

# Housing Market Overview: Western Region Summer 2018

---

Aaron Terrazas  
Senior Economist, Zillow Research

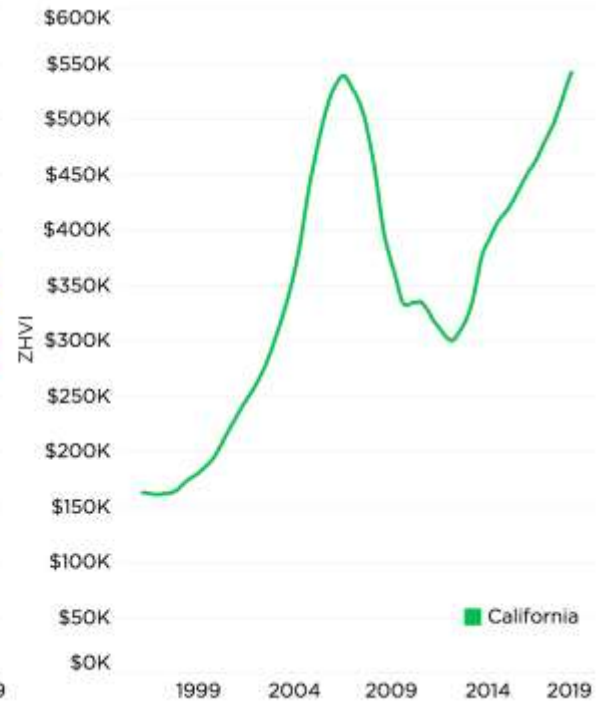
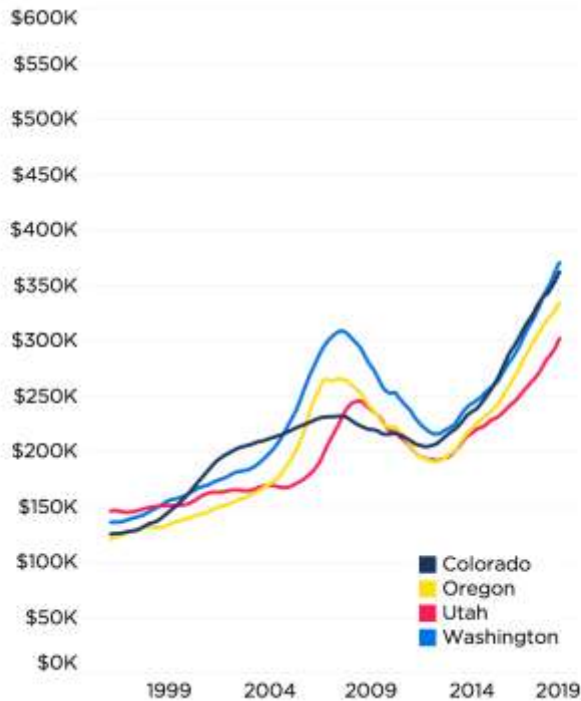
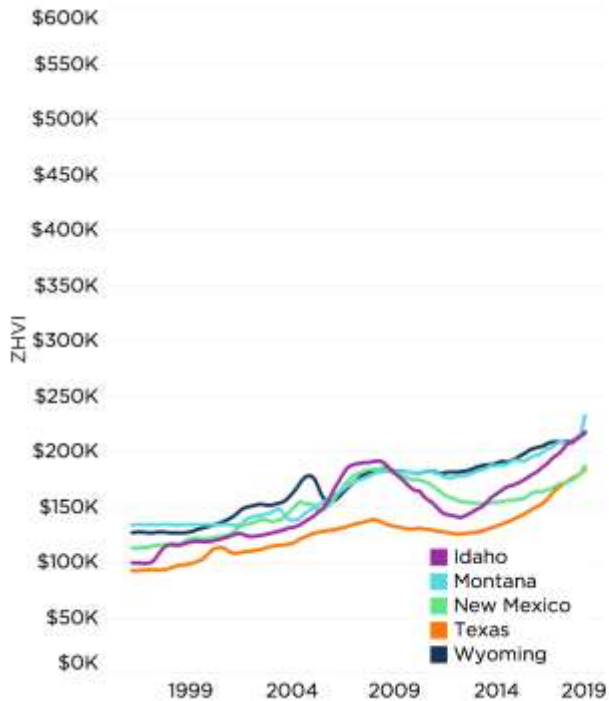
# Outline

- Price trends
- Supply-side factors
- Demand-side factors
- Toward an uncertain future

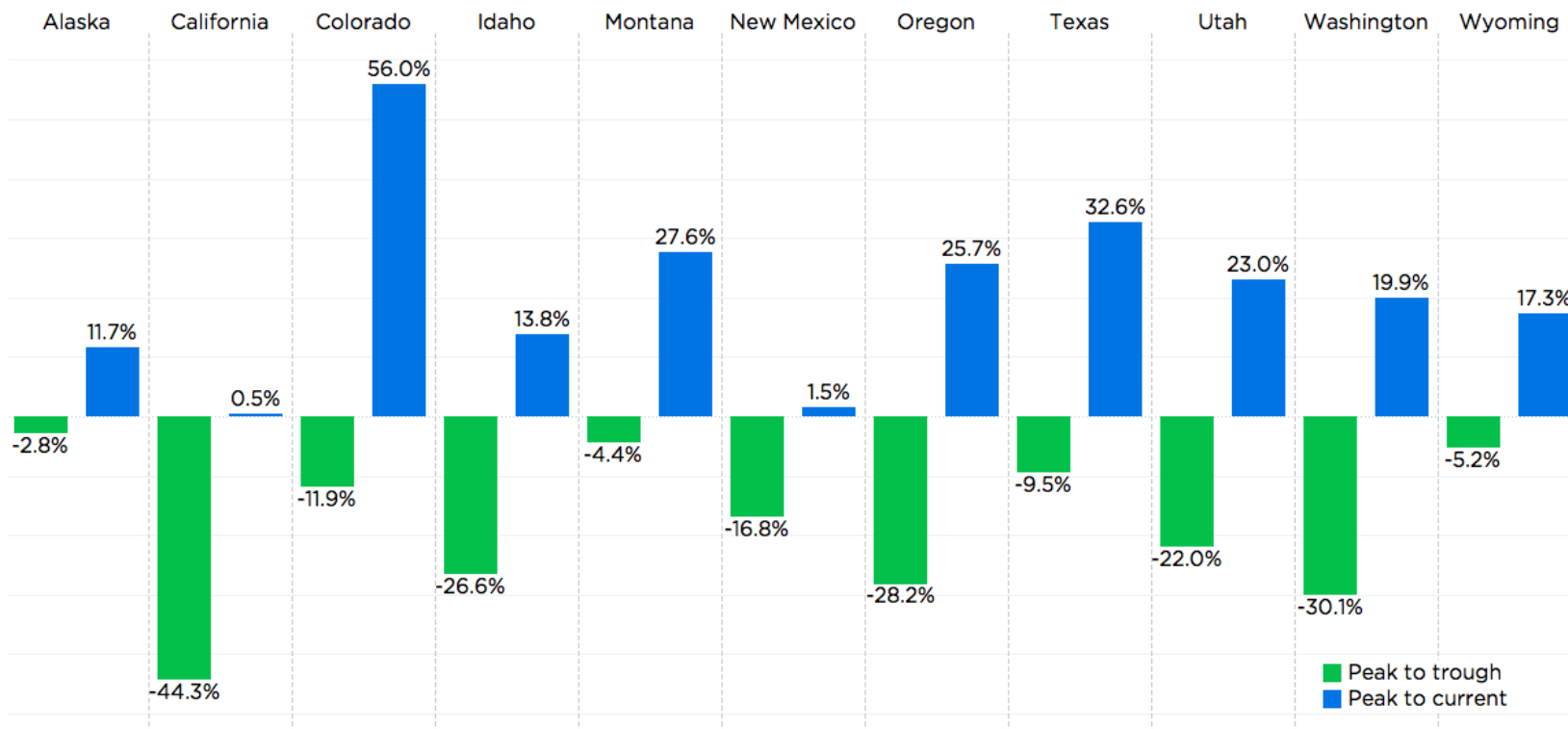
# Part 1: Price Trends

---

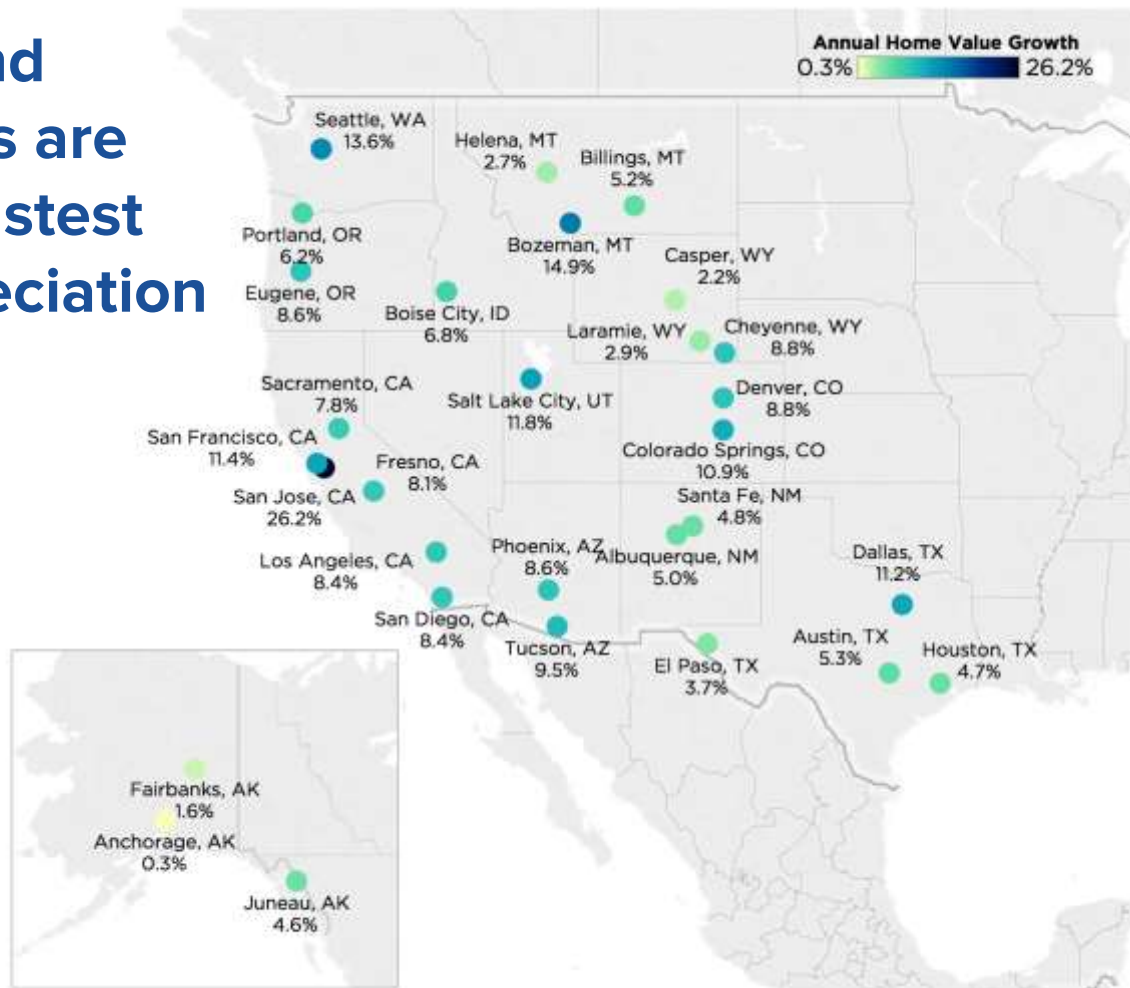
# Sharply diverging home value trends across the region over the past two decades



