Zillow Negative Equity Report

JUNE 2012 (Q2)

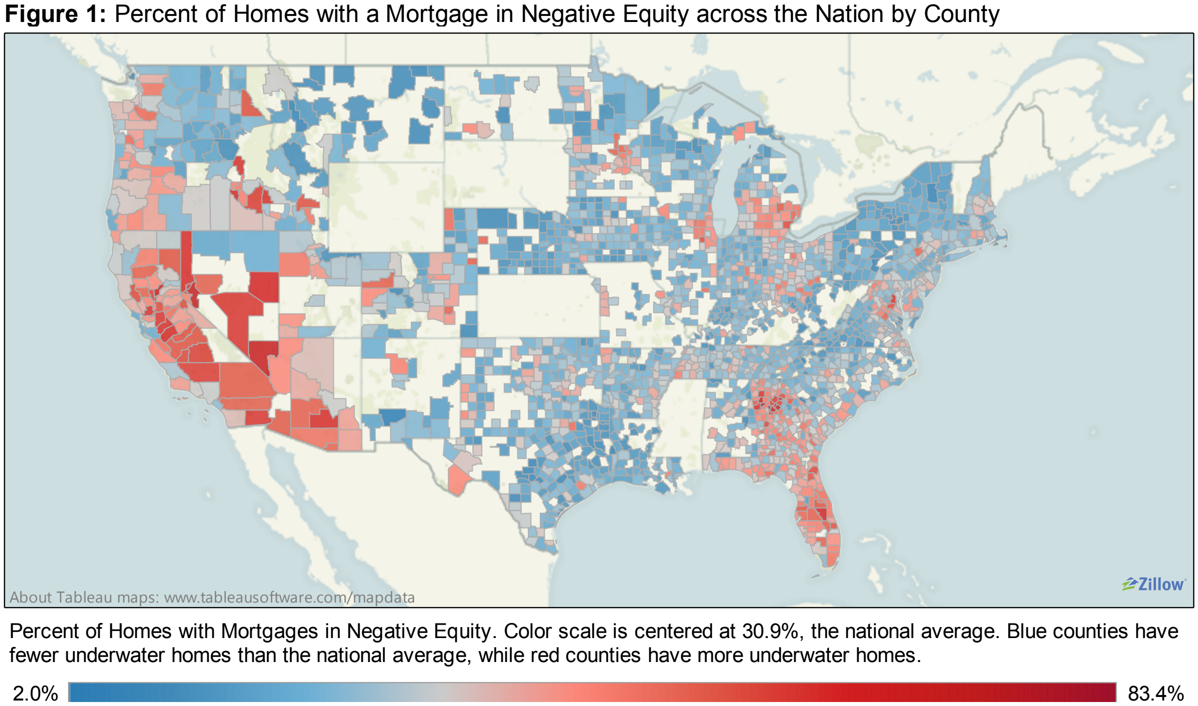
Overview

The housing market is finally showing signs of life, with many metropolitan areas having hit the elusive bottom and seeing home value appreciation, however negative equity remains a drag on the housing market. According to the second quarter Zillow Negative Equity Report, 30.9 percent of U.S. homeowners with a mortgage are underwater (Figure 1) – 15.3 million people – in the second quarter of 2012. Recent home value appreciation in many markets across the US has pushed negative equity levels down from 31.4 percent last quarter. However, negative equity is still slightly elevated from the 2011 Q2 percentage of 30. In total, underwater homeowners owe $1.15 trillion more than their homes' worth. Over 40 percent of underwater homeowners (12.5 percent of all homeowners with a mortgage), owe between 1 and 20% more than their home is worth. On the other end of the spectrum, about 2.2 million underwater homeowners (4.5 percent of all homeowners with mortgages) owe more than double what their home is worth (Figure 2). On average, U.S. homeowners in negative equity owe $75,235 more than what their house is worth, or 43.9 percent more (Table 1). While roughly one out of every three homeowners with mortgages is underwater, 90.8 percent of these homeowners are current on their mortgage and continue to make payments.

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.

An interactive map of this data can be found here: http://www.zillow.com/visuals/negative-equity/

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 30.9%, the national average. Blue counties have fewer underwater homes than the national average, while red counties have more underwater homes.

