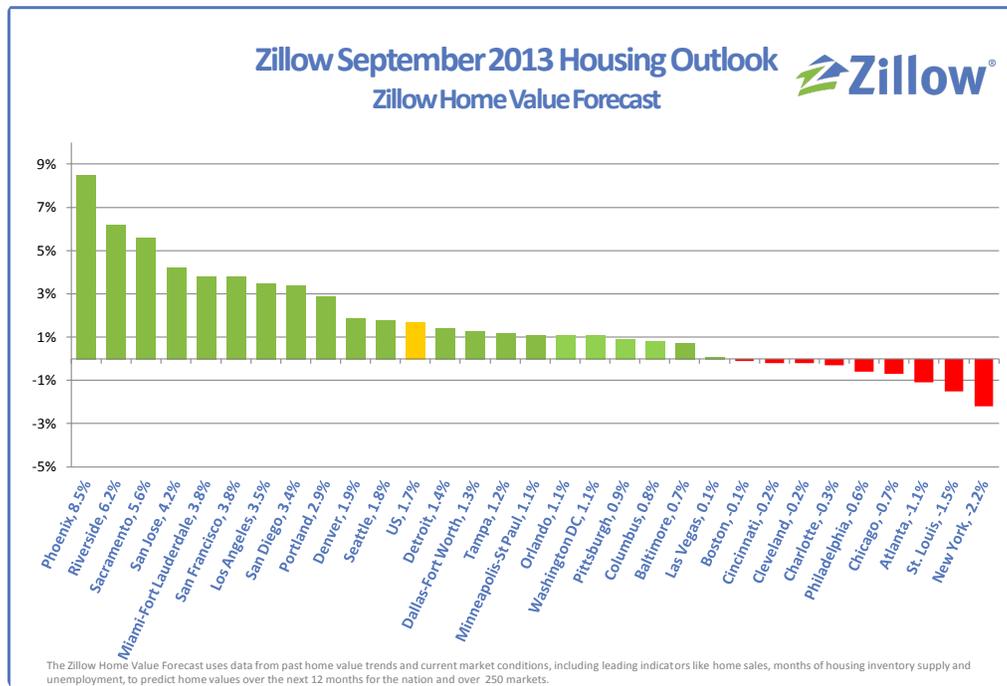


## SEPTEMBER 2012 (Q3)

### Overview

Zillow's third quarter Real Estate Market Reports, released today, show home values increased 1.3% from the second to the third quarter of 2012 to \$153,800 (Figure 1). On an annual basis, the Zillow Home Value Index (ZHVI) rose 3.2% from September 2011 levels (Figure 2), adding to mounting evidence that the national housing market is experiencing a durable recovery. September also marks the eleventh consecutive month of home value appreciation, with this month showing 0.8% growth. While the national housing market is showing consistent signs of improvement, the recovery is uneven across the country. Some markets, such as Phoenix, Riverside and Miami are doing exceptionally well, while St. Louis and Atlanta are still faltering. Part of the strong home value appreciation we are seeing is driven by acute inventory shortages in many markets with foreclosures and foreclosure re-sales down and many people still locked up in negative equity, limiting overall supply.



According to the Zillow Home Value Forecast, we expect national home values to increase 1.7% over the next year (September 2012 to September 2013). Of the 253 markets covered by the Zillow Home Value Forecast (ZHVF), 181 markets are expected to see increases in home values over the next year, with the largest increases expected in the Phoenix metro (8.5%) and the Bakersfield metro (7.7%). Many California markets follow closely at the top of the list of markets expected to see the highest home value appreciation over the next year. According to the ZHVF, 183 markets (72%) have already hit a bottom in home values, and another 41 are expected to hit a bottom by September 2013. Among the markets expected to see a bottom within the next year are St. Louis (MO), Cleveland (OH), and Jacksonville (FL). The receding unemployment rate and continually low mortgage rates continue to translate

