

Anchoring on data: **The state of real estate and economic forecast for 2024**

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Zillow Economic Research
September 2023



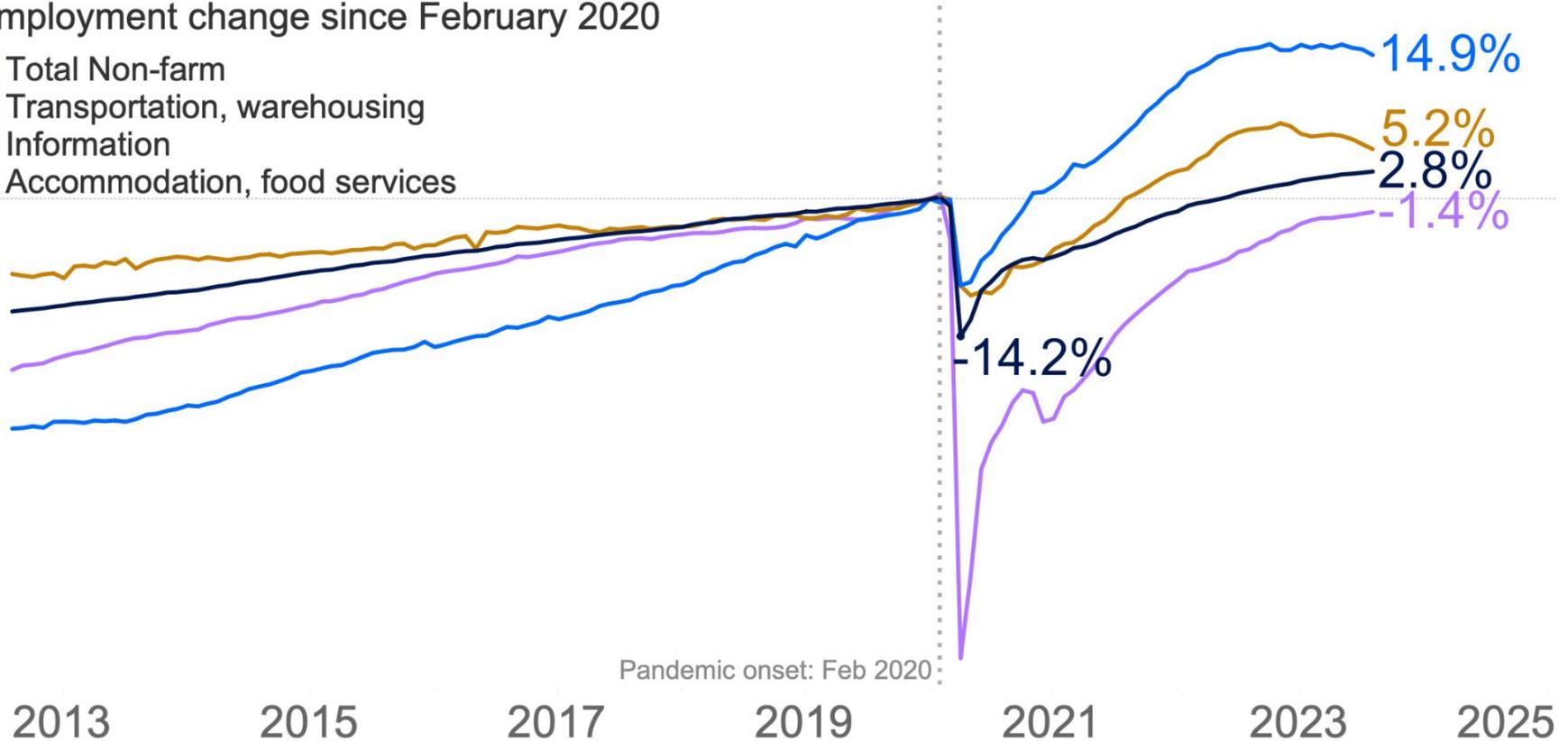
The data world of Zillow Economic Research



COVID-19 pandemic: a radical shock to the whole system

Employment change since February 2020

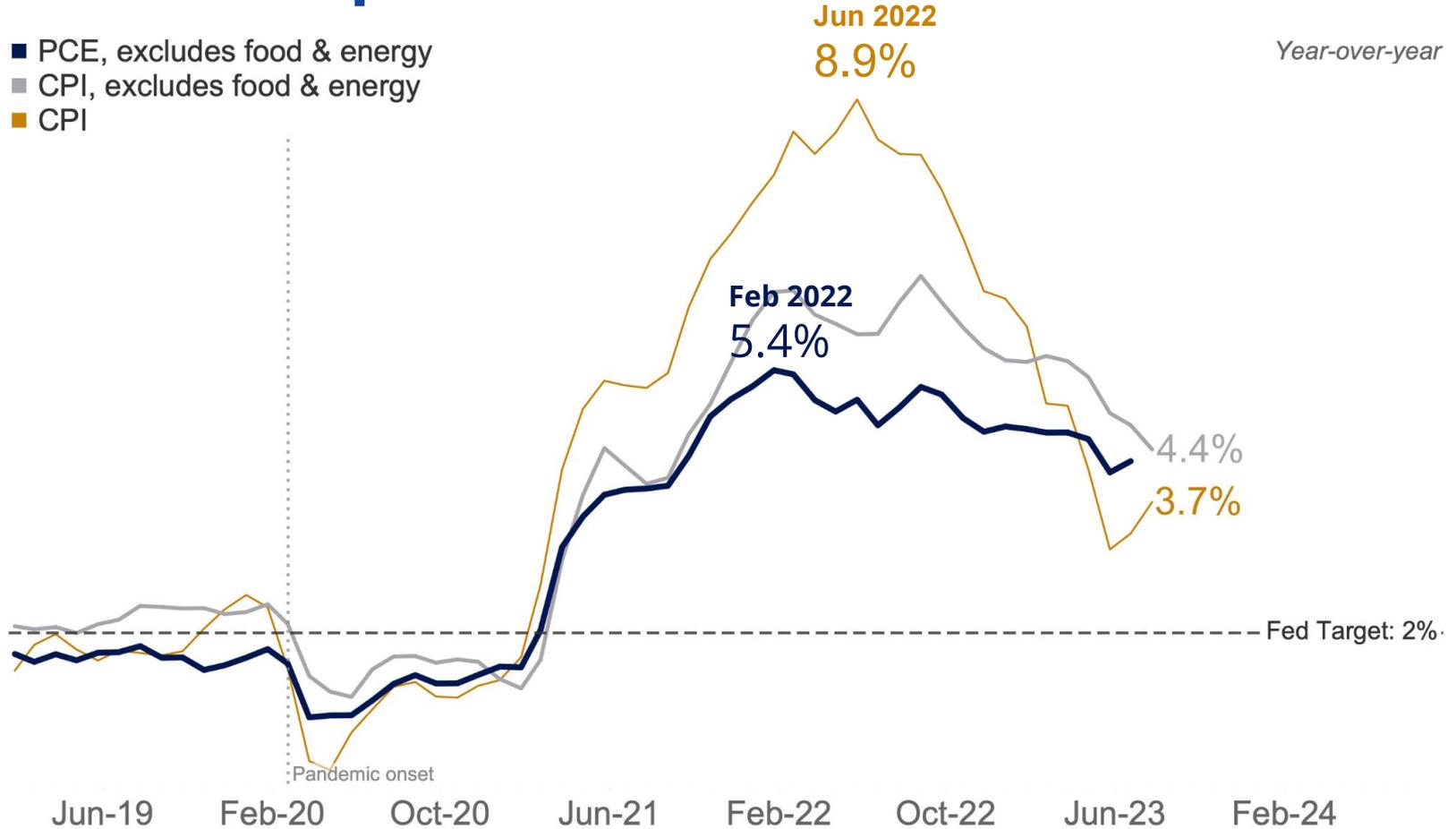
- Total Non-farm
- Transportation, warehousing
- Information
- Accommodation, food services



Inflation: the pain that forced the Fed's hand

- PCE, excludes food & energy
- CPI, excludes food & energy
- CPI

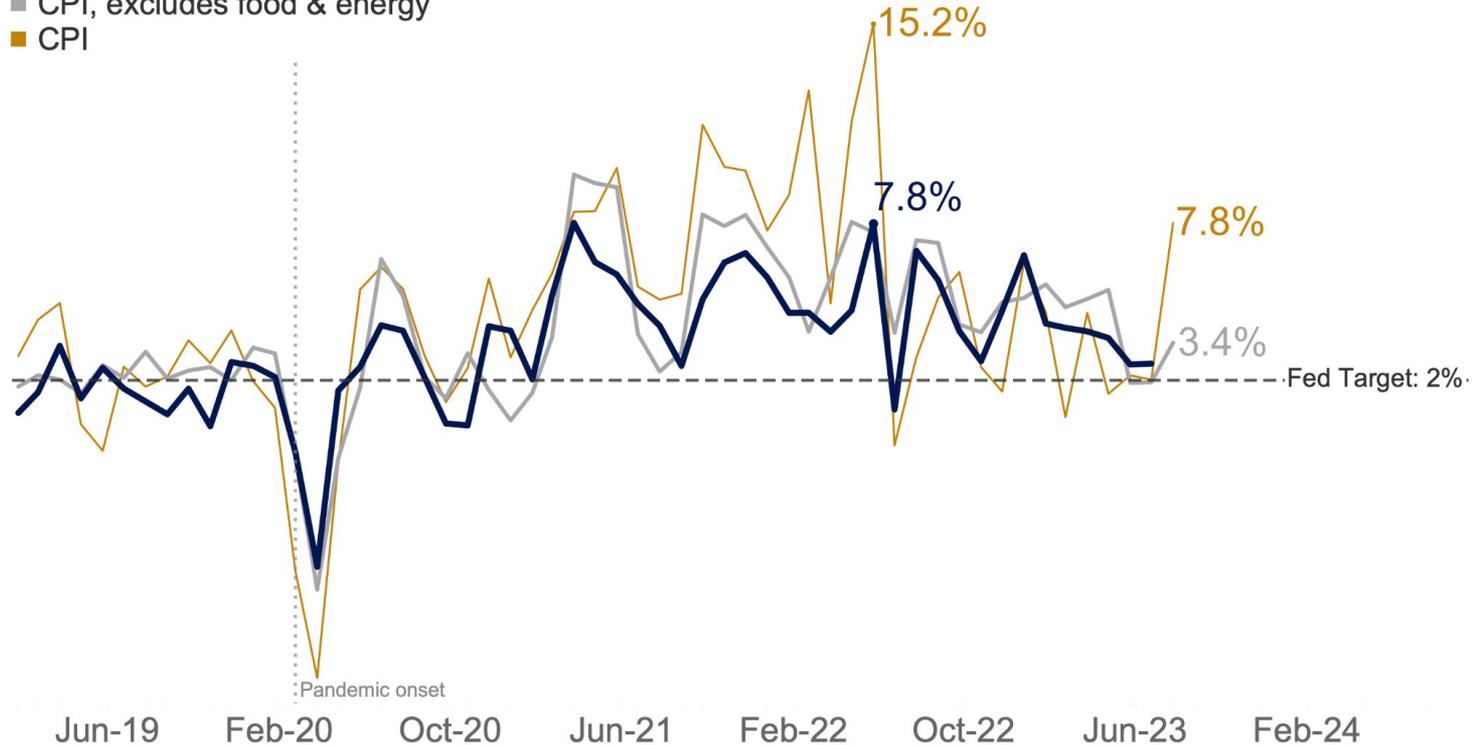
Year-over-year



Only early days of inflation relief, but encouraging signs in current pace

- PCE, excludes food & energy
- CPI, excludes food & energy
- CPI

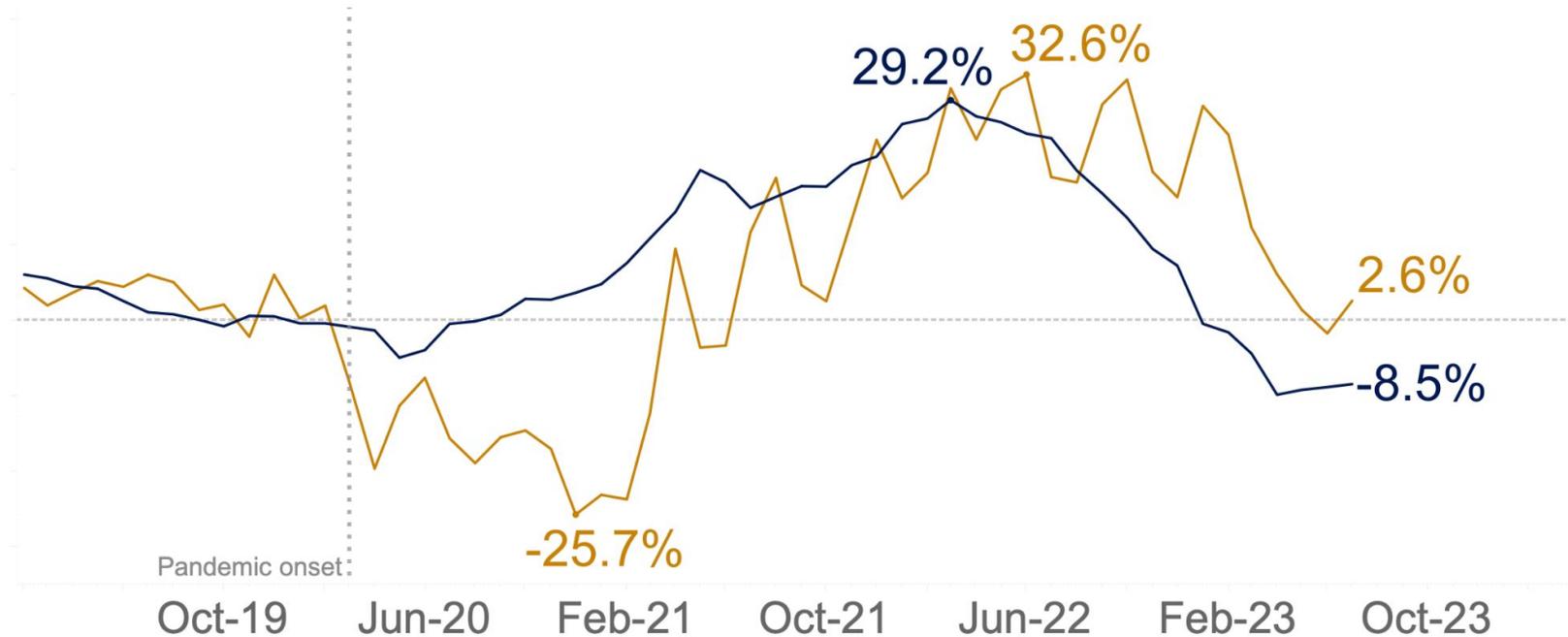
Month-over-month, annualized



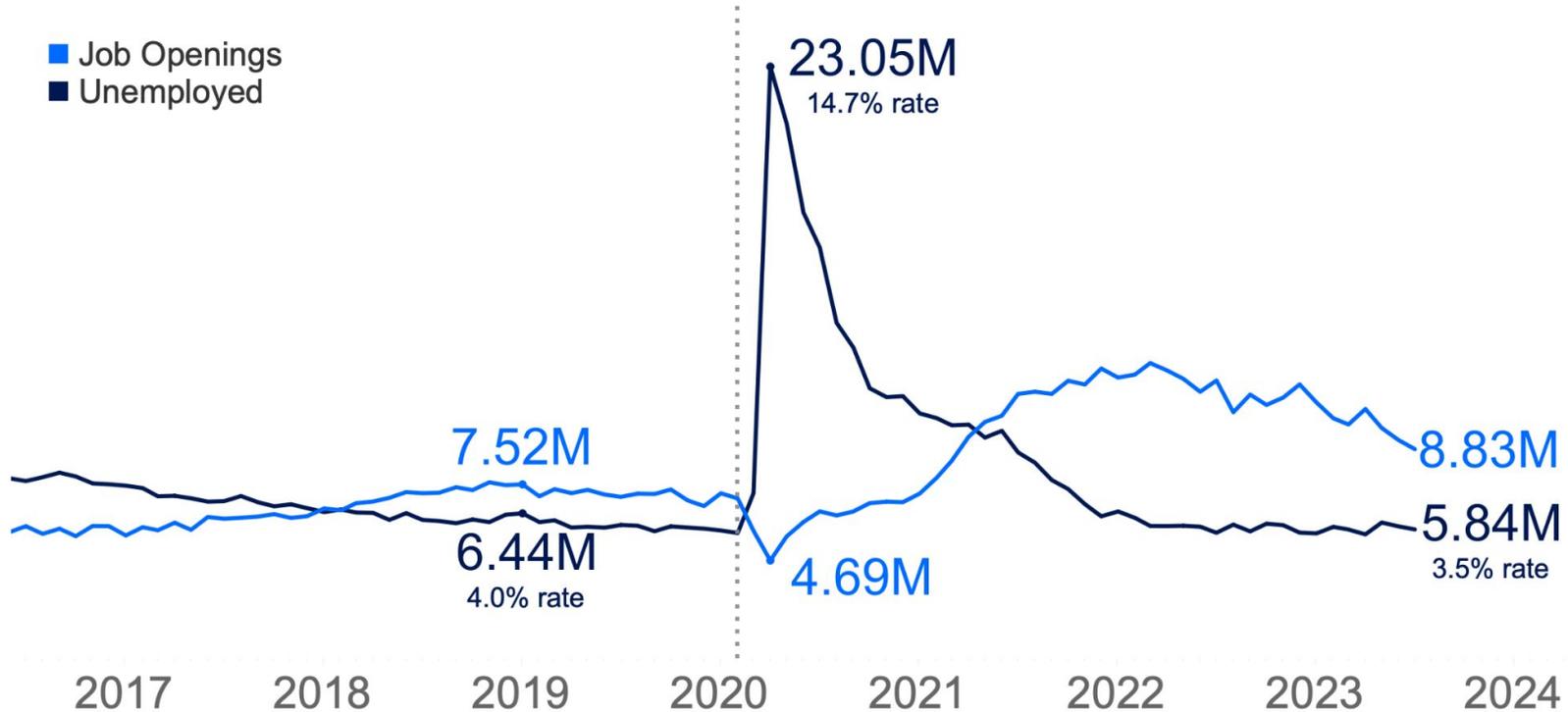
Price growth is less likely to be driven by supply chain problems now.

