

A photograph of a modern, two-story house at dusk. The house has a dark, flat roof and large windows that are illuminated from within. A large tree is on the left, and a bamboo bush is in the foreground. A blue and green geometric overlay covers the middle of the image, containing the title and speaker information.

A RENTAL REVOLUTION: HOW RENTS ARE CHANGING ACROSS THE US

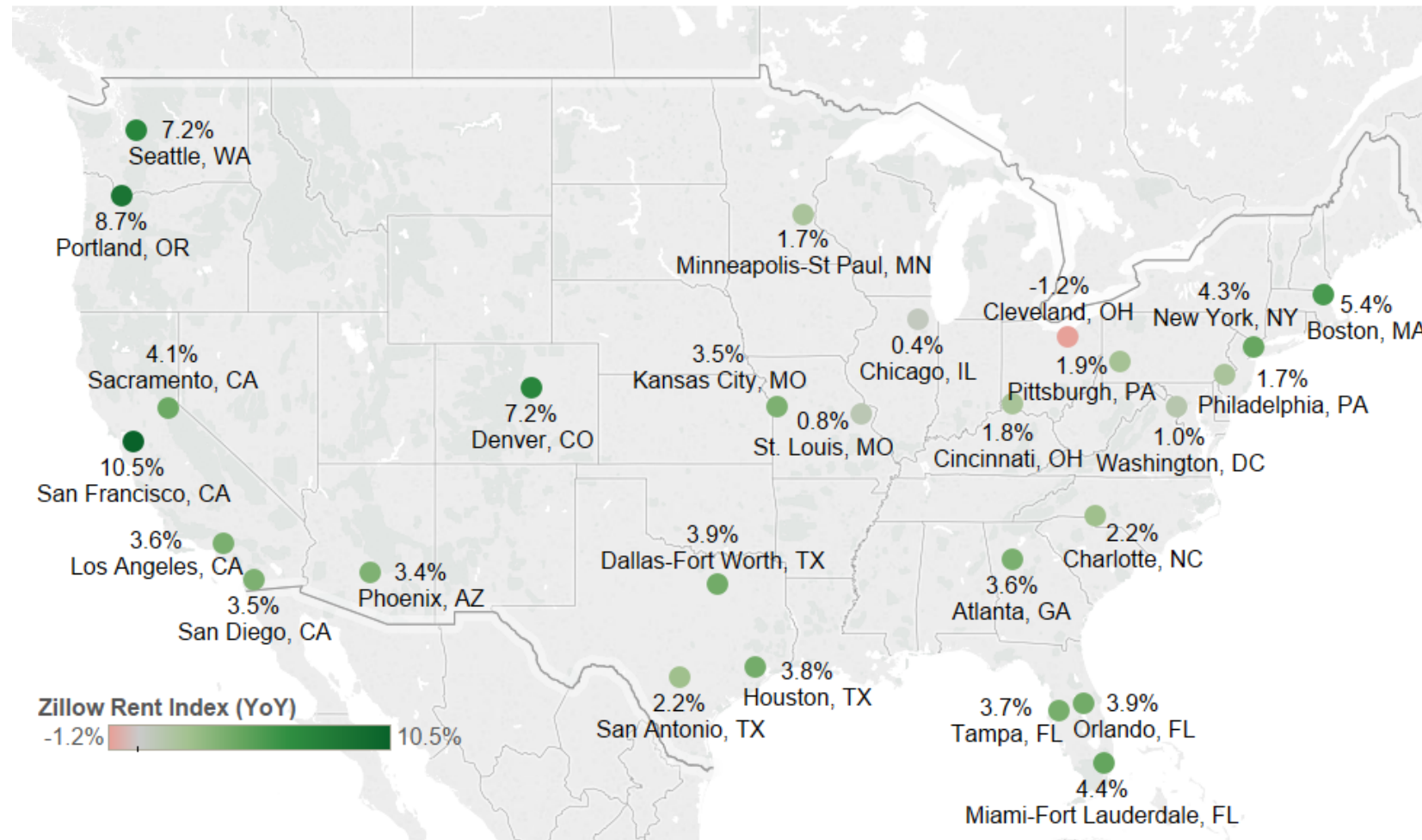
Svenja Gudell, Chief Economist
@SvenjaGudell

Rents continue to grow, albeit at a slower pace



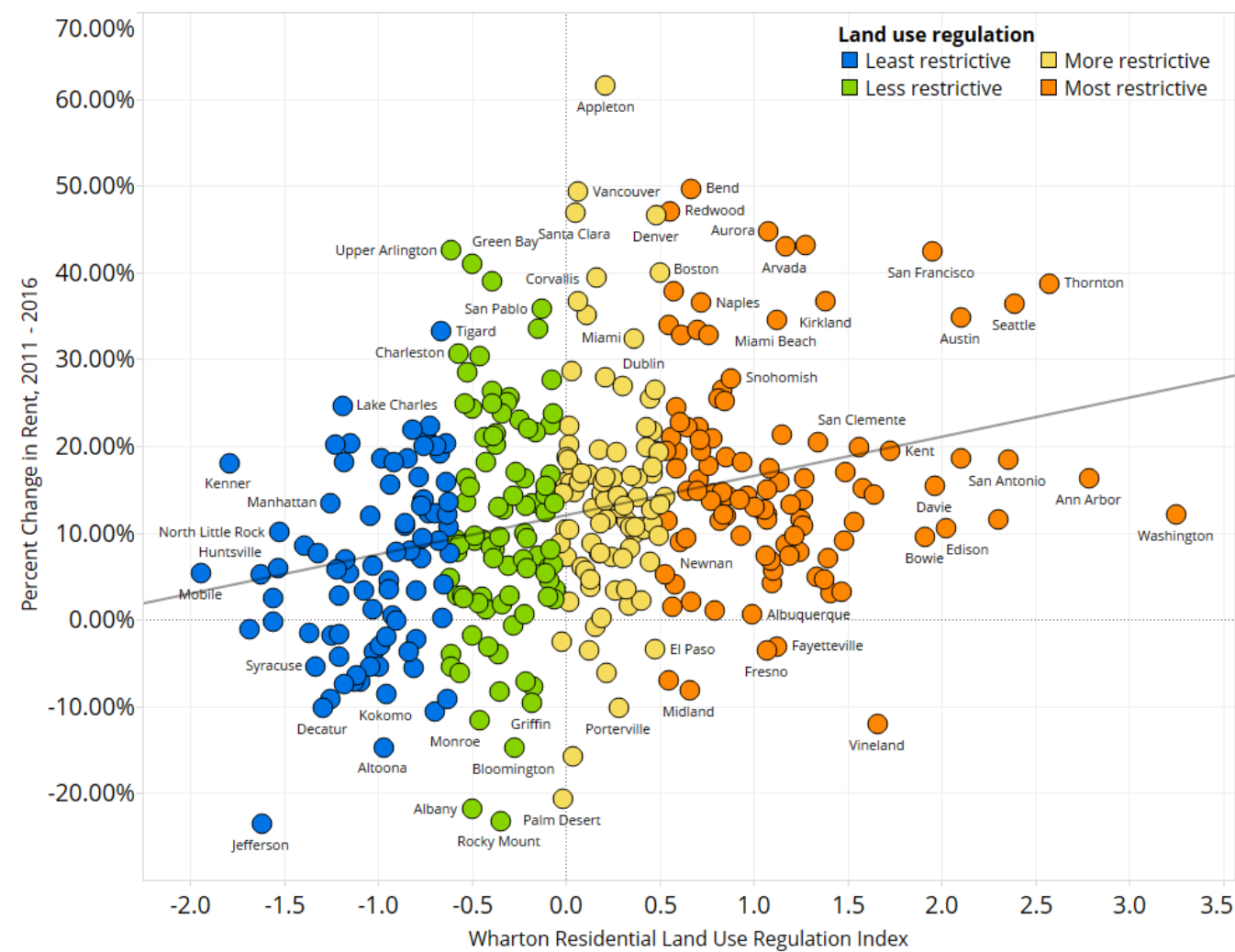
Source: Zillow (February 2016)

San Francisco is still seeing double-digit annual rent gains



Source: Zillow (February 2016)

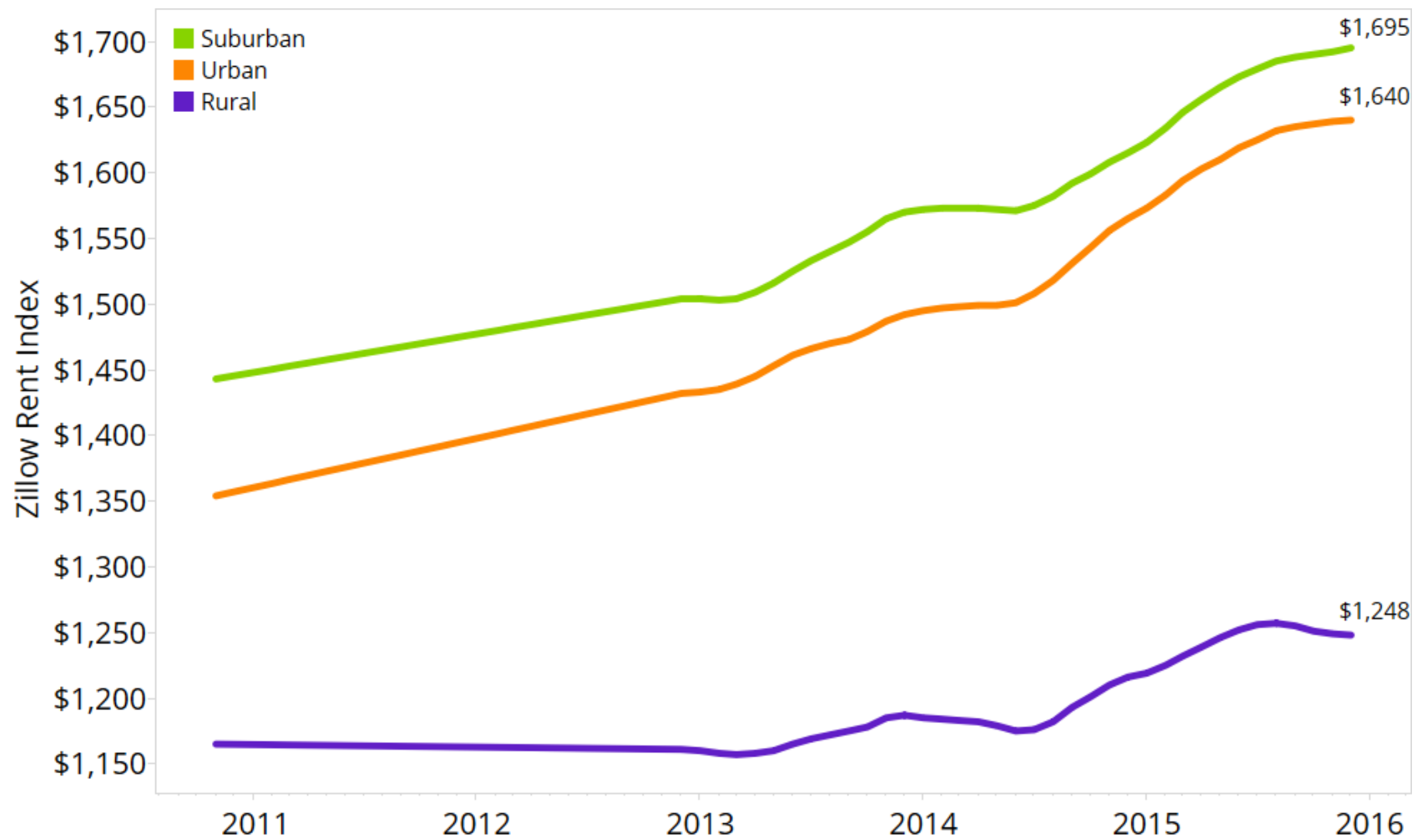
Land Use Regulation



Source: Zillow analysis of data from the Wharton Residential Land Use Regulation Index, 2008, and Zillow Rent Index, January 2011 - January 2016