Regional Trends

The extent to which U.S. homeowners are underwater varies greatly by region. 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. In 36 out of 787 metros, more than half of all homes with mortgages in the metro are underwater. Among these regions are larger metros such as Las Vegas (68.5 percent), Atlanta (54.4 percent), Orlando (51.9 percent), Phoenix (51.6 percent), and Riverside (51.2 percent). See Table 1 for summary statistics in the top metro regions.

Drilling down to the metro level there is a wide variation in negative equity with the percent of underwater borrowers ranging from 4.7 to 69.7 percent. Among the least underwater metros are Bismarck, ND, State College, PA, and Honolulu, HI. On the other end of the spectrum are markets like Las Vegas, NV and Merced, CA. 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. In Merced, one out of every five homeowners owes more than twice the amount in their home's value. Figure 4 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).

While negative equity makes a household more vulnerable to foreclosure, most homeowners in negative equity will not end up in default. The majority of underwater homeowners continue to make regular payments on their mortgage, with only 9.2 percent of underwater homeowners being delinquent. This implies that 2.9 percent of all homeowners with a mortgage are at high risk for foreclosure near-term. Figure 3 shows a breakdown of these numbers for the top 30 metros.

In terms of historical performance, we saw negative equity significantly decrease in some metropolitan areas while it continued to increase in others. These movements are highly correlated with home value movements. As home values in Phoenix have been aggressively rising, negative equity has continued to recede, falling from 55.5 percent in the first quarter to 51.6 percent in the second quarter.

Outlook

With unemployment remaining flat or even rising in some parts of the country, negative equity remains a major factor in the housing market as the combination of negative equity and elevated unemployment spawns fresh foreclosures. With evidence of foreclosure starts increasing in many parts of the country, even while foreclosure liquidations continue to decline, we do expect this dynamic to put downward pressure on the negative equity rate (as homes in negative equity are foreclosed, sold in short sales, or have their principals reduced in a modification process). Downward pressure on negative equity from ongoing foreclosures processes will be amplified by modest increases in home values over the coming few years.