- Producer Price Index: General Freight Trucking
- Producer Price Index: Scheduled Passenger Air Transportation

Year-over-year



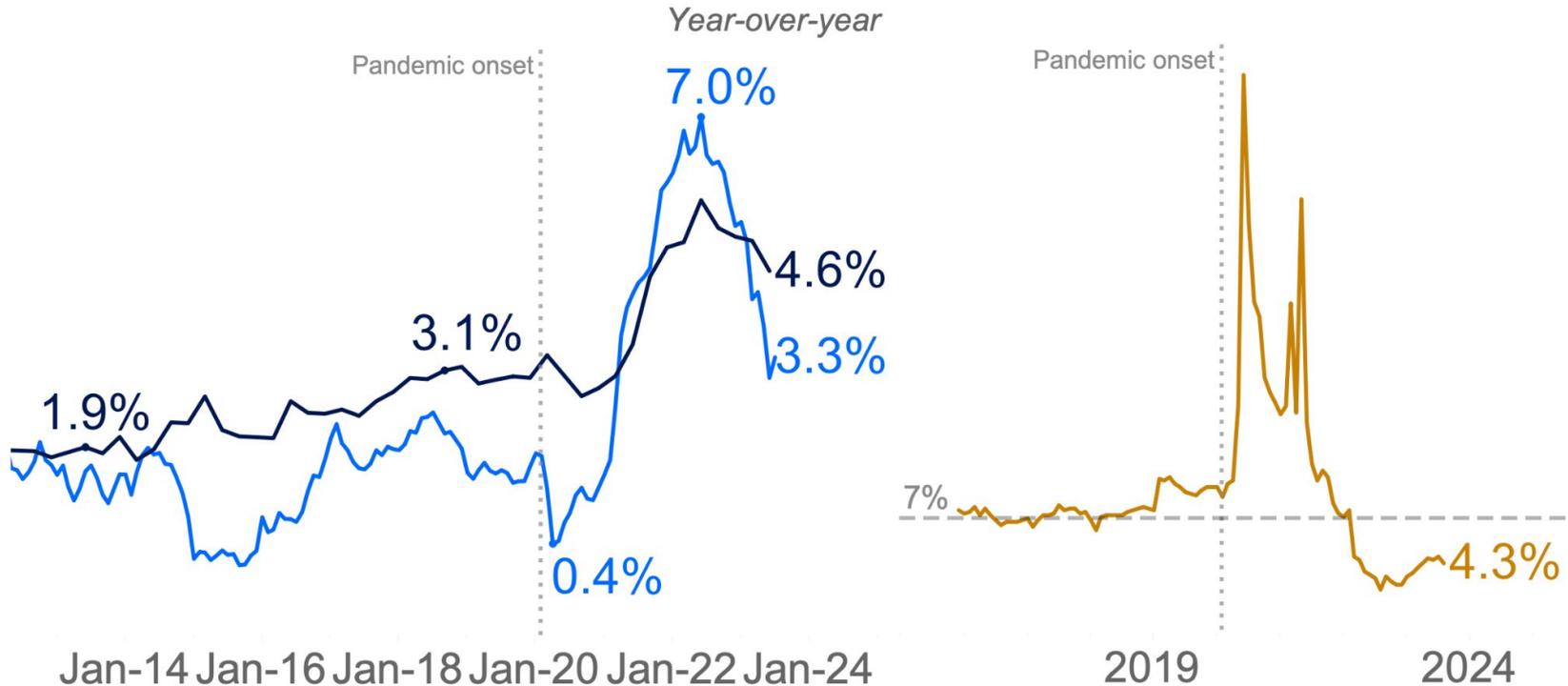
Labor gap is still wide; gradually narrowing



Wages finally outpace prices again, savings & budgets begin to stabilize

■ Private industry wages (ECI) ■ PCE

■ Personal savings rate



Shelter costs at the heart of the policy debate: ZORI supports future slow down in general inflation

■ Market-rate asking rent: Zillow Observed Rent Index

■ Full rental stock: CPI, renting a residence

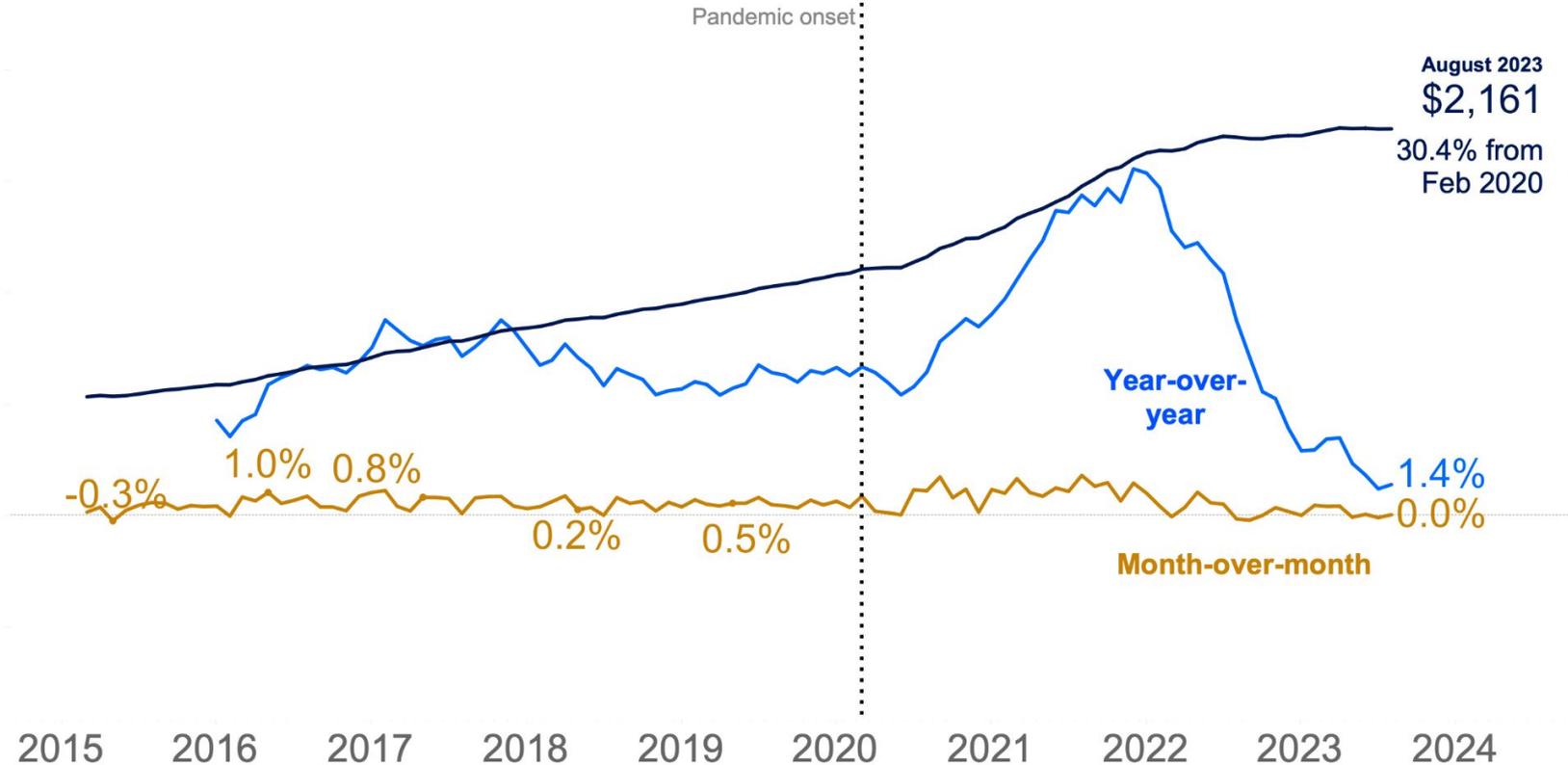
Month-over-month, annualized



Source: CPI produced by the U.S. Bureau of Labor Statistics (BLS), drawn from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org>. Zillow Observed Rent Index (ZORI) is a repeat listed rent index trained on Zillow rental listings and weighted by the structures propensity in the overall rented housing stock.

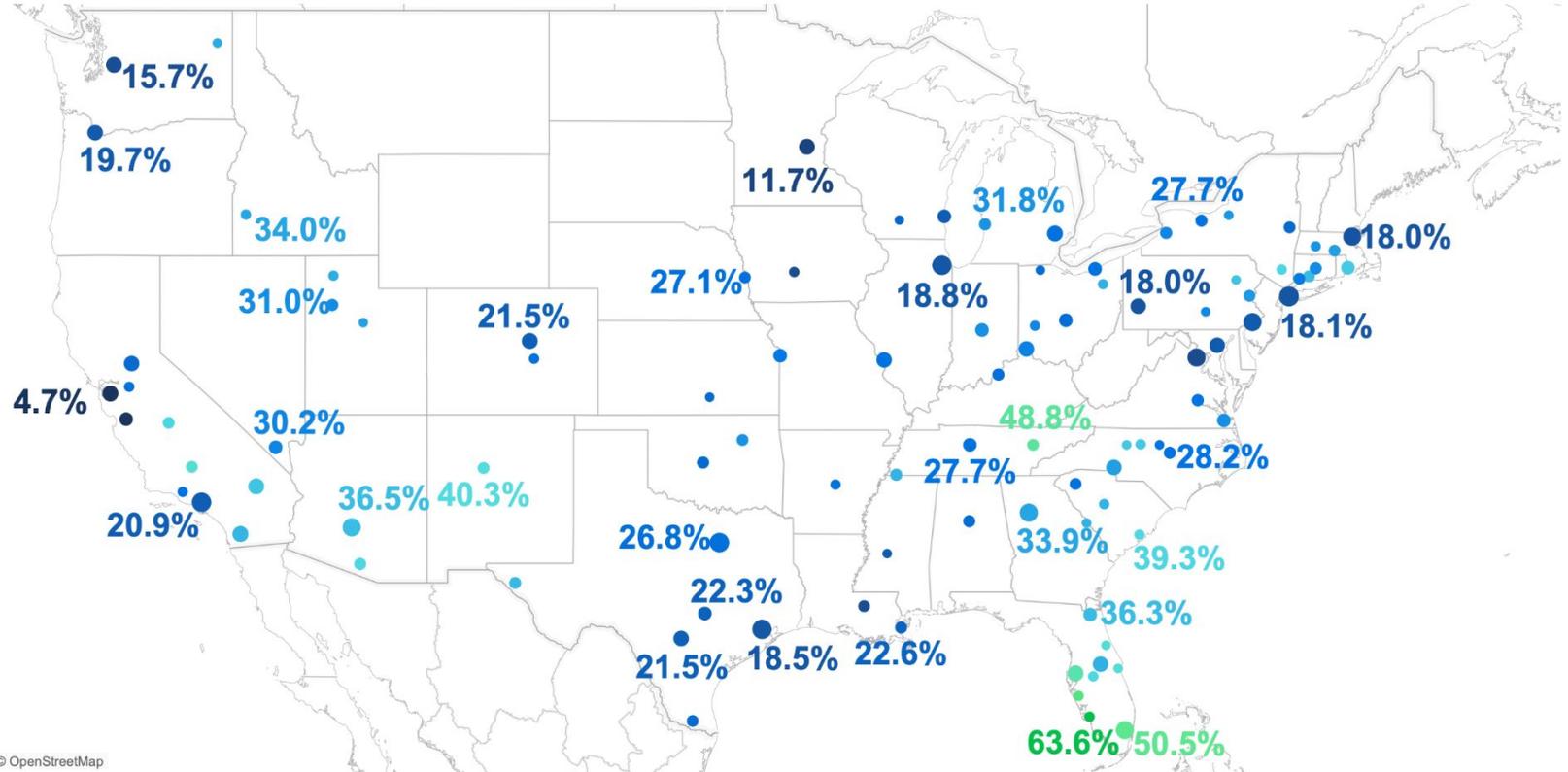
Rent is flat in the Olympia metro too.