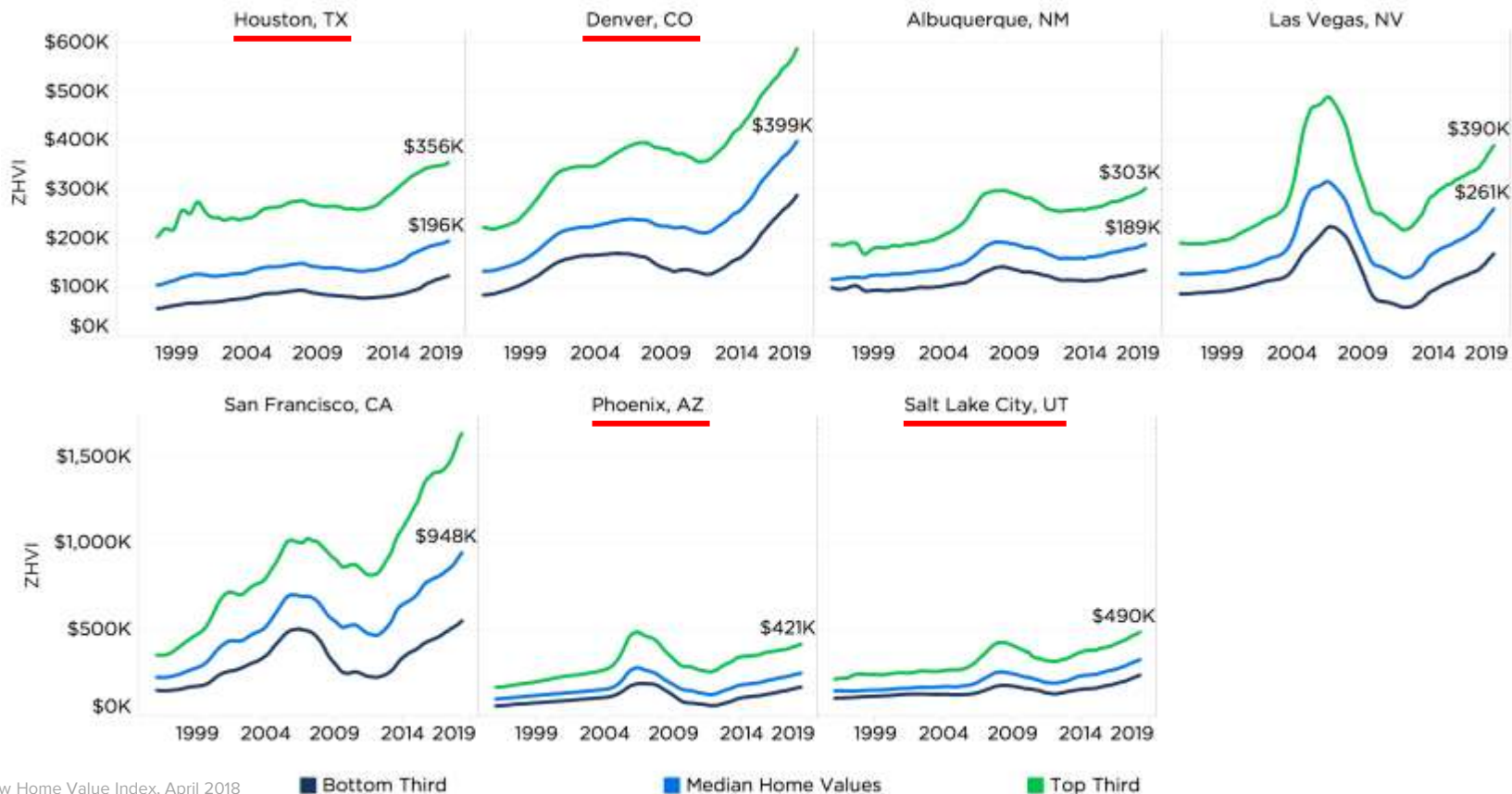
# No Western state entirely escaped the boom-bust cycle



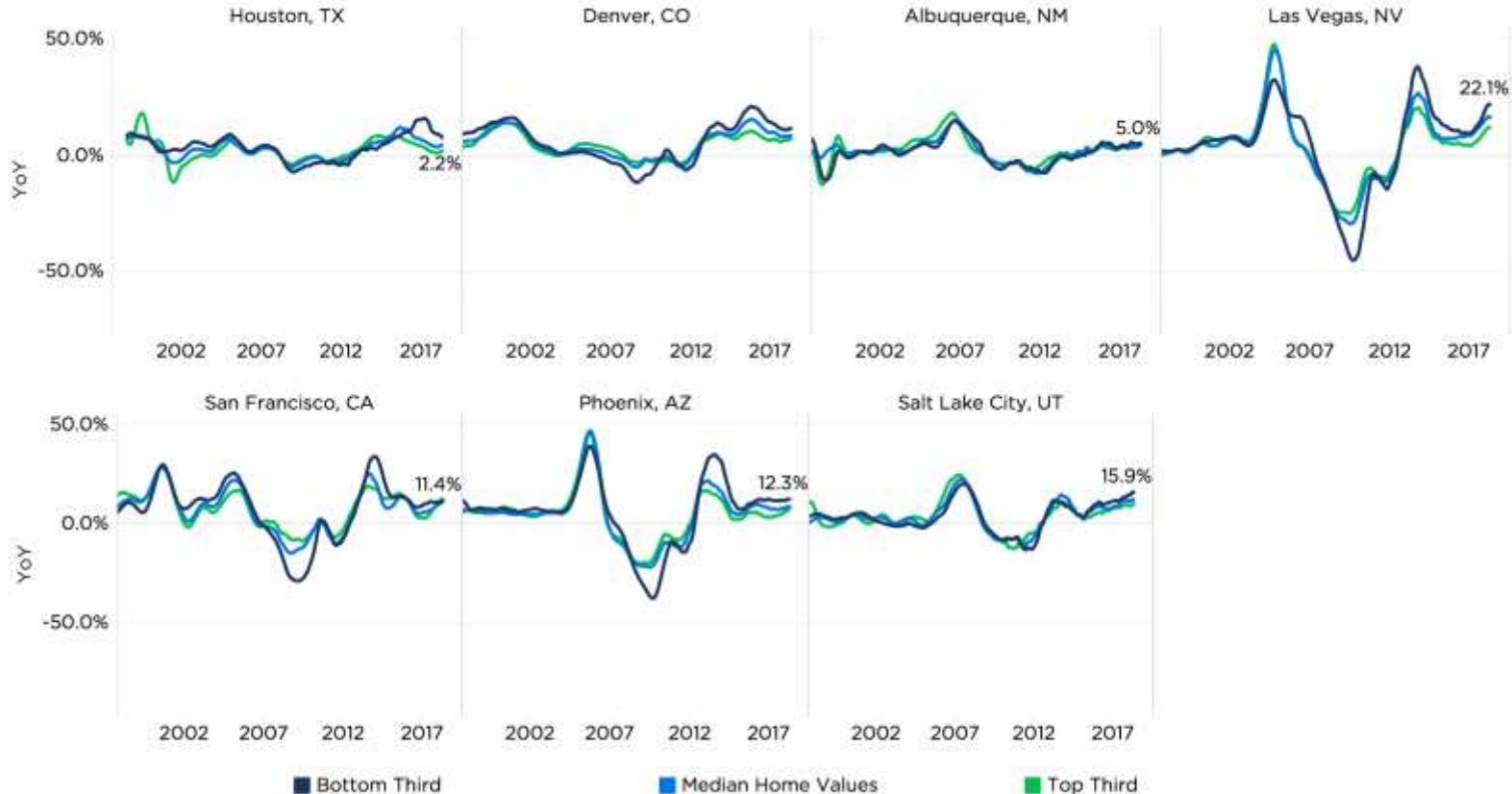
# Western urban and suburban markets are seeing nation's fastest home value appreciation



# 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

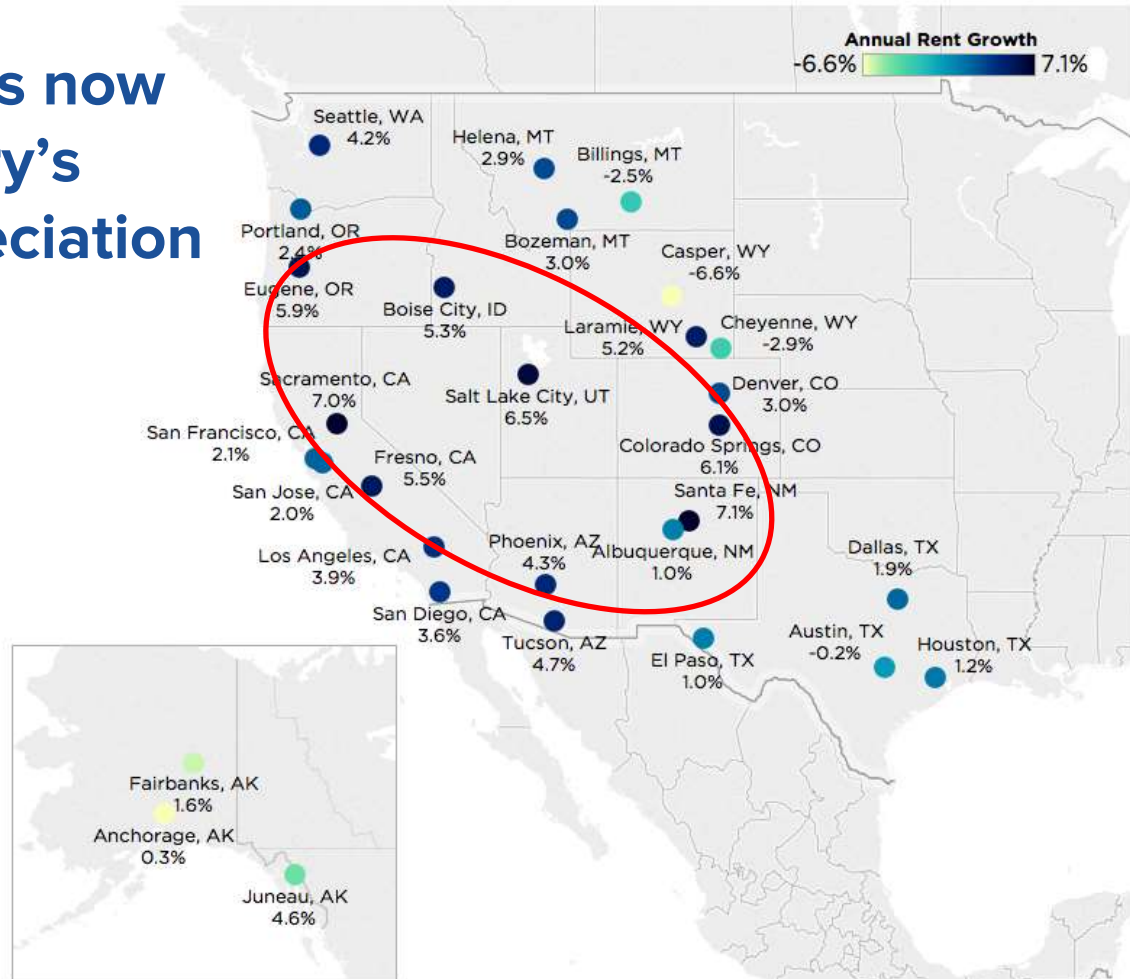




# Urban submarkets are leading in many Western markets, but the suburbs remain strong as well

Metro	Suburban	Urban
Albuquerque, NM	2.7%	-0.2%
Anchorage, AK	0.0%	1.4%
Denver, CO	9.4%	9.0%
Houston, TX	7.2%	6.3%
Phoenix, AZ	7.2%	10.9%
Portland, OR	8.2%	2.6%
Salt Lake City, UT	9.1%	11.2%
San Francisco, CA	-1.9%	6.1%
Seattle, WA	13.6%	17.8%