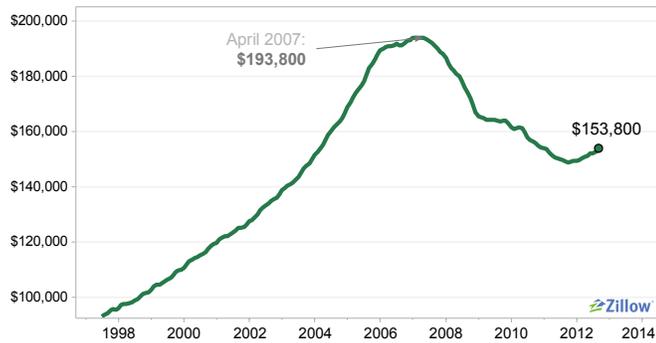
### Highlights

- National home values rose 1.3% from the second to the third quarter – the biggest quarterly gain since March 2006, when home values rose 1.5% This also marks the fourth consecutive quarter of increases.
- Of the 253 markets covered by the Zillow Home Value Forecast, 181 markets are expected to see increases in home values over the next year, with the largest increases expected in the Phoenix metro (8.5%) and the Bakersfield metro (7.7%).
- Half of the metros covered by the Real Estate Market Reports posted annual increases in home values. Among the largest metros, Phoenix showed the largest annual increase with home values rising 20.4% from the third quarter of 2011 to the third quarter of 2012.
- The September Zillow Rent Index (ZRI) is up 6% from year ago levels, and more than 67% of the 310 metropolitan areas covered by ZRI in this report experienced year-over-year gains.

into greater consumer confidence, higher household formation rates, and increased home sales. The increased housing demand, in turn, is stabilizing home values and spurring home builders to increase new housing starts (which have increased 34.8% from year-ago levels).

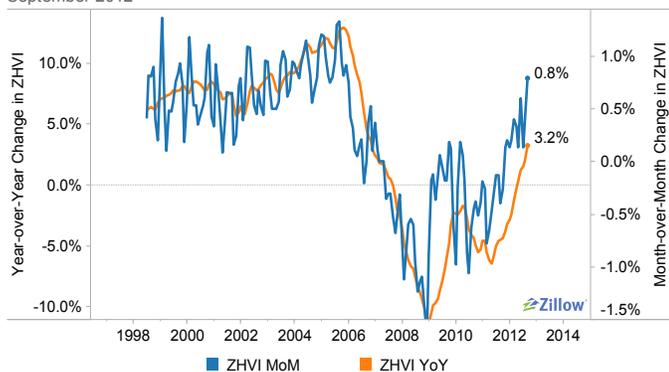
### Home Values

**Figure 1:** U.S. Zillow Home Value Index  
September 2012



The Zillow Real Estate Market Reports cover 366 metropolitan areas (metros) of which 168 showed quarterly home value appreciation. Seven metros remained flat, while 191 metros show home values losses. Half of the metros covered by the Real Estate Market Reports posted annual increases in home values. Among the largest metros, Phoenix showed the largest annual increase with home values rising 20.4% from the third quarter of 2011 to the third quarter of 2012. Overall, national home values are back to April 2004 levels, down 20.6% since their peak in April 2007. From

**Figure 2:** Change in U.S. Zillow Home Value Index  
September 2012



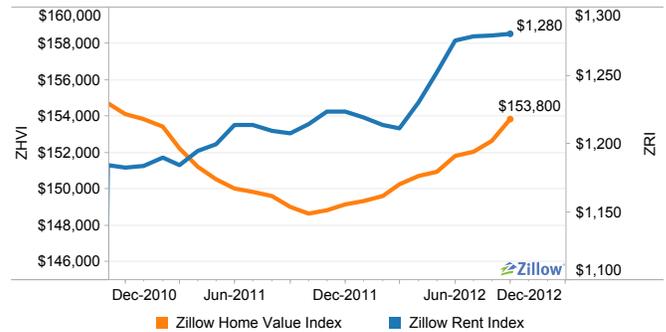
their peak in April 2007, home values fell 23.3% to the trough in home values in October 2011, and are now 3.5% above the trough level. A table of all metro regions can be found on Page 4 of this report.