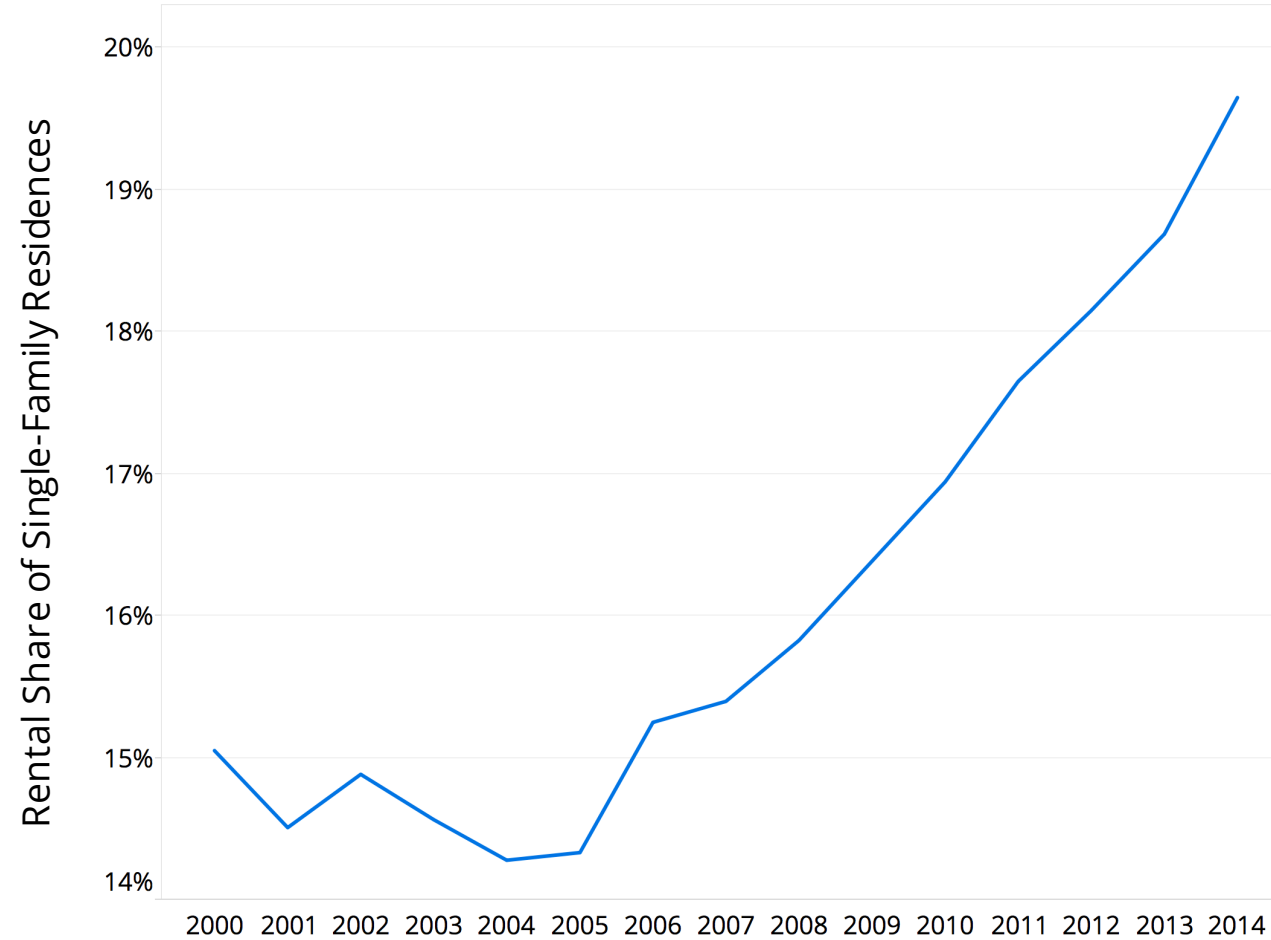


Urban, Suburban rents



Source: Zillow (December 2015)

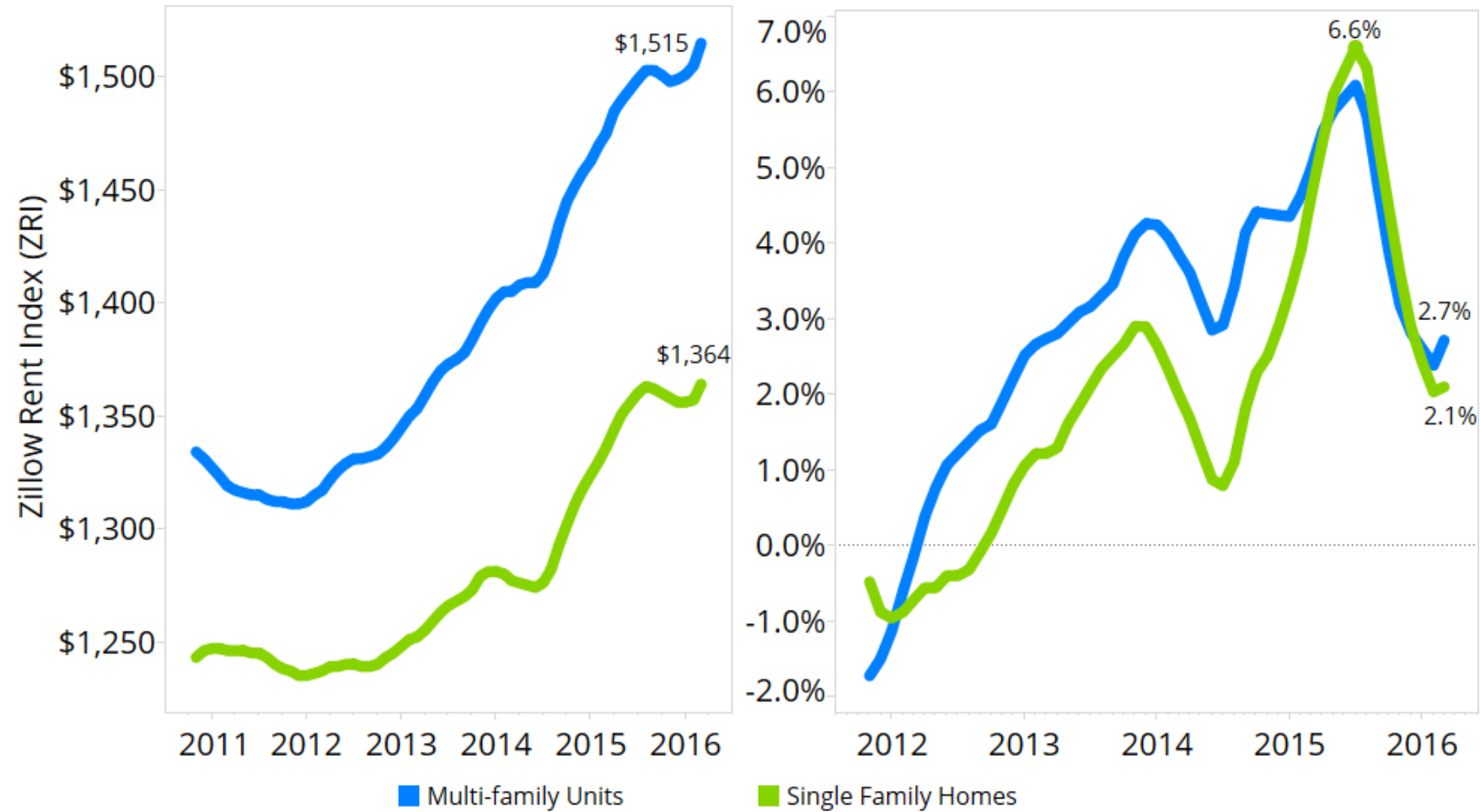
Share of single-family residences that are rentals



Source: Zillow Analysis of U.S. Census Bureau, Current Population Survey
2000-2014, made available by University of Minnesota, IPUMS-USA

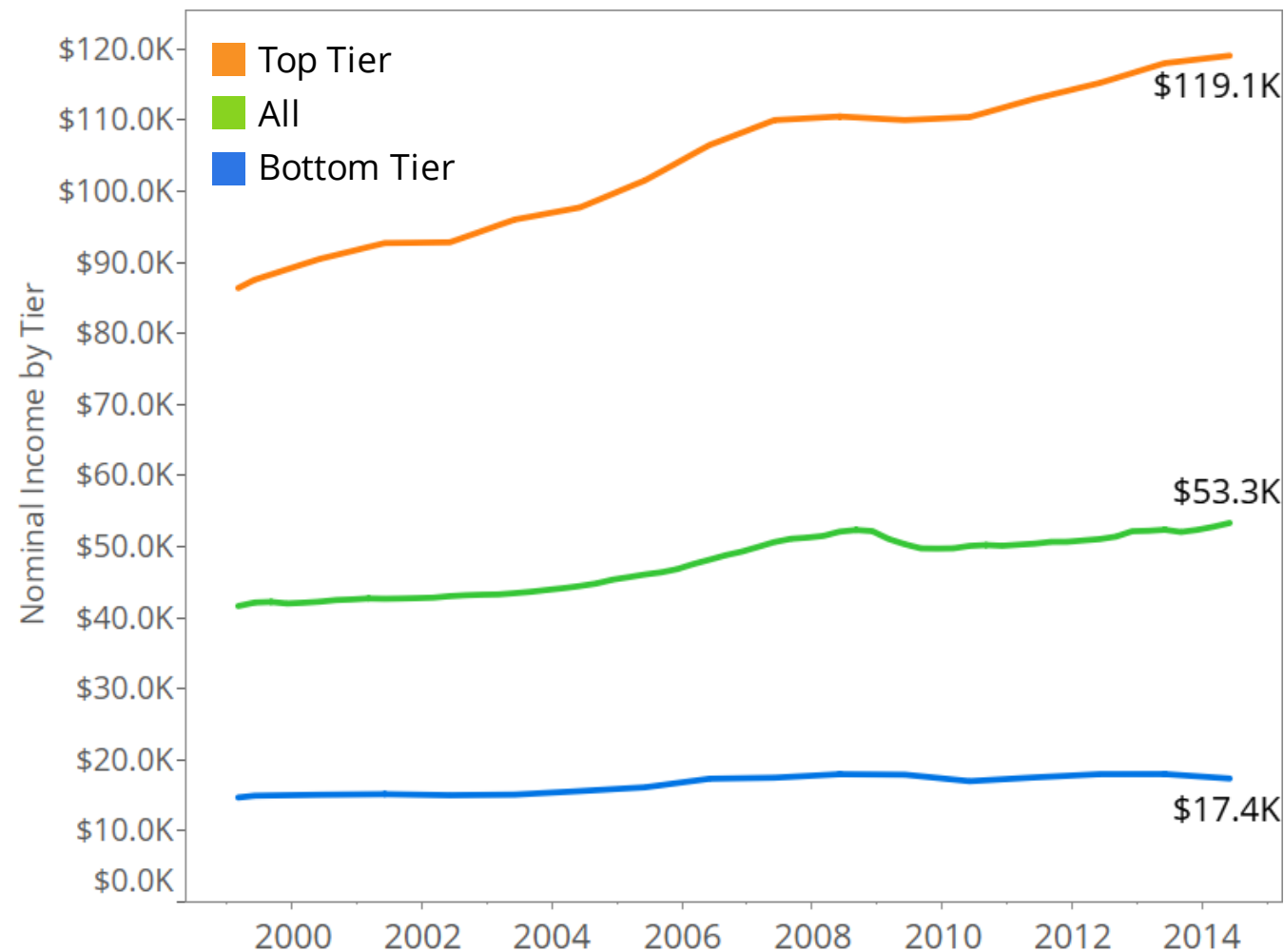
Multi- and single-family markets share general trends

Median Rental Value by Segment, March 2016



Source: Zillow (March 2016)

