



Zillow Negative Equity Report

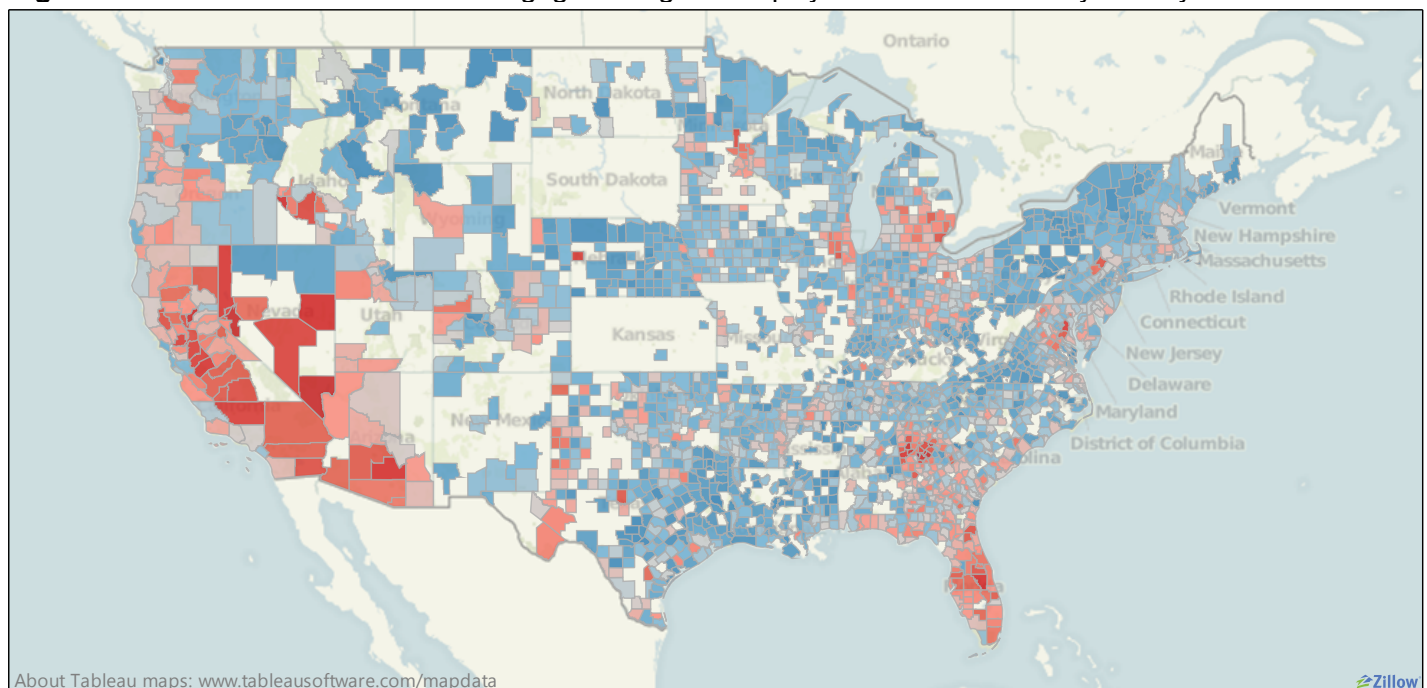
March 2012 (Q1)

Overview

According to the first quarter Zillow Negative Equity Report, 31.4 percent of U.S. homeowners with a mortgage are underwater (see figure 1). This is nearly flat on a quarterly basis, up only 0.3 percent, but down 1 percent since the first quarter of 2011. On average, U.S. homeowners owe \$75,644 more than what their house is worth, or 44.5 percent more (see table 1). Almost 5 percent of homeowners with a mortgage in the nation owe more than twice what their house is worth (see figure 2). While a third of homeowners with mortgages is underwater, 90 percent of underwater homeowners are current on their mortgage and continue to make payments.