### Rents

The Zillow Rent Index (ZRI) covers 310 metropolitan areas and 67% of those metros reported annual increases in

rents in September. As a point of comparison, 50% of the metro areas covered by the ZHVI experienced annual home value increases. Nationally, rents increased 6% in September from year-ago levels and rent growth continues to be robust, fueled by the entry of fore-

**Figure 3:** U.S. Zillow Home Value Index and U.S. Zillow Rent Index  
September 2012

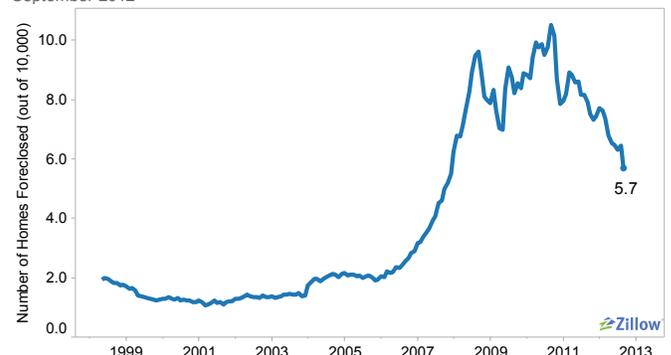


closed households into the rental market and increasing household formation itself (newly formed households often choosing to rent before buying). Markets that saw extremely strong year-over-year rent increases include Baltimore (10.7%), Chicago (10.7%), Philadelphia (8.2%), and San Francisco (8.0%).

### Foreclosures

The rate of homes foreclosed continued to decline in September with 5.7 out of every 10,000 homes in the country being liquidated. This is the lowest foreclosure pace we've seen since December 2007 when 5.5 out of every 10,000 homes were being liquidated. Nationally, foreclosure re-sales remain low, making up 13.4% of all sales in September, up from 13.3% in August, but well off of the high-water mark of almost 20% in March 2009 (Figure 4). The lack of foreclosure re-sales in many markets is contributing to home value appreciation, as investors are buying up the distressed and non-distressed

**Figure 4:** U.S. Homes Foreclosed  
September 2012



inventory, especially on the lower end of the housing market squeezing out many buyers.

## Outlook

While the housing recovery has been hyper-local, we are now seeing a more bipolar market. Markets where we have seen inventory shortages and that have been extremely affordable due to steep declines in home values are seeing strong appreciation and are also forecasted to continue appreciating over the next year. However, there are other markets such as St. Louis and Atlanta, which are still experiencing home value declines and have so far not hit a bottom in home values. Going forward we do believe that unemployment, despite it having receded, and negative equity, which still remains high at more than 30% of mortgaged homeowners underwater, will remain risk factors. Nationally, we believe that the first part of the recovery will be relatively long and flat with home values oscillating up and down month-by-month.

In terms of supply, we will continue to see tight inventory in some markets, although this situation will normalize a bit next year as more sellers will enter the market (some freed from negative equity by home value appreciation) and more REOs will be released by banks. On the demand side, consumers are getting off the fence and investors remain very active in markets, like California, Phoenix and Florida (and, increasingly, Atlanta). Overall, half of the metros Zillow covers are seeing positive annual growth and this trend will continue going forward. The markets that have not reached a bottom will see home value depreciation slow over time until they too finally reach a bottom, almost all of which will do so within the next twelve months.

National Summary

	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012	Mar 2012	Apr 2012	May 2012	Jun 2012	Jul 2012	Aug 2012	Sep 2012
ZHVI (\$)	148,600	148,800	149,100	149,300	149,600	150,200	150,700	150,900	151,800	152,000	152,600	153,800
QoQ	-0.8%	-0.5%	0.1%	0.5%	0.5%	0.7%	0.9%	0.9%	1.1%	0.9%	1.1%	1.3%
YoY	-4.4%	-3.8%	-3.2%	-2.9%	-2.5%	-1.3%	-0.3%	0.3%	1.2%	1.5%	2.0%	3.2%
Change from Peak	-23.3%	-23.2%	-23.1%	-23.0%	-22.8%	-22.5%	-22.2%	-22.1%	-21.7%	-21.6%	-21.3%	-20.6%
ZRI (\$)	1,214	1,223	1,223	1,219	1,213	1,211	1,230	1,252	1,275	1,278	1,279	1,280
QoQ	0.1%	1.2%	1.3%	0.4%	-0.8%	-1.0%	0.9%	3.2%	5.3%	3.9%	2.2%	0.4%
YoY		3.3%	3.5%	3.0%	2.0%	2.3%	3.0%	4.4%	5.1%	5.4%	5.8%	6.0%
Homes Foreclosed (out of 10,000)	7.5	7.3	7.4	7.7	7.6	7.4	6.8	6.5	6.5	6.3	6.4	5.7