Bottom-tier income growth has been flat

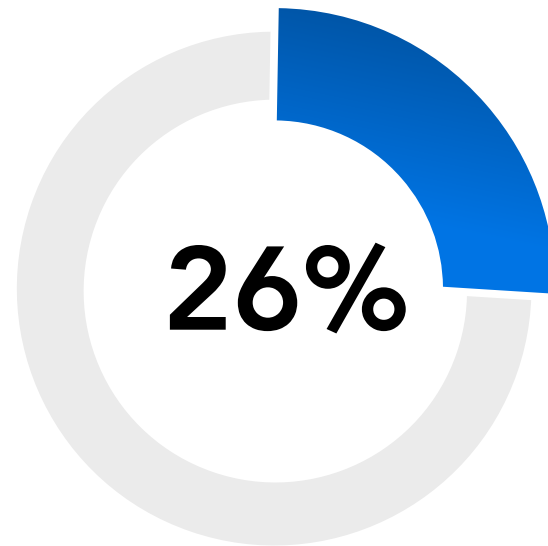


Source: Zillow (June 2014)

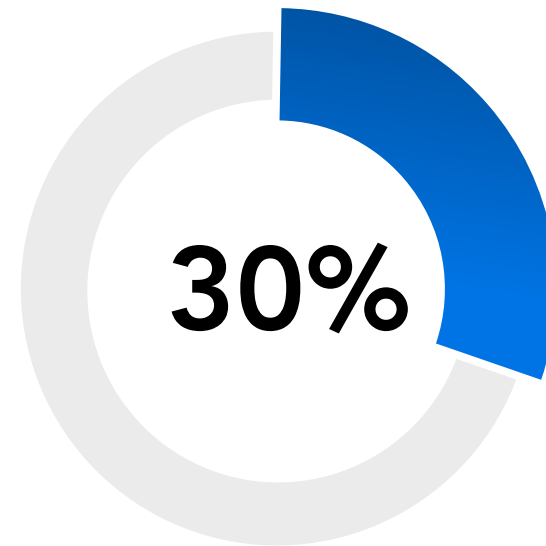
Over the 1999-2014 period:

- Top tier incomes grew **36%**
- All incomes grew **24%**
- Bottom tier incomes grew **16%**

Nationwide, the share of income spent on rent is well above historic norms



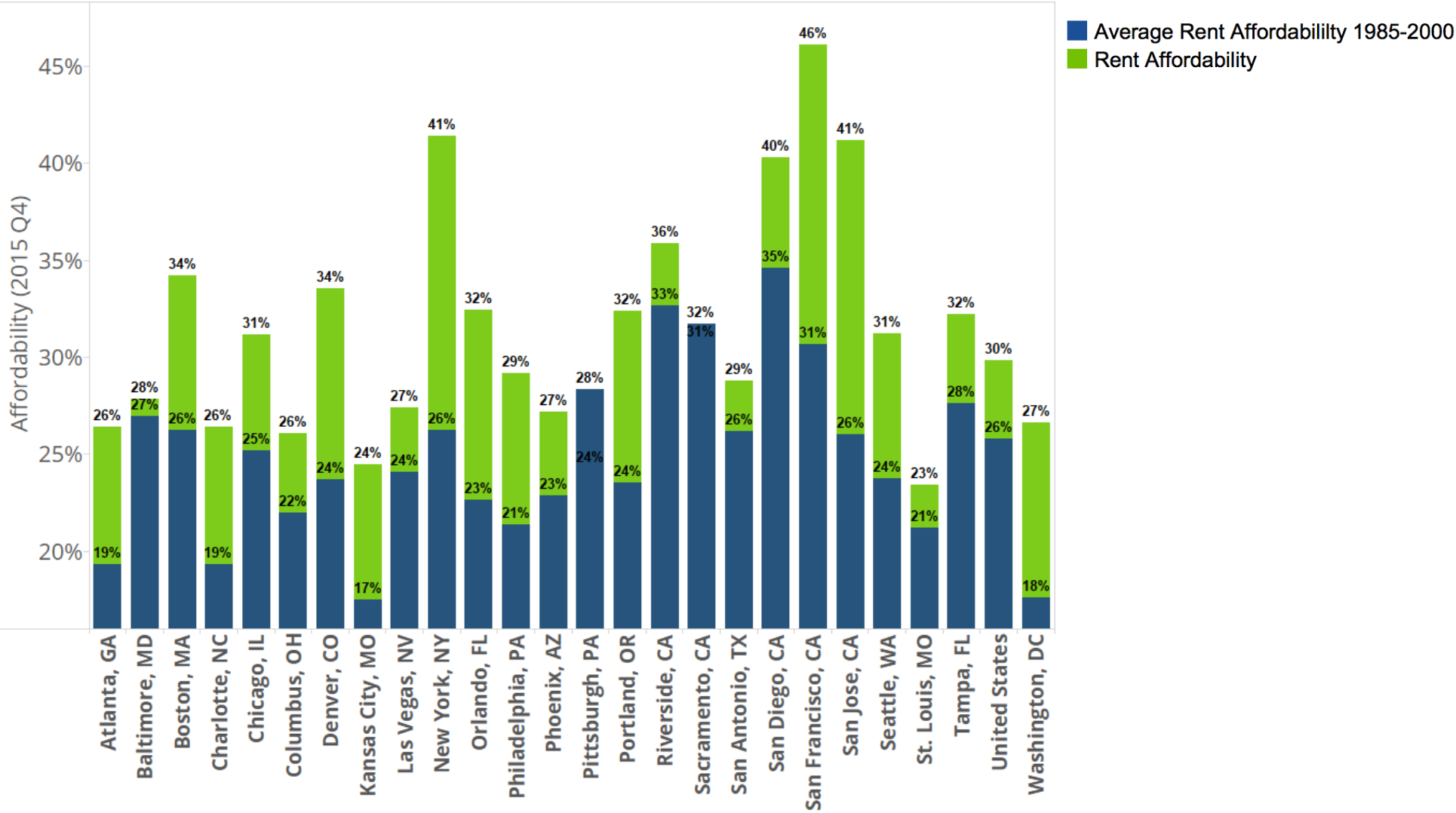
1985-1999 Average



2015 Q4

Source: Zillow (2015 Q4)

Rental affordability is lower than it has ever been in many markets



Source: Zillow (2015 Q4)

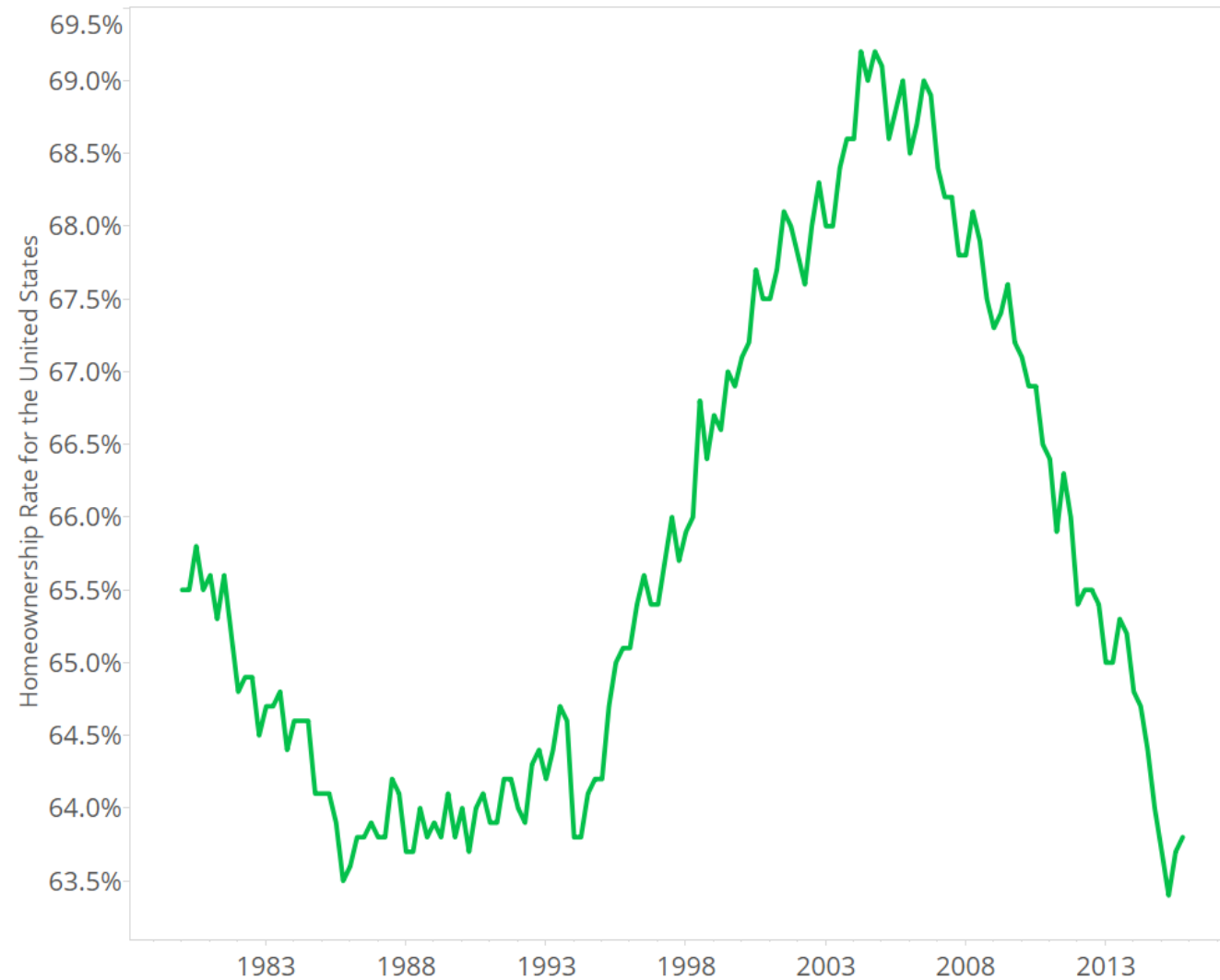




Why have rents been rising?

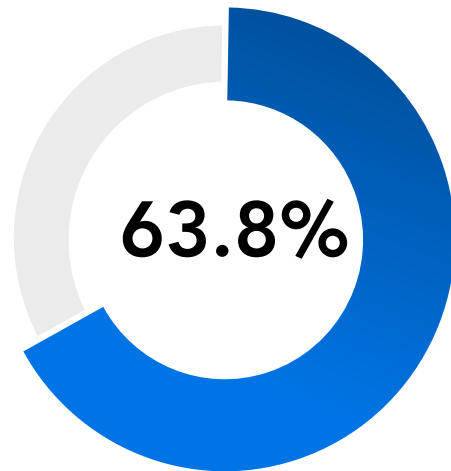
- **Rapid increase in renters**
- Millennials are renting longer
- Inventory is tight and it is harder to find a home, delaying homeownership

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



Current homeownership rate

Source: U.S. Census Bureau (2015 Q4)