New to Zillow, the Zillow Negative Equity Report incorporates mortgage data from TransUnion, a global leader in credit and information management, to calculate various statistics. The report includes, but is not limited to, negative equity, loan-to-value ratios, and delinquency rates. To calculate negative equity, the estimated value of a home is matched to all outstanding mortgage debt and lines of credit associated with the home, including home equity lines of credit and home equity loans. All personally identifying information ("PII") is removed from the data by TransUnion before delivery to Zillow. Overall, this report covers over 800 metros, 2,100 counties, and 22,200 ZIP codes across the nation.

Figure 1: Percent of Homes with a Mortgage in Negative Equity across the Nation by County



Percent of Homes with Mortgages in Negative Equity. Color scale is centered at 31.4%, the national average. Blue counties have fewer underwater homes than the national average, while red counties have more underwater homes.

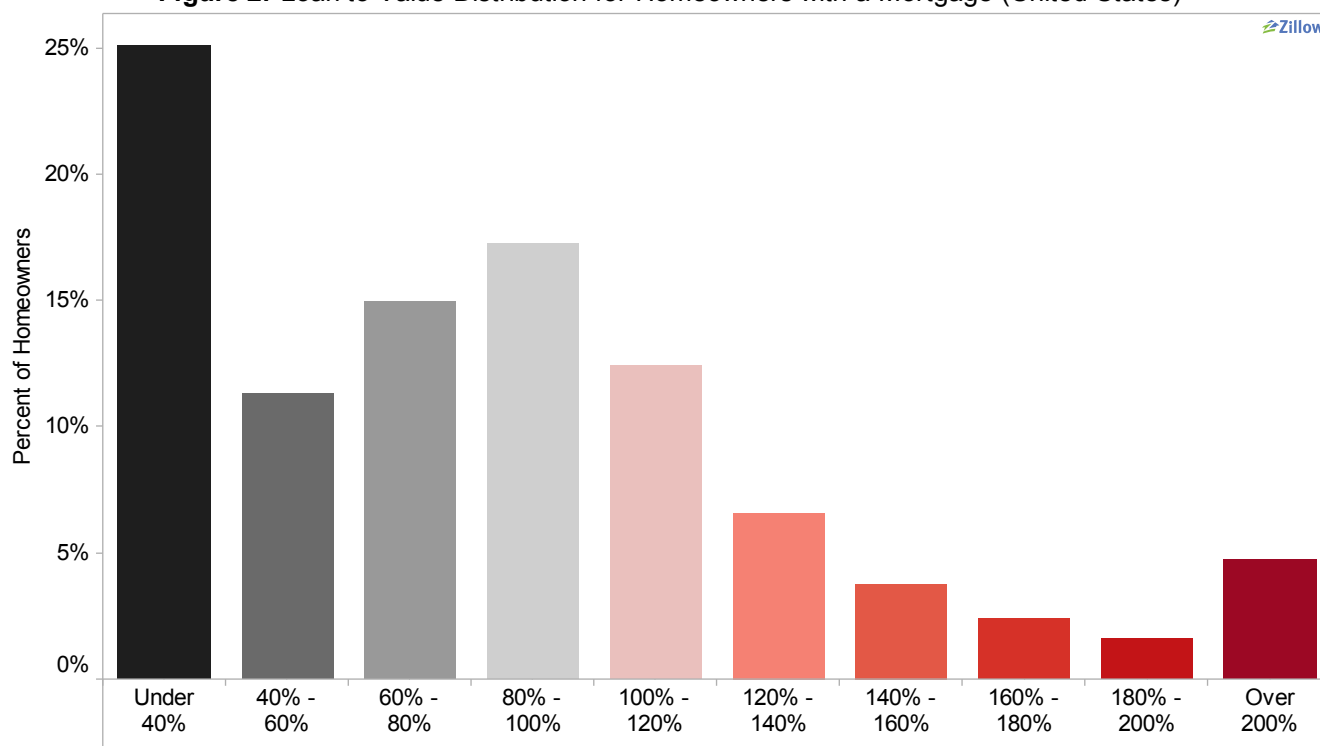
2.5%  84.6%

Regional Trends

Regionally, high rates of negative equity have accumulated in states such as California, Florida, Nevada, Arizona, and Georgia – some of the hardest hit areas of the housing recession, where home values have fallen dramatically from peak. As home values fall, negative equity increases. This relation can be observed in figure 3, which shows a scatter plot with the percent of home value lost since the peak on the vertical axis and the percent of negative equity among homeowners with a mortgage on the horizontal axis. The more home values fell, the higher the percent of negative equity.

