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U.S. Negative Equity Rate Falls at Fastest Pace Ever in Q3; Almost 5 Million Homeowners Freed Since Peak

Rate Has Fallen by More Than One-Third Since Peak; But At 21 Percent, Negative Equity Will Remain a Factor for Foreseeable Future, According to Zillow

- National negative equity rate has fallen by one-third since peaking in Q1 2012, to 21 percent from 31.4 percent

- 1.4 million mortgaged homeowners freed in third quarter, biggest quarterly drop recorded by Zillow

- 4.9 million mortgaged homeowners freed since beginning of 2012

SEATTLE, Nov. 21, 2013 /PRNewswire/ -- The national negative equity rate fell at its fastest pace ever in the third quarter, dropping to 21 percent of all homeowners with a mortgage, according to the third quarter Zillow® Negative Equity Report[i]. Roughly 10.8 million American homeowners remain underwater, owing more on their home than it is worth, down more than 4.9 million from the peak in the first quarter of 2012[ii].

In the second quarter, the negative equity rate was 23.8 percent. The decline represents the largest quarter-over-quarter drop since Zillow began tracking negative equity in the second quarter of 2011. Approximately 1.4 million homeowners were freed in the third quarter from the second quarter, also a high. Roughly one-third of homes are owned without a mortgage. The negative equity rate among all homeowners, both with and without a mortgage, was 14.7 percent at the end of the third quarter, down from 16.7 percent in the second quarter.

Negative Equity Down, But Not Out

But despite the improvements, more than one in five American homeowners with a mortgage remains underwater, a stubbornly high rate that is contributing to inventory shortages and holding back a full market recovery. The "effective" negative equity rate, which includes those homeowners with a mortgage with 20 percent or less equity in their homes, was 39.2 percent in the third quarter. Listing a home for sale and buying a new one generally requires equity of 20 percent or more to comfortably meet related expenses.

With the pace of home value appreciation slowing, the pace of negative equity improvement will also slow. The negative equity rate is expected to fall to 18.8 percent by the third quarter of 2014, according to the Zillow Negative Equity Forecast[iii]. And more than half of homeowners with negative equity (55.6 percent) are 20 percent or more underwater. According to the most recent Zillow Home Value Forecast[iv], home values are expected to rise 3.8 percent in the next year. Assuming appreciation at that rate going forward, it would take a homeowner underwater by 20 percent roughly five years to reach positive equity.

"Rising home prices and a greater willingness among lenders to engage in short sales have both contributed substantially to the significant decline in negative equity this quarter. We should feel good that we're moving in the right direction and at a fast clip," said Zillow Chief Economist Dr. Stan Humphries. "But negative equity will remain a factor for years to come, and must be considered part of the new normal in the housing market. Short sales will remain a persistent feature of the market as many homeowners remain too far underwater for reasonable price appreciation alone to help."

Large metros with the highest negative equity rate in the third quarter were Las Vegas (39.6 percent), Atlanta (38.2 percent) and Orlando (34.2 percent). Among the 30 largest metro areas covered by Zillow, those with the greatest decline in the number of underwater homeowners since their peak include San Jose (-66.4 percent from peak), Denver (-63.3 percent from peak) and San Francisco (-59.6 percent from peak).

These results are from the third quarter edition of the Zillow Negative Equity Report, which looks at current outstanding loan amounts for individual owner-occupied homes and compares them to those homes' current estimated values. Loan data is provided by TransUnion®, a global leader in credit and information management. This is the only report that uses current outstanding loan balances on all mortgages when calculating negative equity. Other reports estimate current outstanding loan balance based on the most recent loan on a property (i.e., the original loan amount at time of purchase or refinance).