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

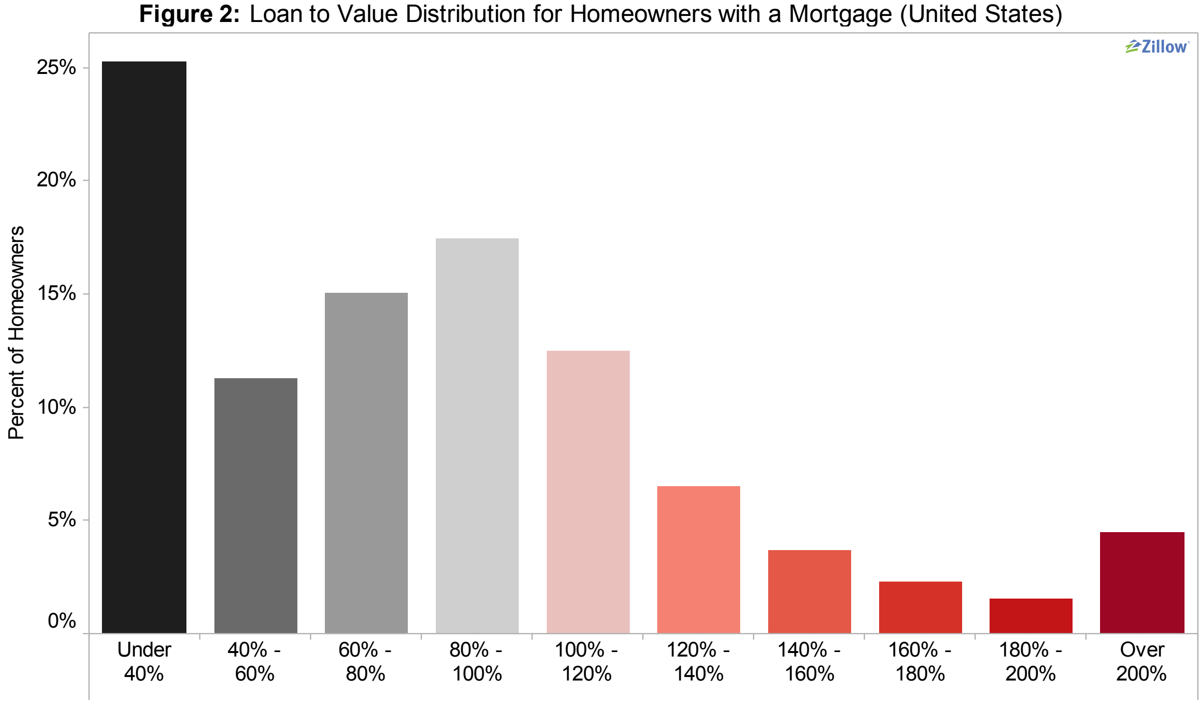
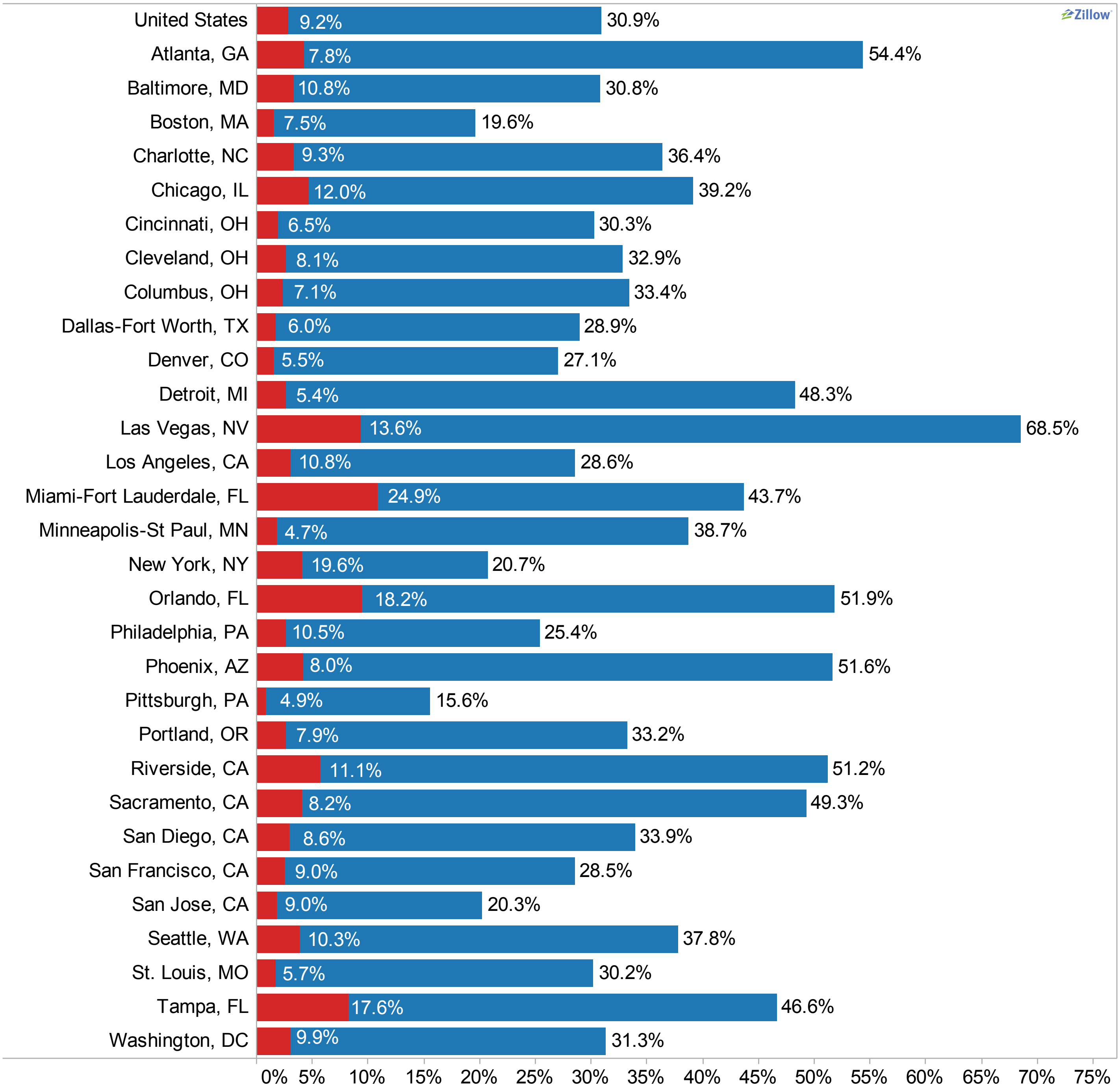


