

MAY 2012

Overview

Zillow's May Real Estate Market Reports, released today, show that home values increased 0.5% to \$148,100 from April to May (Figure 1), marking the third consecutive month of strong monthly appreciation. Compared to May 2011, home values are still down by 0.9% (Figure 2). Home values across the nation are experiencing upward pressure due to low for-sale inventory with many buyers facing multiple offer situations. Inventory shortages are being fueled both by negative equity which is keeping people in their homes and by rational seller behavior at a market bottom. According to Zillow's [first quarter Negative Equity Report](#), 31.4% of homeowners with a mortgage are underwater. A more in-depth analysis of the impact of negative equity on inventory shortages can be found [here](#). In conjunction with rising home values, rents also rose significantly in April, appreciating by 1.8% from April to May. On an annual basis, rents across the nation are up by 4.6% (Figure 3).

Figure 1: U.S. Zillow Home Value Index
May 2012

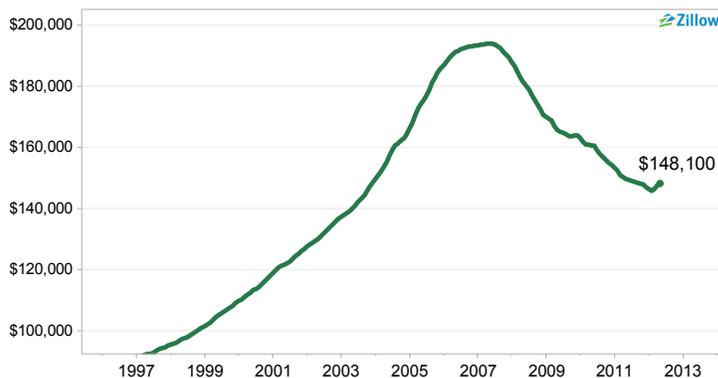
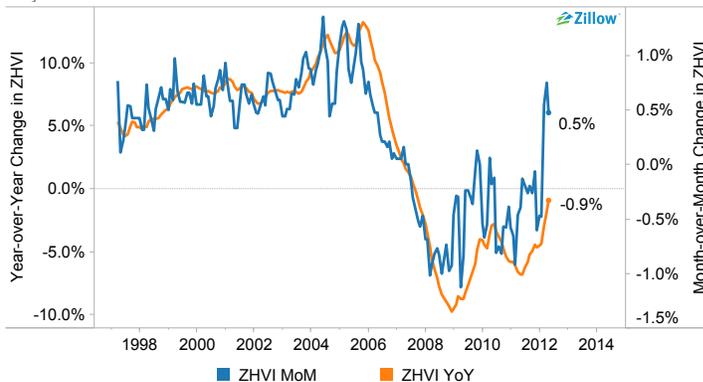


Figure 2: Change in U.S. Zillow Home Value Index
May 2012



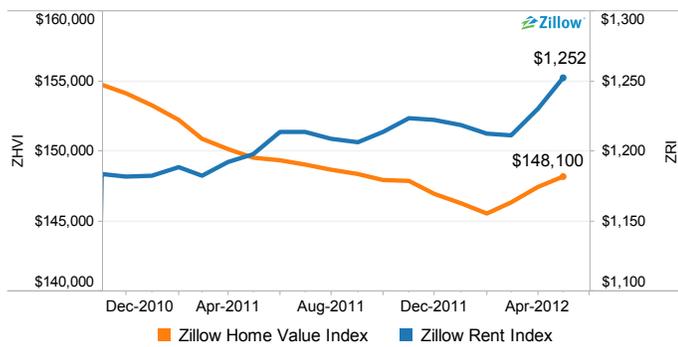
Highlights

- Eighty-six markets of the 166 covered by the ZHVI reported monthly home value appreciation. Among the top 30 metros, 23 experienced monthly home value appreciation, including the hard-hit markets of Miami-Fort Lauderdale and Phoenix.
- National home values are down 23.5% since their peak in May 2007.
- The Zillow Rent Index (ZRI) shows year-over-year gains for over 77% of the metropolitan areas covered by the ZRI. Nationally, rents are up 4.6% annually.
- Instead of a long, flat bottom with price appreciation constrained by weak demand and elevated foreclosures, we might end up in an environment in which constrained supply, together with robust demand from investors and first-time home buyers, combine to create cycles of home value spikes followed by cooling periods.

Home Values

The Zillow Real Estate Market Reports cover 166 metropolitan areas (metros) of which 86 showed monthly home value appreciation. Among the top 30 metros, 23 experienced home value appreciation. The largest monthly decline among the top 30 metros took place in St. Louis, where home values fell by 0.4% from April to May. Leading the pack on the appreciation side are, once again, Miami-Fort Lauderdale and Phoenix, which experienced 2.2% and 1.9% home value appreciation, respectively. Overall, national home values are down 23.5% since their peak in May 2007.

