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**House Ways and Means Subcommittee on Oversight**

**Hearing Entitled “Expanding Housing Access to All Americans”**

**Wednesday, July 14, 2021**

## **Introduction**

Chairman Pascrell and Ranking Member Kelly, it is my pleasure to appear before you today on behalf of Zillow. I want to thank you and the Subcommittee for holding this important and timely hearing on housing access and affordability.

From our founding, Zillow has sought to “turn on the lights” through greater transparency around housing data and information. Zillow’s Economic Research team aims to be the most open, authoritative source for timely and accurate housing data and unbiased insight. Our goal is to empower consumers, industry professionals, policymakers and researchers to better understand the housing market. Zillow strives to use our data and research, on topics ranging from affordability, to homelessness, to consumer housing trends — to better inform the stakeholders on the ground grappling with these issues, and in the hopes that data-driven decision-making will lead to more informed policies in our communities.

The COVID-19 pandemic has caused many Americans to rethink their housing choices. At Zillow, we believe our nation is in the early stages of what we call “The Great Reshuffling.” New opportunities for remote or flexible work have opened new possibilities for relocation and changed consumer preferences. Parents who have juggled remote learning and child care challenges are placing even greater emphasis on space and place. Workers who were adversely affected by the economic downturn have sought new careers - often in new places. This rethinking of what a home is in relation to a remote workforce, combined with a perfect storm of demographic shifts as millennials are aging into their peak homebuying years, has led to unprecedented demand for housing. This demand, augmented by historically low mortgage interest rates and following a decade of historically low housing construction, has led to a severe supply-demand imbalance, intensifying challenges of housing access and affordability for many Americans left on the outside of this historic run-up in prices.

The pandemic has also accelerated the adoption of much needed technology to help create a more seamless real estate transaction for consumers in an industry that has been notoriously analog and resistant to change. Many of these changes were introduced on an emergency basis and proved successful at keeping the housing market moving during a time of great uncertainty. Consumers embraced them and showed that removing friction from a notoriously painful process can spur greater economic activity. Encouraging the advancement of tools such as remote online notarization, 3-D appraisal tools and a consumer-first digitization of the transaction process should be examined by policy makers and regulators as a way to increase access to affordable housing and provide more consumer transparency.

## **Current State of the US Housing Market<sup>1</sup>**

Nationally, the housing market is experiencing the hottest market conditions on record--the fastest price appreciation, the lowest inventory, the shortest time on market. The typical home value, as measured by the Zillow Home Value Index (ZHVI), is rising at a double-digit annual

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<sup>1</sup> <https://www.zillow.com/research/zillow-may-2021-market-report-29635/>

pace. Annual U.S. home value appreciation climbed precipitously throughout 2020, rising from less than 4% year-over-year in February 2020 to more than 13% in May 2021.

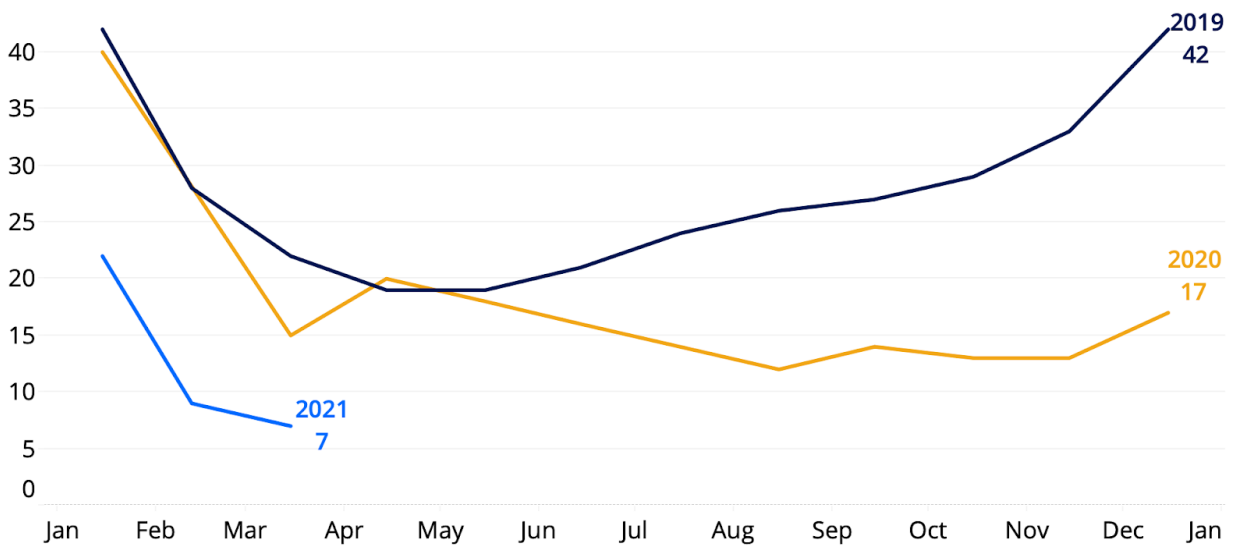
Zillow Home Value Index YoY (Home Value Growth) and Months of Supply