- 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

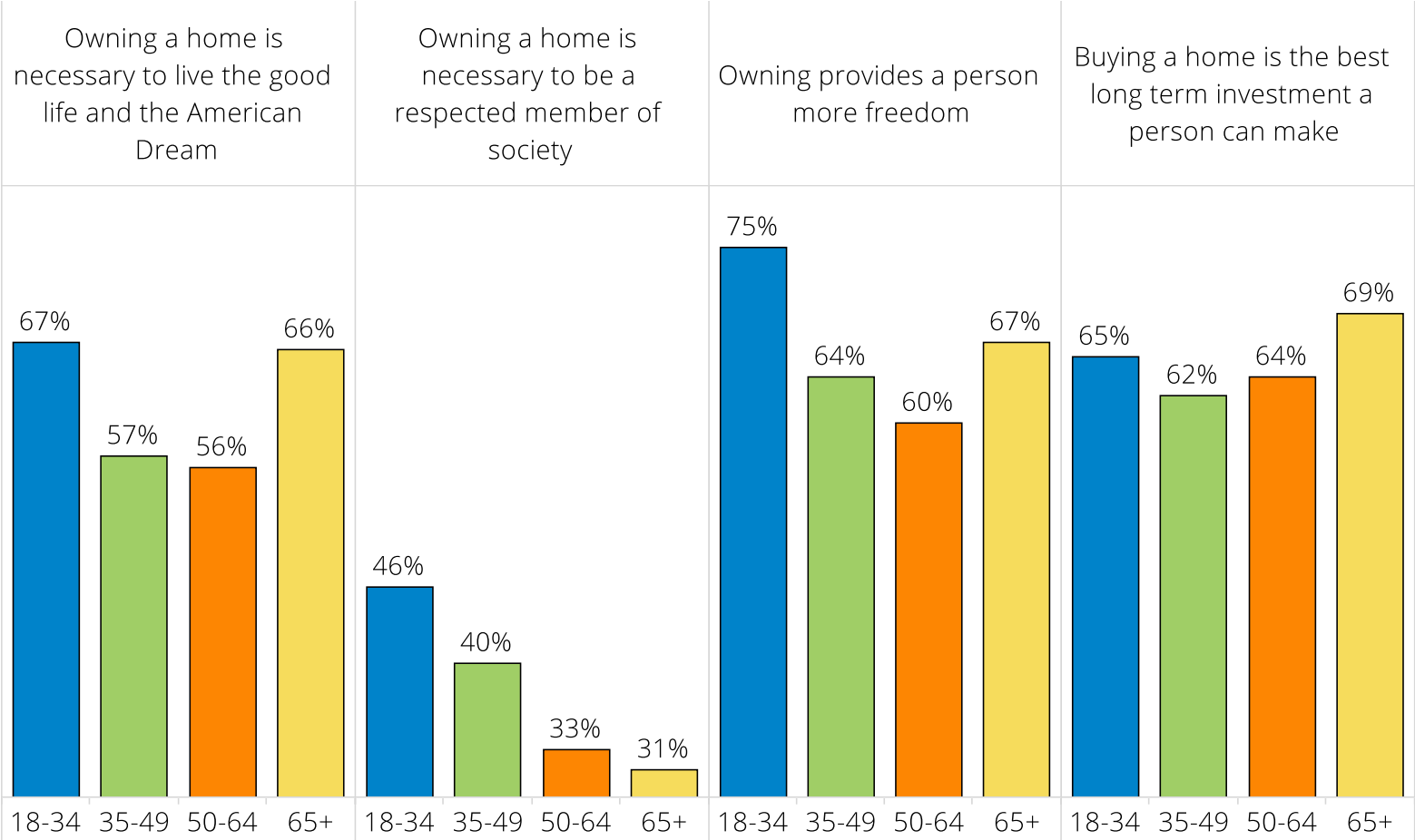
Source: Zillow Home Price Expectations Survey (2015 Q3)



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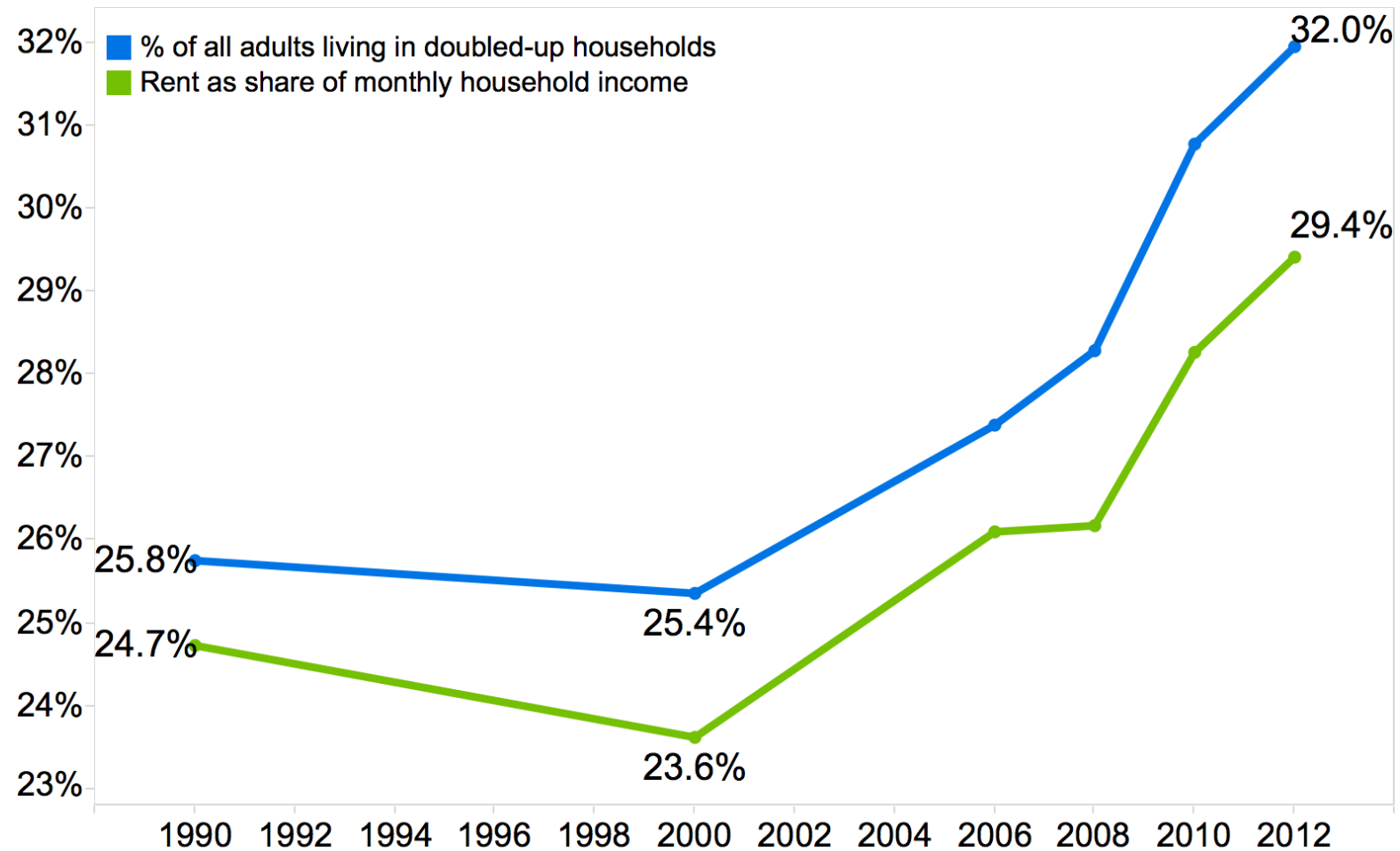
Millennials have positive views of homeownership



Source: Zillow Housing Confidence Index

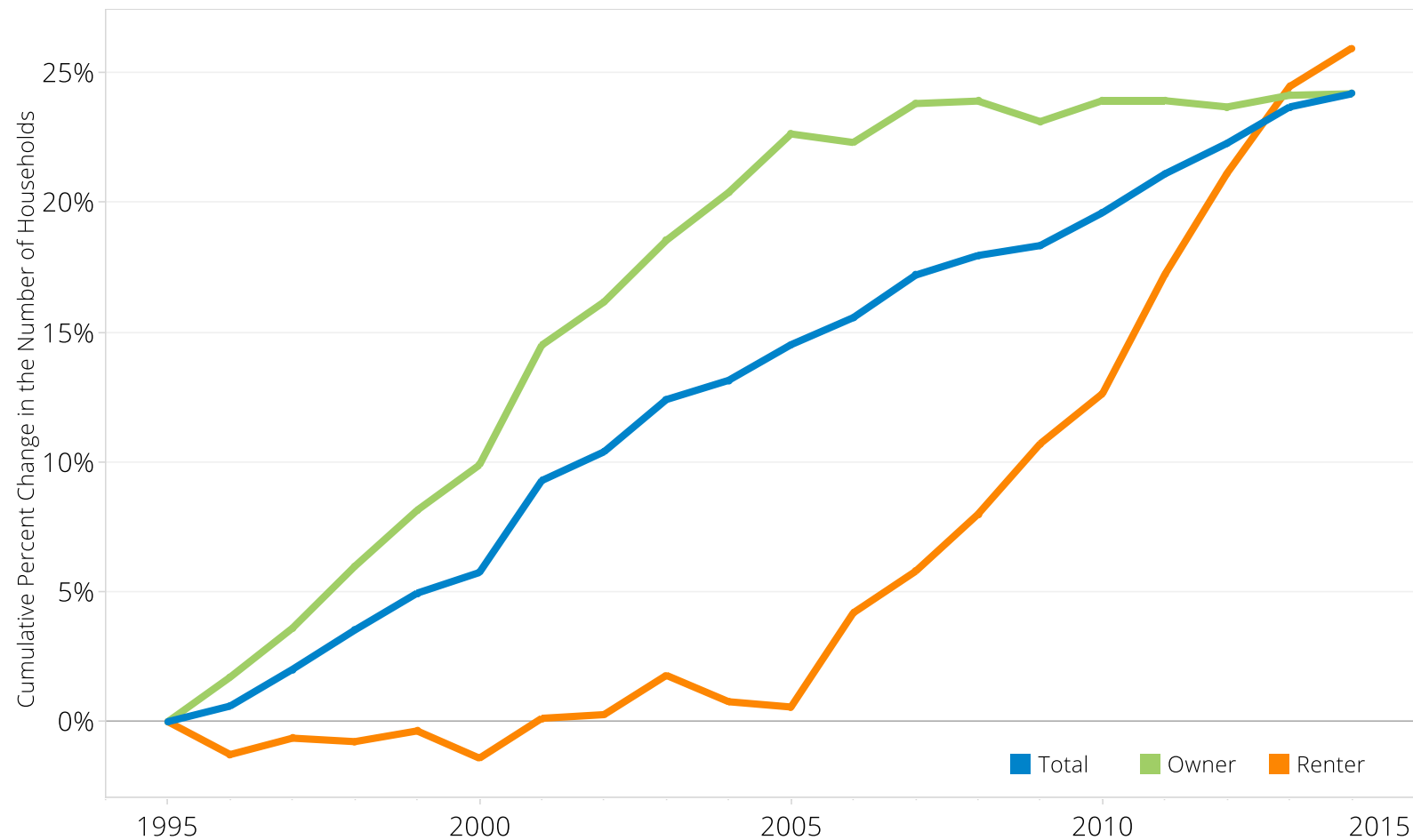


Doubling up is a common strategy to cope with increasingly expensive housing costs



Source: Zillow analysis of U.S. Census Bureau
Decennial Census and ACS data, IPUMS