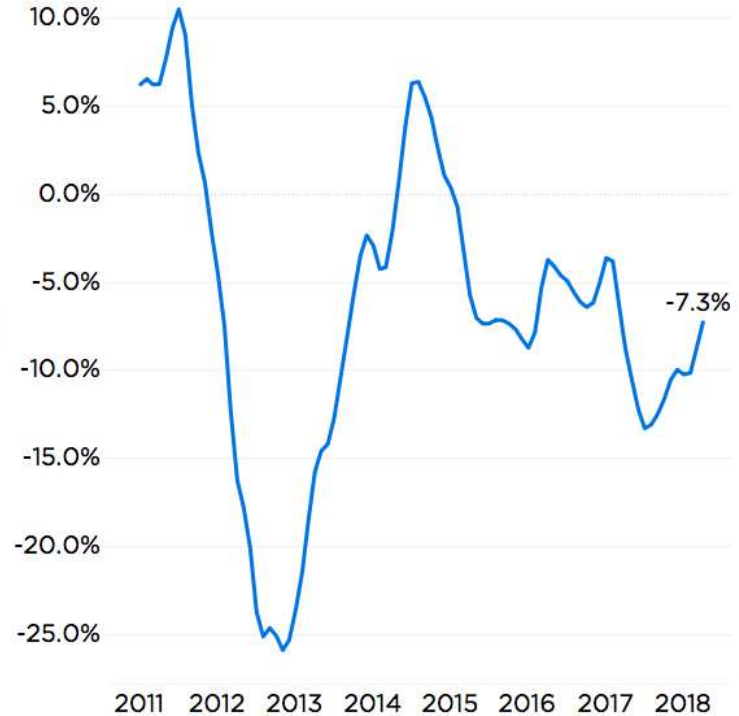
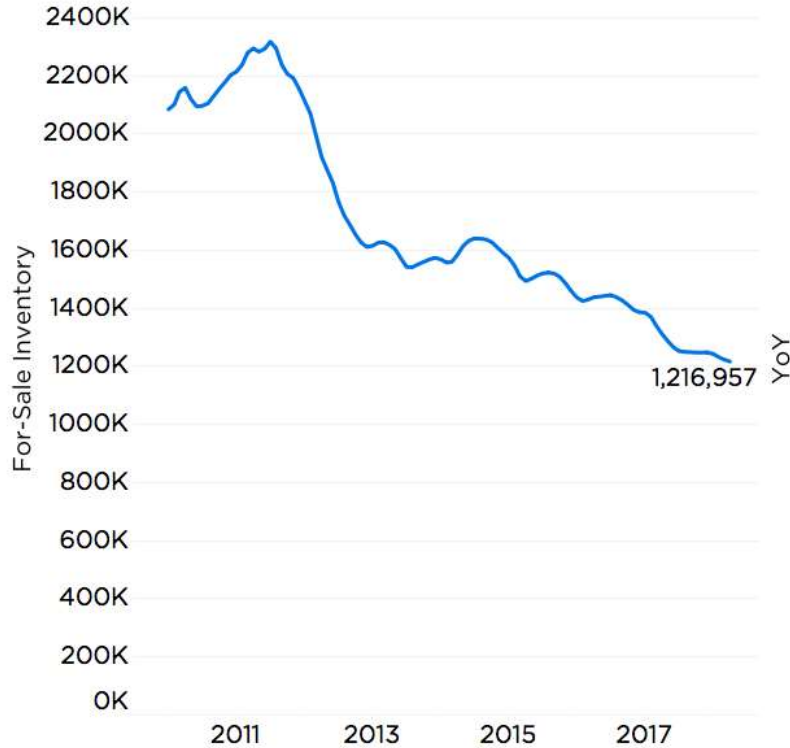
# The inland West is now seeing the country's fastest rent appreciation



# Part 2: Supply-Side Factors

---

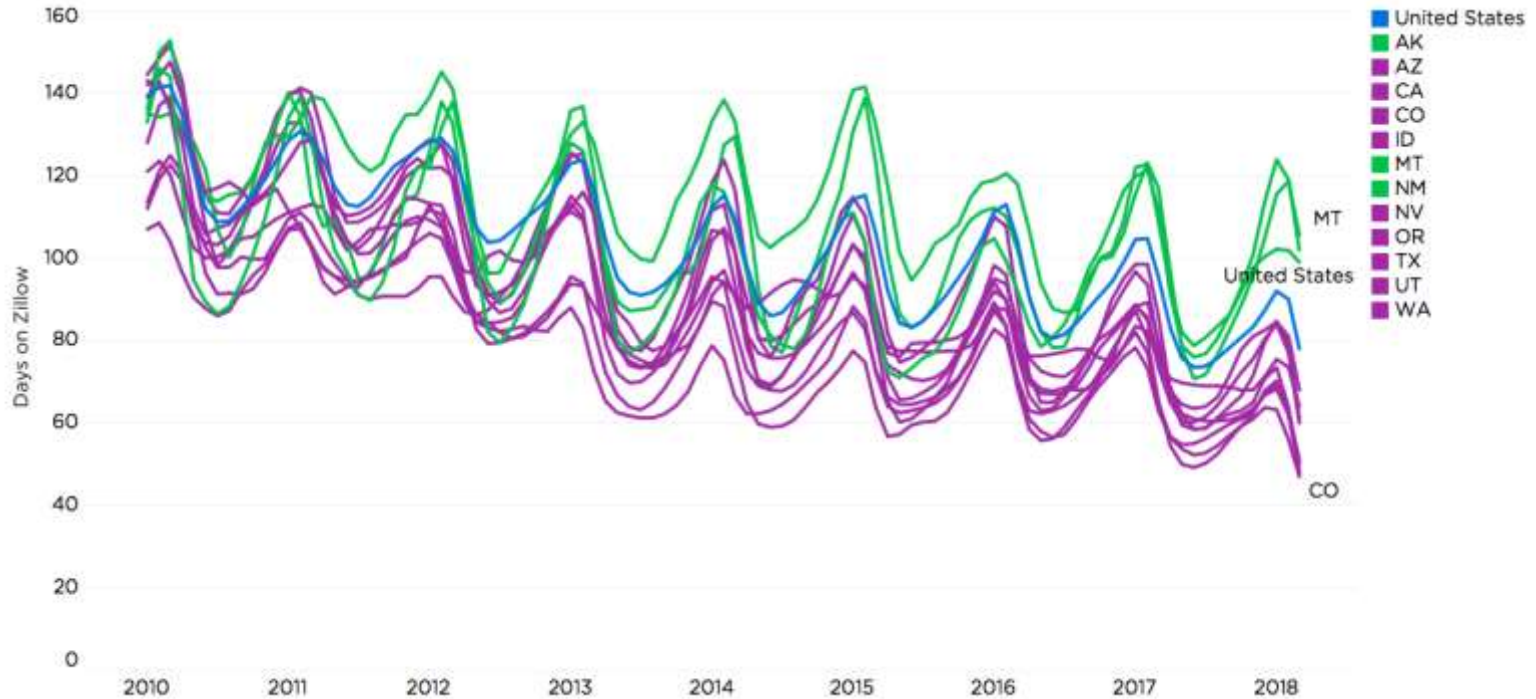
# Tight inventory has been part of what's driving price gains



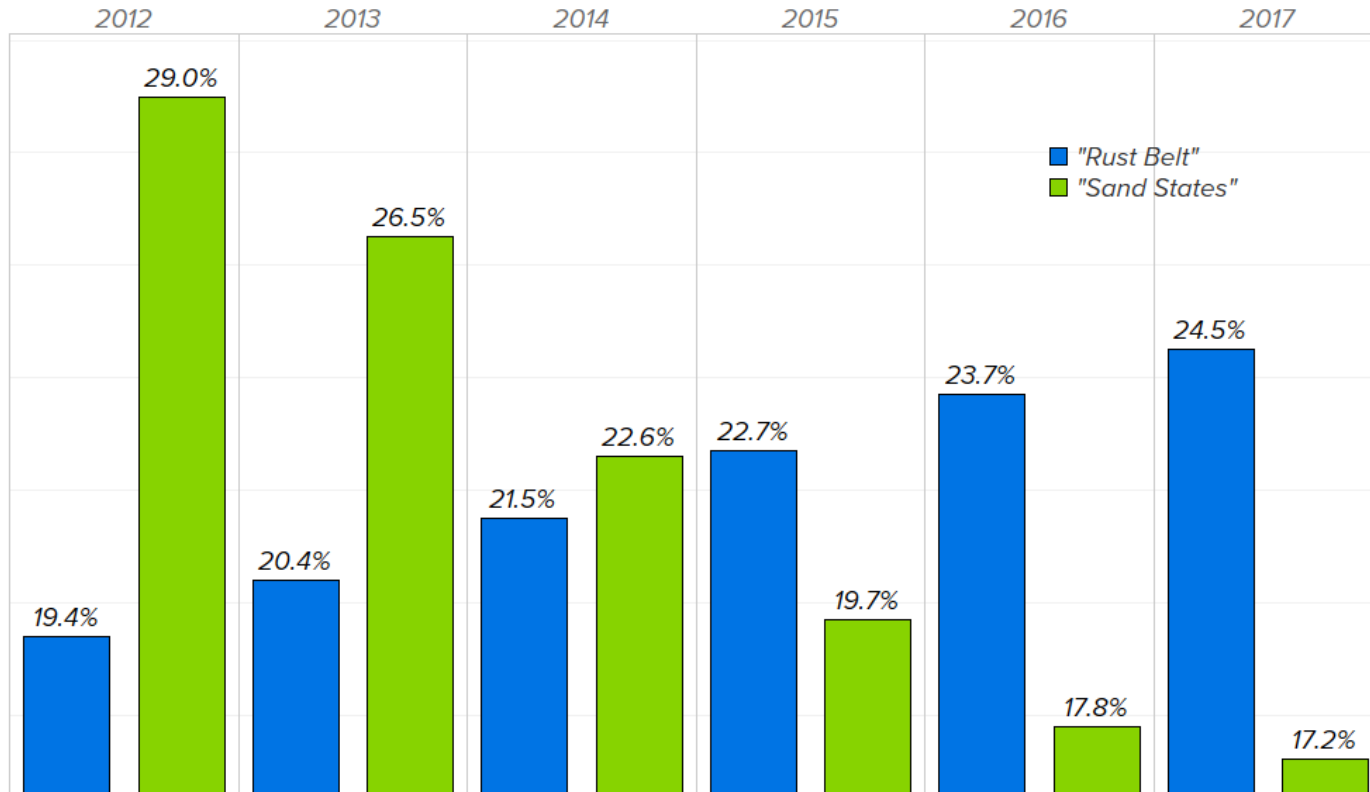
# For-sale inventory has been on a 3-year slide

<b>Metro</b>	<b>All</b>	<b>Bottom Third</b>	<b>Middle Third</b>	<b>Top Third</b>
Albuquerque, NM	-11.2%	-18.8%	-7.6%	-9.9%
Anchorage, AK	1.0%	-0.6%	4.3%	1.0%
Boise City, ID	-25.9%	-24.1%	-31.3%	-22.8%
Denver, CO	-12.7%	-22.4%	-10.7%	-9.9%
Houston, TX	-2.7%	0.7%	-3.8%	-2.8%
Los Angeles, CA	-3.9%	-3.3%	0.2%	-7.3%
Phoenix, AZ	-13.1%	-13.3%	-10.5%	-14.5%
Portland, OR	12.7%	22.9%	12.3%	10.6%
Salt Lake City, UT	28.9%	20.2%	43.0%	24.7%
San Francisco, CA	-6.1%	-0.8%	-12.6%	-5.7%
Seattle, WA	-11.7%	-23.7%	-7.7%	-5.8%