Typical market rate asking rent of rental stock: Zillow's Observed Rent Index (ZORI, Seasonally adjusted)



Rent growth since the start of the pandemic

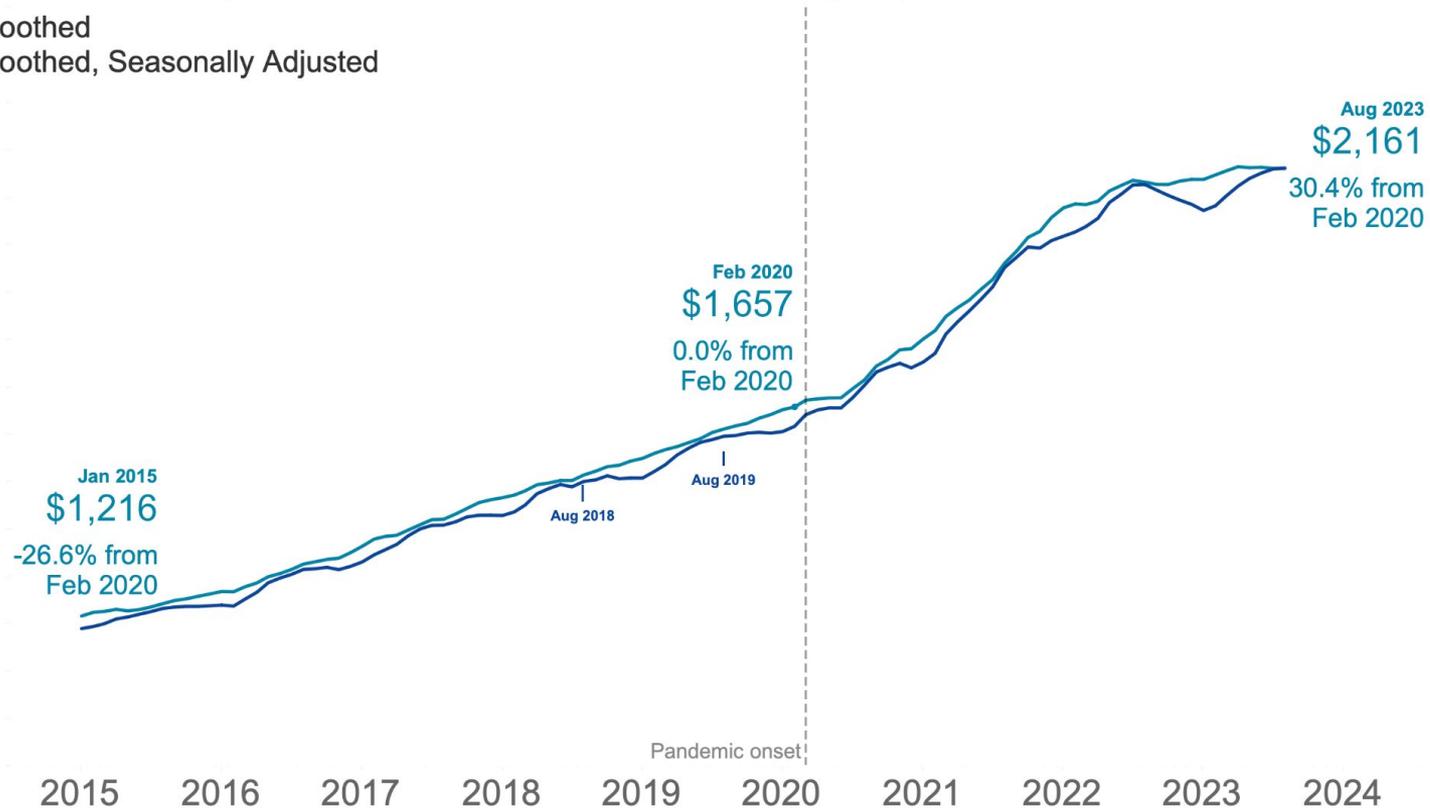
Change from February 2020



Groking the seasonality in rental markets

Typical market rate asking rent of rental stock: Zillow's Observed Rent Index (ZORI)

- Smoothed
- Smoothed, Seasonally Adjusted



Mortgage rates volatility is still severe

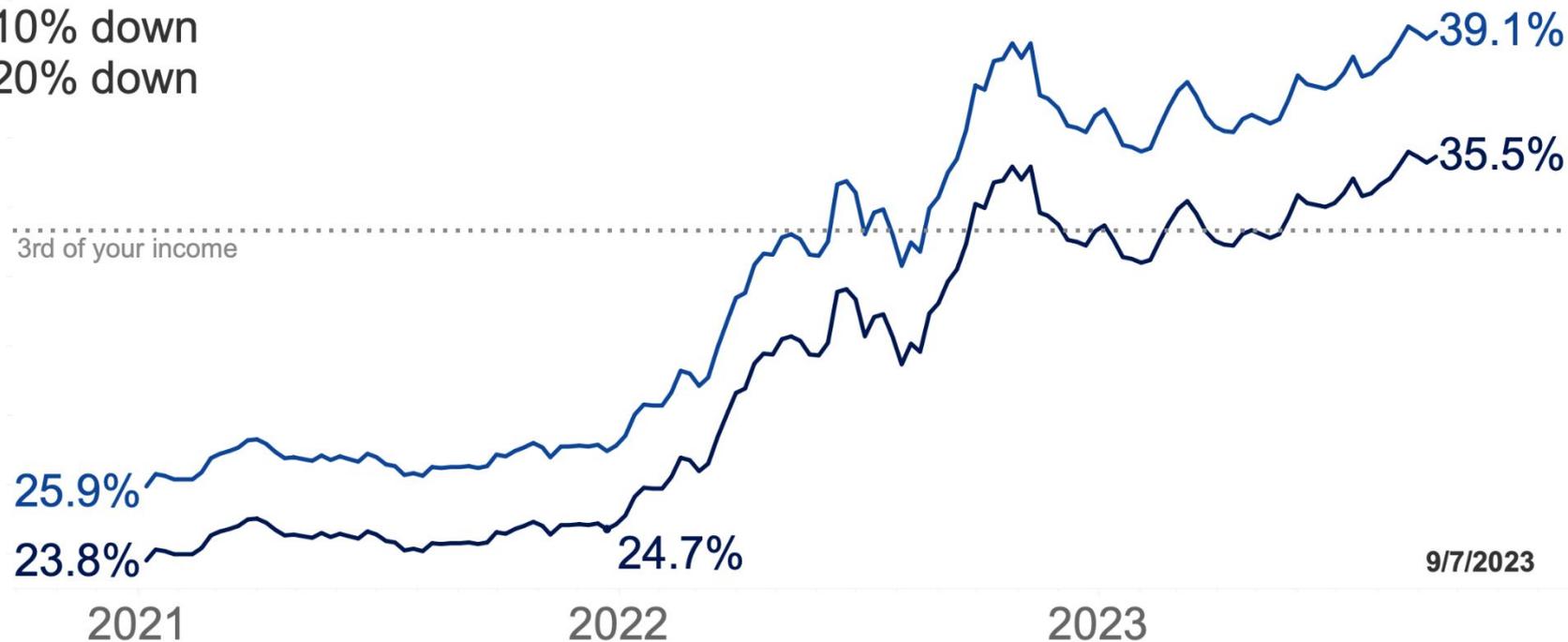
Average mortgage rate for prime borrowers



New homeowner burden acts as a major barrier to buyers

New homeowner burden as mortgage rates change (keeping home value and income fixed)

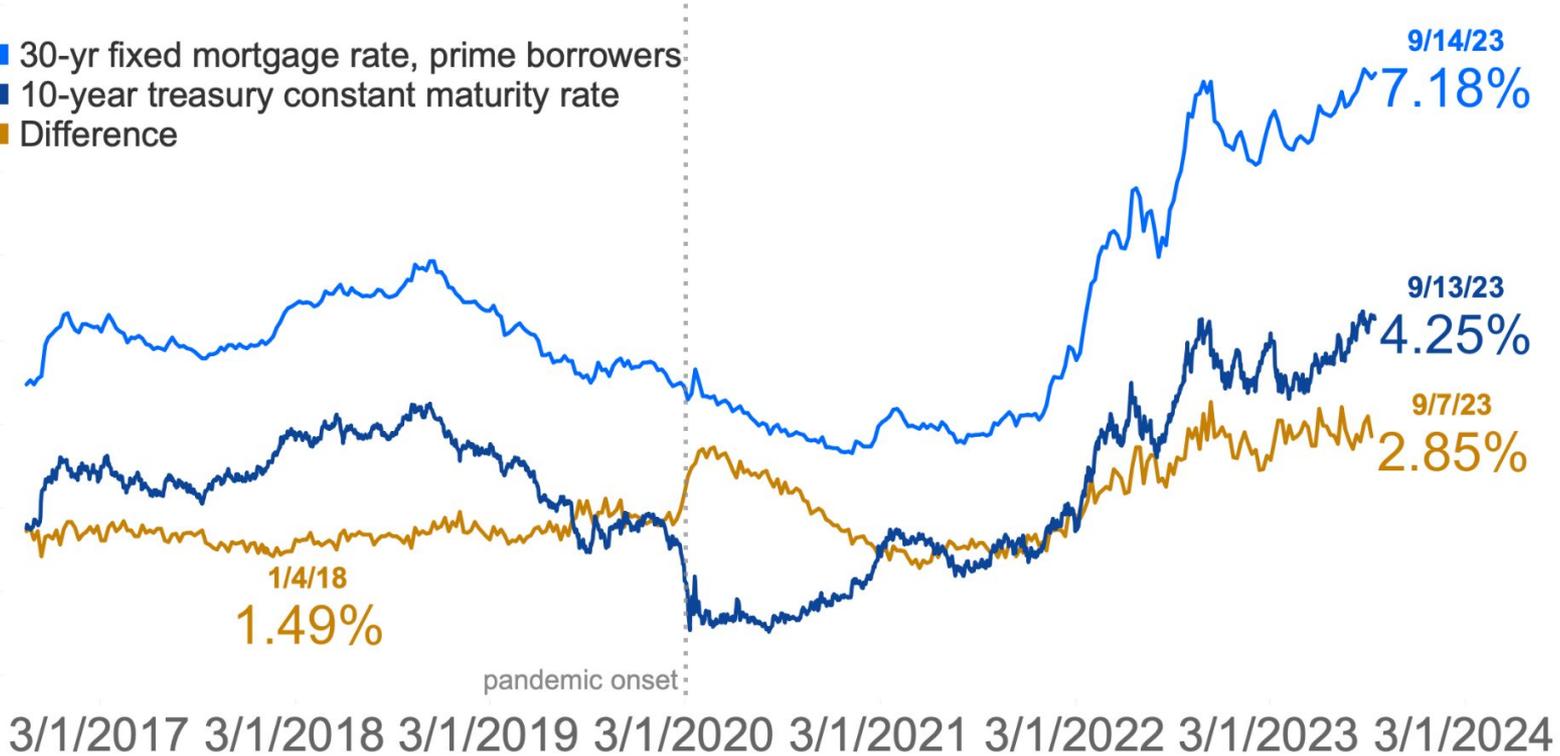
- 10% down
- 20% down



Source: Zillow Economic research analysis using raw ZHVI, median household income (U.S. Census Bureau; drawn from FRED), and the average mortgage rate of prime 30-year fixed rate borrowers (Freddie Mac; drawn from FRED). Assumes 0.5% and 1% of home value per year for insurance and property tax.

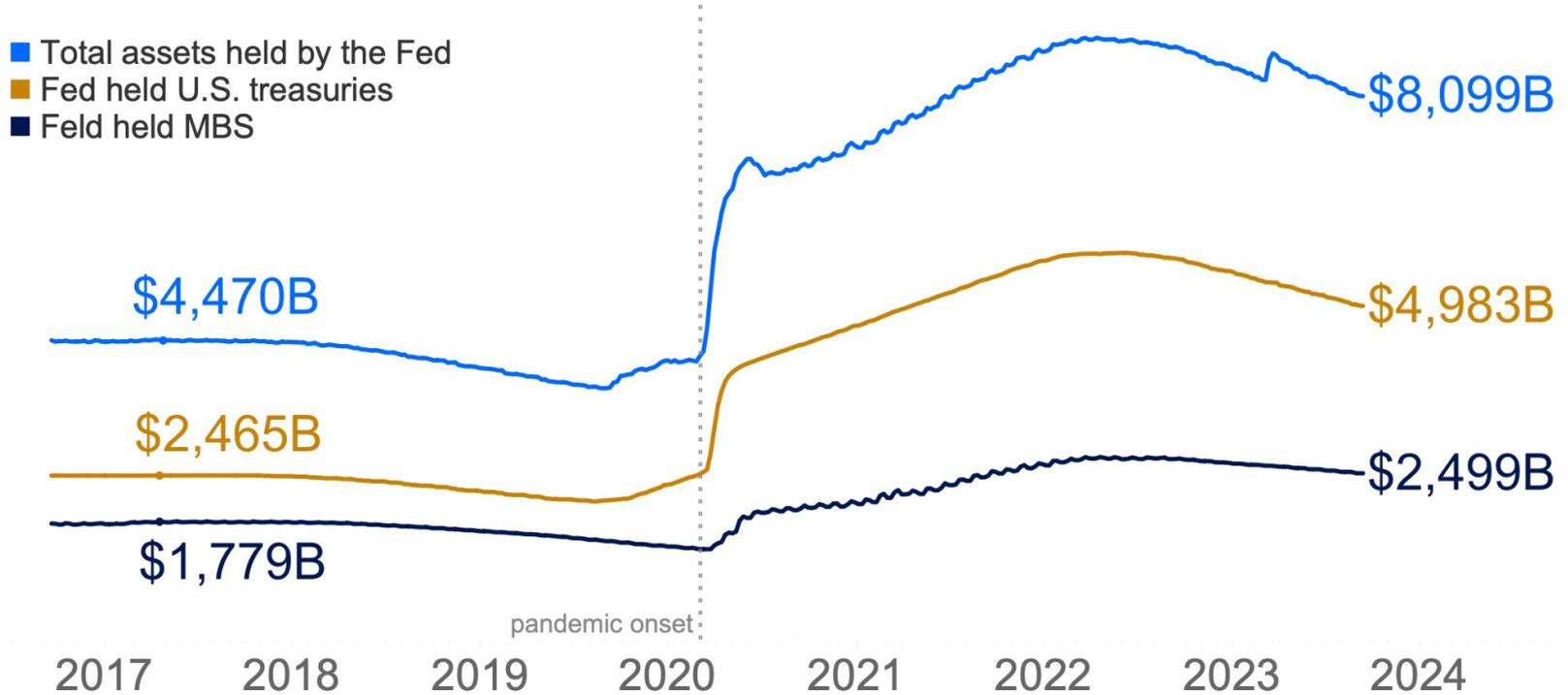
Spread (extra risk) in secondary mortgage market, leaves room for rates to come down. **When? 1st need confidence about inflation**

- 30-yr fixed mortgage rate, prime borrowers
- 10-year treasury constant maturity rate
- Difference



Source: 30-year fixed rate mortgage average in the United States produced by Freddie Mac and market yield on U.S. Treasury securities at 10-year constant maturity, both retrieved from FRED, Federal Reserve Bank of St. Louis; <http://fred.stlouis.org>

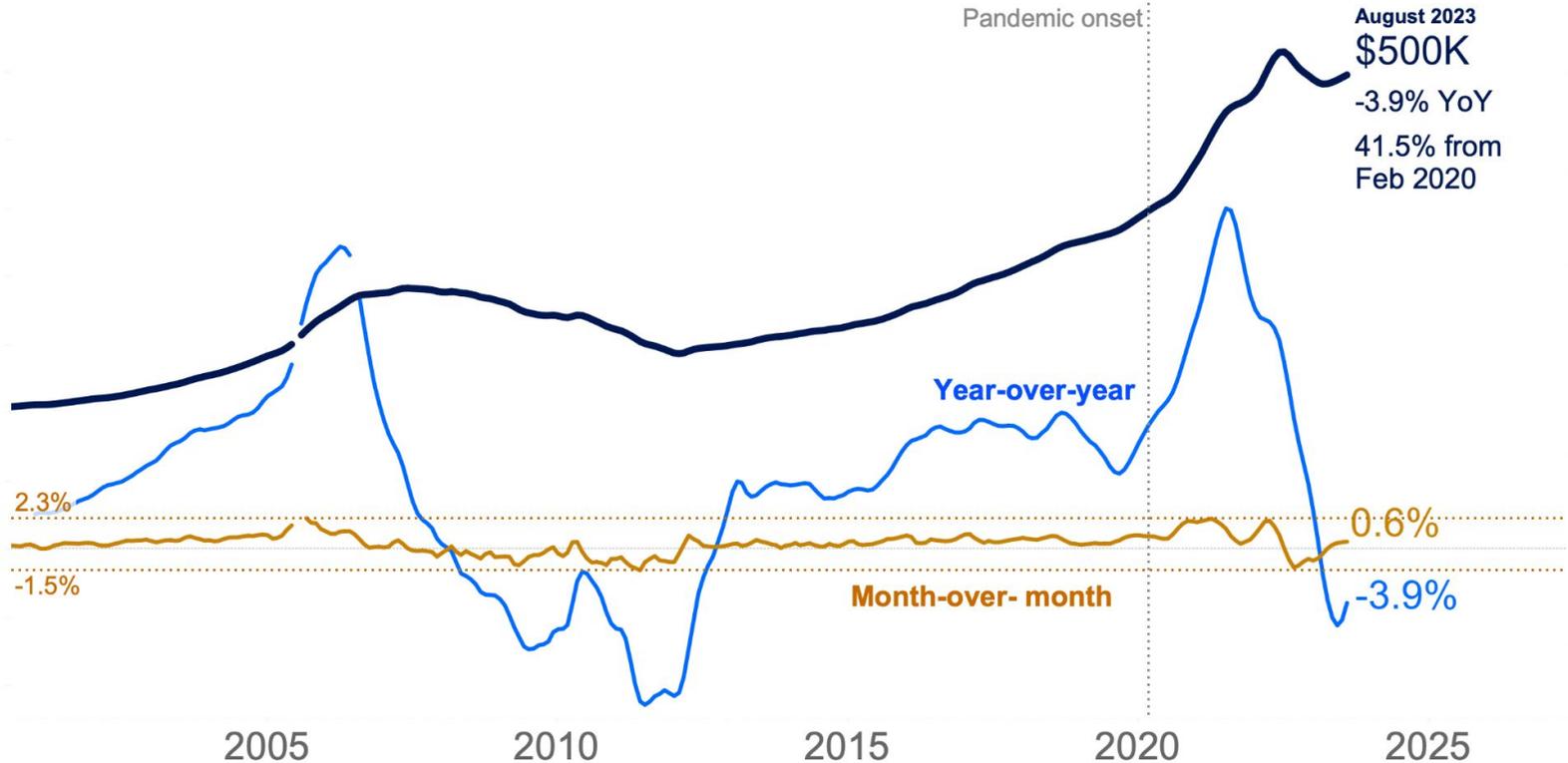
Unprecedented liquidity support during the pandemic-era



