid increase in renters
• Millennials are renting longer
• Inventory is tight and it is harder to find a home, delaying homeownership
Homeownership rate: Rapid increase in renters

Source: Zillow analysis of U.S. Census Bureau Homeownership Rate for the United States data (January 2016)
Experts expect homeownership rate to rise slightly

- The national homeownership rate had been falling steadily over the past several years.

- On average, experts polled by Zillow say they expect the homeownership rate to rise to 63.7% by 2020

Current homeownership rate

63.8%

Source: U.S. Census Bureau (2015 Q4)
Source: Zillow Home Price Expectations Survey (2015 Q3)
Why have rents been rising?

• Rapid increase in renters

• **Millennials are renting longer**

• Inventory is tight and it is harder to find a home, delaying homeownership
Millennials have positive views of homeownership

<table>
<thead>
<tr>
<th>Owning a home is necessary to live the good life and the American Dream</th>
<th>Owning a home is necessary to be a respected member of society</th>
<th>Owning provides a person more freedom</th>
<th>Buying a home is the best long term investment a person can make</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-34</td>
<td>35-49</td>
<td>50-64</td>
<td>65+</td>
</tr>
<tr>
<td>67%</td>
<td>57%</td>
<td>56%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Source: Zillow Housing Confidence Index
Doubling up is a common strategy to cope with increasingly expensive housing costs

Source: Zillow analysis of U.S. Census Bureau Decennial Census and ACS data, IPUMS
Since 2005, newly formed households have tended to rent.
Comparing first-time buyers now and then (early 1970s)

- Rent on average for 2.6 years before buying
- Were 30.6 years of age
- Households included 3 people
- Purchased a home worth $87k in today's dollars
- Income is $53k in today's dollars

- Rent on average for 6 years before buying
- Are 32.5 years of age
- Households include just 2 people, so no children yet
- Purchased a home worth $140k in today's dollars
- Income is $54k in today's dollars

Source: Zillow analysis of University of Michigan Panel Survey of Income Dynamics
Condos make up more than 40% of first-time home purchases, compared to 28% in 2001.
Urban, Suburban, and Rural home values over time

Source: Zillow (January 2016)
Why have rents been rising?

• Rapid increase in renters
• Millennials are renting longer
• Inventory is tight and it is harder to find a home, delaying homeownership
Supply: limited supply is also contributing to home value growth

Source: Zillow (February 2016)
More top-tier homes are available for sale

Smoothed, Seasonally Adjusted Data
Source: Zillow (February 2016)
Homes currently listed for sale are selling more quickly than in the past

Source: Zillow (January 2016)
New home sales are lagging

Source: U.S. Census Bureau – Existing Home Sales; National Association of Realtors – New Home Sales (February 2016)
Mortgage rates are hovering near all time lows

Source: Zillow Mortgages (December 2015)
Nationwide, the share of income spent on a mortgage payment is well below historic norms

1985-1999 Average: 21%

2015 Q4: 15%

Source: Zillow (2015 Q4)
<table>
<thead>
<tr>
<th>Region</th>
<th>Share of Income Spent on Mortgage 1985-2000</th>
<th>Average Share of Income Spent on Mortgage at 5%</th>
<th>Forecasted Rates at 7%</th>
<th>Forecasted Rates at 6%</th>
<th>Forecasted Rates at 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>15%</td>
<td>21%</td>
<td>17%</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>14%</td>
<td>23%</td>
<td>16%</td>
<td>18%</td>
<td>20%</td>
</tr>
<tr>
<td>Los Angeles, CA</td>
<td>40%</td>
<td>47%</td>
<td>47%</td>
<td>52%</td>
<td>58%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>41%</td>
<td>36%</td>
<td>39%</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td>New York, NY</td>
<td>25%</td>
<td>29%</td>
<td>29%</td>
<td>32%</td>
<td>36%</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>17%</td>
<td>23%</td>
<td>20%</td>
<td>22%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Mortgage affordability in the largest metros
### The Breakeven Horizon

#### Metros with the Longest Breakevens

1. Honolulu, HI: 6 years
2. Washington, DC: 4.5 years
3. Los Angeles, CA: 4.1 years
4. Stamford, CT: 4.1 years
5. Lancaster, PA: 4 years

#### Metros with the Shortest Breakevens

1. Memphis, TN: 1.1 years
2. Syracuse, NY: 1.2 years
3. Dallas, Texas: 1.3 years
4. Jackson, MS: 1.3 years
5. Columbia, SC: 1.3 years

Source: Zillow (December 2015)
OUTLOOK
The rate of permits for multifamily is beyond pre-recession levels

Source: Zillow (March 2016)
Strong new deliveries have not tampered absorption

Source: U.S. Census Bureau, Survey of Market Absorption of New Multifamily Units, 2015-Q4
Absorption rates remain constant, and seasonal

Source: U.S. Census Bureau, Survey of Market Absorption of New Multifamily Units, 2015-Q4
Absorption is fastest at the very lowest & highest ends

Source: U.S. Census Bureau, Survey of Market Absorption of New Multifamily Units, 2015-Q4
Rental Forecast

Source: Zillow (March 2016)
Find more on www.zillow.com/research

- Local market reports
- Real estate trends
- Housing affordability
- Forecasting

...and more