Largest 25 Metropolitan Statistical Areas Covered by Zillow (Data for September 2012)

	ZHVI (\$)	ZHVI QoQ	ZHVI YoY	Peak Month	Change from ZHVI Peak	Change in ZHVI, Sept. 2012 - Sept. 2013	Projected Bottom in Home Values	Homes Foreclosed (out of 10,000)
New York, NY	340,600	-0.2%	-2.3%	2006-04	-25.0%	-2.2%		0.4
Los Angeles, CA	397,000	2.1%	2.7%	2006-03	-35.9%	3.5%	2012 Q1	6.2
Chicago, IL	162,600	0.1%	-3.2%	2007-01	-37.5%	-0.7%	2012 Q1	
Dallas-Fort Worth, TX	126,500	-0.8%	1.7%	2007-10	-12.4%	1.3%	2011 Q4	7.1
Philadelphia, PA	185,300	-0.6%	-2.1%	2007-04	-19.6%	-0.6%		1.5
Miami-Fort Lauderdale, FL	149,700	2.7%	7.9%	2006-04	-51.8%	3.8%	2011 Q4	
Washington, DC	316,300	1.0%	2.7%	2005-12	-26.8%	1.1%	2011 Q1	2.6
Atlanta, GA	111,400	-2.2%	-4.8%	2007-04	-36.2%	-1.1%		
Detroit, MI	78,700	1.2%	6.4%	2005-05	-49.6%	1.4%	2011 Q4	
Boston, MA	312,100	0.4%	2.0%	2005-06	-17.5%	-0.1%	2011 Q4	
San Francisco, CA	497,600	3.2%	7.3%	2006-01	-30.0%	3.8%	2012 Q1	6.4
Phoenix, AZ	149,400	5.9%	20.4%	2006-03	-47.1%	8.5%	2011 Q3	18.6
Riverside, CA	187,800	2.1%	3.8%	2006-04	-53.6%	6.2%	2012 Q1	15.6
Seattle, WA	263,500	1.0%	2.6%	2007-05	-30.6%	1.8%	2012 Q1	6.9
Minneapolis-St Paul, MN	170,700	0.8%	3.1%	2006-04	-28.9%	1.1%	2012 Q1	5.3
San Diego, CA	356,100	3.2%	4.3%	2006-01	-33.7%	3.4%	2012 Q1	6.2
St. Louis, MO	123,700	-1.1%	-2.1%	2007-02	-19.5%	-1.5%	2013 Q1	
Tampa, FL	110,900	1.5%	4.0%	2006-04	-49.4%	1.2%	2011 Q4	
Baltimore, MD	219,800	0.8%	1.0%	2007-03	-23.2%	0.7%	2012 Q1	1.7
Denver, CO	221,000	3.8%	8.8%	2006-02	-4.1%	1.9%	2011 Q2	0.3
Pittsburgh, PA	109,400	0.2%	1.6%	2012-02	-0.7%	0.9%	2009 Q1	2.9
Portland, OR	224,300	2.3%	4.8%	2007-05	-23.1%	2.9%	2011 Q3	6.1
Cleveland, OH	108,900	-1.1%	-1.3%	2005-11	-23.6%	-0.2%	2013 Q1	6.7
Sacramento, CA	210,900	2.9%	3.4%	2005-10	-50.0%	5.6%	2012 Q1	10.5
Orlando, FL	122,500	0.4%	2.9%	2006-05	-53.1%	1.1%	2012 Q1	