Source: Retrieved from FRED, Federal Reserve Bank of St. Louis; <http://fred.stlouis.org>

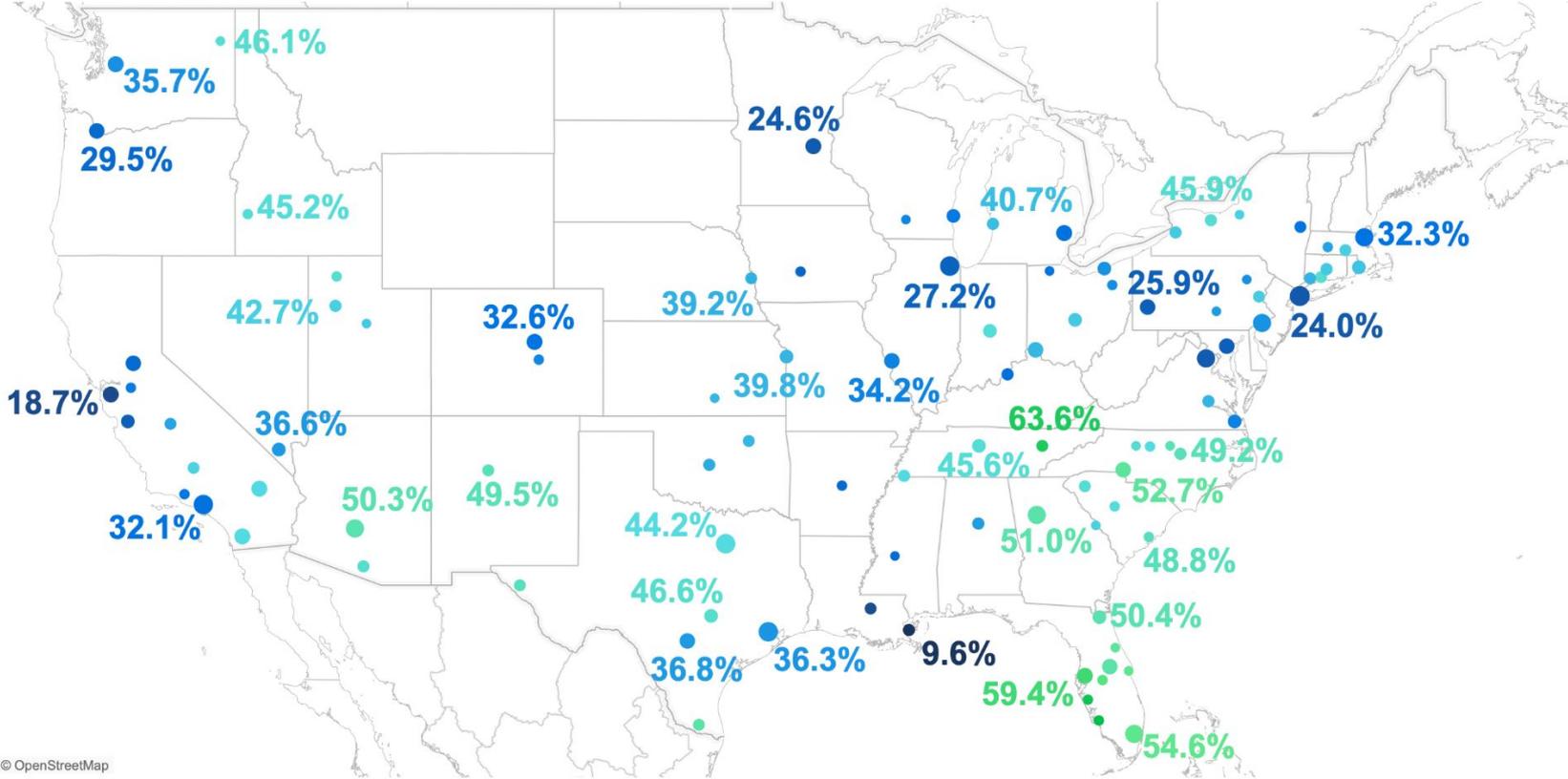
Home price appreciation returns to Olympia Met

Typical home value: Zillow Home Value Index (ZHVI, SSA)



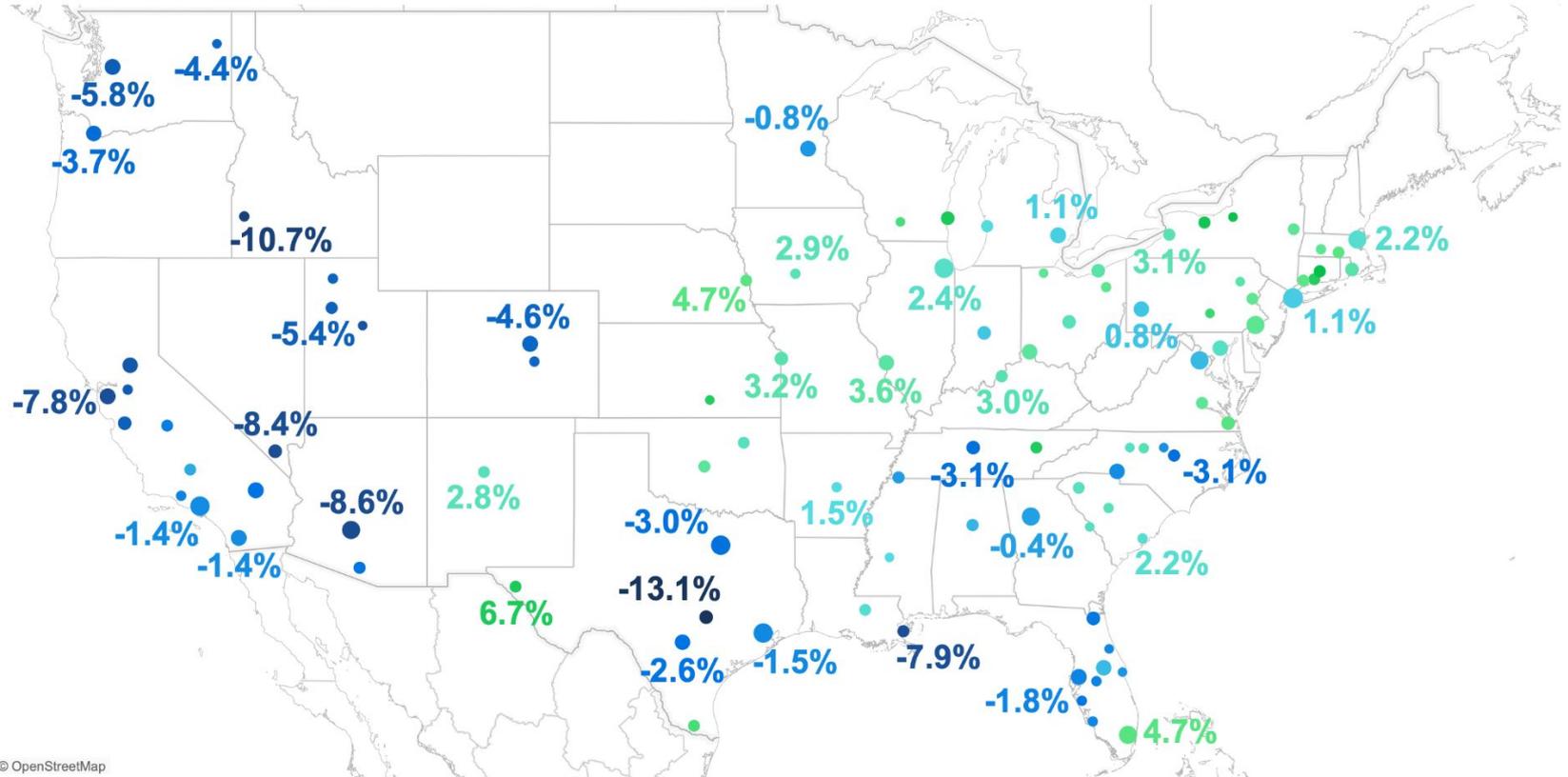
Appreciation over the pandemic era

Zillow Home Value Index (ZHVI, SSA): Change since February 2020



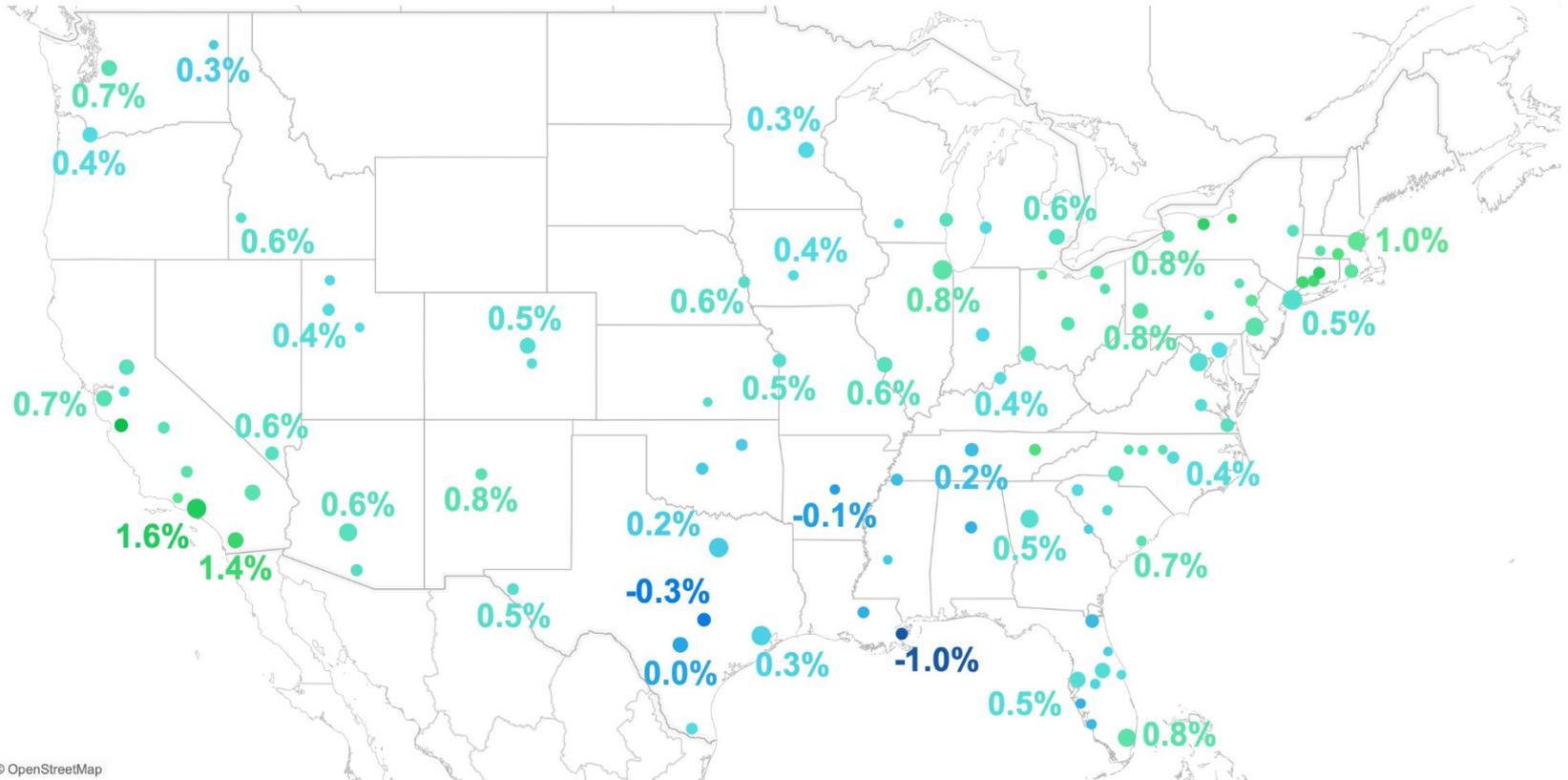
In many areas home values are lower than last year

Zillow Home Value Index (ZHVI, SSA): Year-Over-Year



Current relative pressure on home values

Zillow Home Value Index (ZHVI, SSA): Month-over-month



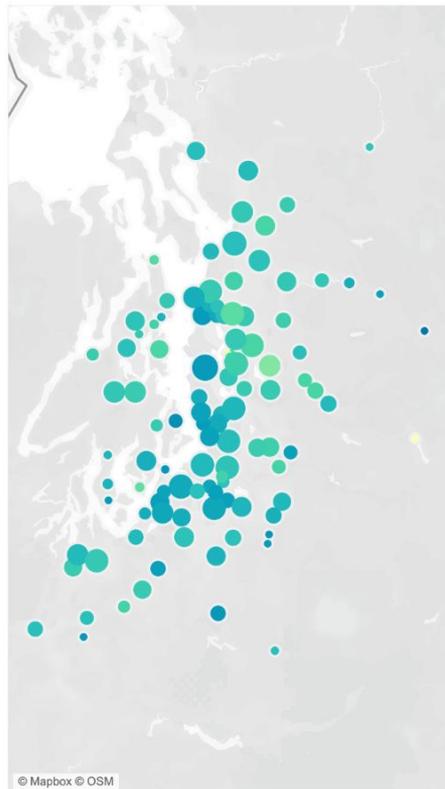
Zillow Home Value Index (ZHVI; SSA): Month-over-month (August)

