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# *Housing Market Trends*

**WINTER 2016**

## Home values, inventory and predictions

Homes are bought and sold every month of the year, but winter — an especially challenging season — can be an ideal time to look ahead at what the next few months will bring in the real estate industry and the housing market, and use those indicators to prepare for a new year as well.

Chilly weather has reached the housing market: **National home values still lag 6.8 percent below their pre-recession peak.** While appreciation rose aggressively coming out of the recession — and it varies widely across the country — it has recently slowed to a more normal rate.

Housing inventory is still low, and the **demand is driving the recent increase in home values.**

Though more potential buyers are forming households in the recovering economy, **don't expect a dramatic rise in home sales** over the next few months. This winter season might be the ideal time to get a jump on your listing strategies.

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“Caveat! Real estate is not a risk-free investment.”

DR. SKYLAR OLSEN, ZILLOW GROUP SENIOR ECONOMIST

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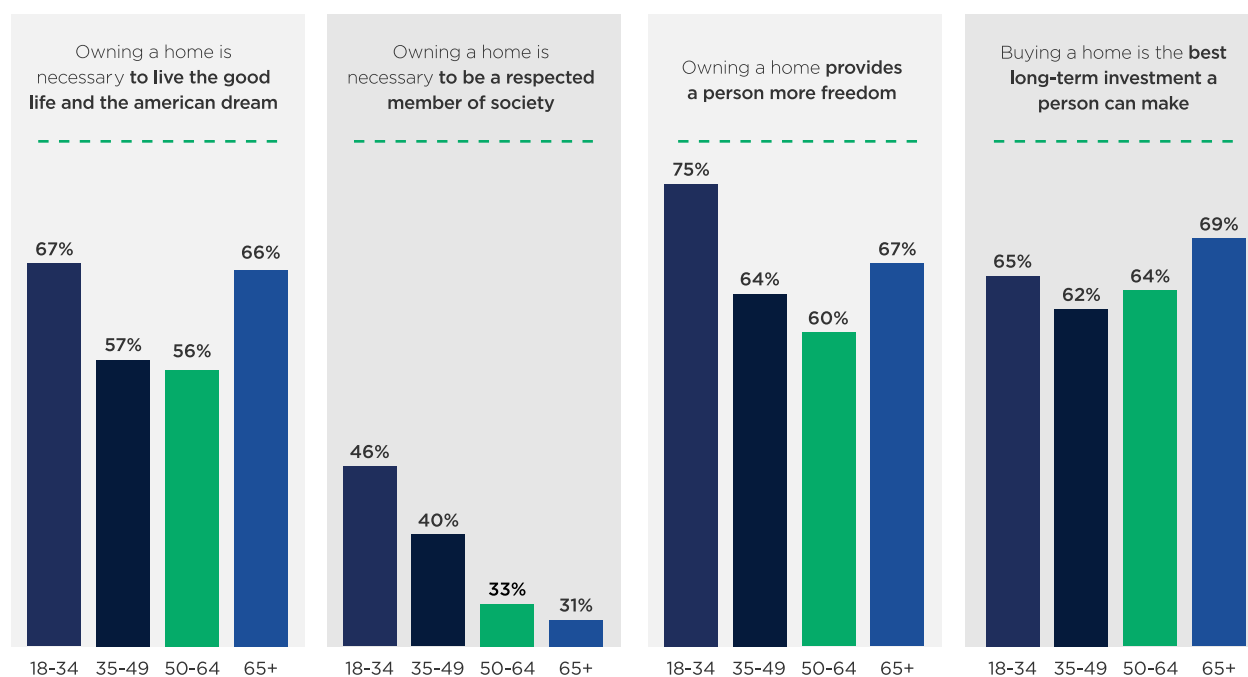
Zillow's experts say **2016 will be all about housing affordability**, with young and first-time buyers pushed out to the suburbs by the lack of affordable homes near city centers. Check out these five [2016 housing market predictions](#) and get ready for the year ahead.

- 1 The median age of first-time buyers will set a new record.
- 2 Rents will soar to the highest level ever.
- 3 More low-income Americans will be priced out of homeownership.
- 4 People will move back to the suburbs to find affordable housing.
- 5 Home values are expected to grow about 3.5 percent.