Figure 3: Percent of Delinquent Homeowners of Homes with a Mortgage in Negative Equity



The percentages in white represent the percent of delinquent underwater homeowners. For example, in the United States, 9.2 percent of underwater homeowners are delinquent, which represents 2.9 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 4: Loan to Value Distribution for Homeowners with a Mortgage

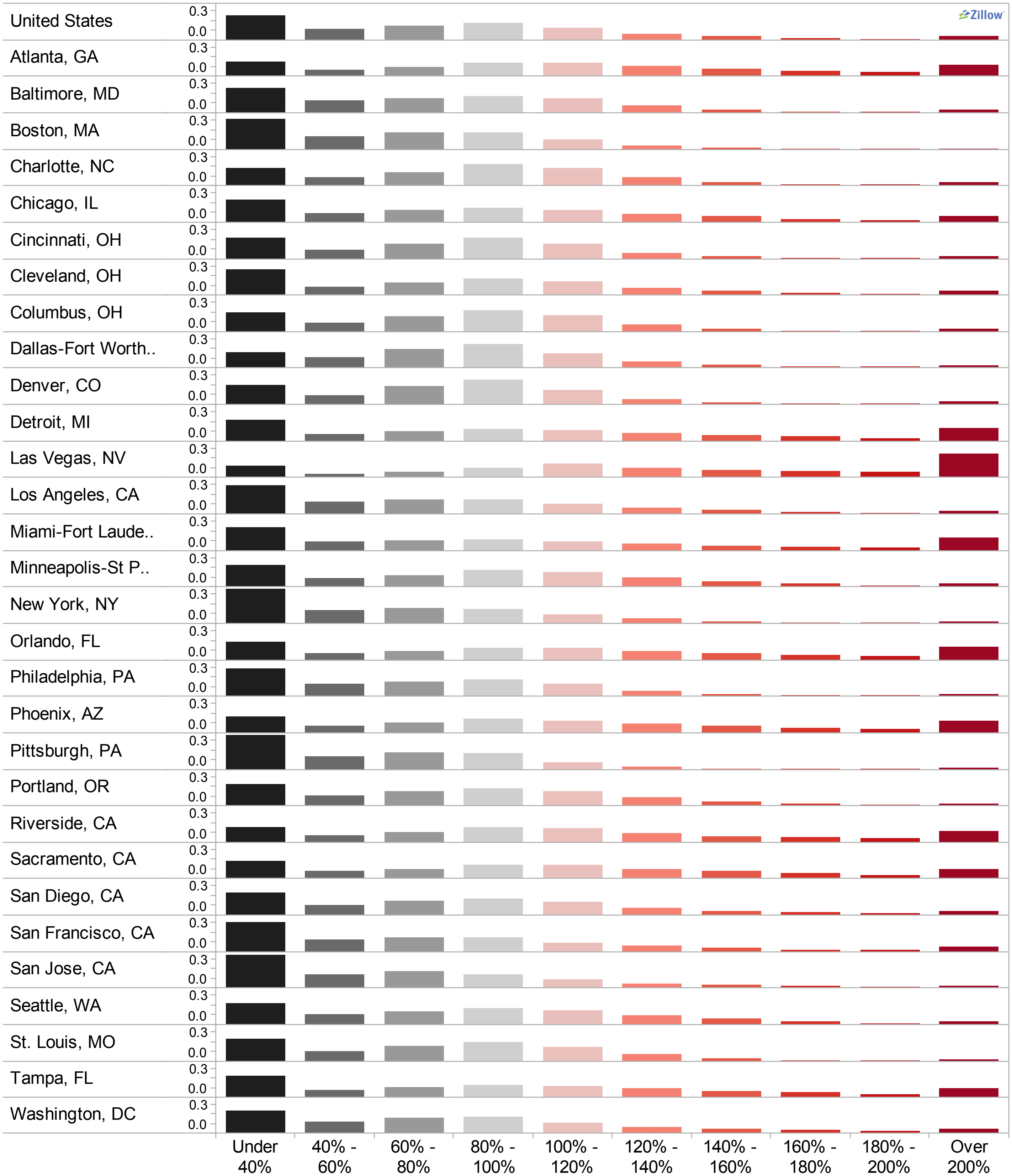


Table 1: Negative Equity Snapshot

	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	30.9%	-43.9%	-$75,235	$149,300	-22.9%
Atlanta, GA	54.4%	-54.2%	-$66,731	$107,900	-38.6%
Baltimore, MD	30.8%	-34.7%	-$77,135	$213,000	-24.7%
Boston, MA	19.6%	-33.6%	-$87,970	$307,600	-18.9%
Charlotte, NC	36.4%	-35.8%	-$53,199	$131,700	-13.5%
Chicago, IL	39.2%	-50.0%	-$83,025	$158,600	-36.3%
Cleveland, OH	32.9%	-40.2%	-$44,085	$108,400	-23.6%
Columbus, OH	33.4%	-35.1%	-$45,792	$122,500	-15.7%
Dallas-Fort Worth, TX	28.9%	-34.2%	-$43,781	$123,900	-13.7%
Denver, CO	27.1%	-34.4%	-$67,399	$211,300	-8.3%
Detroit, MI	48.3%	-57.5%	-$59,207	$74,000	-52.2%
Las Vegas, NV	68.5%	-82.4%	-$103,724	$114,800	-62.2%
Los Angeles, CA	28.6%	-41.9%	-$138,514	$383,200	-37.8%
Miami-Fort Lauderdale, FL	43.7%	-68.3%	-$103,503	$148,300	-51.7%
Minneapolis-St Paul, MN	38.7%	-38.5%	-$65,248	$164,800	-31.1%
New York, NY	20.7%	-40.0%	-$127,518	$336,900	-25.5%
Orlando, FL	51.9%	-62.1%	-$80,240	$118,200	-54.2%
Philadelphia, PA	25.4%	-33.1%	-$62,833	$184,000	-19.9%
Phoenix, AZ	51.6%	-61.5%	-$88,841	$136,200	-51.3%
Pittsburgh, PA	15.6%	-38.3%	-$45,903	$108,700	0.0%