2020



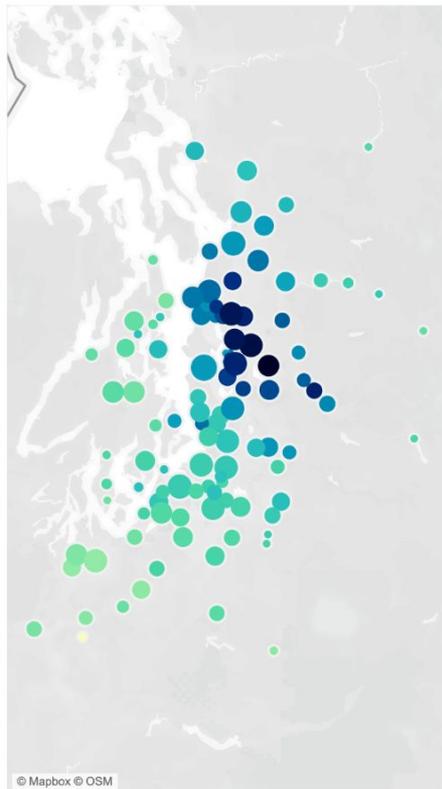
0.42%  2.15%

2021



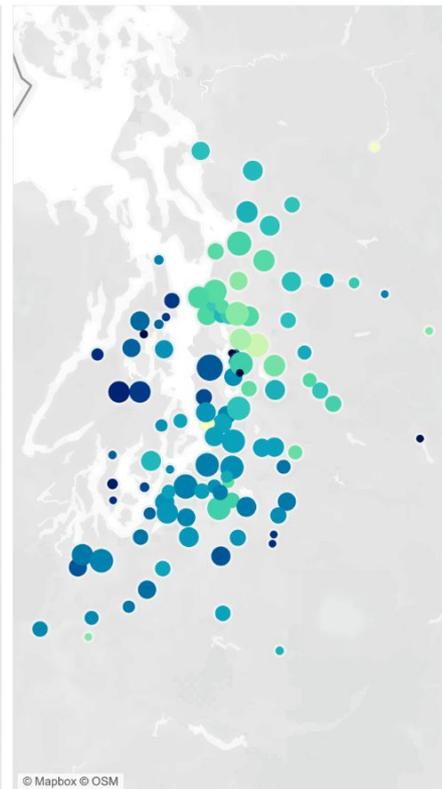
-0.37%  2.53%

2022



-3.58%  -0.33%

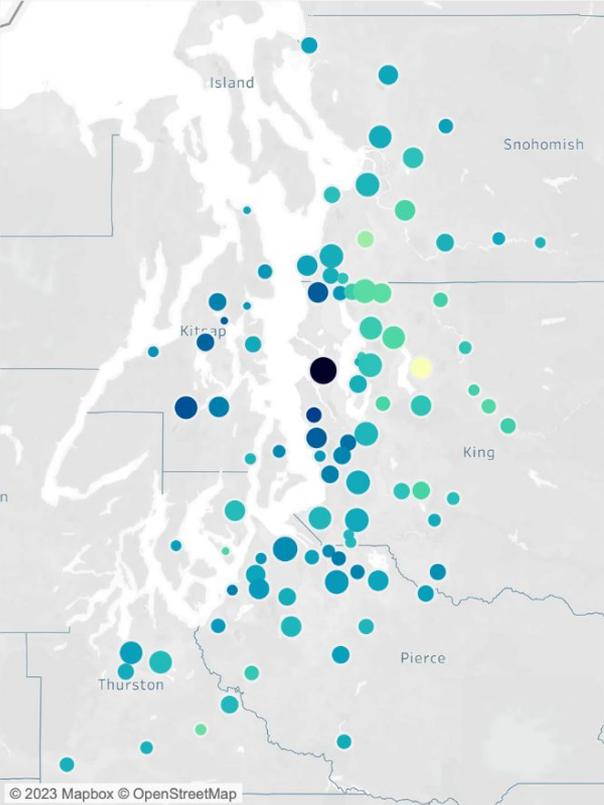
2023



0.01%  1.37%

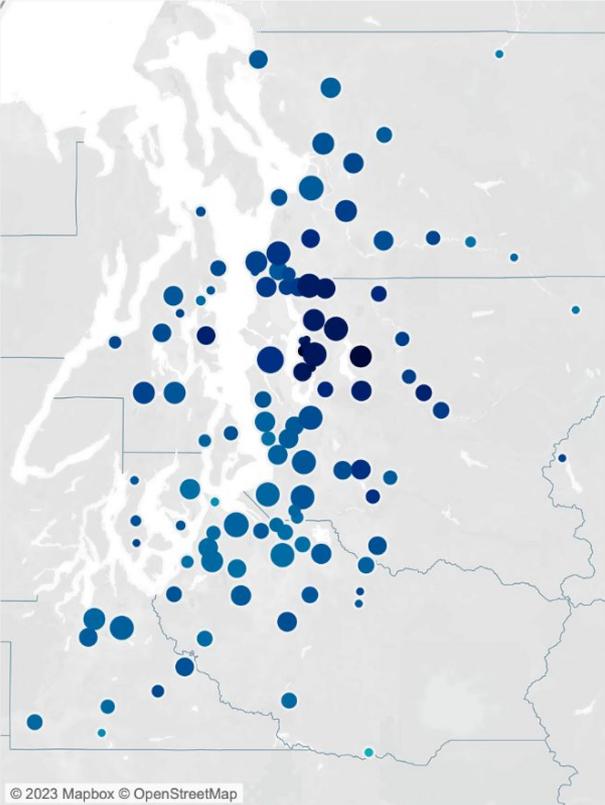
Zillow Home Value Index (ZHVI; SSA)

Change since 2020



18.1% 56.9%

Year-over-year



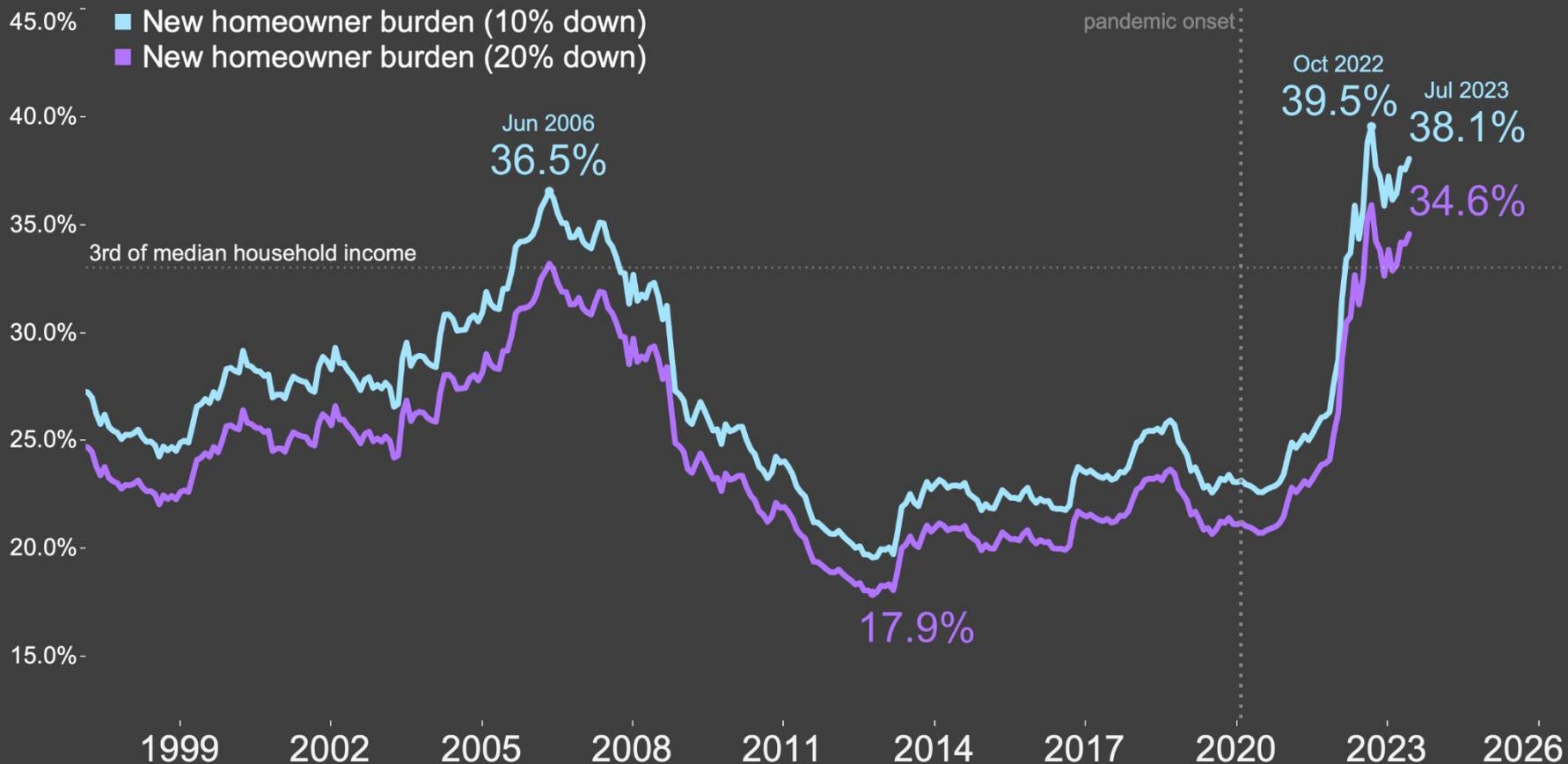
0.01% 1.37%

Month-over-month



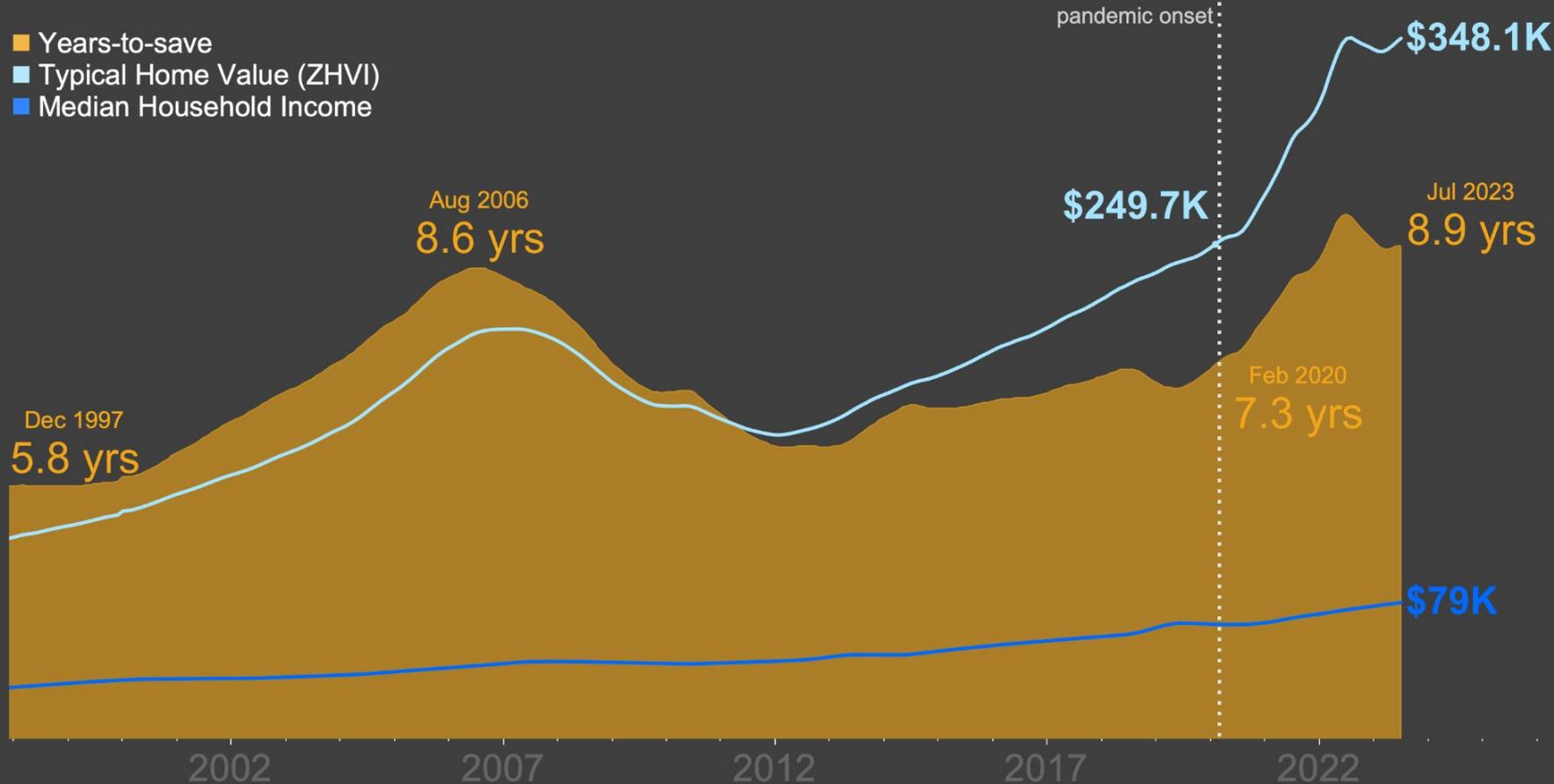
-13.7% 2.6%

With higher rates, reducing the debt load



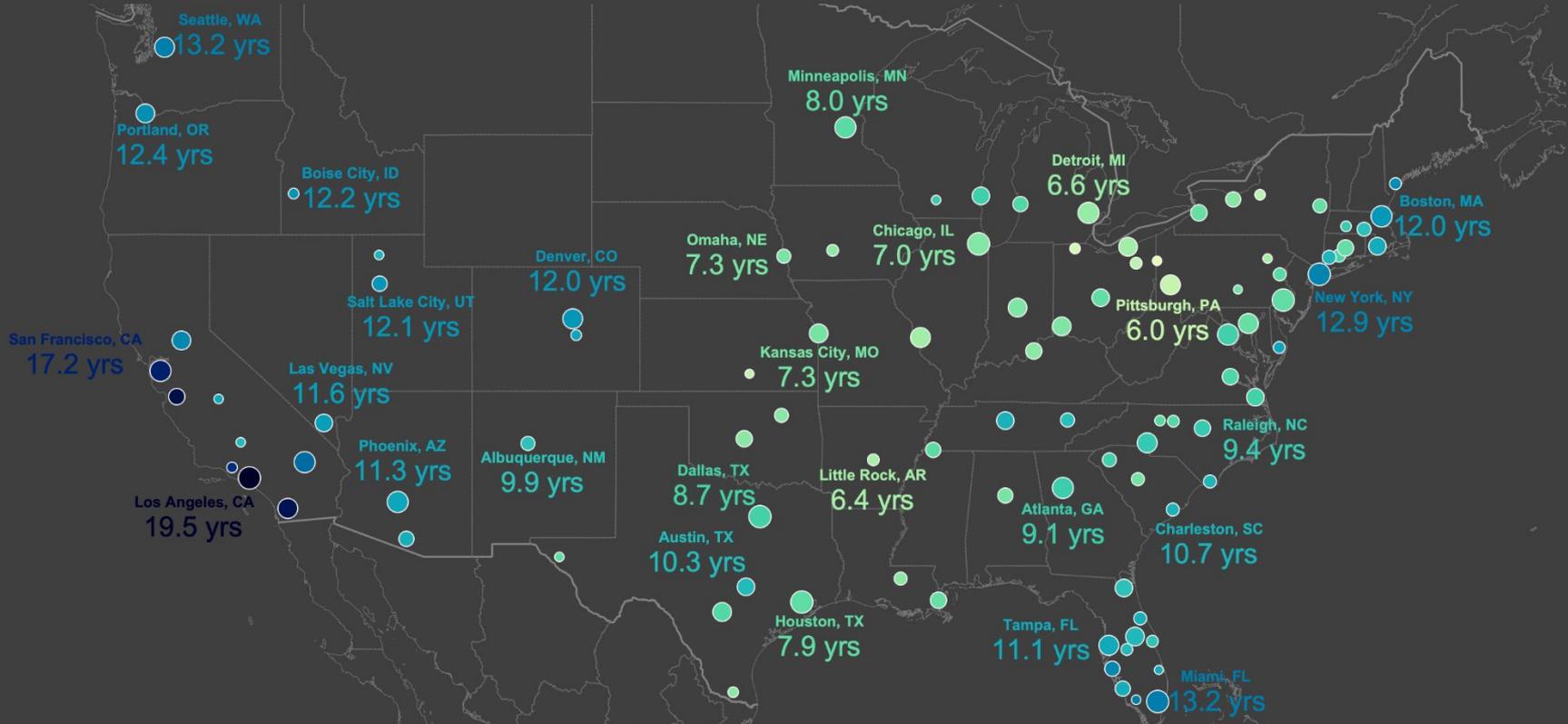
Years-to-save improved only modestly, increasing again.

- Years-to-save
- Typical Home Value (ZHVI)
- Median Household Income



Affordability – a reason to move

Down payment affordability: Years to save 10% down on the typical home by saving 5% of median household income



Explore ways to lower your monthly payment.

[Okay!](#)
[Take me to the dashboard already!](#)

Achieving Affordability

Mortgage products designed to decrease monthly payments rise in popularity with higher mortgage rates.