Since 2005, newly formed households have tended to rent



Source: Zillow analysis of U.S. Census Bureau CPS Survey data 1995-2014, IPUMS



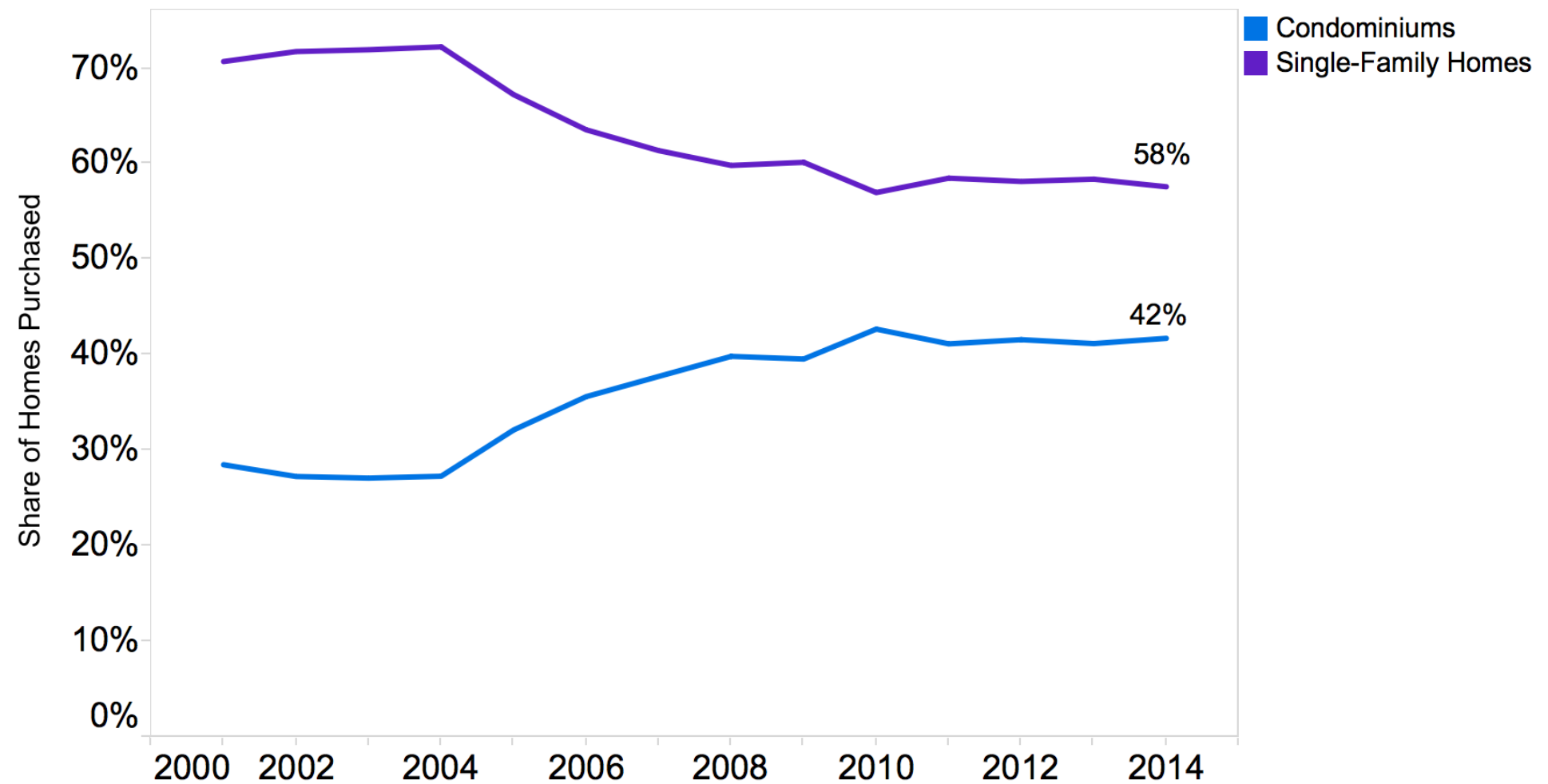
Comparing first-time buyers now and then (early 1970s)

- 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

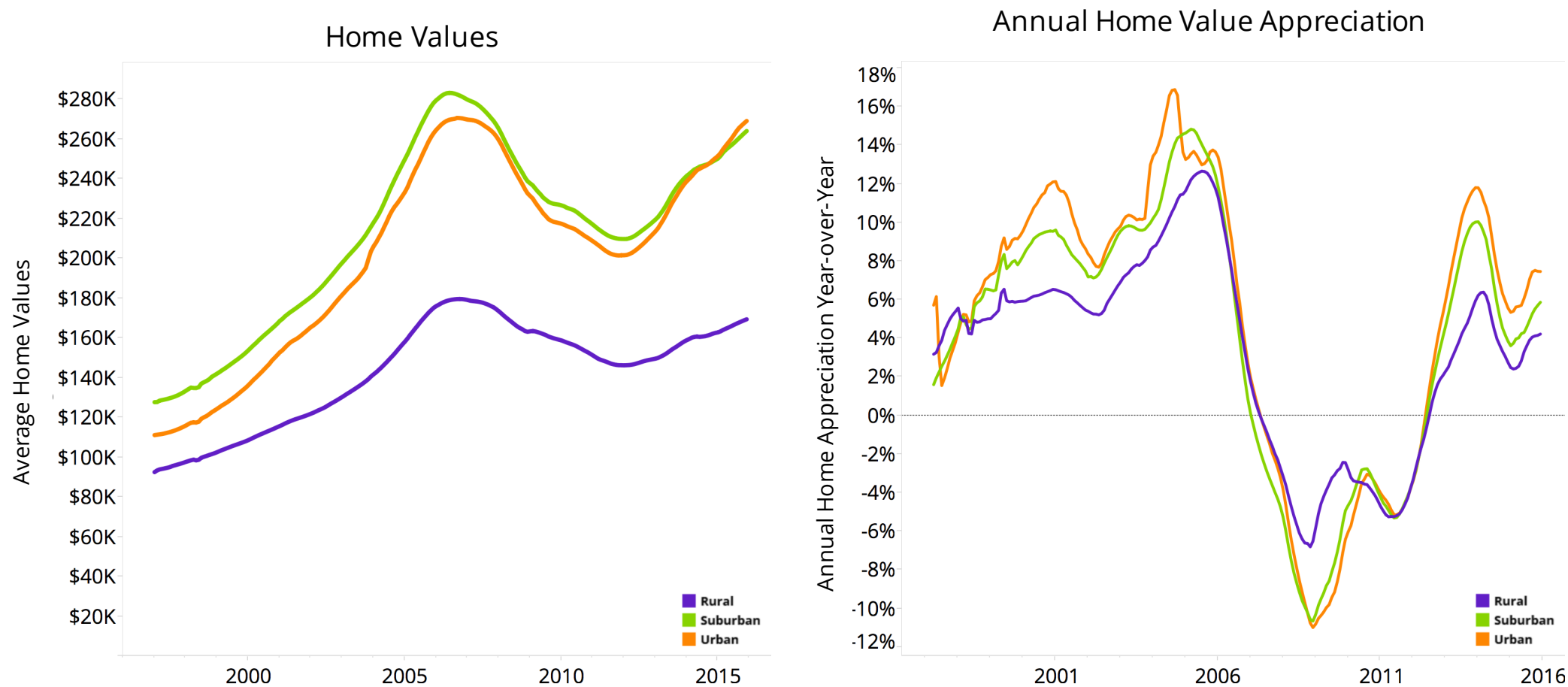
Source: Zillow analysis of University of Michigan Panel Survey of Income Dynamics

Condos make up more than 40% of first-time home purchases, compared to 28% in 2001



Source: Zillow analysis of Fannie Mae Single-Family Loan performance credit data

Urban, Suburban, and Rural home values over time



Source: Zillow (January 2016)