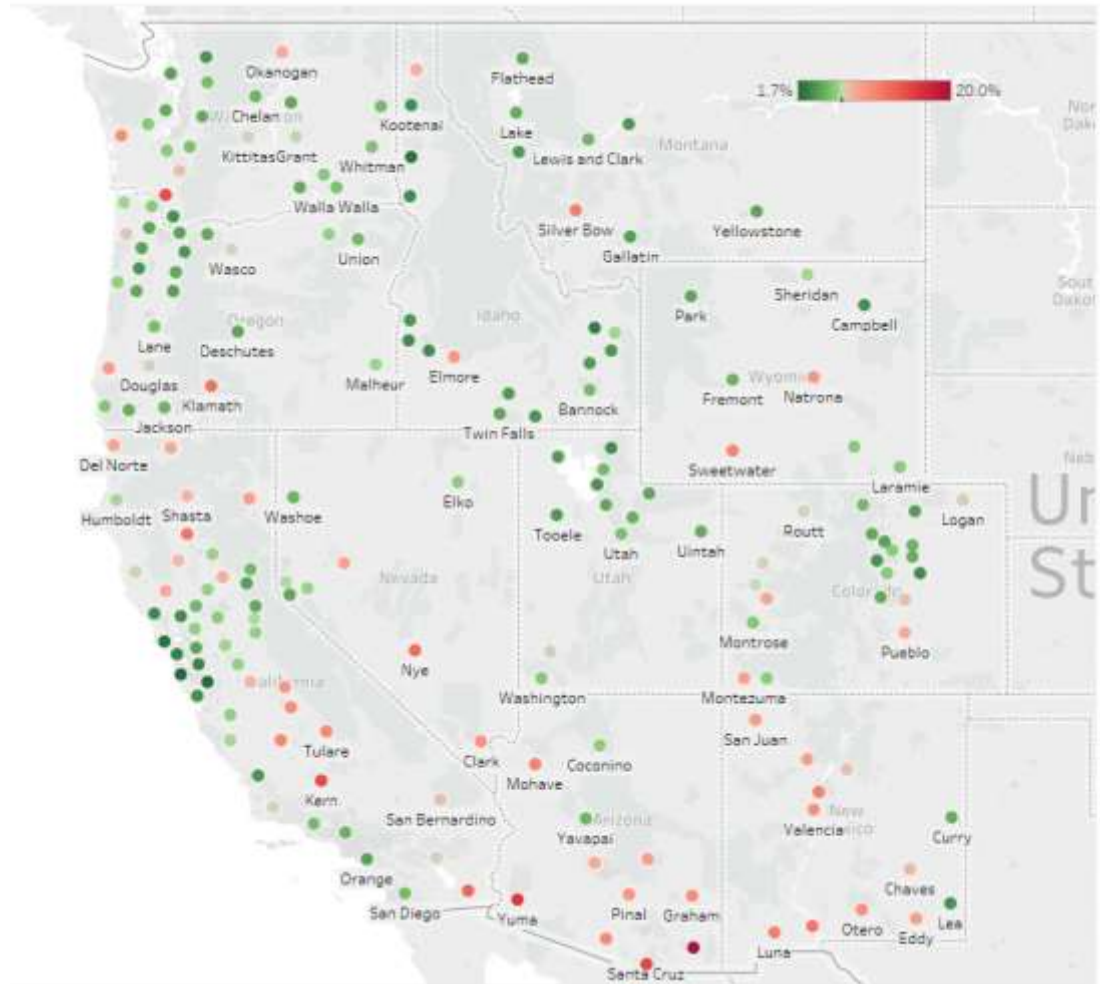
# This trend has been exacerbated by market velocity