## Understanding the millennial mindset

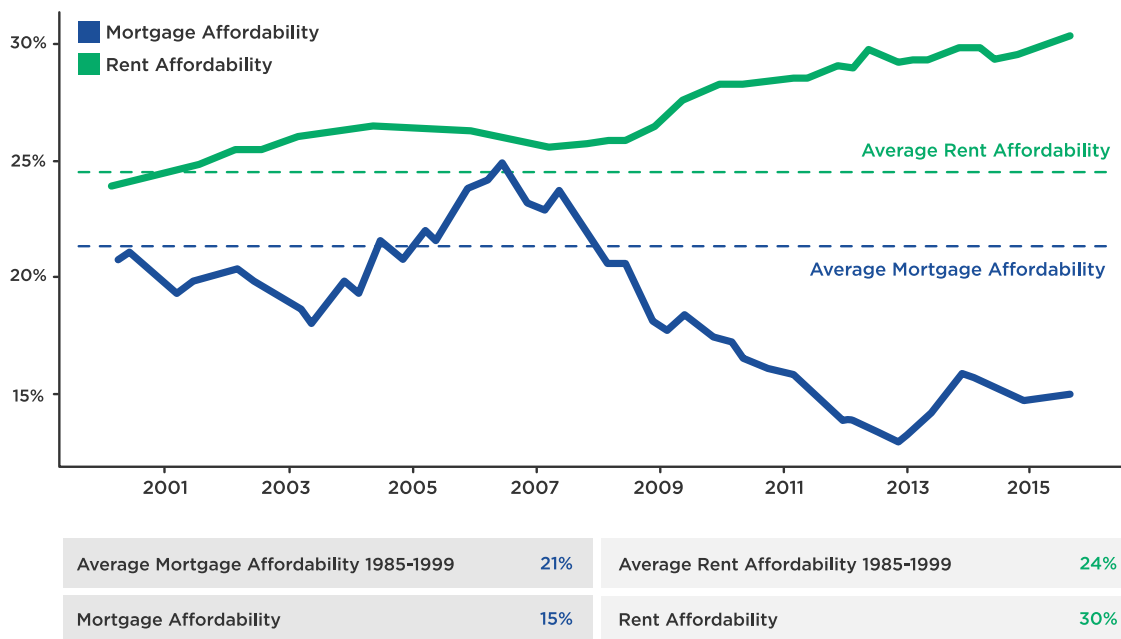
It should be pretty clear by now that millennials want to purchase homes. The habits of this cohort of young adults — born between the early 1980s and the early 2000s — and other first-time home buyers are a [notable departure](#) from the Gen Xers and baby boomers, especially when it comes to housing.

The most recent Zillow data shows that **millennials have conservative views of homeownership**.



Millennials (18-34) have conservative views on homeownership.

However, low interest rates and affordable mortgage payments are encouraging, and skyrocketing rents are compelling motivation for them to make a change in their housing situation.



Rent has become increasingly unaffordable.

The question isn't "Why don't millennials want to buy a home?" It's "When and what can they afford to buy?" It's up to you to help them answer that.

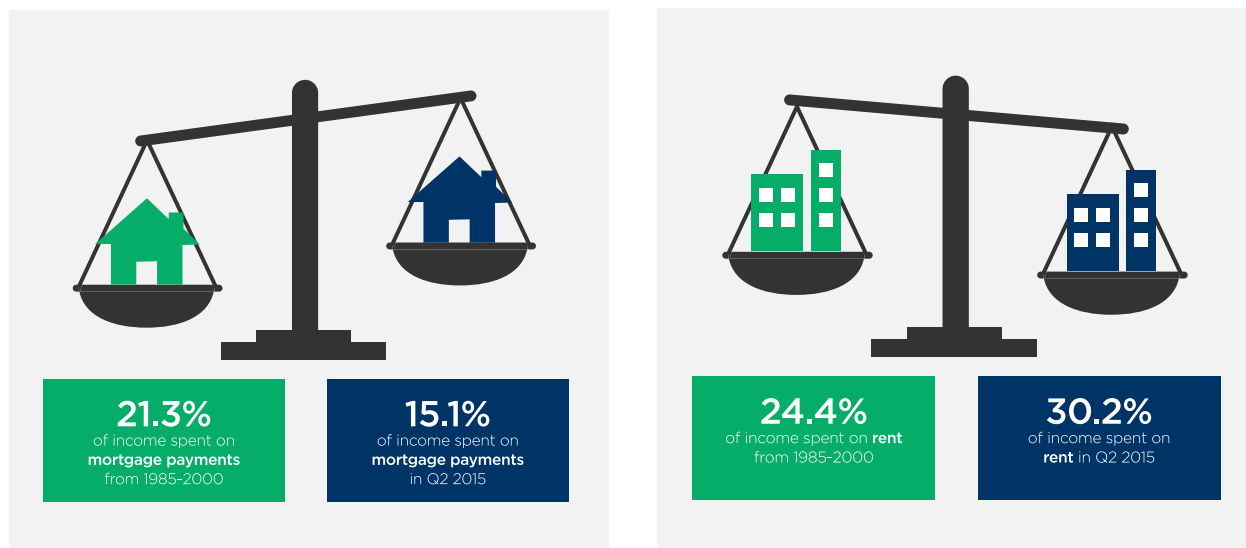
## The rent or buy decision—help guide your clients

The issue facing millennials and other first-time home buyers is whether it's more economical to continue renting or to make the leap and purchase a home. To help determine that, **renters need to identify their *breakeven horizon*** — the number of years they will need to own and live in a home until it becomes more financially advantageous than renting the same home.