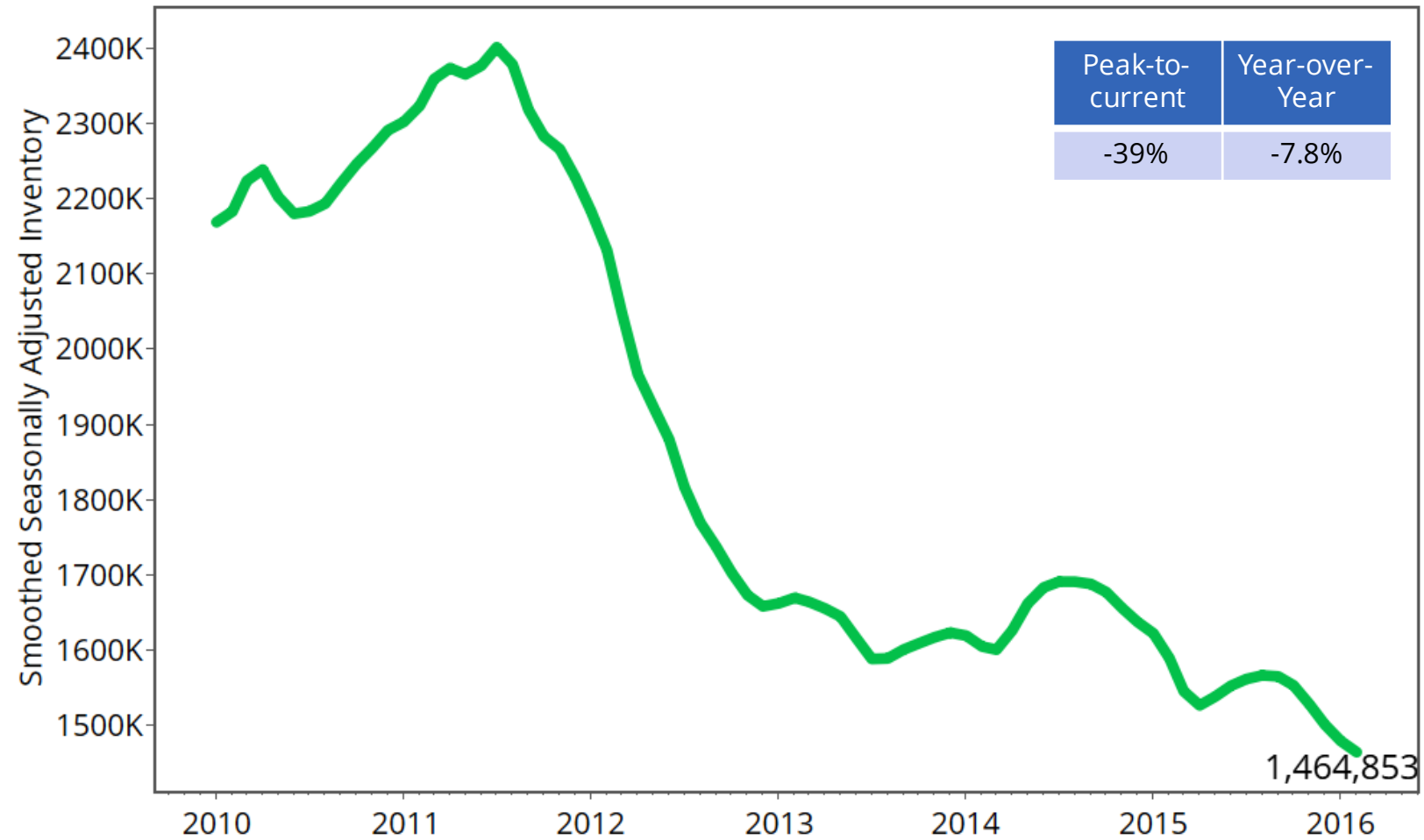




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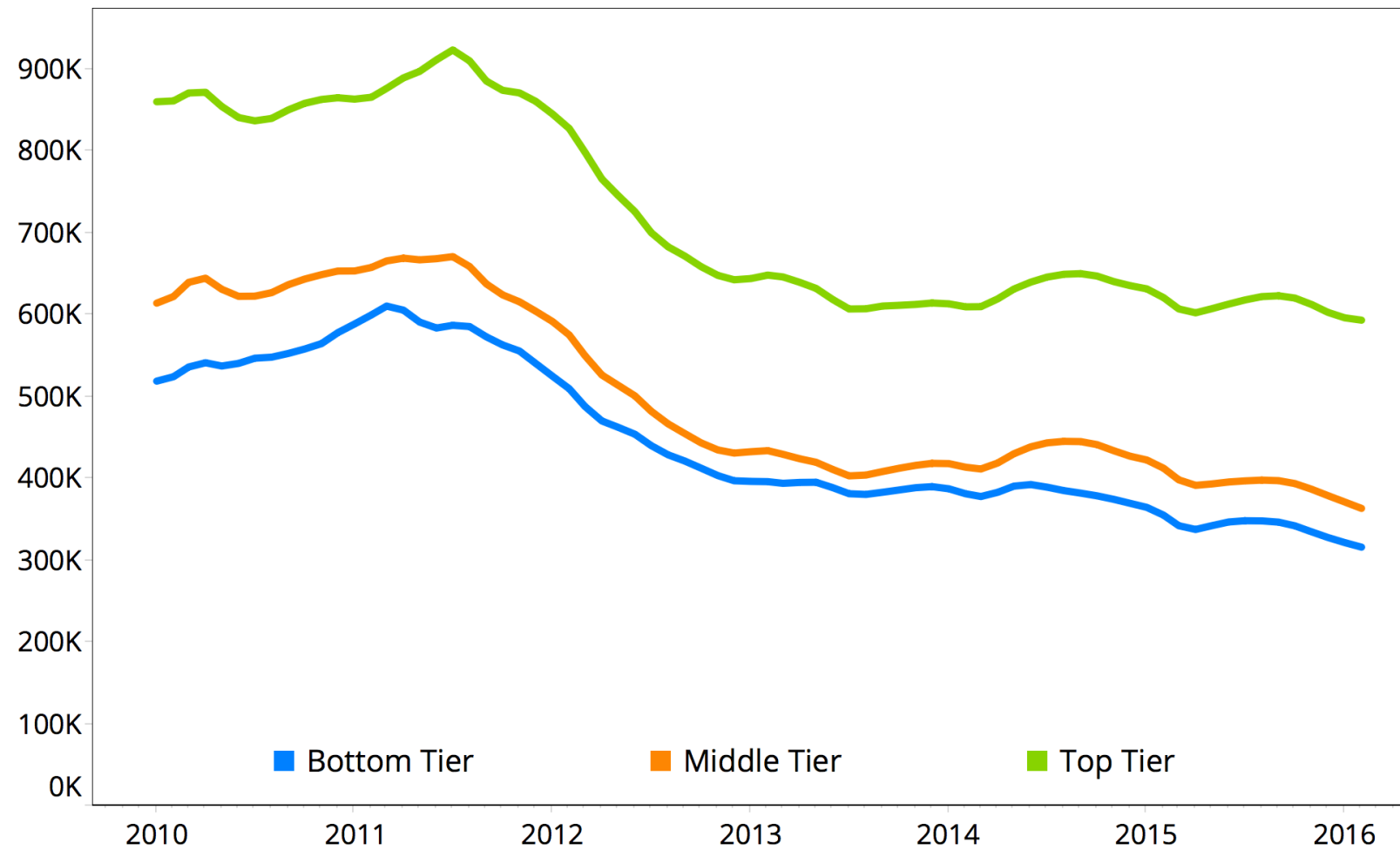
- Rapid increase in renters
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- **Inventory is tight and it is harder to find a home, delaying homeownership**

Supply: limited supply is also contributing to home value growth



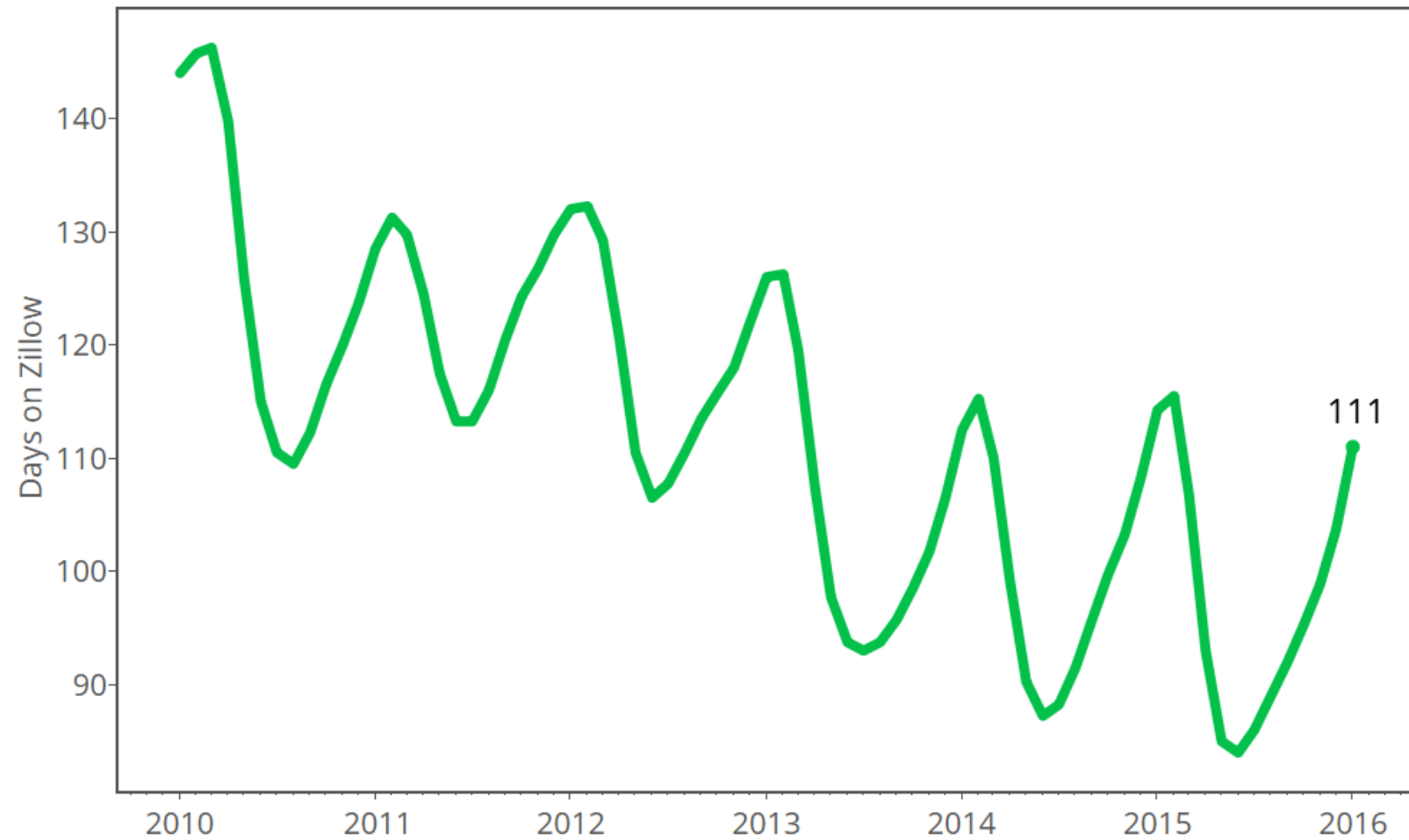
Source: Zillow (February 2016)

More top-tier homes are available for sale



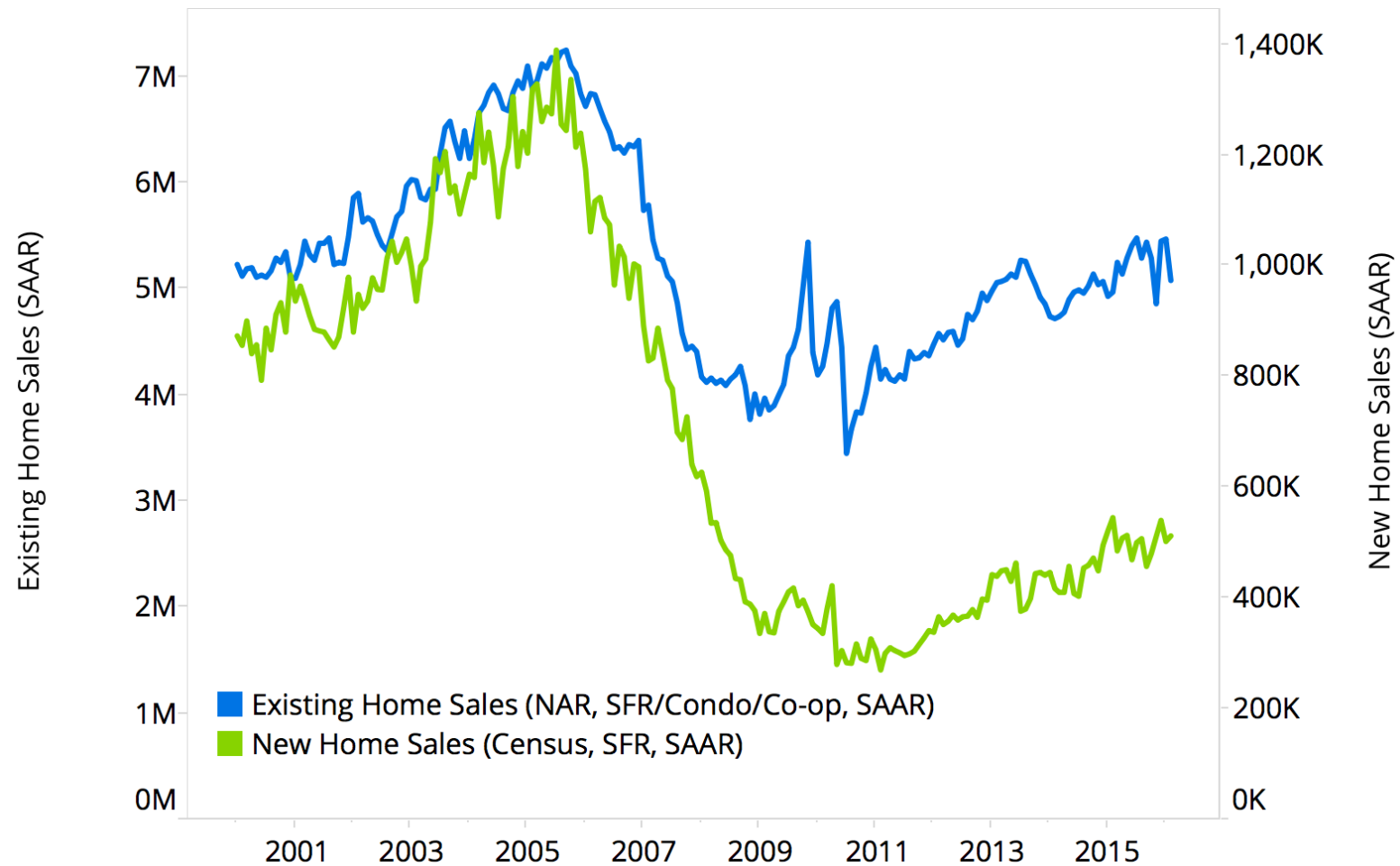
Smoothed, Seasonally Adjusted Data
Source: Zillow (February 2016)

Homes currently listed for sale are selling more quickly than in the past



Source: Zillow (January 2016)

New home sales are lagging

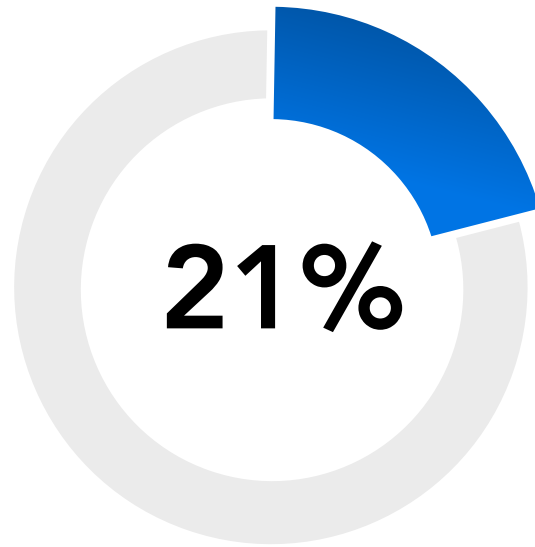


Source: U.S. Census Bureau – Existing Home Sales; National Association of Realtors – New Home Sales (February 2016)

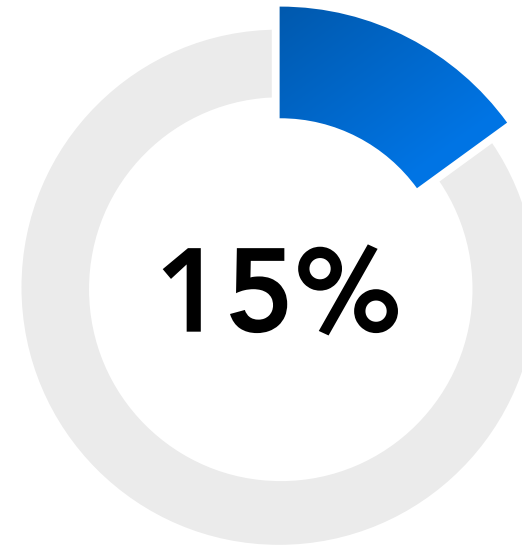
Mortgage rates are hovering near all time lows