[Take me to the resource center](#)

First enter your details:

Set your home price <input type="text" value="200000"/> <input type="range"/>	Set your down payment share <input type="radio"/> 0.1 <input checked="" type="radio"/> 0.2	Set your credit score <input type="radio"/> Less Than 680 <input type="radio"/> Between 680 and 699 <input type="radio"/> Between 700 and 719 <input checked="" type="radio"/> Between 720 and 739 <input type="radio"/> Greater Than 740	Your situation Mortgage Rate 6.60% Down payment \$40,000 Original loan amount \$160,000
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Now explore common options to address mortgage high mortgage rates directly:

BUYING MORTGAGE POINTS TO PERMANENTLY LOWER YOUR RATE

Each point purchased is a permanent 0.25 basis point drop in the mortgage rate, so the benefit in loan interest saved increases over the course of holding your loan. At a certain point, the points breakeven, the benefit outweighs the costs.

- 0
- 1
- 2
- 3
- 4

Cost of points

1% of loan amount for each point

\$3,200

Points Breakeven

Number of years to make points worth it.

4 years

Interest saved after 10 years

from buying 2 points

\$7,993

NEGOTIATE A 2/1 BUYDOWN BETWEEN YOUR SELLER & LENDER

Often negotiated as a seller concession, a 2/1 buy-down lowers the rate 2 percentage points (ppts) over the first year, 1 ppt over the second year, and then back to the original fixed rate for the rest of the loan term.

- False
- True

Interest saved

and so the seller concession to negotiate

4,799

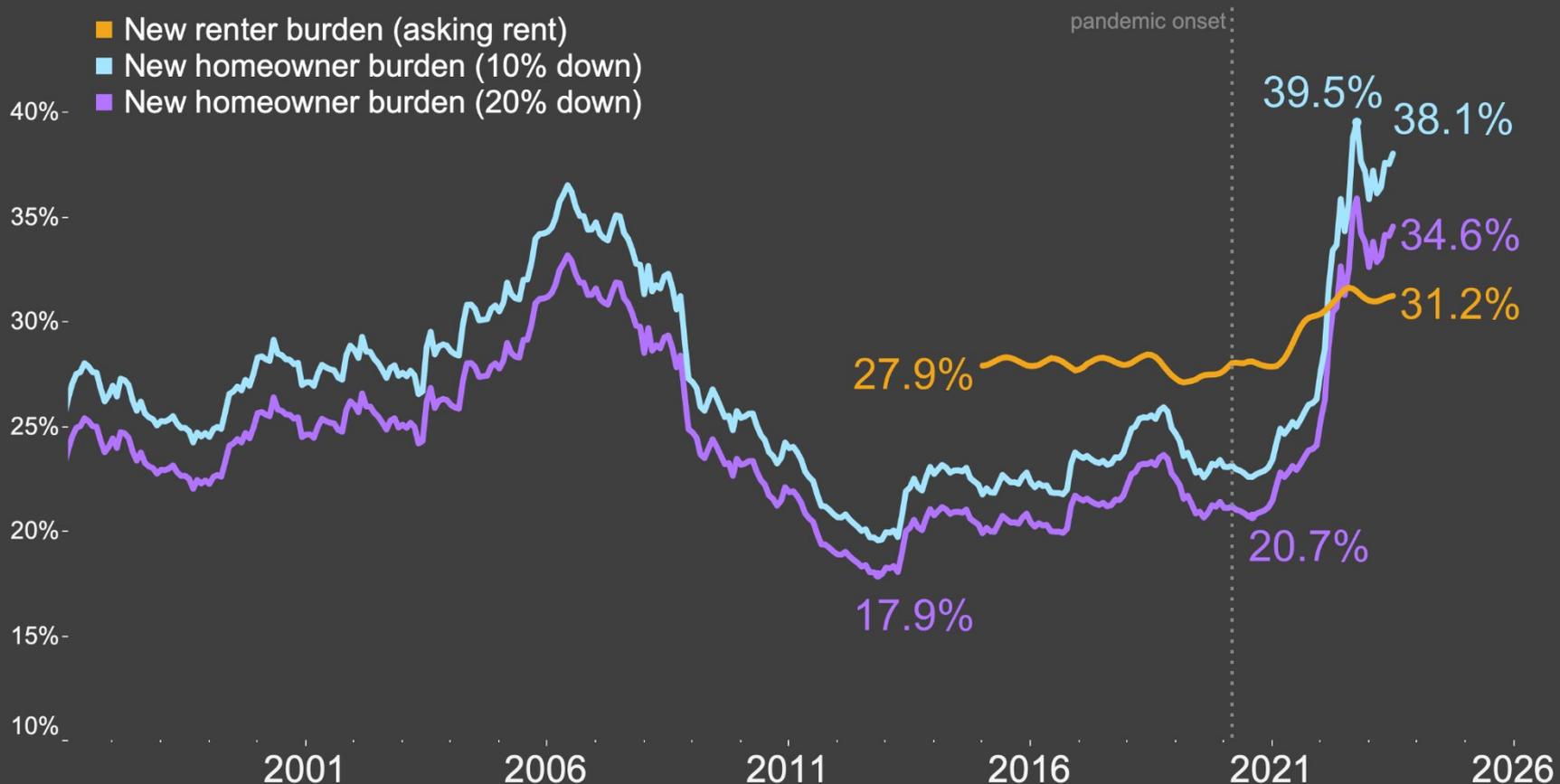
Equivalent drop in price

needed to accomplish the same mortgage payment.

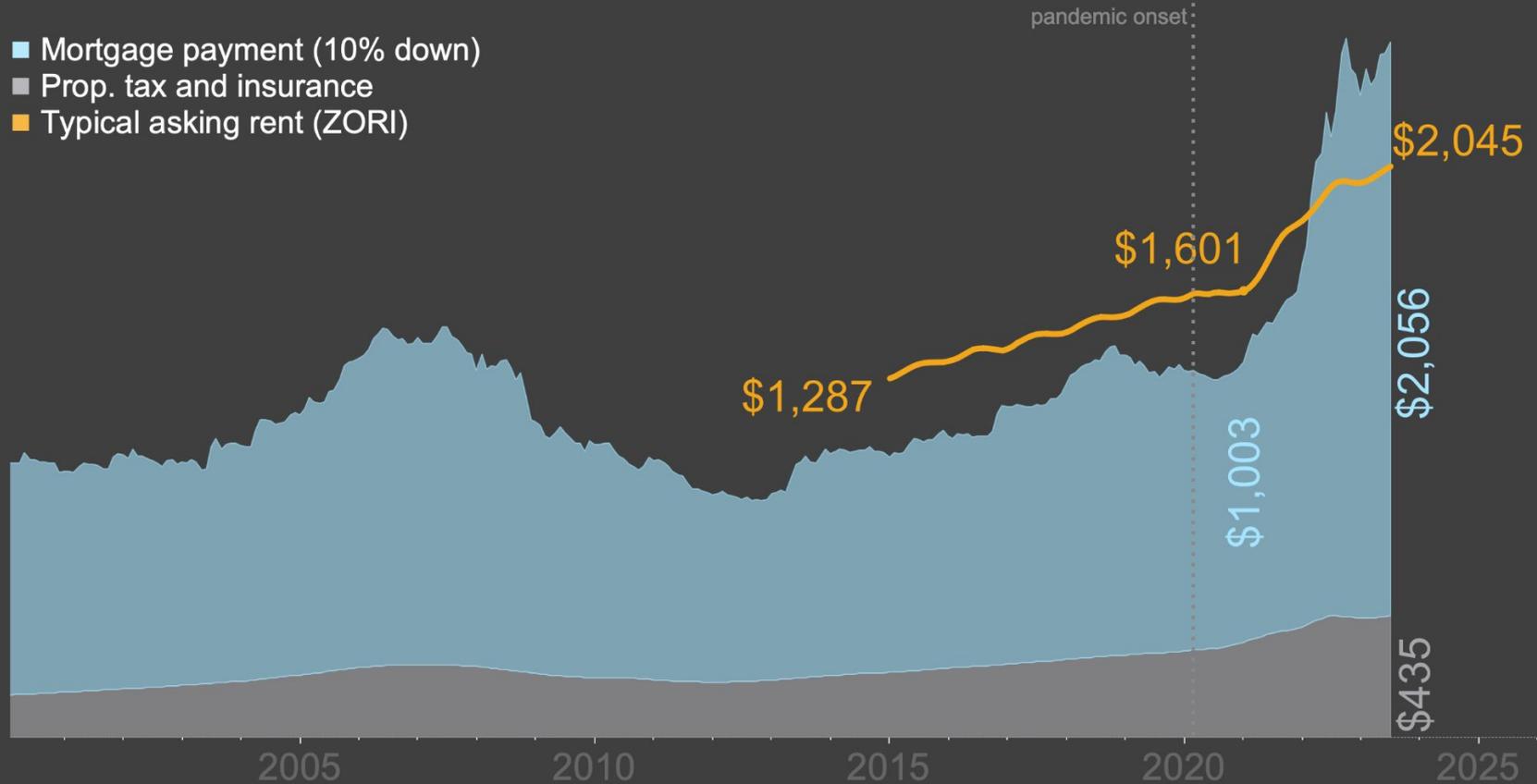
First year
48,683

Second year
29,972

Best financial path forward not necessarily clear for all HHs



Rent vs buy: the monthly payment



Explore affordability on your own time.



United States

12/26/2004

4/30/2023

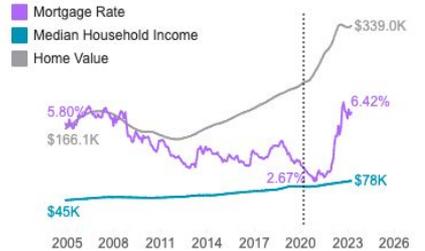
Monthly new homeowner burden: new mortgage + property taxes (1% of home value annually) + homeowners insurance (0.5% of home value annually) for the typical U.S. housing unit (priced with ZHVI).

The longer the loan term the more insulation from high home prices and appreciation. But the tradeoff is more interest paid up front, so heightened sensitivity to mortgage rate changes.

Monthly burden / monthly affordability for new renter: the share of median household income needed to pay the market rate asking rent of the typical unit (priced with ZORI).

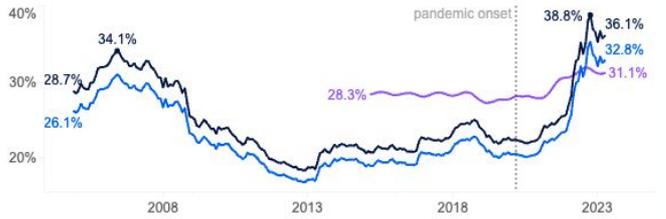
Concessions and negotiations are hard to track, but likely and rising during cool rental markets and disappearing in the hottest ones.

Years-to-save / up-front affordability: the number of years needed to independently save 10% down on the typical home by saving 5% of the median household income every month. That yields the same number as saving for 20% down with 10% of income, if you can still do it. Option to add a rough 3% transaction costs to the savings hurdle for the first-time buyer.



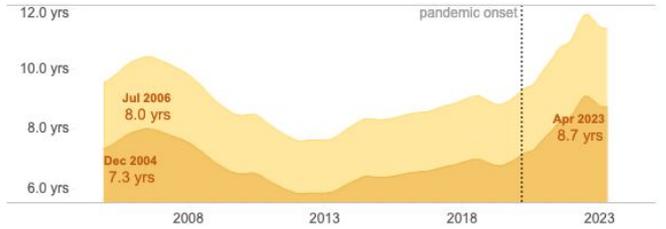
Can I afford it? Will I still be able to save for other things? Monthly burden / monthly affordability for new mover

- New homeowner burden, 10% down
- New homeowner burden, 20% down
- New renter burden



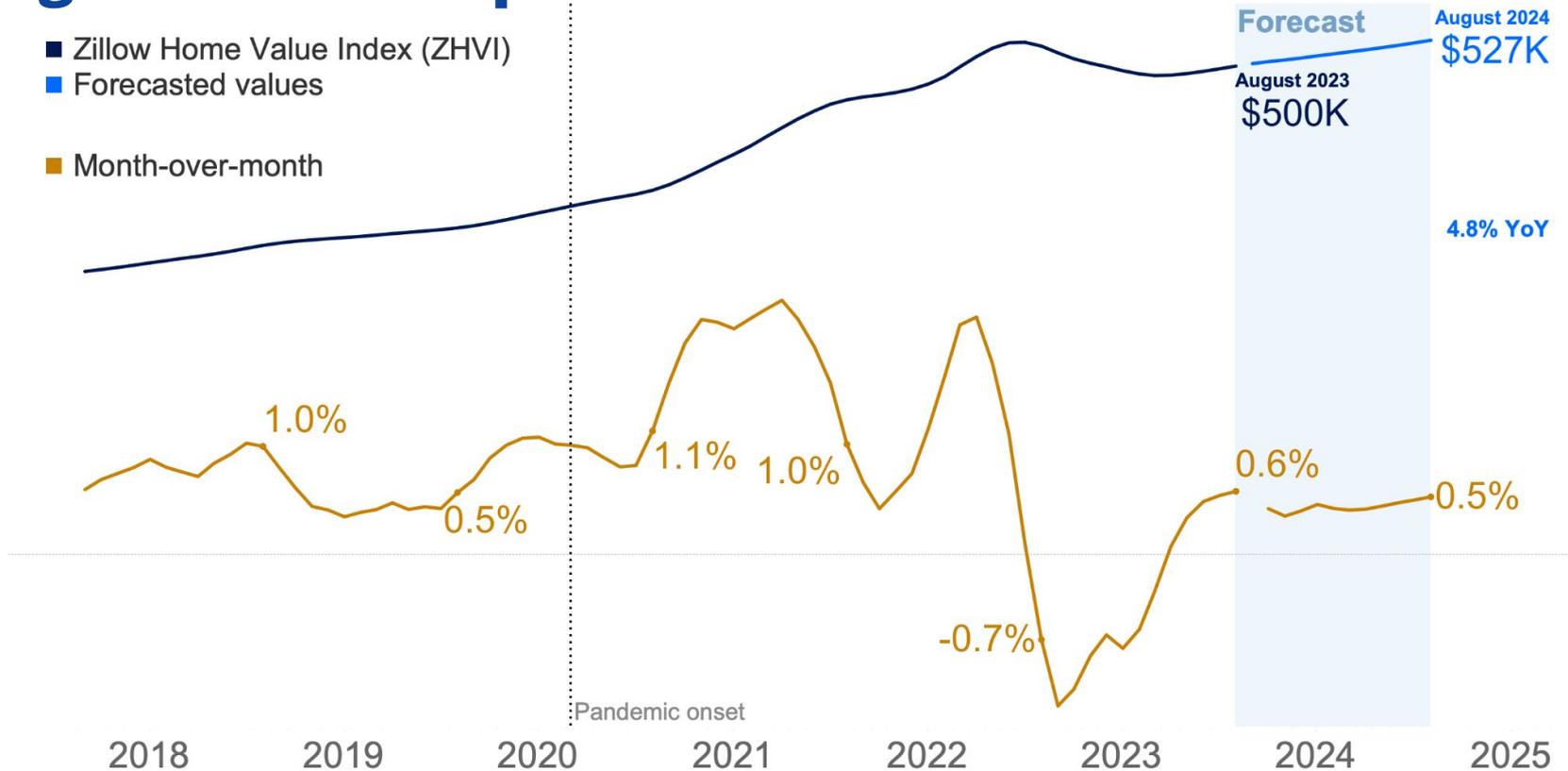
How long will it take for me to save up for a competitive down payment? Years-to-save