# West is no longer primary concentration of negative equity

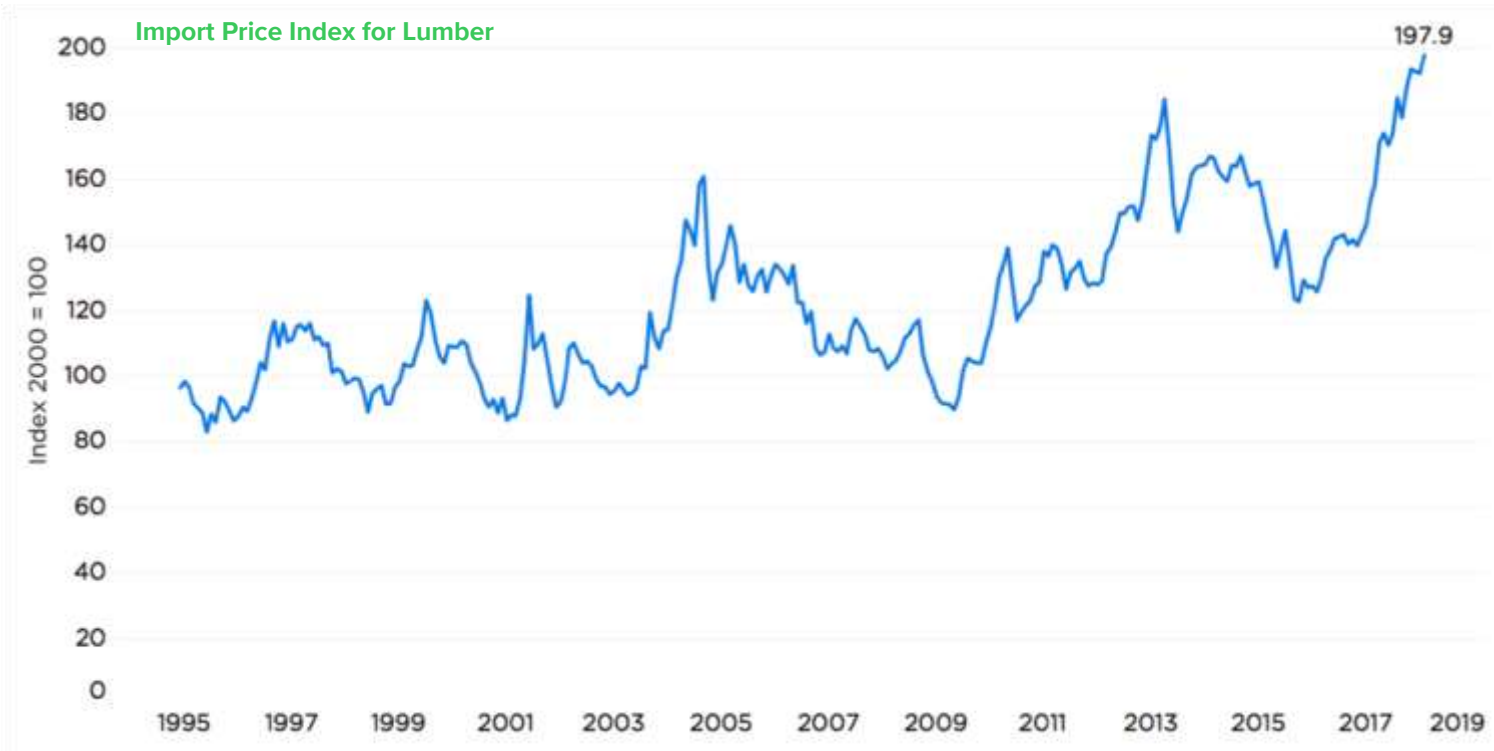


**But pockets of deep negative equity remain, with no prospects for an easy recovery**

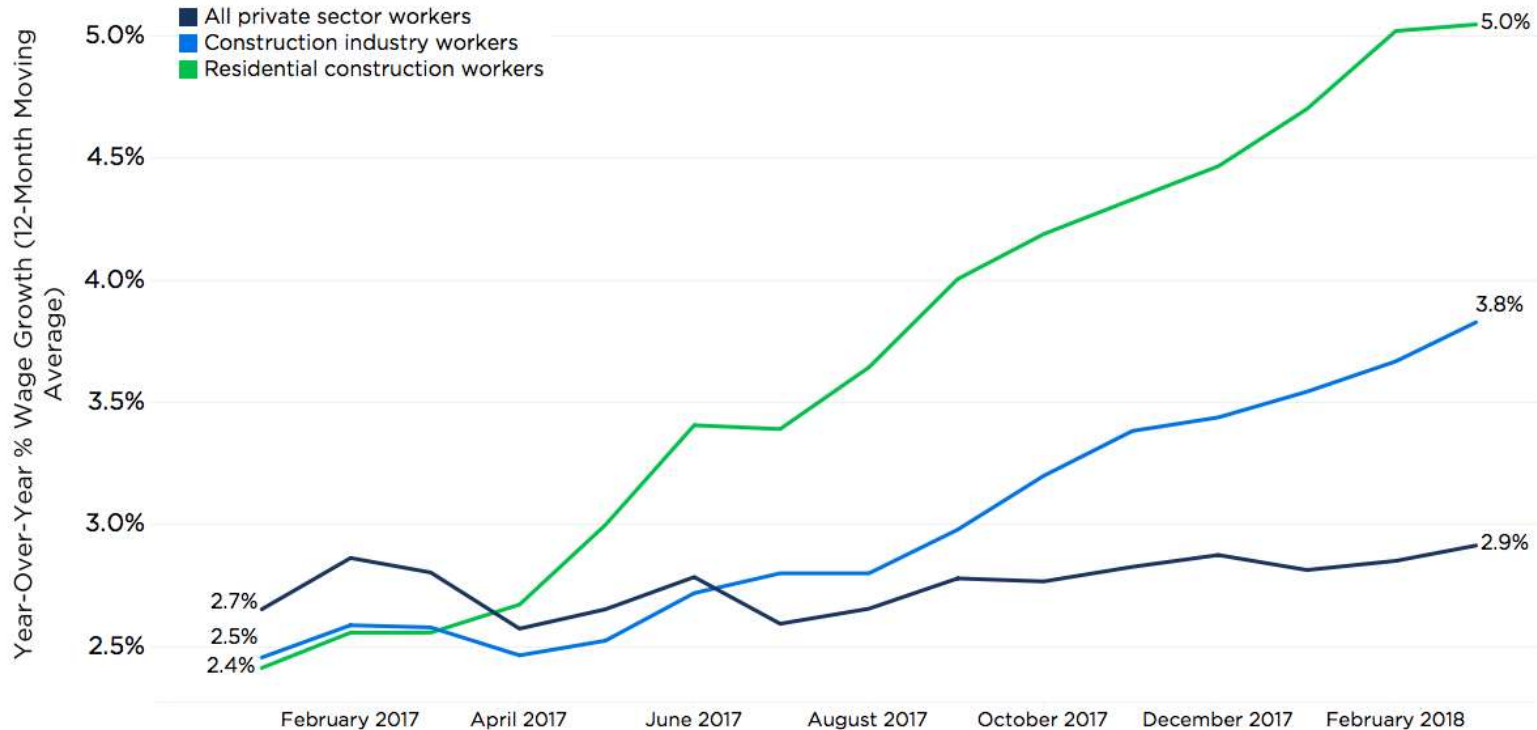




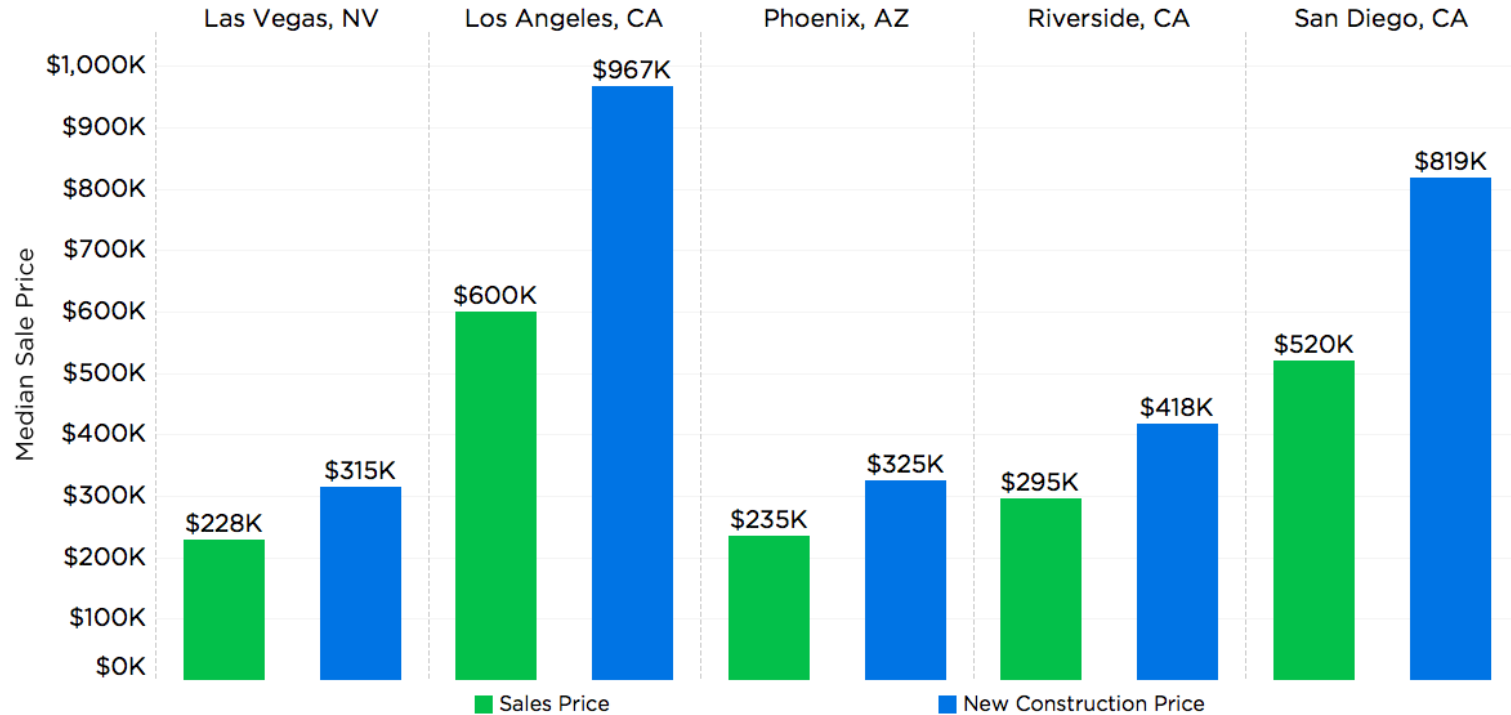
# Home builders are facing tough cost headwinds: Part 1



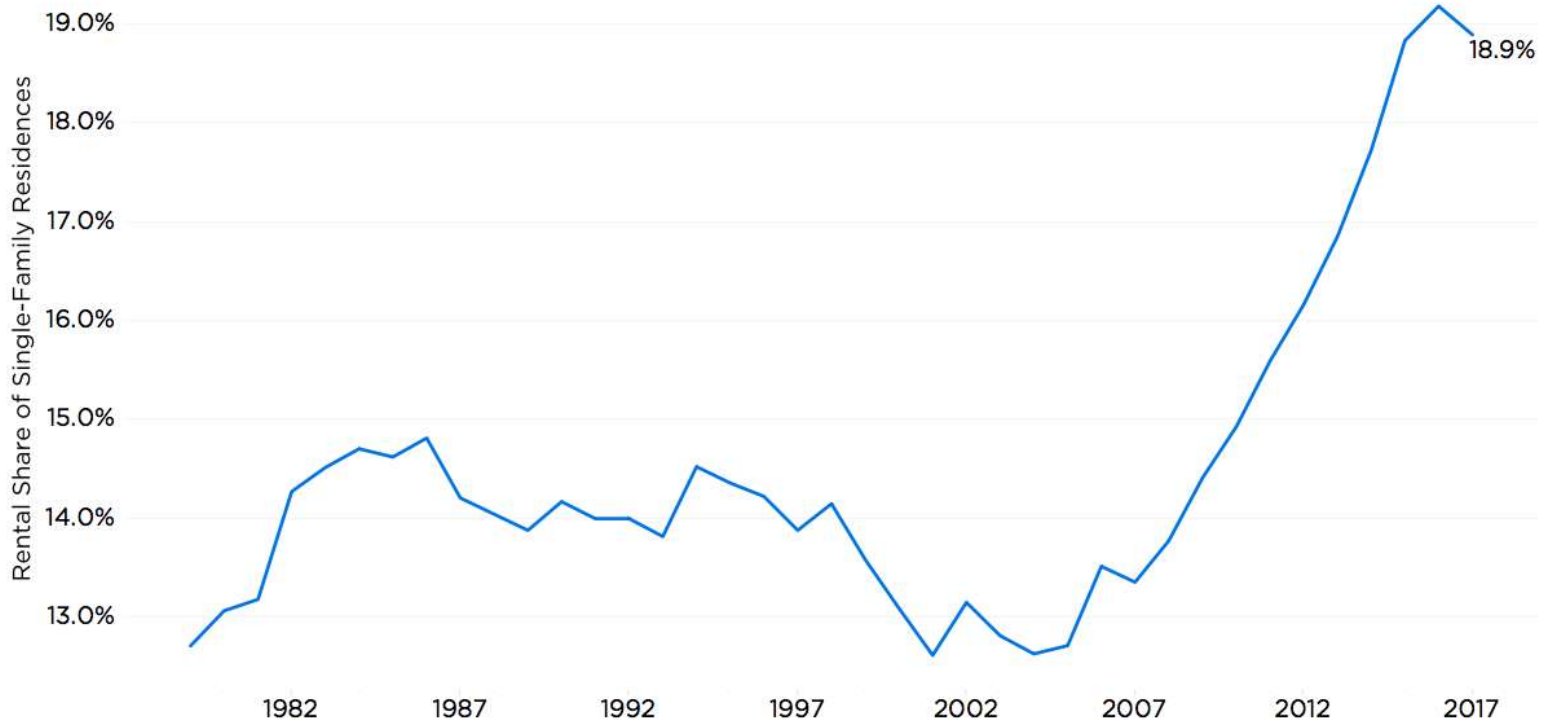
# Home builders are facing tough cost headwinds: Part 2



# ...Which is one reason they are targeting upscale

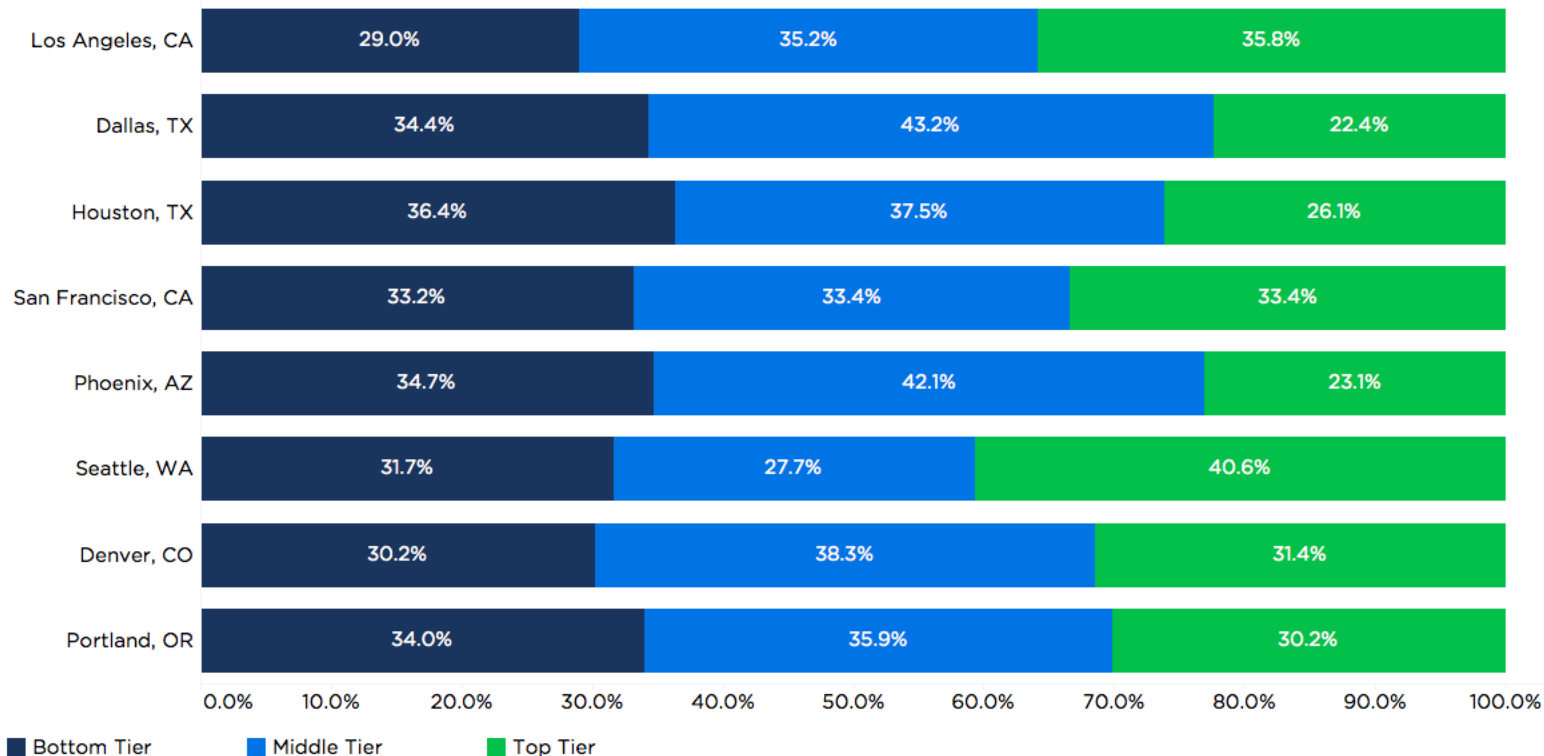


# Past decade has seen a boom in SFR rentals



Source: Zillow analysis of U.S. Census Bureau, Current Population Survey, March Socio-Economic Supplement, made available by the University of Minnesota, IPUMS-USA.

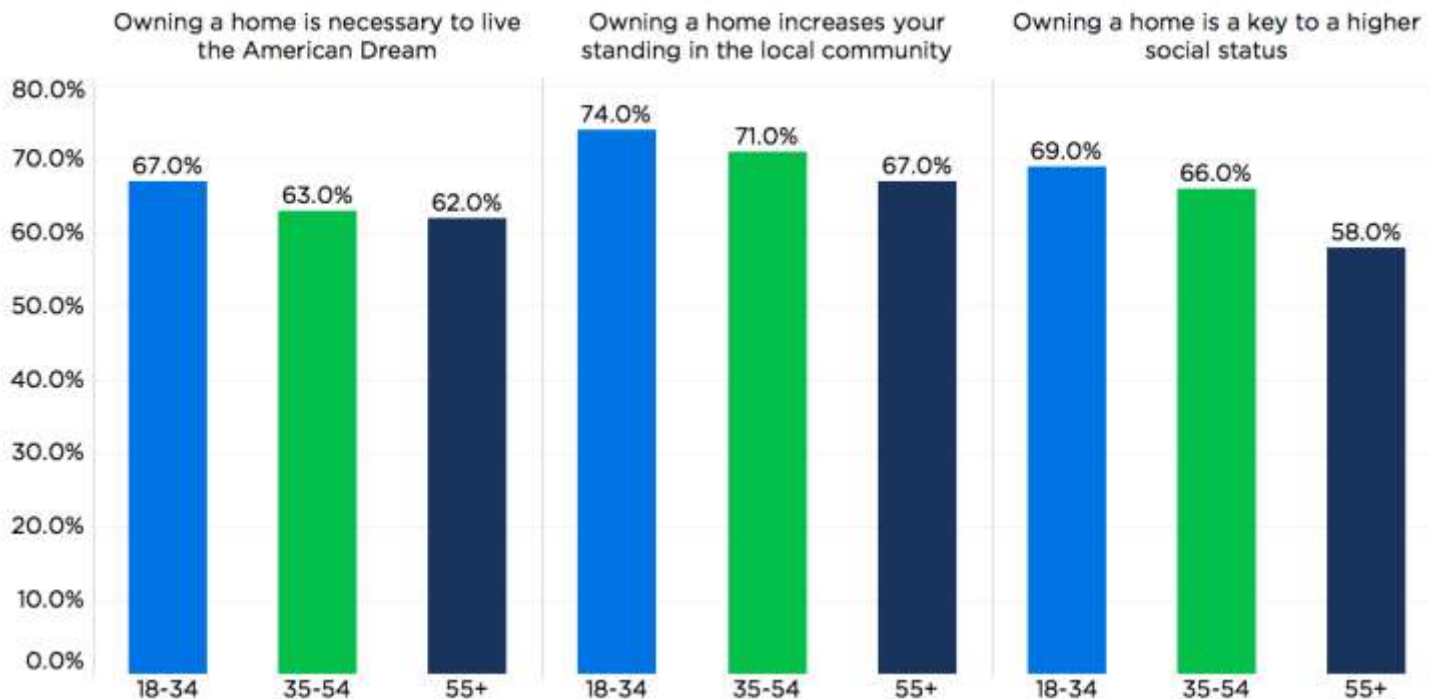
# SFR rentals concentrated toward middle/bottom of the market inland, but toward the top on the coasts