Nationwide, the share of income spent on a mortgage payment is well below historic norms



1985-1999 Average



2015 Q4

Source: Zillow (2015 Q4)

Mortgage affordability in the largest metros

| Region | Share of Income Spent on Mortgage | Average Share of Income Spent on Mortgage 1985 – 2000 | Forecasted at 5% Rates | Forecasted at 6% Rates | Forecasted at 7% Rates |
|-------------------|-----------------------------------|---|------------------------|------------------------|------------------------|
| United States | 15% | 21% | 17% | 19% | 22% |
| Chicago, IL | 14% | 23% | 16% | 18% | 20% |
| Los Angeles, CA | 40% | 36% | 47% | 52% | 58% |
| New York, NY | 25% | 30% | 29% | 32% | 36% |
| San Francisco, CA | 41% | 39% | 48% | 54% | 59% |
| Washington, DC | 17% | 23% | 20% | 22% | 24% |

Source: Zillow (2015 Q4)





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

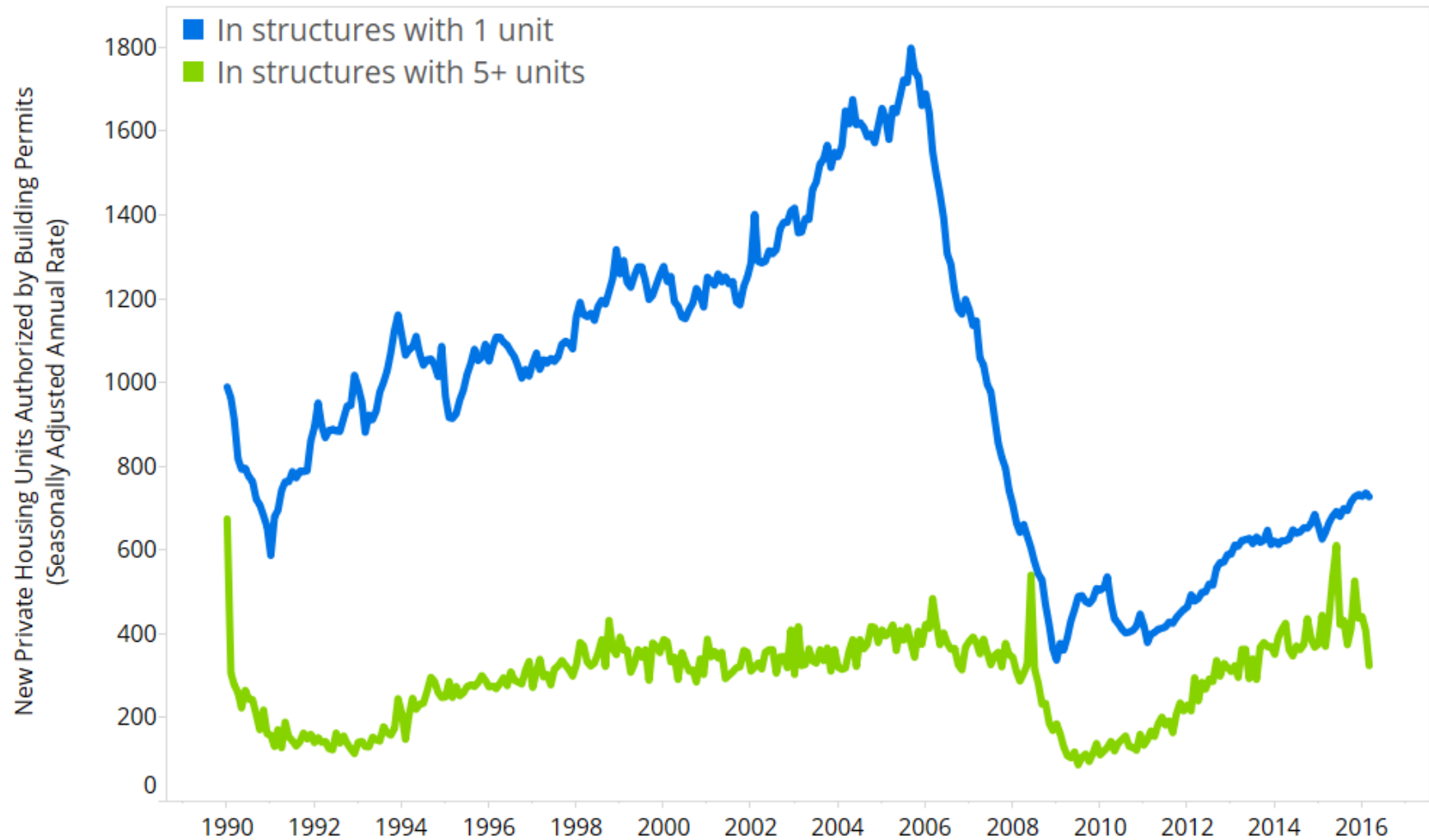
Metros with the Shortest Breakevens

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)

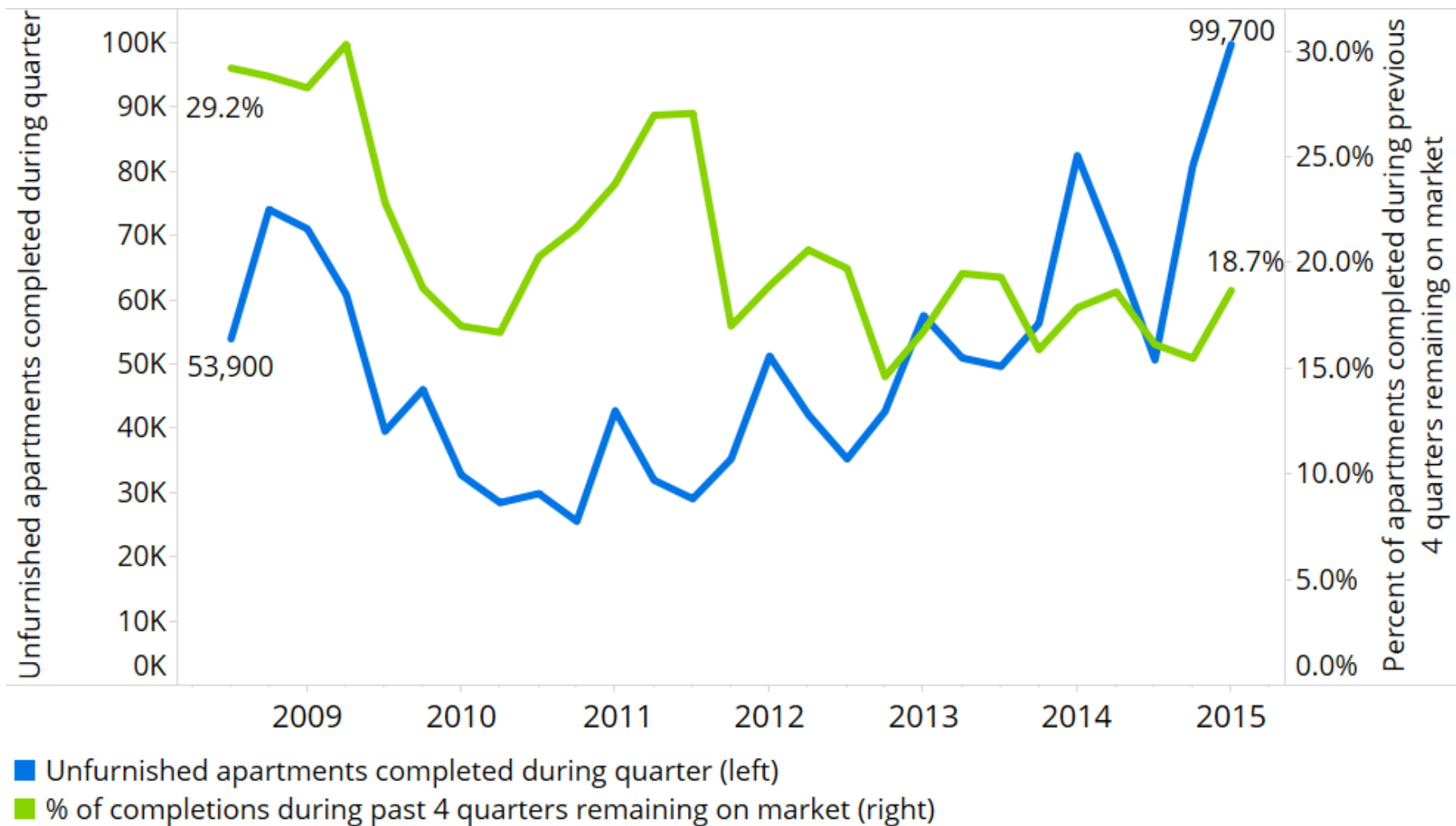
OUTLOOK

The rate of permits for multifamily is beyond pre-recession levels



Source: Zillow (March 2016)

Strong new deliveries have not tampered absorption

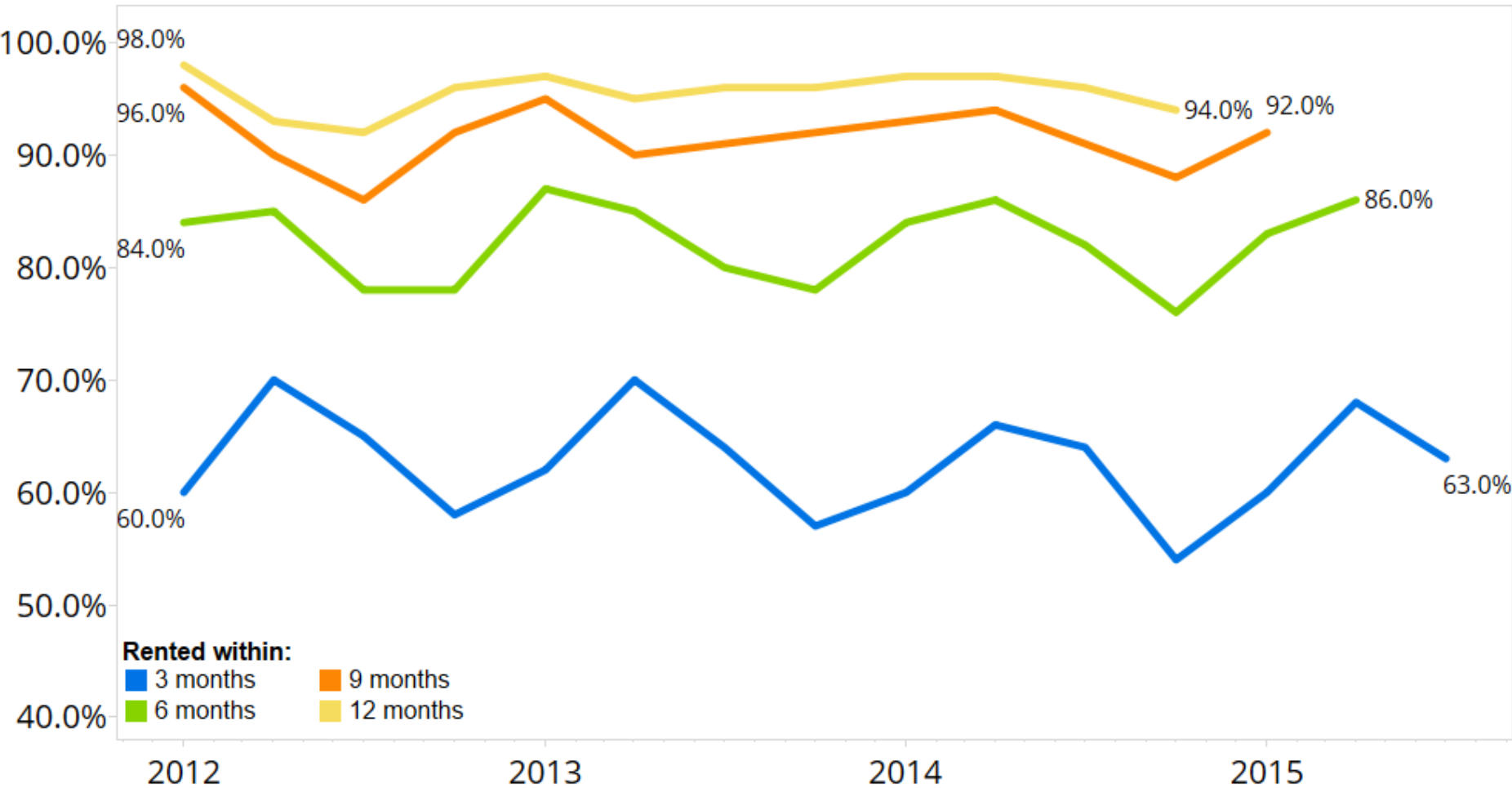


Source: U.S. Census Bureau, Survey of Market Absorption of New Multifamily Units, 2015-Q4