- just the down payment
- w/ up-front tranx costs too

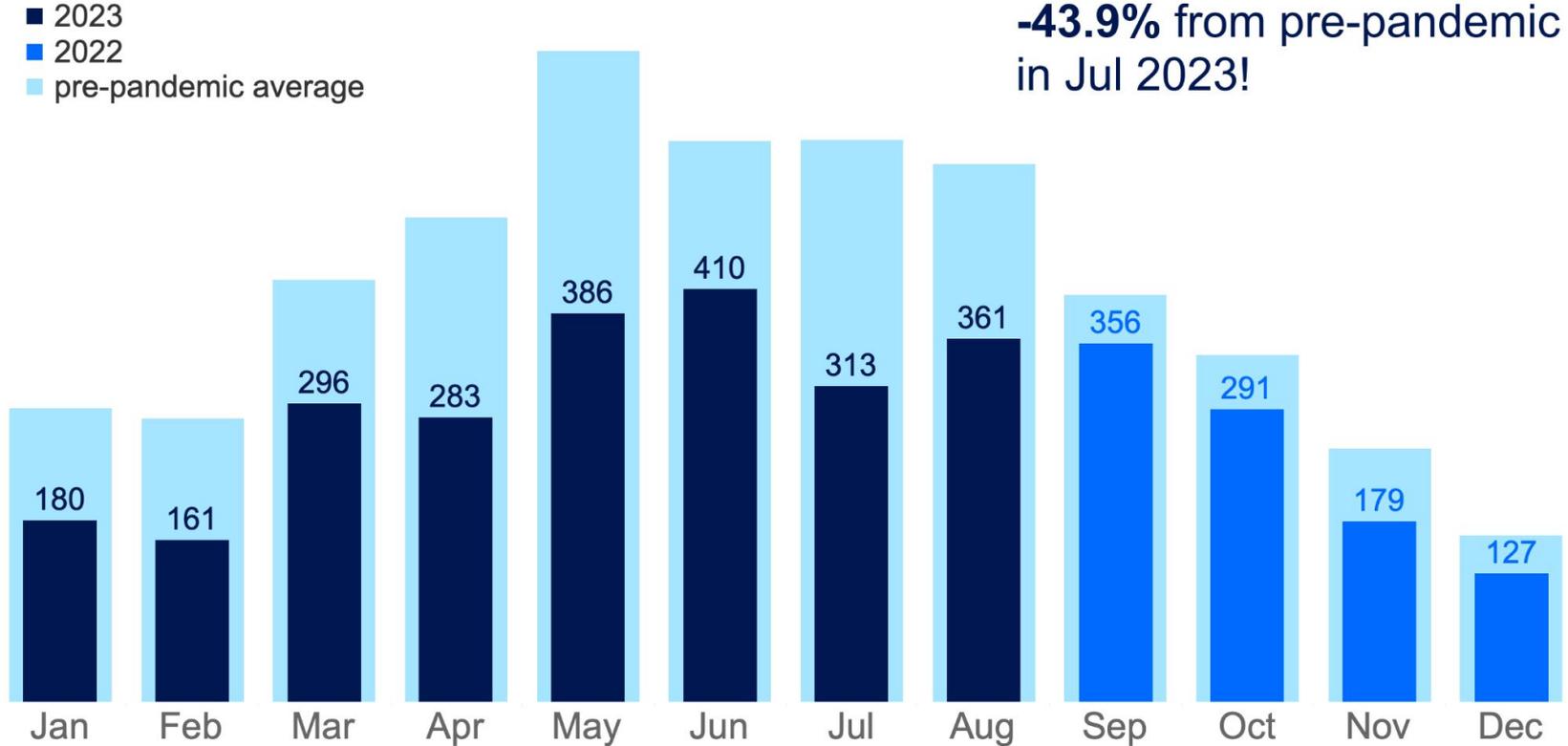


Olympia price forecast comes down; Steady price growth still expected

- Zillow Home Value Index (ZHVI)
- Forecasted values
- Month-over-month



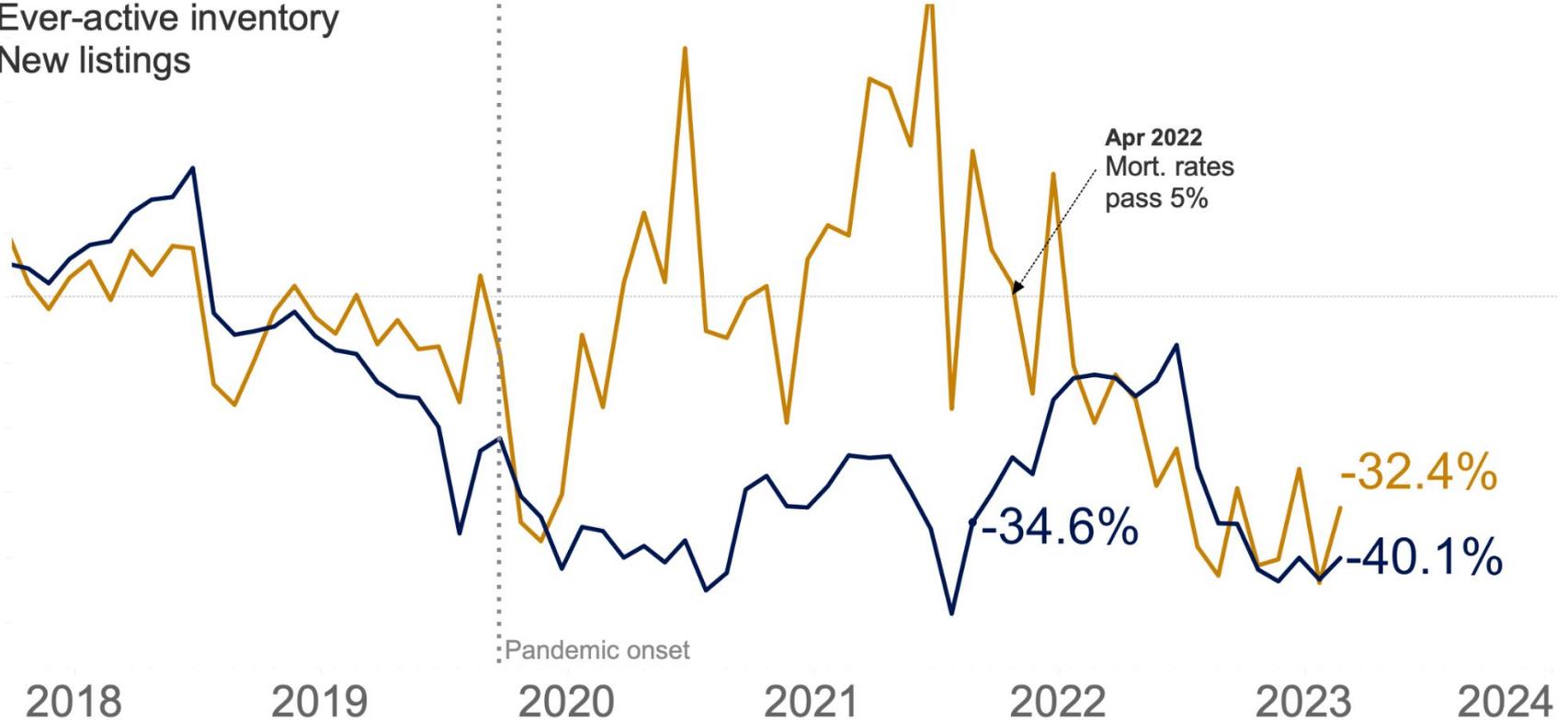
Pulling back in new listings frustrating Olympia buyers



Competition persists over low existing home inventory

Change since pre-pandemic

- Ever-active inventory
- New listings



News you can use: Shopping & Selling

Zillow Economic Research

Housing Market Snapshot

The spring housing market heated up in April, as more buyers returned and competed over unusually scarce new listings. The competition is less frenzied than in the white-hot spring shopping seasons of the last two years, but buyers should still expect homes to sell faster than in any year before the pandemic. Still, the gears of the market are turning again, and even if it's a smaller spring tide of new listings, there are still more fresh options than last winter. Sellers should be aware that the listings shortage is most acute — and buyer competition most heated — for entry-level homes, while high-end home sellers are still really needing to work to sell at their ideal price point. Looking ahead, we are near the crest of spring home shopping season buyer competition, so frustrated buyers can look forward to gradually cooling conditions over the next several months.

— Jeff Tucker, Sr. Economist at Zillow
April 2023

Choose your region

Austin, TX

Choose your region

April
Zillow Home Value Index
\$481K

0.61% MoM
-9.98% YoY

April
Median List Price
\$549K

3.58% MoM
-6.15% YoY

March
Median Sale Price
\$460K

2.22% MoM
-15.60% YoY

March
% homes sold above list
15.6%

0.03pp MoM
-0.55pp YoY

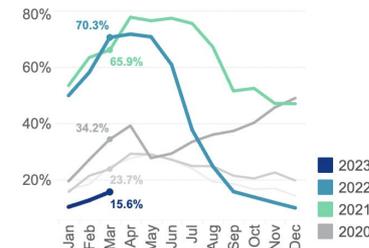
*Zillow Home Value Index captures the value of the typical home across the full housing stock, rather than just the small share of the full stock that transacts in a given month.

Price it right

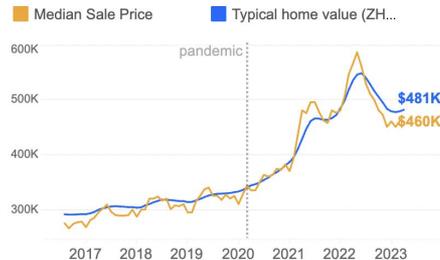
Waiving contingencies and escalating offers to compete in a hot market is over. Setting your listing or offer price is nuanced and home specific again. The buyer has more bargaining power to bring that price down or ask for other seller concessions to tackle a serious monthly affordability challenge.

[Questions about financing?](#)
[Zillow has resources to help.](#)

% homes sold above list price

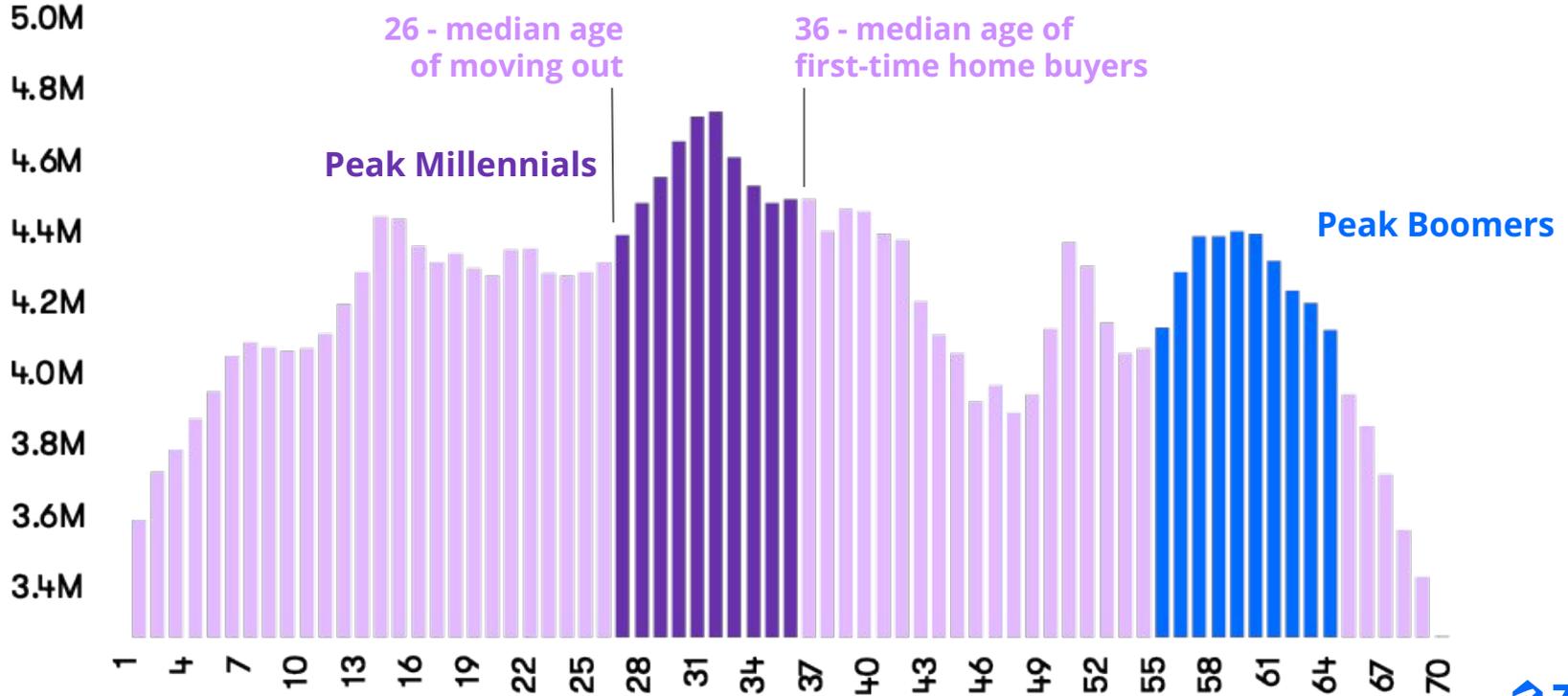


Existing housing price trends

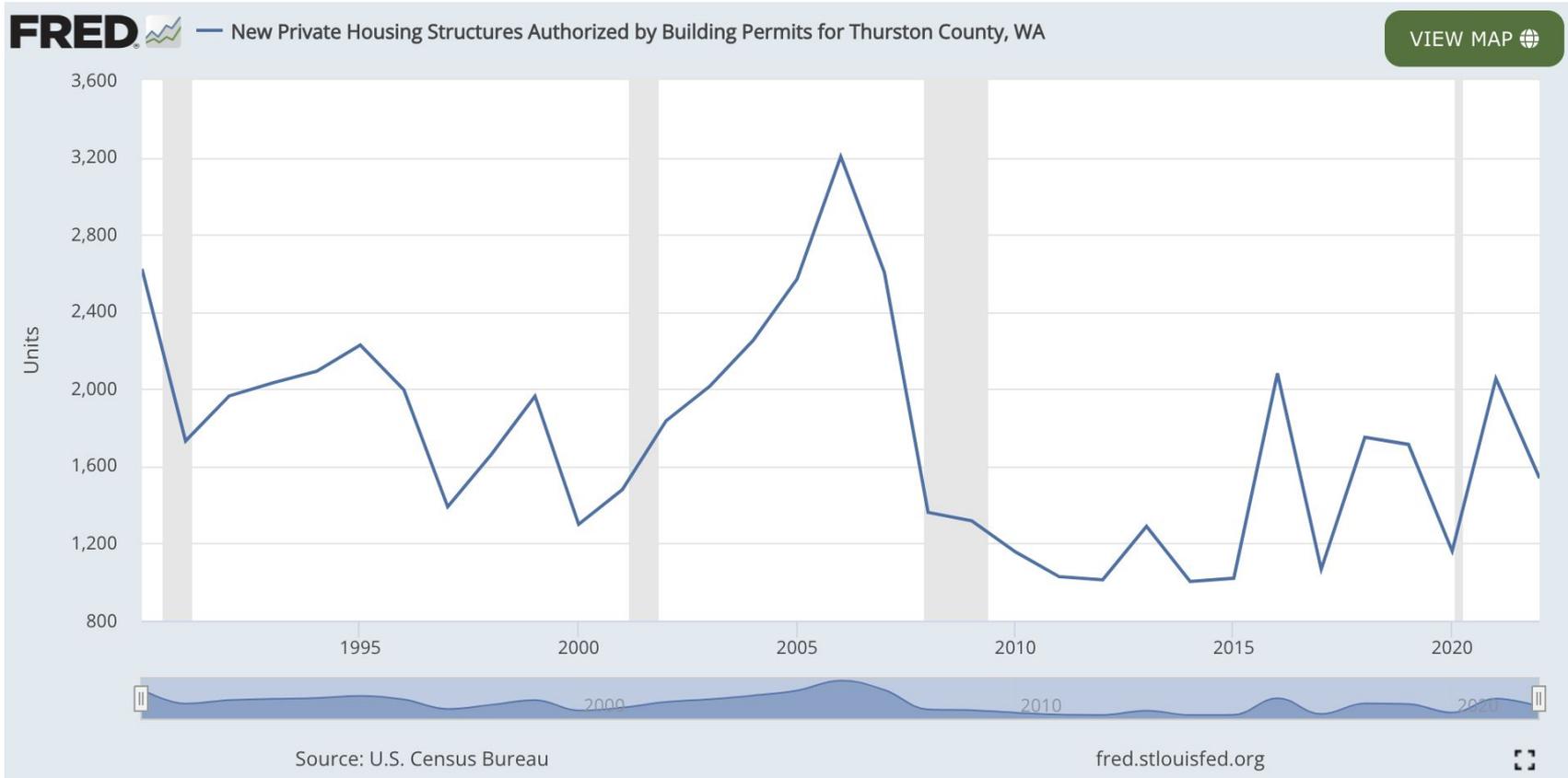


[Take me to the dashboard already!](#)