# Part 3: Demand-Side Factors

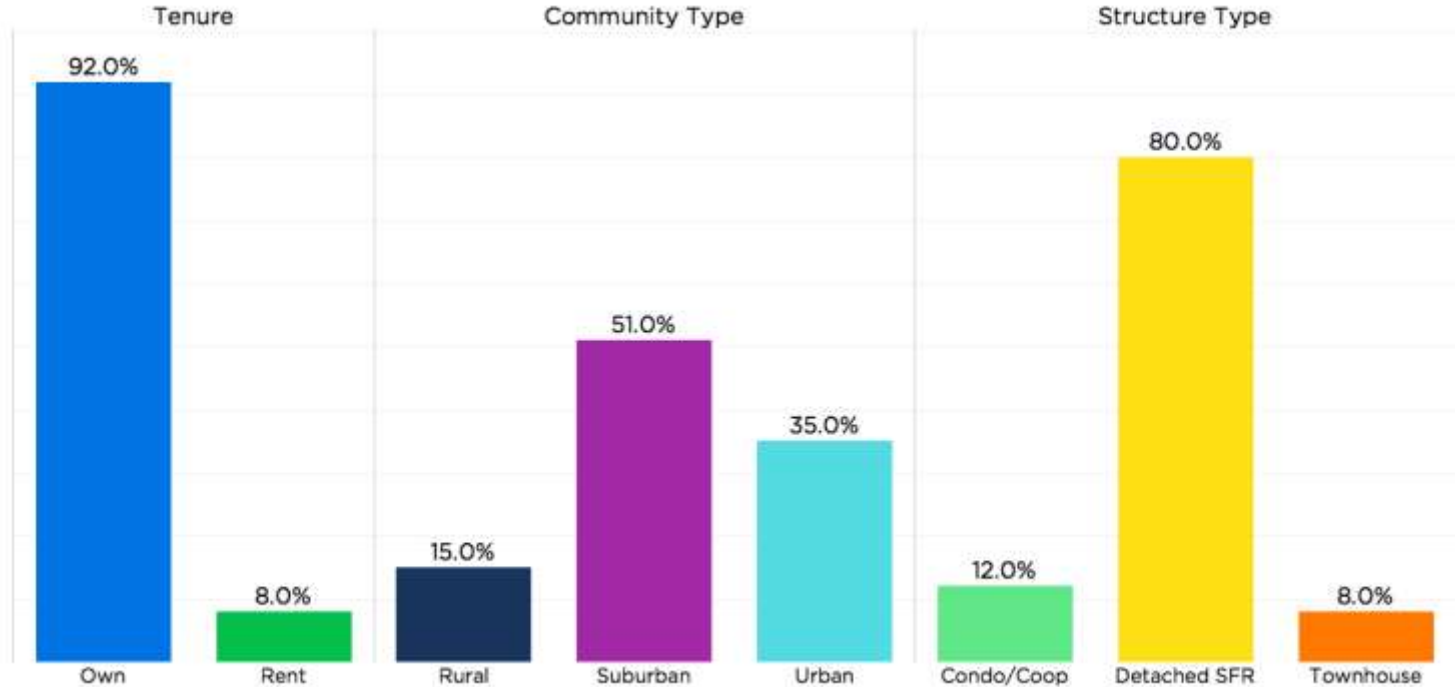
---

# Millennials believe in “The American Dream”



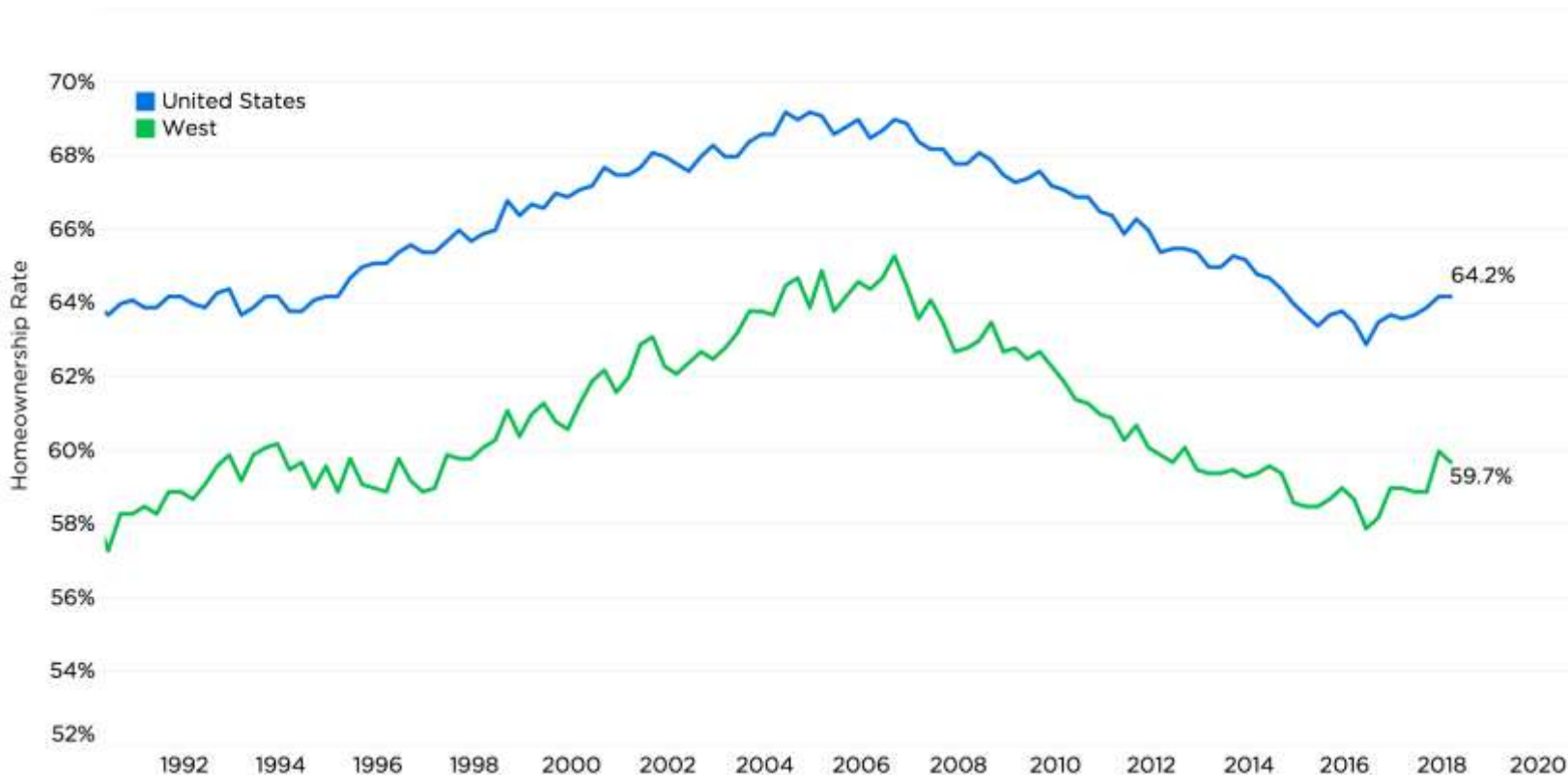
# And still aspire to a traditional-style home

## Describe your ideal home (age 24-34)





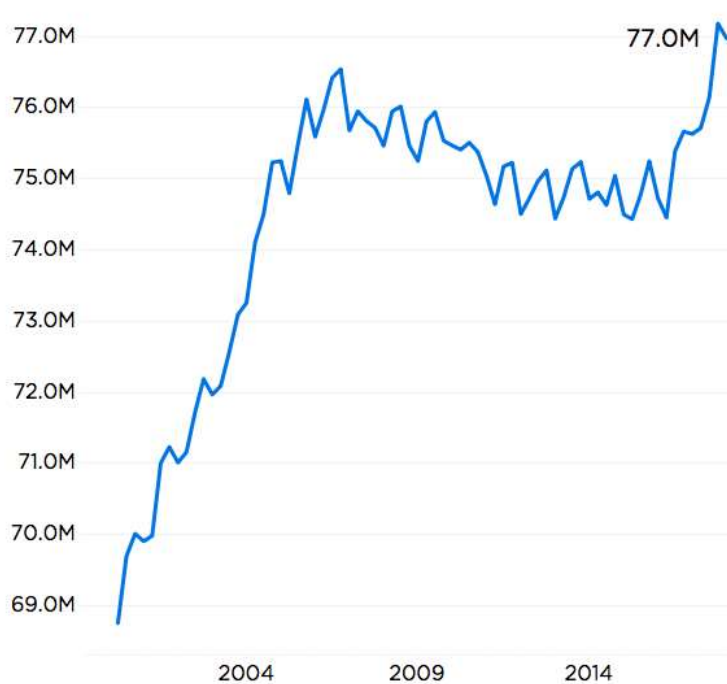
# Homeownership has rebounded toward 1990s rates



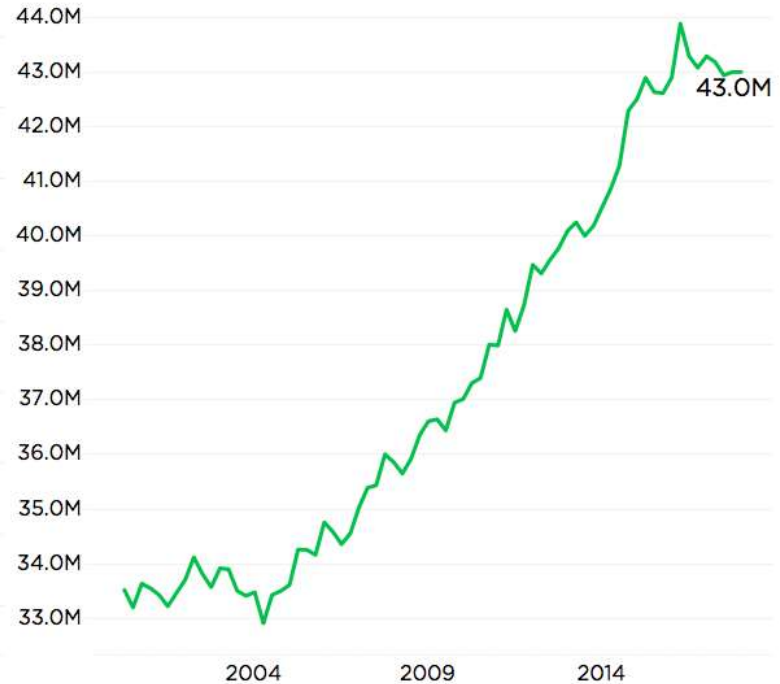
Source: Zillow analysis of U.S. Census Bureau, Current Population Survey, Homeownership and Housing Vacancy Survey.