Metropolitan Area	Q3 2013: % of Homeowners w/Mortgages in Negative Equity	Peak Negative Equity Rate	Peak Quarter	# of Homeowners Freed from Negative Equity

				Since Peak
UNITED STATES	**21.0%**	31.4%	**Q1 2012**	**4,940,904**
New York	17.3%	21.3%	Q1 2012	98,829
Los Angeles	13.2%	30.0%	Q1 2012	285,535
Chicago	32.3%	41.1%	Q1 2012	155,226
Dallas-Fort Worth	13.1%	30.7%	Q1 2012	188,226
Philadelphia	21.2%	25.4%	Q2 2012	47,218
Washington	22.3%	33.0%	Q2 2011	120,109
Miami-Fort Lauderdale	29.7%	47.0%	Q4 2011	163,102
Atlanta	38.2%	55.2%	Q1 2012	179,705
Boston	12.0%	22.0%	Q1 2012	82,112
San Francisco	12.4%	30.7%	Q1 2012	126,611
Detroit	31.3%	51.2%	Q3 2011	168,233
Riverside	28.0%	53.4%	Q1 2012	170,448
Phoenix	25.0%	58.1%	Q3 2011	256,679
Seattle	21.9%	39.6%	Q1 2012	117,351
Minneapolis-St. Paul	21.1%	39.9%	Q1 2012	130,238
San Diego	14.7%	35.6%	Q1 2012	96,585
St. Louis	24.3%	31.1%	Q4 2011	38,196
Tampa	32.0%	48.4%	Q3 2011	84,704
Baltimore	23.0%	31.4%	Q1 2012	44,577
Denver	11.9%	32.5%	Q2 2011	108,449
Pittsburgh	12.1%	17.5%	Q2 2011	22,927
Portland	16.9%	34.3%	Q1 2012	72,938
Sacramento	23.4%	51.2%	Q1 2012	104,329
Orlando	34.2%	53.9%	Q1 2012	75,304
Cincinnati	21.5%	32.0%	Q3 2011	43,199
Cleveland	24.1%	33.9%	Q1 2012	39,771
Las Vegas	39.6%	71.0%	Q1 2012	104,719
San Jose	7.6%	22.7%	Q1 2012	42,242
Columbus	22.8%	34.4%	Q4 2011	40,940
Charlotte	23.1%	36.8%	Q4 2011	48,664

About Zillow:
Zillow, Inc. (NASDAQ: Z) operates the largest home-related marketplaces on mobile and the Web, with a complementary portfolio of brands and products that help people find vital information about homes, and connect with the best local professionals. 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 also sponsors the quarterly Zillow Home Price Expectations Survey, which asks more than 100 leading economists, real estate experts and

investment and market strategists to predict the path of the Zillow Home Value Index over the next five years. The Zillow, Inc. portfolio includes Zillow.com®, Zillow Mobile, Zillow Mortgage Marketplace, Zillow Rentals, Zillow Digs™, Postlets®, Diverse Solutions®, Agentfolio™, Mortech® and HotPads™. The company is headquartered in Seattle.

[i] 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 more than 870 metros, 2,500 counties, and 24,700 ZIP codes across the nation.
[ii] Peak levels are for the period beginning in Q2 2011, when Zillow adopted its current methodology for calculating negative equity, through Q3 2013.
[iii] The Zillow Negative Equity Forecast is a conservative estimate of what negative equity rates will be a year from now. To forecast negative equity, we take the current home value of a house and appreciate it by the Zillow Home Value Forecast (ZHVF) for the MSA in which the home is located. In cases where there is no ZHVF available, we use the historical rate of home appreciation, and for metros that don't have a historical rate of appreciation we use the historical rate of inflation at the national level. For homes that are not located in a metropolitan area, we use the forecasted national rate of appreciation. To calculate the level of home equity a year from now, we use the forecasted home value and the current outstanding debt balance, where we make no assumptions about a homeowner's debt level a year from now. We also make no assumptions about foreclosure activity in the coming year. Therefore, this forecast is a very conservative one, as homeowners will likely continue to pay down their debt throughout the year and homes will likely continue to be foreclosed on, and both of these factors will contribute to a lower negative equity rate. The Zillow Negative Equity Forecast can therefore be considered a higher bound estimate of negative equity.
[iv] September 2013-September 2014. The Zillow Home Value Forecast uses data from past home value trends and current market conditions, including leading indicators like home sales, months of housing inventory supply and unemployment, to predict home values over the next 12 months for the nation and for more than 250 markets across the country.

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