Age distribution of the U.S. population

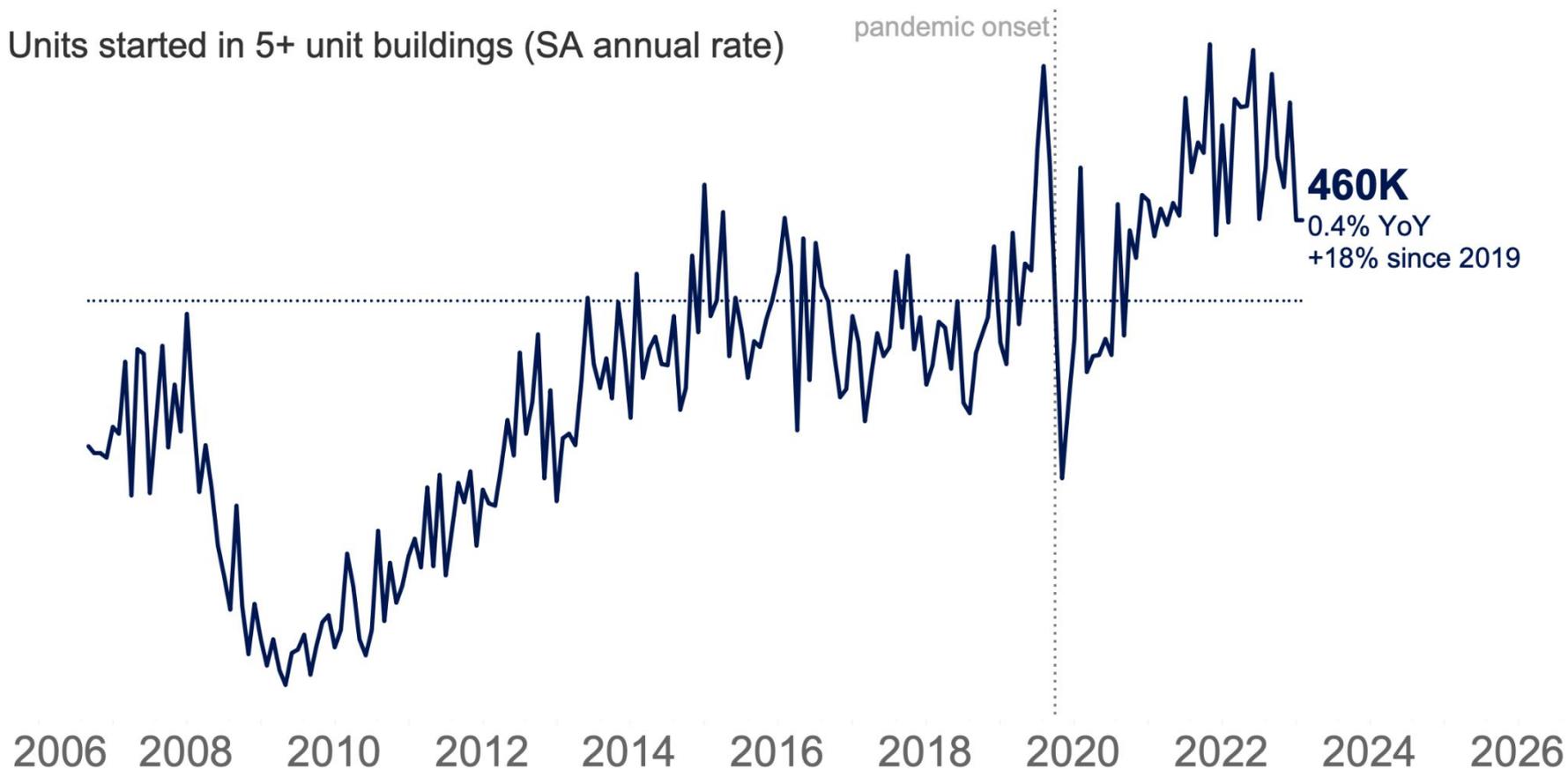


Pandemic building elevated, but not really massive



U.S. pipeline in 5+ unit buildings: Record # under construction

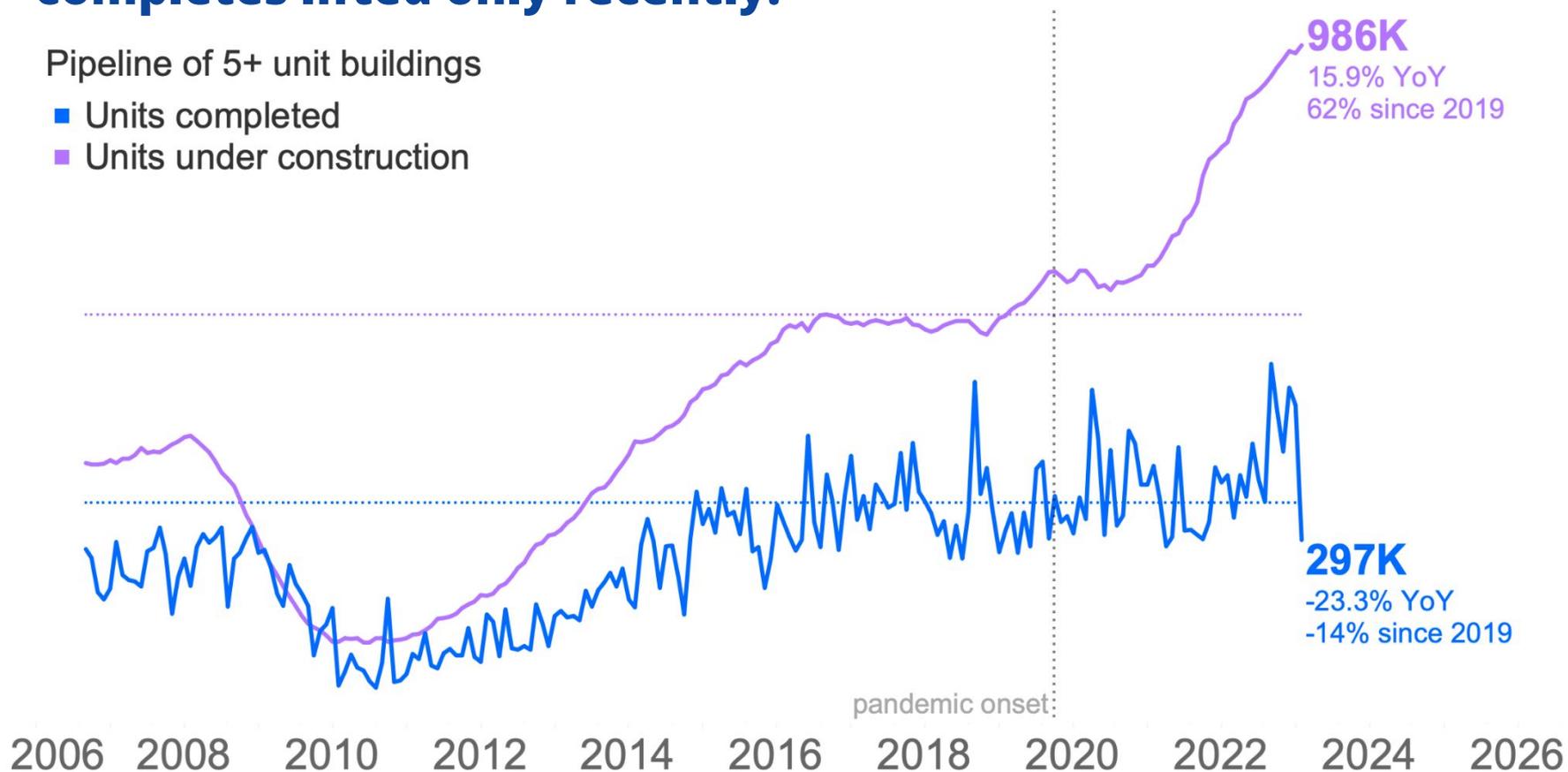
Units started in 5+ unit buildings (SA annual rate)



Record # of apartment units under construction in U.S., but completes lifted only recently.

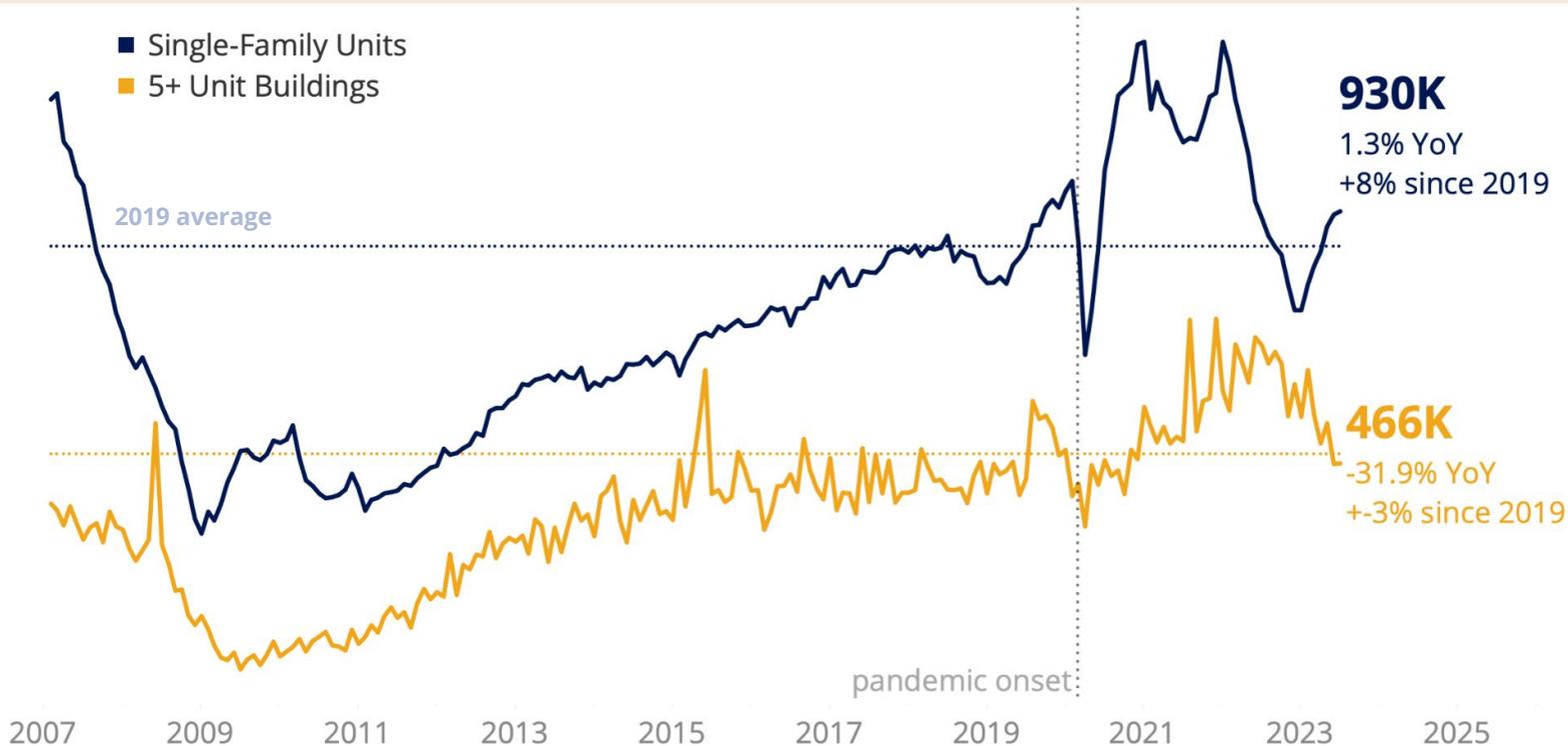
Pipeline of 5+ unit buildings

- Units completed
- Units under construction



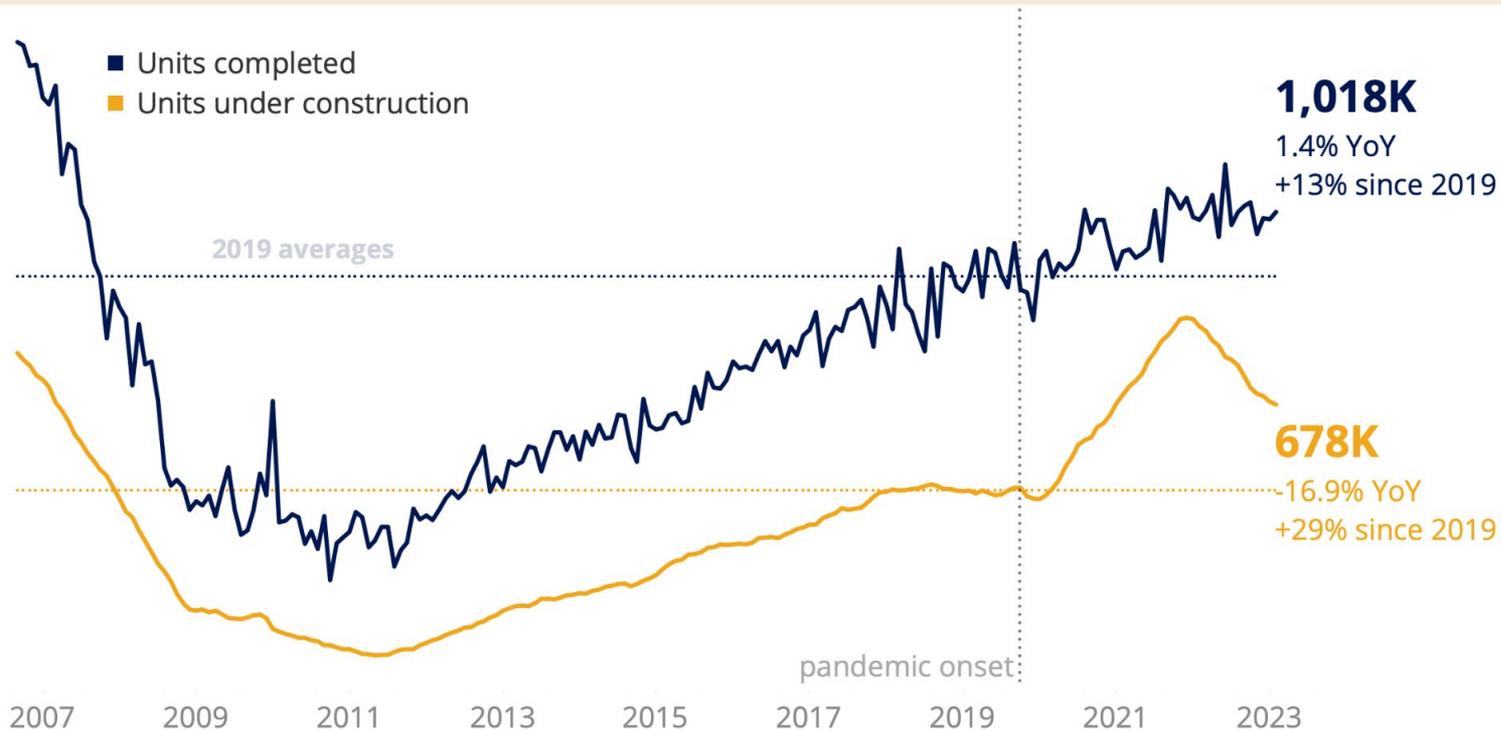
Further upstream, permitting slowing

Units authorized by permit



The production pipeline: New single-family units

Single-family units



#BetterTogether. Helping customers navigate housing is a team sport.

Will I be able to buy a home?

How long do I have to decide on on-market homes?

What are the benefits of buying new construction?

Get an ARM or negotiate a buydown?

Was my rent increase fair?

Should I wait until mortgage rates or home prices fall?

Should I rent or buy in this area?

Austin or Nashville?

Will I be able to retire with dignity?

Should I become a landlord?

Thank you

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for research briefs and market reports, and

zillow.com/data

for downloadable data