Of the metros covered by the Zillow Negative Equity Report, 36 out of 812 metros show that more than half of all homes with mortgages in the area are underwater. Among these are larger metros such as Las Vegas (71 percent), Phoenix (55.5 percent), Atlanta (55.2 percent), Orlando (53.9 percent), and Riverside (53.4 percent). See table 1 on page 6 of this report.

Figure 2: Loan to Value Distribution for Homeowners with a Mortgage (United States)



While the percent of homes in negative equity is dauntingly high, this percentage only represents a potential danger. The majority of underwater homeowners continue to make regular payments on their mortgage, with only 10.1 percent of the 31.4 percent nationwide being delinquent. Therefore, 3.1 percent of homeowners in the nation are at high risk for foreclosure near-term although there has been an increased utilization by lenders of foreclosure alternatives such as short-sales. In the Las Vegas metro, only 5 percent of homeowners are at high risk of foreclosure in the near term, despite 71 percent of homeowners being underwater. Figure 4 shows a breakdown of these numbers for the top 30 metros.

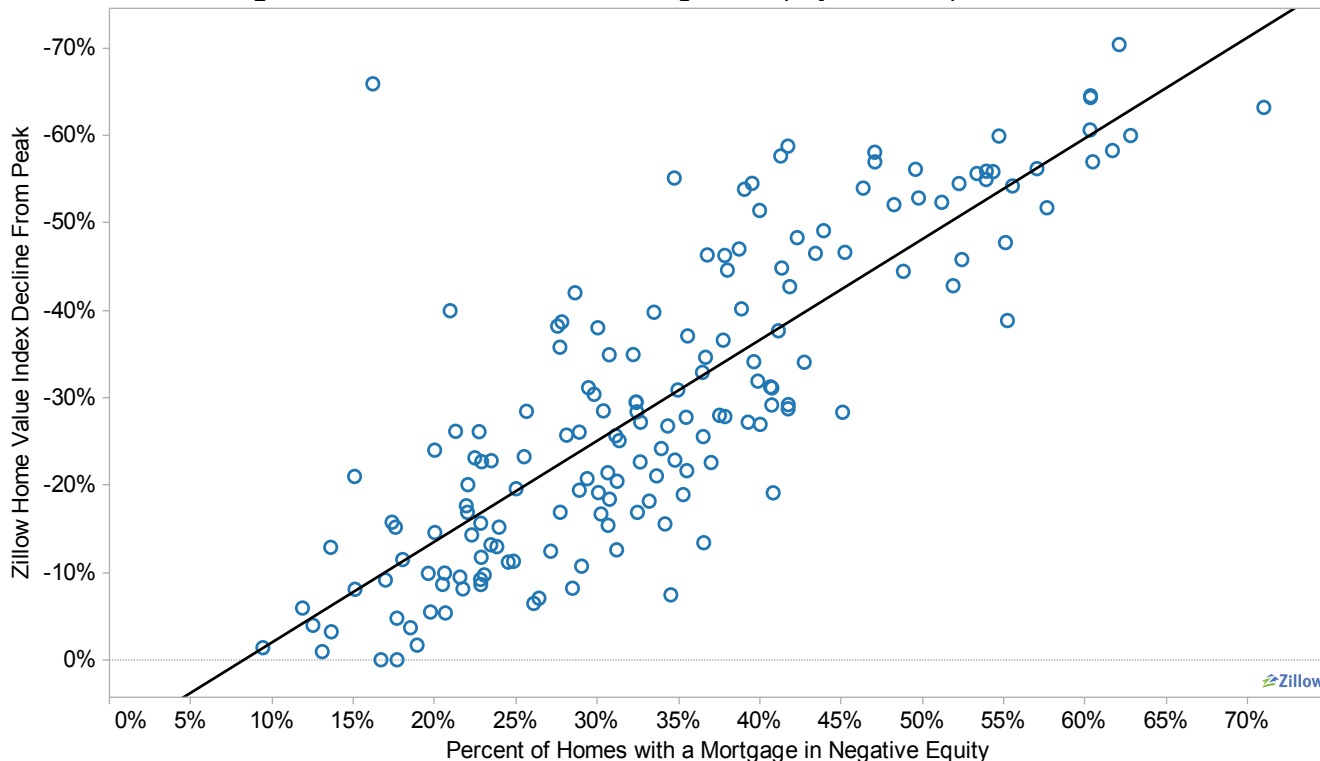
In terms of historical performance, we saw negative equity decrease in some metropolitan areas while it increased in others. These movements are highly correlated with home value movements. Denver, for example, saw a 7.5 percent decrease in negative equity from a year ago, while Atlanta, Las Vegas, and Sacramento all saw increases in negative equity by more than 3 percent.