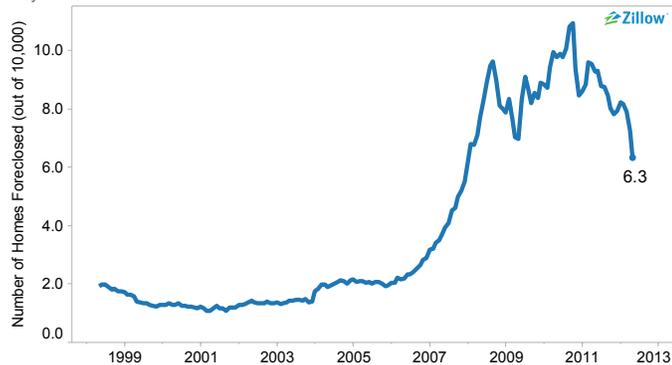
Figure 3: U.S. Zillow Home Value Index and U.S. Zillow Rent Index May 2012



Rents

The Zillow Rent Index (ZRI) covers 344 metropolitan areas and shows year-over-year gains for nearly 69% of the metropolitan areas covered by the ZRI. The rental market remains strong, especially in markets that continue to experience consistent home value declines. For example, Chicago metro rents increased 9.1% over the past year. Other metropolitan areas that saw extremely strong year-over-year rent appreciation include Philadelphia (13.1%), Baltimore (10.4%), and San Francisco (8.8%).

Figure 4: U.S. Homes Foreclosed May 2012



Foreclosures

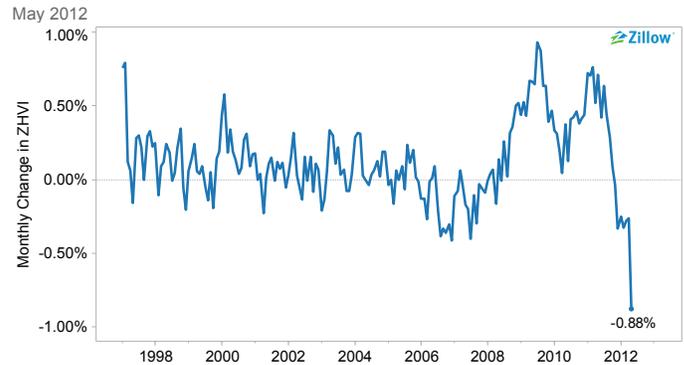
The rate of homes foreclosed continues to decline in May

with 6.3 out of every 10,000 homes in the country being liquidated. Nationally, foreclosure re-sales slowed a bit, making up 17.3% of all sales in May (Figure 4). The slowing of foreclosure re-sales is also contributing to home value appreciation, as these are usually sold at a discount and influence surrounding non-distressed sales.

Price Tiers

Throughout the housing recession, the bottom tier of homes in terms of value has performed worse than the top tier. This trend has been reversed in the last few months. The bottom tier is appreciating at a significantly higher monthly rate than the top tier. Figure 6 shows the spread between the top and bottom tiers and the reversal of fates in the recent months.

Figure 5: Spread in monthly home value appreciation between top and bottom tiers May 2012



Outlook

As the ZIP code-by-ZIP code recovery takes hold, with many metropolitan areas already having hit bottom, the national housing bottom and eventual recovery are falling into place. With some markets such as Phoenix and Miami exhibiting distinct signs of a V-shaped recovery, we are re-evaluating what a national bottom in home values might look like. As noted in [our brief](#) on the connection between negative equity and inventory levels, instead of a long, flat bottom with price appreciation constrained by weak demand and elevated foreclosures, we might end up in an environment in which constrained supply (due to negative equity), together with robust demand from investors and first-time home buyers (not weighed down by negative equity), combine to create cycles of home value spikes followed by cooling periods. These cooling periods will be created once local home values have increased enough to free some homeowners from negative equity at which point some of these “re-surfacing” homeowners attempt to sell their homes, thus creating additional supply which, in turn, tempers price appreciation.