Absorption rates remain constant, and seasonal

Market Absorption of Privately Financed, Nonsubsidized Unfurnished Rental Apartments

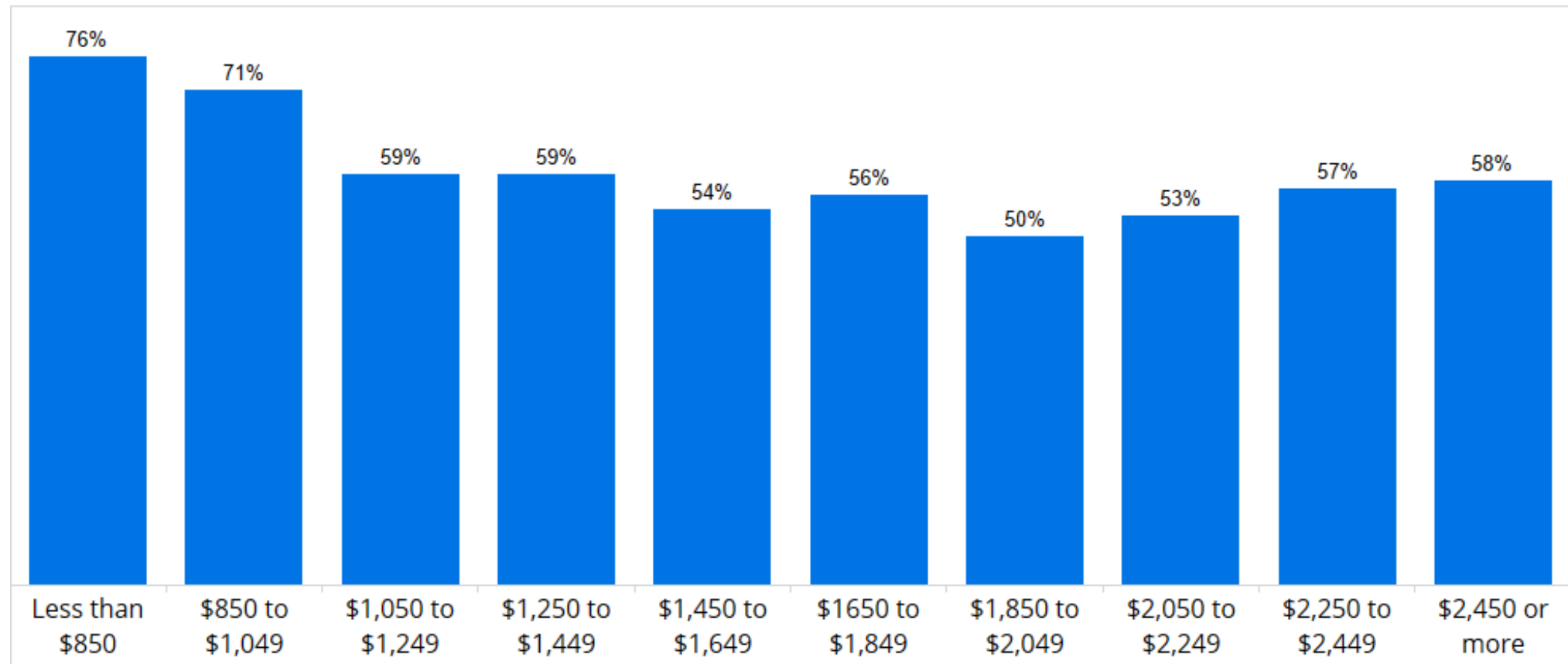


Source: U.S. Census Bureau, Survey of Market Absorption of New Multifamily Units, 2015-Q4



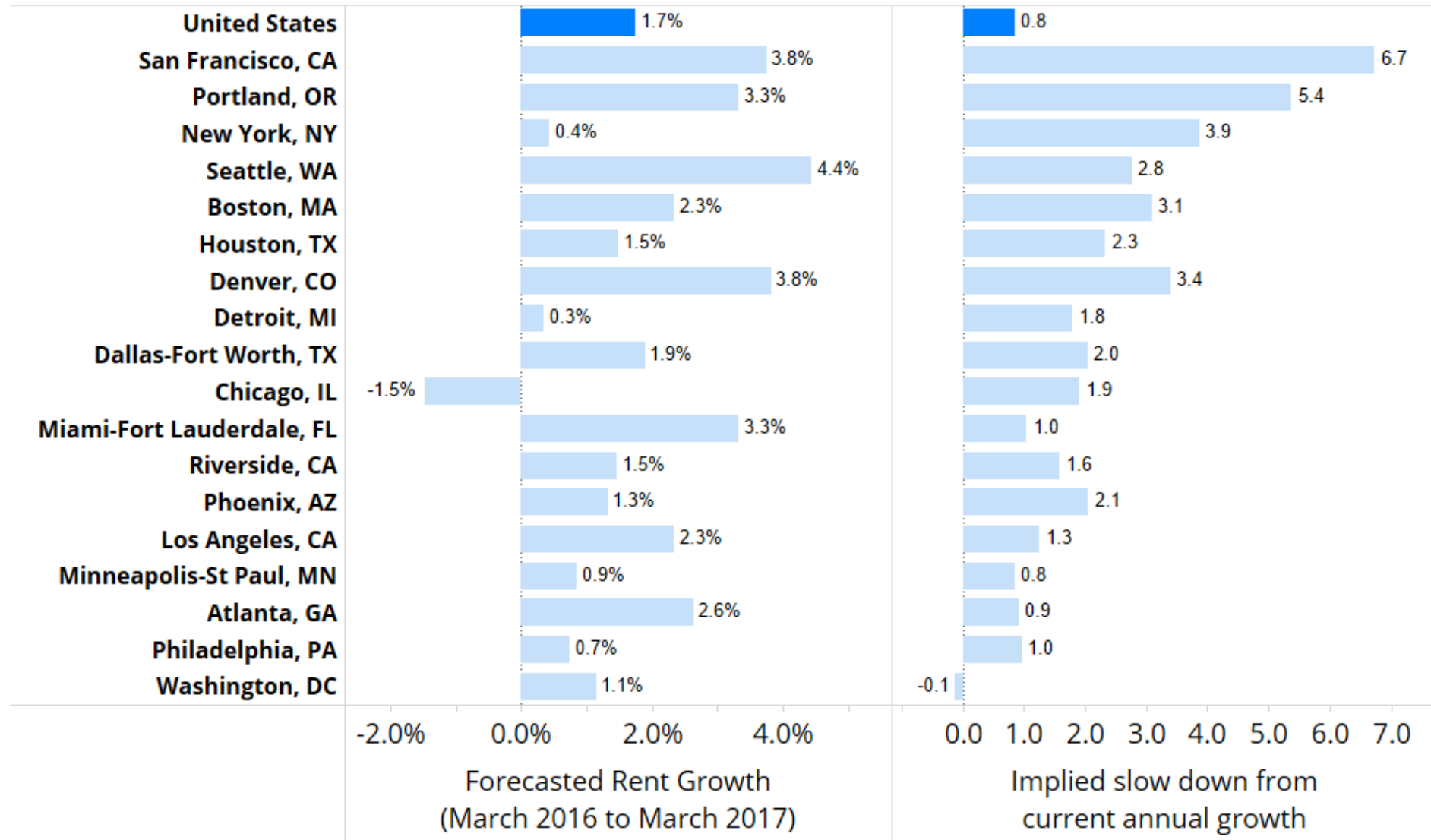
Absorption is fastest at the very lowest & highest ends

Share of New Studio and One Bedroom Apartments Rented within 3 months, by Price, Q3 2015



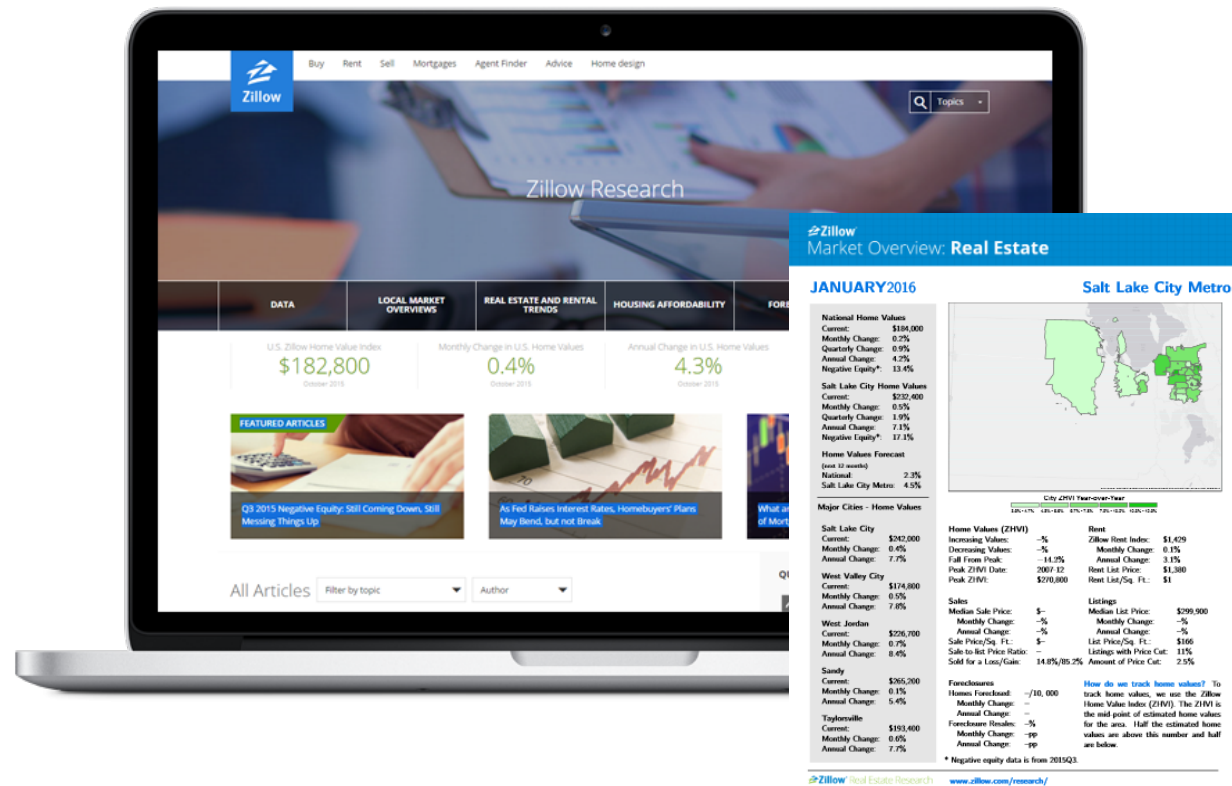
Source: U.S. Census Bureau, Survey of Market Absorption of New Multifamily Units, 2015-Q4

Rental Forecast



Source: Zillow (March 2016)

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