Depth of Negative Equity

Nationally, homes are underwater by 31.4 percent. On a metro level, however, there is a wide variation in negative equity with the percent of underwater borrowers ranging from 0 to 84.6 percent. Among the most underwater metros are Las Vegas, Merced and Reno. On the other hand, Bismarck, ND, Midland, TX, and State College, PA remain largely untouched by negative equity.

Across the country, negative equity is at unprecedented levels. In addition to negative equity affecting all parts of the nation, the amount by which people are underwater ranges from 22 percent of the value of their home to more than a hundred percent in metropolitan areas, signifying the severity of the housing recession. Figure 5 provides an overview of distribution of the loan-to-value ratio for the largest metropolitan areas (a loan-to-value ratio greater than 100 percent means that the homeowner is underwater (i.e., their loan is higher than the value of the house)). For example, one out of every four homeowners with a mortgage in the Las Vegas metro owes more than twice the amount of their home's value, since roughly 27 percent of homeowners with a mortgage fall into the 200 plus percent loan to value bucket. In Merced, CA, one out of every five homeowners owes more than twice the amount in their home's value.

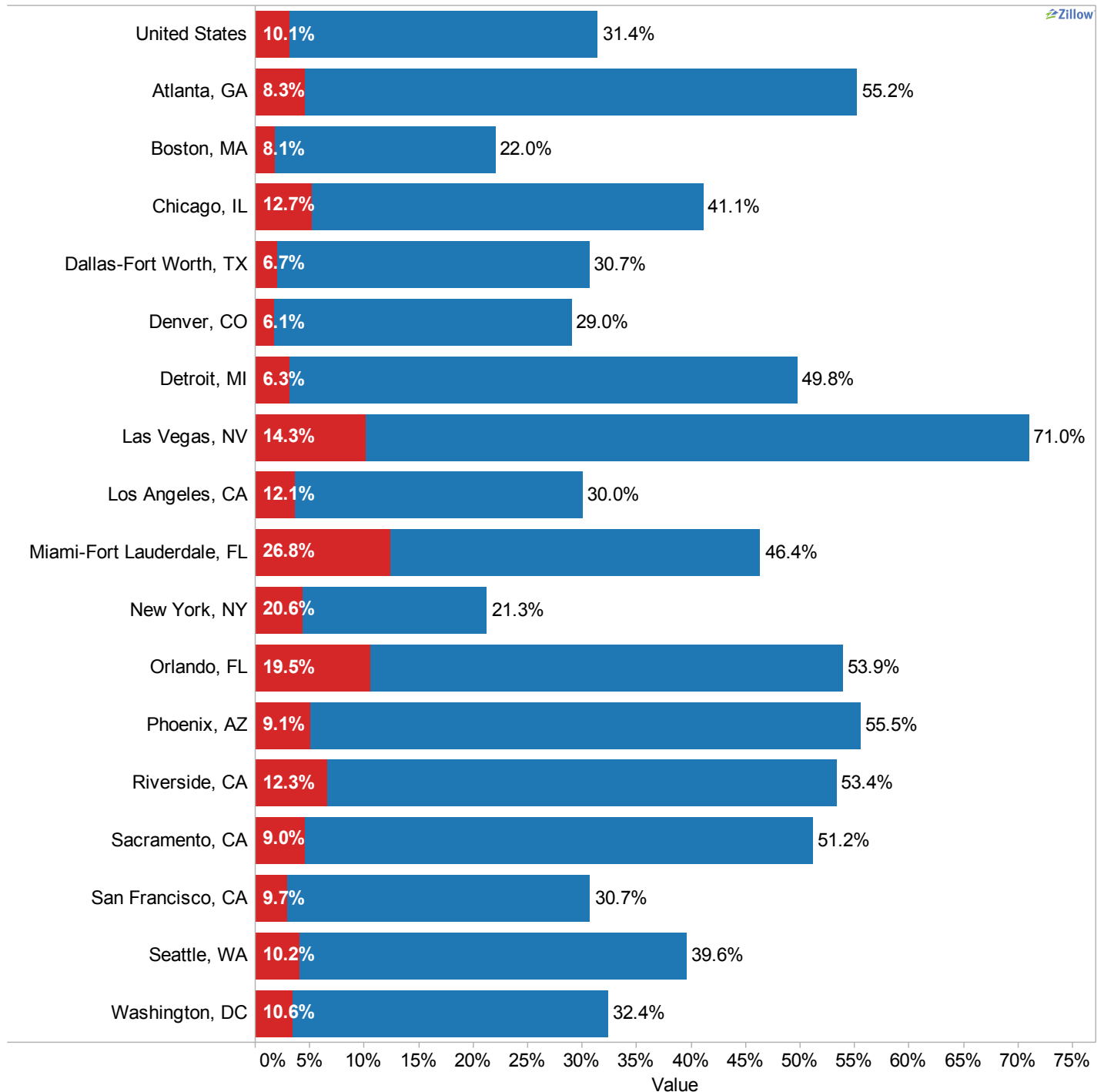
Figure 3: Home Value Decline vs. Negative Equity for Metropolitan Areas



Outlook

Negative equity remains a major factor in the housing market and one that will cast a long shadow over the recovery. With nearly a third of the nation's mortgaged homeowners in negative equity and the average underwater homeowner having a home value that is 31 percent lower than their mortgage balance, negative equity will prove both to be difficult to fully eradicate near-term and to have pernicious effects longer term as some households continue to encounter short-term financial trouble even with a slowly improving broader economy. Should economic growth slow, more homeowners will not be able to make timely mortgage payments, thereby increasing delinquency rates and eventually foreclosures. The areas that are most at risk are the areas that have seen the greatest decline in home values and therefore also have the greatest amount of negative equity.

Figure 4: Percent of Delinquent Homeowners of Homes with a Mortgage in Negative Equity



The percentages in white represent the percent of delinquent underwater homeowners. For example, in the United States, 10.1 percent of underwater homeowners are delinquent, which represents 3.2 percent of homeowners with a mortgage (the length of the red bar).