National Summary

	Jun 2011	Jul 2011	Aug 2011	Sep 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012	Feb 2012	Mar 2012	Apr 2012	May 2012
ZHVI (\$)	149,300	149,000	148,600	148,300	147,900	147,800	146,900	146,200	145,500	146,300	147,400	148,100
MoM	-0.1%	-0.2%	-0.3%	-0.2%	-0.3%	-0.1%	-0.6%	-0.5%	-0.5%	0.5%	0.8%	0.5%
YoY	-6.9%	-6.3%	-5.8%	-5.2%	-4.9%	-4.5%	-4.7%	-4.6%	-4.4%	-3.0%	-1.8%	-0.9%
Change from Peak	-22.9%	-23.1%	-23.3%	-23.4%	-23.6%	-23.7%	-24.2%	-24.5%	-24.9%	-24.5%	-23.9%	-23.5%
ZRI (\$)	1,213	1,213	1,208	1,206	1,213	1,223	1,222	1,218	1,212	1,211	1,230	1,252
MoM	1.3%	0.0%	-0.4%	-0.2%	0.6%	0.8%	-0.1%	-0.3%	-0.5%	-0.1%	1.6%	1.8%
YoY						3.4%	3.5%	3.0%	2.0%	2.5%	3.2%	4.6%
Homes Foreclosed (out of 10,000)	9.3	8.8	8.7	8.4	8.0	7.8	7.9	8.2	8.2	7.9	7.2	6.3

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

	ZHVI (\$)	ZHVI MoM	ZHVI YoY	Peak Month	Change from ZHVI Peak	ZRI (\$)	ZRI YoY	Homes Foreclosed (out of 10,000)
New York, NY	335,700	0.3%	-3.3%	2006-06	-25.8%	2,039	-	0.6
Los Angeles, CA	382,100	0.1%	-3.9%	2006-05	-38.0%	2,245	4.5%	6.7
Chicago, IL	158,300	1.1%	-6.8%	2006-06	-36.4%	1,476	9.1%	-
Dallas-Fort Worth, TX	122,000	-0.2%	-0.4%	2007-10	-15.0%	1,282	1.6%	6.6
Philadelphia, PA	184,200	-0.3%	-3.5%	2007-06	-19.9%	1,481	13.1%	2.9
Washington, DC	305,000	0.5%	1.1%	2006-02	-28.7%	2,034	6.8%	3.6
Miami-Fort Lauderdale, FL	146,900	2.2%	5.2%	2006-05	-52.1%	1,588	3.8%	-
Atlanta, GA	107,200	0.0%	-6.3%	2007-05	-39.0%	1,122	0.0%	-
Boston, MA	306,600	0.3%	-1.4%	2005-09	-19.2%	1,884	3.6%	-
San Francisco, CA	459,900	0.5%	-2.2%	2006-04	-34.4%	2,437	8.8%	6.9
Detroit, MI	74,300	0.4%	1.8%	2005-12	-52.0%	1,004	5.8%	-
Riverside, CA	180,900	0.5%	-1.7%	2006-05	-55.0%	1,548	-0.6%	14.1
Phoenix, AZ	133,400	1.9%	9.0%	2006-03	-52.3%	1,134	0.1%	17.8
Seattle, WA	253,100	0.9%	-2.1%	2007-07	-32.9%	1,600	4.7%	5.4
Minneapolis-St Paul, MN	163,900	0.1%	-3.1%	2006-04	-31.5%	1,407	8.3%	7.3
San Diego, CA	340,200	0.5%	-1.5%	2005-10	-36.3%	2,072	0.0%	6.9
Tampa, FL	106,900	1.0%	0.2%	2006-06	-51.1%	1,167	2.2%	-
St. Louis, MO	122,100	-0.4%	-3.8%	2007-03	-21.3%	1,087	-2.2%	-
Baltimore, MD	213,400	0.2%	-2.5%	2006-06	-24.6%	1,638	10.4%	2.8
Denver, CO	209,700	0.6%	2.8%	2006-05	-9.1%	1,461	3.6%	3.3
Pittsburgh, PA	108,200	-0.2%	2.4%	2012-04	-0.2%	1,042	10.0%	2.8
Portland, OR	209,700	0.7%	-0.9%	2007-06	-25.7%	1,367	4.8%	5.5
Sacramento, CA	201,200	-0.2%	-3.7%	2005-11	-52.2%	1,444	2.7%	12.9
Orlando, FL	116,900	1.4%	-0.7%	2006-06	-54.7%	1,197	3.9%	-
Cleveland, OH	107,700	0.1%	-2.4%	2005-12	-24.1%	1,071	4.6%	8.3

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. The data in Zillow's Real Estate Market Reports is aggregated from public sources by a number of data providers for 276 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 mobile applications and websites, 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 150 markets at Zillow Real Estate Research. Zillow, Inc. operates Zillow.com®, Zillow Mortgage Marketplace, Zillow Mobile, Postlets®, Diverse Solutions™ and RentJuice®. The company is headquartered in Seattle.

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