How Much Further Does the Housing Recovery Have to Go

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Roughly three years after the housing recovery began, how far do we still have to go until homes in the majority of local markets have regained all the value lost during the recession? In many areas, the answer is years and years, at least.

The housing recovery is still very much in its middle stages. Nationally, home values remain 11.3 percent below their 2007 peak. Looking ahead, U.S. home values are expected to rise another 4.2 percent through the second quarter of 2015, according to the Zillow Home Value Forecast. It will take 2.7 years for national home values to re-achieve their pre-recession levels, assuming a steady rate of appreciation at the forecasted level.

In other words, national home values won't get back to their prior peaks until at least the first quarter of 2017, almost a decade after the beginning of the housing recession. And full recovery could take even longer, as the pace of home value appreciation is expected to slow in coming months and years.

Locally, in 50 of the nation's 100 largest metro markets, it will take three years or more for home values to reach prior peaks. Notable large metros where full recovery in home values will take longer than a decade include Minneapolis (14.5 years), Kansas City (12.5 years) and Chicago (11.7 years).

"In dozens of markets, homeowners who bought at the peak of the market in 2006 or 2007 will have to wait until 2017 or later to get back to the breakeven point on their homes, a lost decade in which they will have built up no home equity. This is reflected in stubbornly high negative equity and effective negative equity rates, with more than a third of Americans with a mortgage lacking enough equity to realistically list their home for sale and buy another," said Zillow Chief Economist Dr. Stan Humphries. "But there is a silver lining as we navigate these tricky middle innings of the recovery. Because home values remain so far below their peak levels in so many areas, it is still possible for buyers to find bargains. This will be critical to maintaining home affordability over the coming years, especially as mortgage interest rates rise."

U.S. home values climbed 6.3 percent year-over-year in the second quarter to a Zillow Home Value Index of $174,200, the slowest annual pace of appreciation recorded so far this year and a sign that the market is returning to more normal levels. In a more normal market, home values appreciate at roughly 3 percent per year. Home values nationwide were up 1 percent compared with the first quarter and 0.5 percent from May.

Nationally, rents rose 2.5 percent year-over-year in the second quarter, to a Zillow Rent Index of $1,310 but fell 0.3 percent compared with the first quarter. The quarterly decline was the largest recorded since Zillow first began publishing the Zillow Rent Index in late 2010. U.S. rents were flat month-over-month.

For a deeper analysis and to see what home values and rents are doing in your area, visit Zillow Research.