- Percent Delinquent of Underwater Homes
- Percent of Owner-Occupied Homes with a Mortgage in Negative Equity

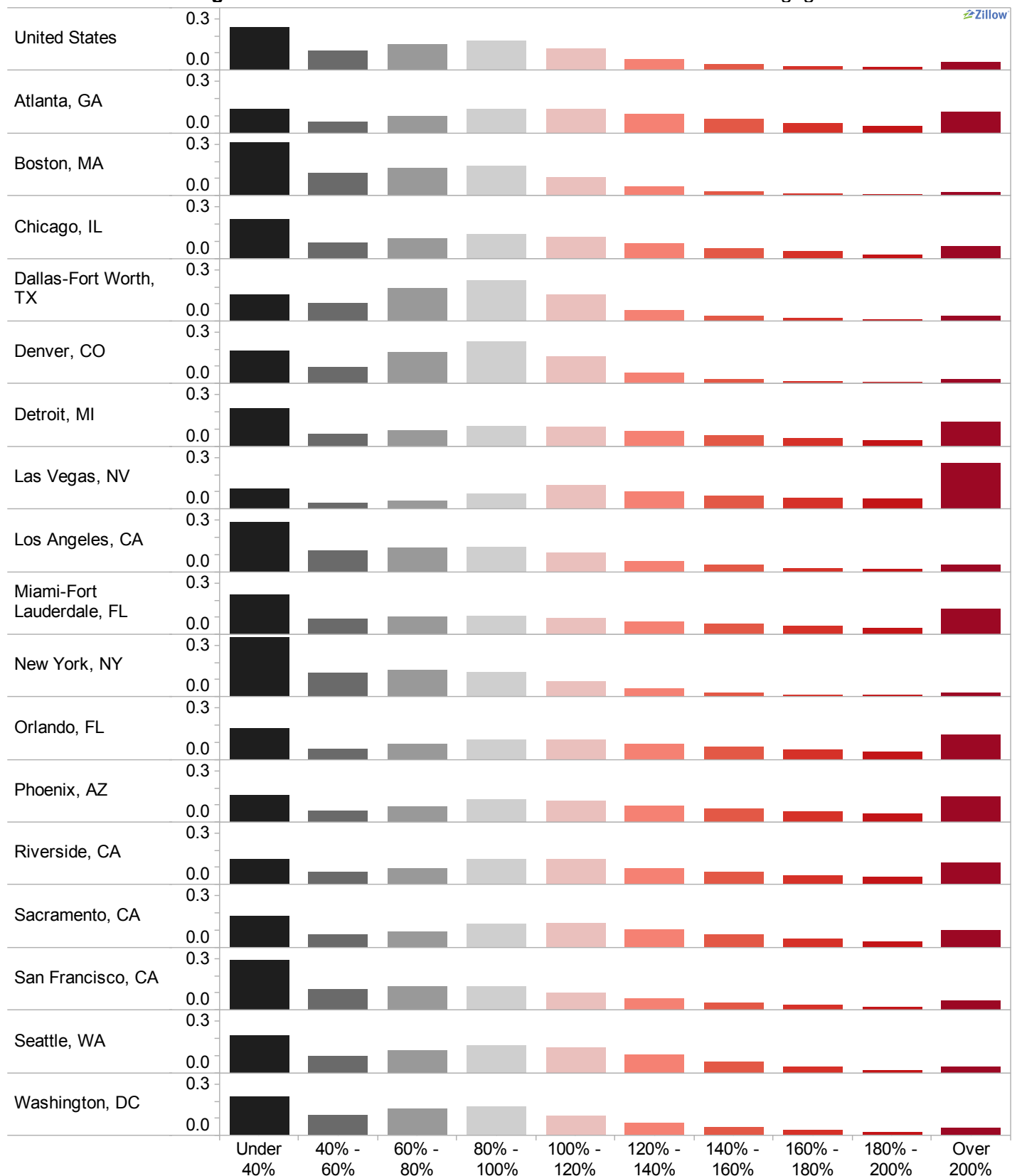
Figure 5: Loan to Value Distribution for Homeowners with a Mortgage