# Household formation has shifted recently toward owners...

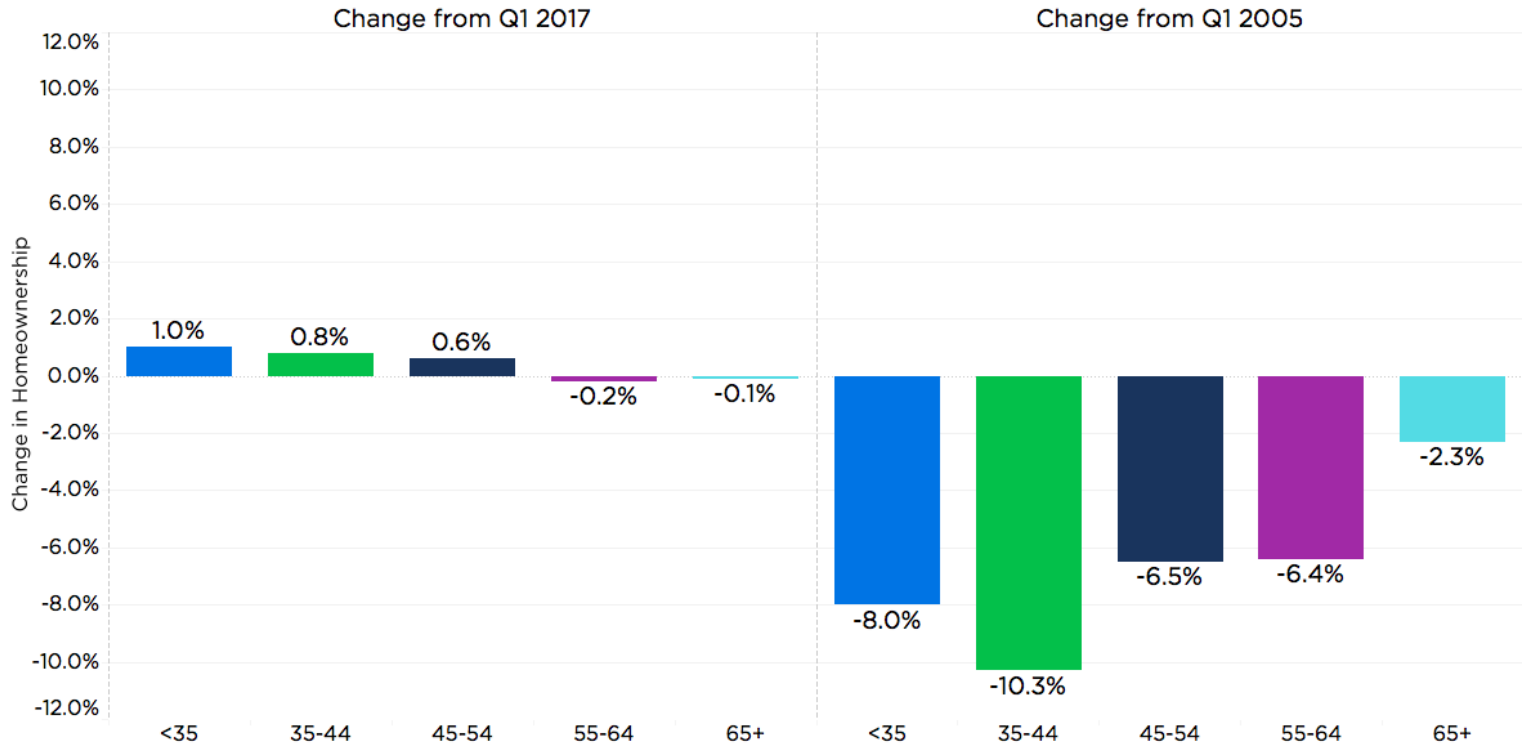
**Owner Households**



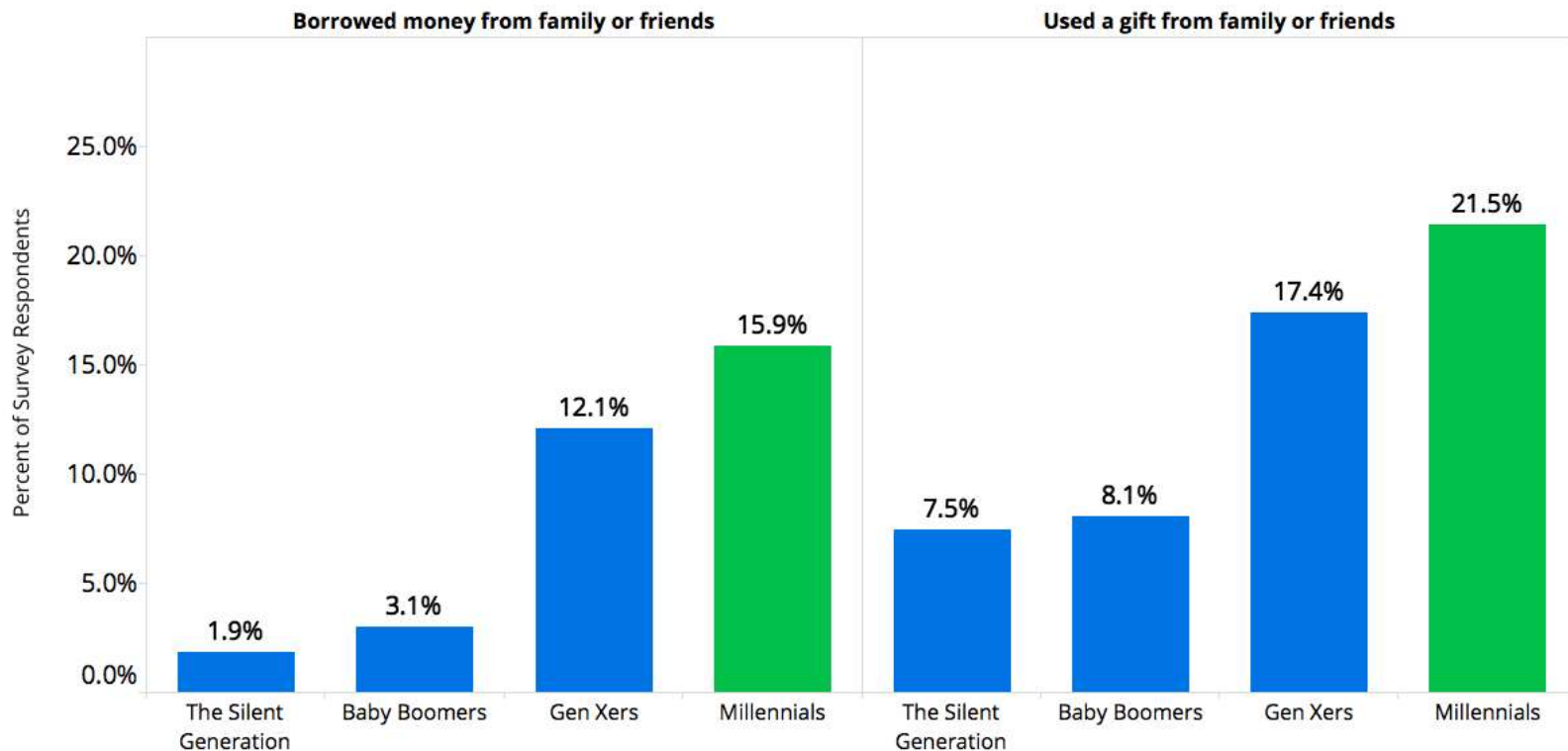
**Renter Households**



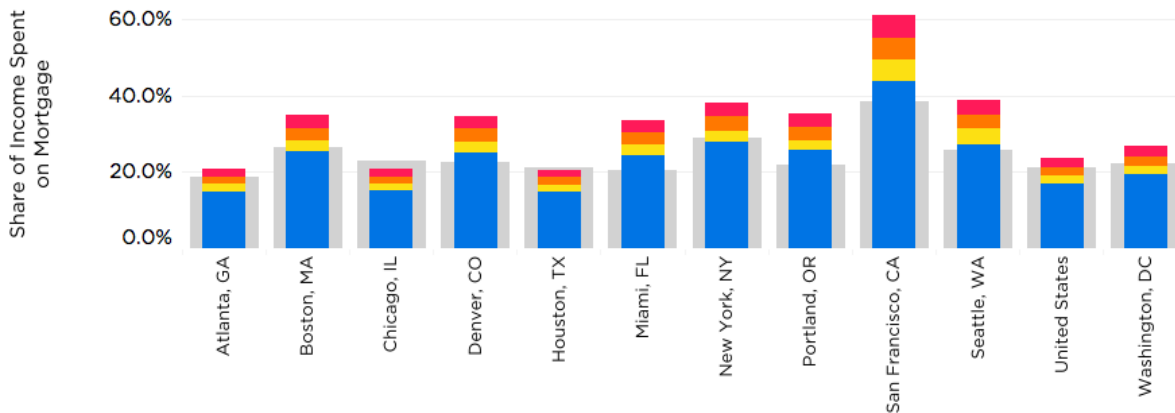
# ...Driven by millennials, but there's a long way to go still



# 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



Mortgage Affordability, 2018 Q1	14.9%	25.5%	15.2%	25.1%	14.9%	24.5%	27.7%	25.8%	43.9%	27.2%	17.1%	19.4%
Average Mortgage Affordability, 1985-2000	18.5%	26.6%	23.1%	22.6%	21.1%	20.3%	29.0%	22.0%	38.5%	25.9%	21.1%	22.2%
Forecasted at 5%	16.8%	28.3%	16.9%	28.0%	16.6%	27.1%	30.9%	28.4%	49.4%	31.3%	19.0%	21.5%
Forecasted at 6%	18.7%	31.6%	18.8%	31.3%	18.5%	30.3%	34.5%	31.7%	55.1%	34.9%	21.2%	24.0%
Forecasted at 7%	21%	35%	21%	35%	21%	34%	38%	35%	61%	39%	24%	27%

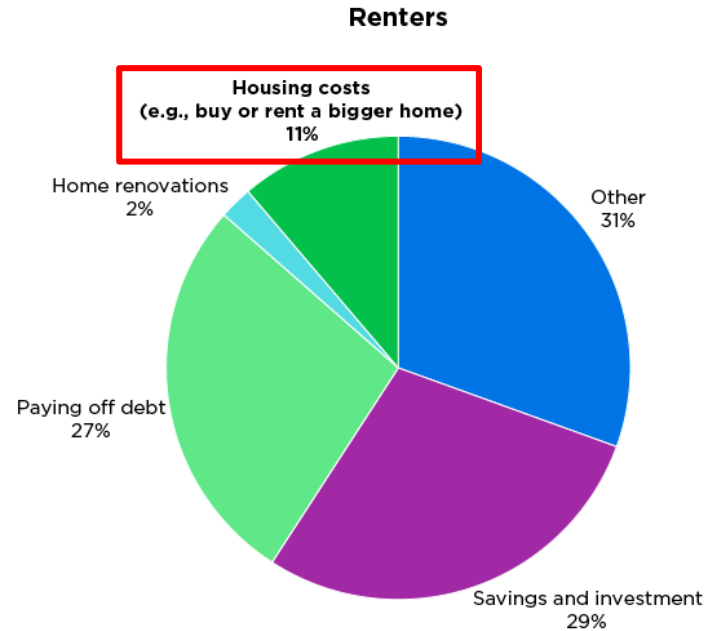
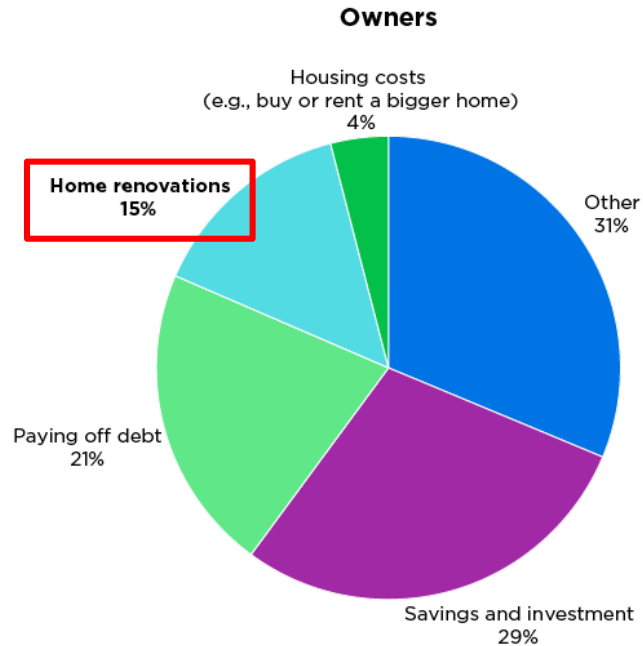
# For the lowest-earning households, affordability is bleak