Portland, OR	33.2%	-33.2%	-$67,103	$212,800	-24.6%
Riverside, CA	51.2%	-58.6%	-$113,882	$182,400	-54.6%
Sacramento, CA	49.3%	-53.4%	-$105,841	$202,900	-51.8%
San Diego, CA	33.9%	-40.1%	-$123,214	$342,500	-35.9%
San Francisco, CA	28.5%	-45.2%	-$158,027	$465,600	-33.6%
Seattle, WA	37.8%	-39.3%	-$92,276	$255,400	-32.3%
St. Louis, MO	30.2%	-33.6%	-$46,030	$121,600	-21.6%
Tampa, FL	46.6%	-55.7%	-$67,335	$107,500	-50.8%
Washington, DC	31.3%	-43.5%	-$118,218	$305,900	-28.5%
Cincinnati, OH	30.3%	-34.5%	-$45,367	$122,300	-13.8%

Negative Equity	Equity is the difference between the value of the house and the value the outstanding mortgage balance that the homeowner still owes. Negative equity occurs when the value of the house is less than the mortgage balance, so that the homeowners owes more on their mortgage than their house is worth.
Delinquency 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.
Loan-to-Value Ratio	This ratio compares the outstanding mortgage balance on a house to the value of that house. A loan-to-value ratio below 1 or 100 percent means that the house is in positive equity and the homeowners owes less than the house is worth, while a ratio greater than 1 or 100% means that the house is in negative equity and the homeowner owes more on his mortgage than the house is worth.
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

The data in 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.

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.

For images or more information contact pr@zillow.com