Table 1: Negative Equity Snapshot

	Percent of Owner-Occupied Homes with a Mortgage in Negative Equity	Percent by which Underwater Homeowners are in Negative Equity	Average Negative Equity Amount for Underwater Homeowners	Zillow Home Value Index	Decline in Zillow Home Value Index from Peak
United States	31.4%	-44.5%	-\$75,644	\$146,200	-24.6%
Atlanta, GA	55.2%	-54.0%	-\$66,496	\$107,500	-38.8%
Baltimore, MD	31.4%	-35.1%	-\$76,827	\$212,100	-25.1%
Boston, MA	22.0%	-33.5%	-\$84,853	\$303,300	-20.0%
Charlotte, NC	36.6%	-35.6%	-\$52,670	\$131,900	-13.4%
Chicago, IL	41.1%	-51.8%	-\$84,264	\$155,200	-37.6%
Cleveland, OH	33.9%	-40.9%	-\$44,046	\$107,600	-24.2%
Columbus, OH	34.2%	-34.9%	-\$45,315	\$122,800	-15.5%
Dallas-Fort Worth, TX	30.7%	-33.8%	-\$42,512	\$121,500	-15.4%
Denver, CO	29.0%	-33.5%	-\$64,427	\$205,900	-10.7%
Detroit, MI	49.8%	-58.4%	-\$59,808	\$73,000	-52.8%
Las Vegas, NV	71.0%	-85.4%	-\$105,954	\$111,600	-63.2%
Los Angeles, CA	30.0%	-42.7%	-\$139,086	\$382,100	-38.0%
Miami-Fort Lauderdale, FL	46.4%	-71.9%	-\$105,292	\$141,300	-54.0%
Minneapolis-St Paul, MN	39.9%	-38.3%	-\$64,275	\$163,000	-31.9%
New York, NY	21.3%	-41.2%	-\$128,658	\$334,200	-26.1%
Orlando, FL	53.9%	-64.1%	-\$81,552	\$113,800	-55.9%
Philadelphia, PA	25.0%	-33.2%	-\$62,419	\$184,900	-19.6%
Phoenix, AZ	55.5%	-64.8%	-\$90,214	\$128,000	-54.2%
Pittsburgh, PA	16.7%	-38.9%	-\$44,897	\$107,600	0.0%
Portland, OR	34.3%	-32.6%	-\$65,921	\$206,700	-26.8%
Riverside, CA	53.4%	-60.3%	-\$115,755	\$178,400	-55.6%
Sacramento, CA	51.2%	-54.8%	-\$107,618	\$200,600	-52.4%
San Diego, CA	35.6%	-40.8%	-\$124,112	\$336,300	-37.1%
San Francisco, CA	30.7%	-46.3%	-\$159,178	\$456,200	-34.9%
San Jose, CA	22.7%	-38.0%	-\$155,554	\$545,000	-26.1%
Seattle, WA	39.6%	-39.2%	-\$92,193	\$248,600	-34.1%
St. Louis, MO	30.7%	-33.9%	-\$45,883	\$121,900	-21.4%
Tampa, FL	48.3%	-57.1%	-\$67,996	\$104,900	-52.1%
Virginia Beach, VA	33.2%	-34.1%	-\$70,357	\$193,400	-18.2%
Washington, DC	32.4%	-43.9%	-\$117,556	\$301,900	-29.5%

Negative Equity	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.
Delinquency Rate	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.
Loan-to-Value Ratio	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.
Change from Peak	The percentage change from the month that recorded the highest Zillow Home Value Index to the current month.

About Zillow Negative Equity Reports

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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 150 markets at Zillow Real Estate Research. Zillow, Inc. operates Zillow.com®, Zillow Mortgage Marketplace, Zillow Mobile, Postlets® and Diverse Solutions™. The company is headquartered in Seattle.

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