**Current renters spend roughly 30 percent** of their household income on housing; **home buyers spend about 15 percent** of their monthly income on a mortgage payment for a typical home.

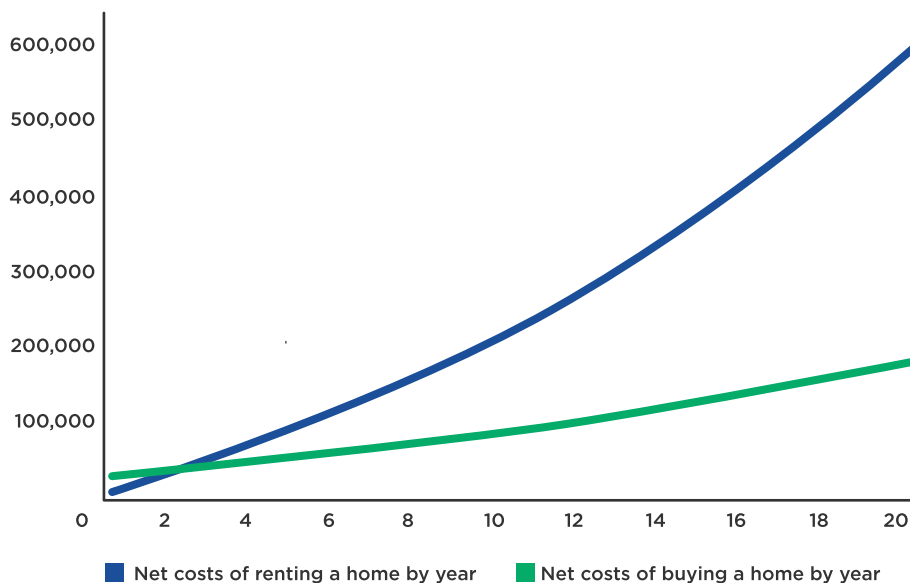
## U.S. Housing Affordability

Renting is less affordable than ever, but mortgages are still affordable.



Spending a bigger piece of the income pie on rent makes it hard to save for a down payment.

Although 20 percent is a recommended down payment, the graph below shows that even assuming only 5 percent down and a 6 percent mortgage interest rate, the breakeven horizon is just short of four years, and **rental costs are still remarkably higher than homeownership costs by approximately \$300,000 over 20 years.**



With 5% down and a 6% interest rate, the breakeven horizon is just under 4 years.

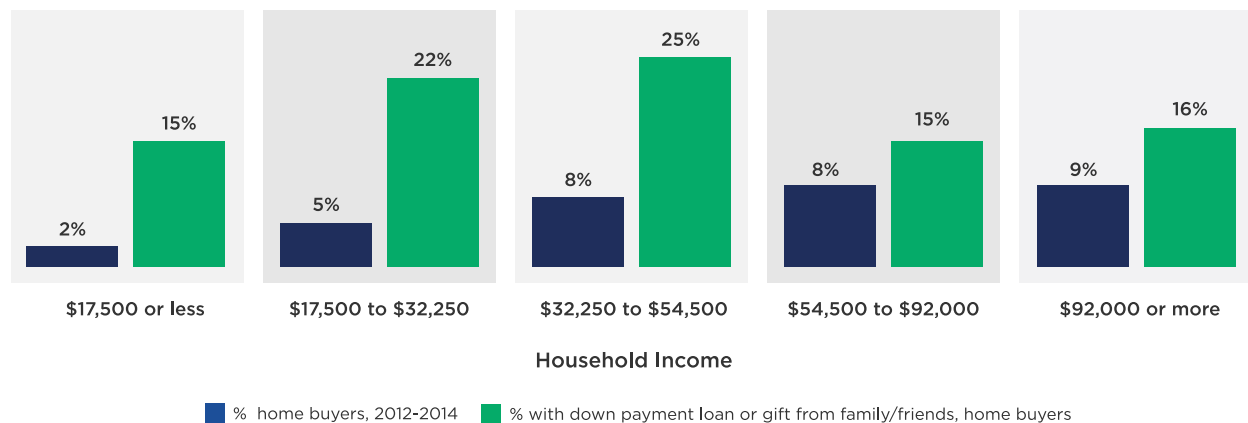
“But maybe your clients like living with roommates and paying only \$600 a month on rent...”

DR. SKYLAR OLSEN, ZILLOW GROUP SENIOR ECONOMIST

A sign of the times is that first-time homebuyers are getting help from their social networks to make the down payment: **22 percent received a loan or financial gift from family and friends.\*** Of those buyers, 47 percent received an amount between \$17,500 and \$54,500.

\* Zillow analysis of Federal Reserve Board, Survey of Household Economics and Decisionmaking, 2014.

## Home Buyers and Down Payment Assistance from Social Networks by Income Quintile



Nearly half of first-time home buyers receive sizeable loans and financial gifts for a down payment.