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



# 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... ?*

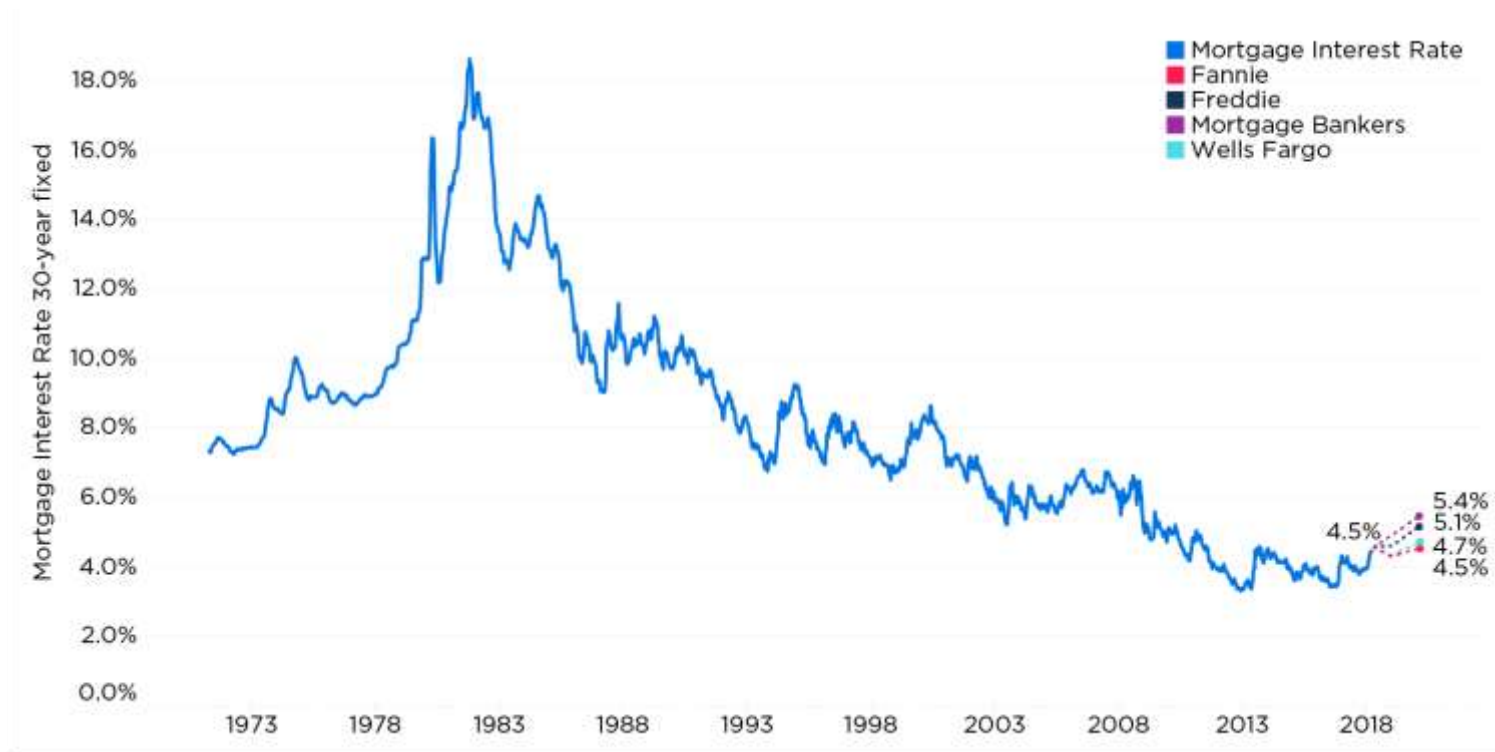


# Part 4: Toward an Uncertain Future

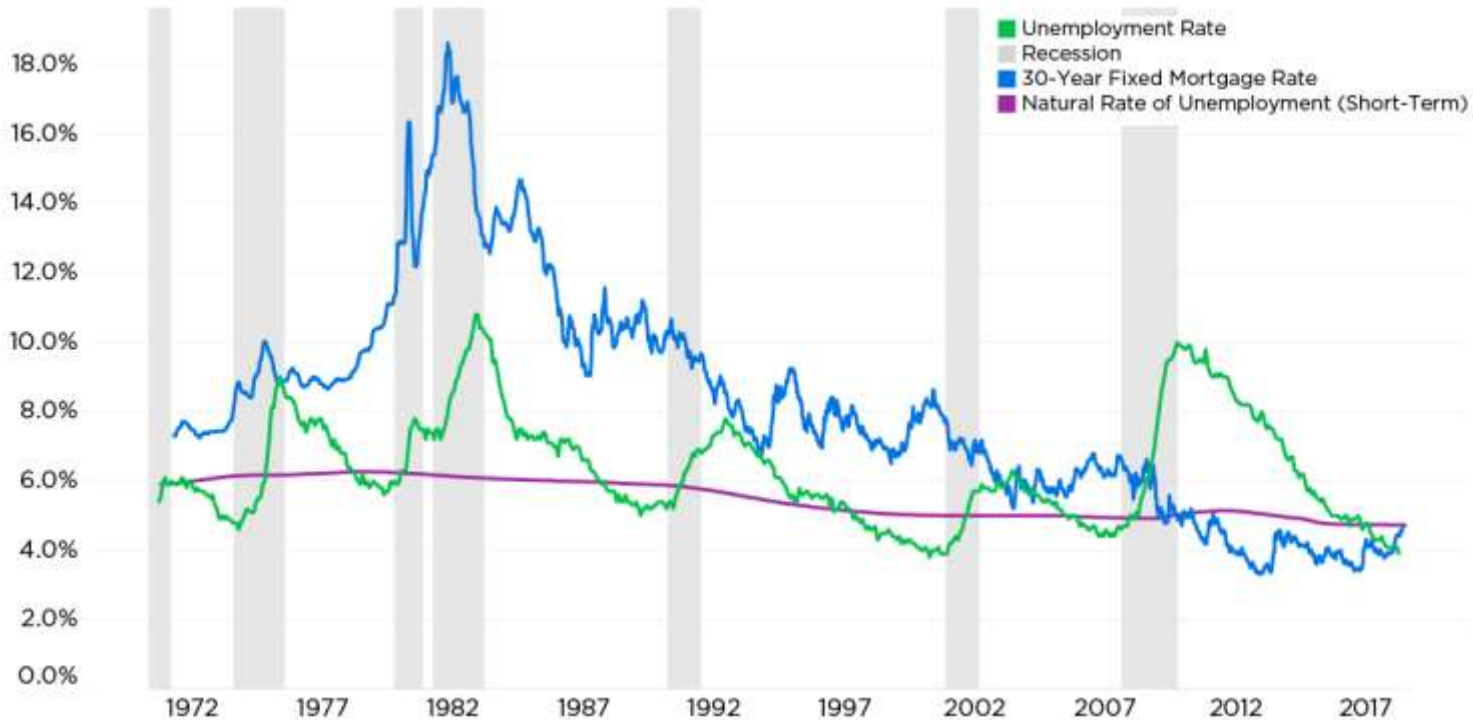
---



# Mortgage rates should rise in 2018, but remain relatively low by historic standards

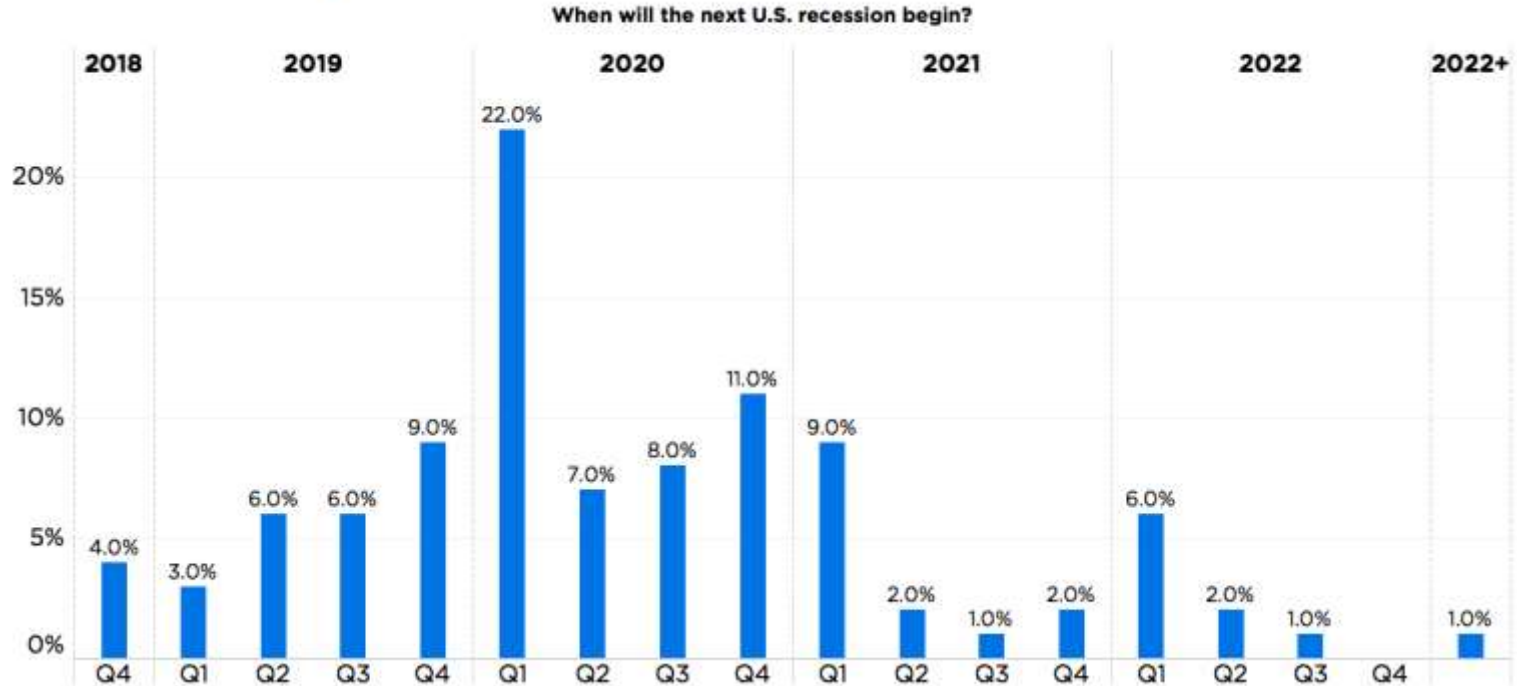


# The last time the labor market was this strong, mortgage rates were above 8 percent



# Near-term macro outlook solid, but risks rise toward 2020

Experts Say Recession Could Hit by Early 2020



# More research and data at [www.zillow.com/research](http://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.**