Zillow Home Value Index (ZHVI)	The Zillow Home Value Index is the median Zestimate® valuation for a given geographic area on a given day and includes the value of all single-family residences, condominiums and cooperatives, regardless of whether they sold within a given period. The ZHVI at the national level is calculated as the median Zestimate of all homes in the US. It is expressed in dollars.
Zillow Rent Index (ZRI)	The Zillow Rent Index is the median Rent Zestimate (estimated monthly rental price) for a given geographic area on a given day, and includes the value of all single-family residences, condominiums, cooperatives and apartments in Zillow’s database, regardless of whether they are currently listed for rent. It is expressed in dollars.
Foreclosure Re-sales / REOs	The percentage of sales in a given geography that were foreclosure re-sales (a sale of a home that occurred within 12 months after the home was foreclosed). This metric captures mostly bank-owned sales. Reported monthly and compiled from data dating back to 1998. Each data point is a weighted average of the value in the prior three months (with the most recent month weighted highest). The historical percent of foreclosure re-sales is re-computed twice a month.
Homes Foreclosed	Also referred to the foreclosure liquidation rate. The number out of 10,000 homes in a given geography that have been foreclosed on in a given month. A foreclosure is when a homeowner loses their home to their lending institution or if it is sold to a third party at an auction. Reported monthly and compiled from data dating back to 1998. Each data point is a weighted average of the value in the prior three months (with the most recent month weighted highest). The historical percent of homes foreclosed is re-computed twice a month.
Sold for Loss (%)	The percentage of homes in a given geography that sold for less than the previous purchase price. This excludes foreclosed homes and sales and the consecutive sale of the foreclosed home. Reported monthly and compiled from data dating back to 1998. Each data point is a weighted average of the value in the prior three months (with the most recent month weighted highest). The historical percent of homes sold for a loss is re-computed twice a month.
Peak Month	The month that recorded the highest Zillow Home Value Index to date. For the United States, the peak month was May 2007.
Change from Peak	The percentage change from the month that recorded the highest Zillow Home Value Index to the current month.

**About Zillow Real Estate Market Reports**

The Zillow Real Estate Market Reports are a monthly overview of the national and local real estate markets. The reports are compiled by Zillow Real Estate Research. For more information visit [www.zillow.com/research](http://www.zillow.com/research). The data in Zillow Real Estate Market Reports is aggregated from public sources by a number of data providers for over 900 core-based statistical areas dating back to 1996. Mortgage and home loan data is typically recorded in each county and publicly available through a county recorder’s office.

**About Dr. Stan Humphries, Zillow Chief Economist**

Humphries is in charge of data and analytics. He spearheaded the creation of the Zestimate, its algorithm and, in turn, the Zillow Home Value Index. Humphries has a Bachelor of Arts from Davidson College, a Masters of Science in Foreign Service from Georgetown University, and a Ph.D. in Government from the University of Virginia.

**About Dr. Svenja Gudell, Zillow Senior Economist**

Gudell helps oversee negative equity valuations, forecasting and foreclosure research, among other research topics. She is also involved in research collaborations with other organizations and academics. Gudell holds a Ph.D. in Finance from the University of Rochester, a Masters of Arts in Economics from New York University and a Bachelor of Arts from the University of Rochester.

**About Zillow, Inc.**

Zillow (NASDAQ: Z) is the leading real estate information marketplace, providing vital information about homes, real estate listings and mortgages through its website and mobile applications, enabling homeowners, buyers, sellers and renters to connect with real estate and mortgage professionals best suited to meet their needs. In addition, Zillow operates an industry-leading economics and analytics bureau led by Zillow’s Chief Economist Dr. Stan Humphries. Dr. Humphries and his team of economists and data analysts produce extensive housing data and research covering more than 350 markets at Zillow Real Estate Research. Zillow, Inc. operates Zillow.com®, Zillow Mortgage Marketplace, Zillow Rentals, Zillow Mobile, Postlets® and Diverse Solutions®. The company is headquartered in Seattle.

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