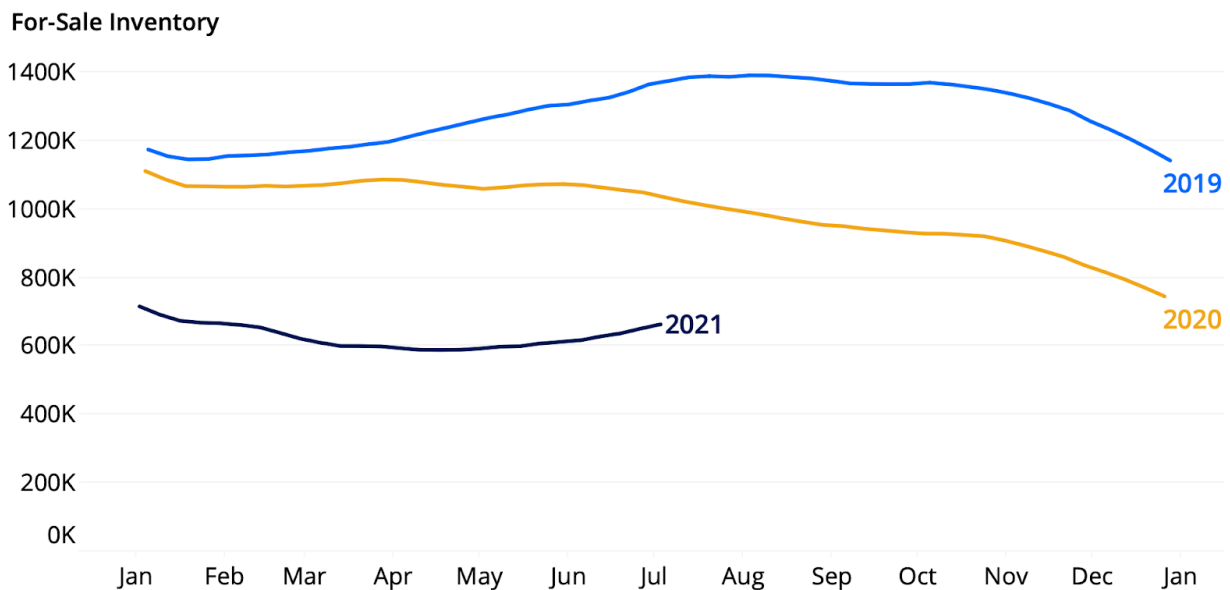
Source: Zillow Home Value Index and NAR Months supply of existing homes on market

Not only are home prices rising faster than ever, homes are also selling faster than ever. Sold homes were typically on the market for just 7 days this spring before going under agreement, compared to 15 days a year ago and 22 days in 2019.

Days to Pending in 2019, 2020 and 2021



This high velocity is contributing to record-low levels of for-sale inventory, which has dropped continuously year-over-year for the last 1.5 years running, up until this May. A faster pace of home sales will contribute to the sense that there are simply fewer homes on the market<sup>2</sup> -- even with a similar number of new home listings, the speed at which they disappear from the market will push the observed number of homes on the market at a given point down -- but buyers really are also truly running into more scarcity. It's likely that health and safety concerns led many would-be sellers to hold off or delay listing their homes for sale during the pandemic, contributing to a shortage of homes for sale, with surveys we've conducted revealing that about a third of homeowners who were considering selling are not because of the uncertainty caused by the last year.<sup>3</sup> But that only represents part of the equation -- inventory has been low, and falling, since well before the pandemic began.

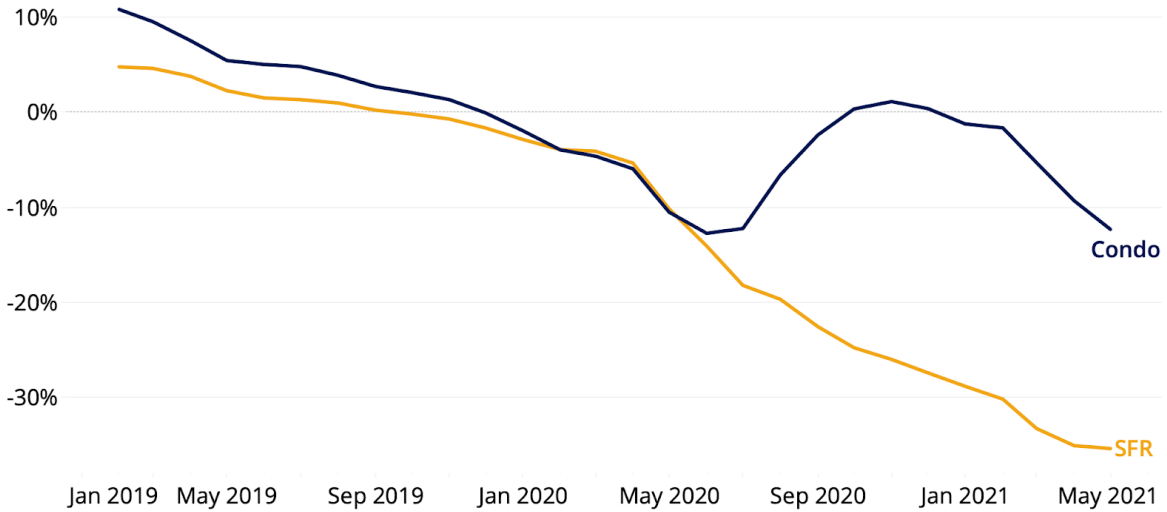


We see inventory shortages most acutely in single family housing where inventory has continually declined over the past two and a half years. The start of the pandemic accelerated this inventory contraction in single family homes, but caused a softening in demand for condos, resulting in a short-lived influx in condo inventory in the second half of 2020.

<sup>2</sup> <https://www.zillow.com/research/sales-inventory-velocity-math-28768/>

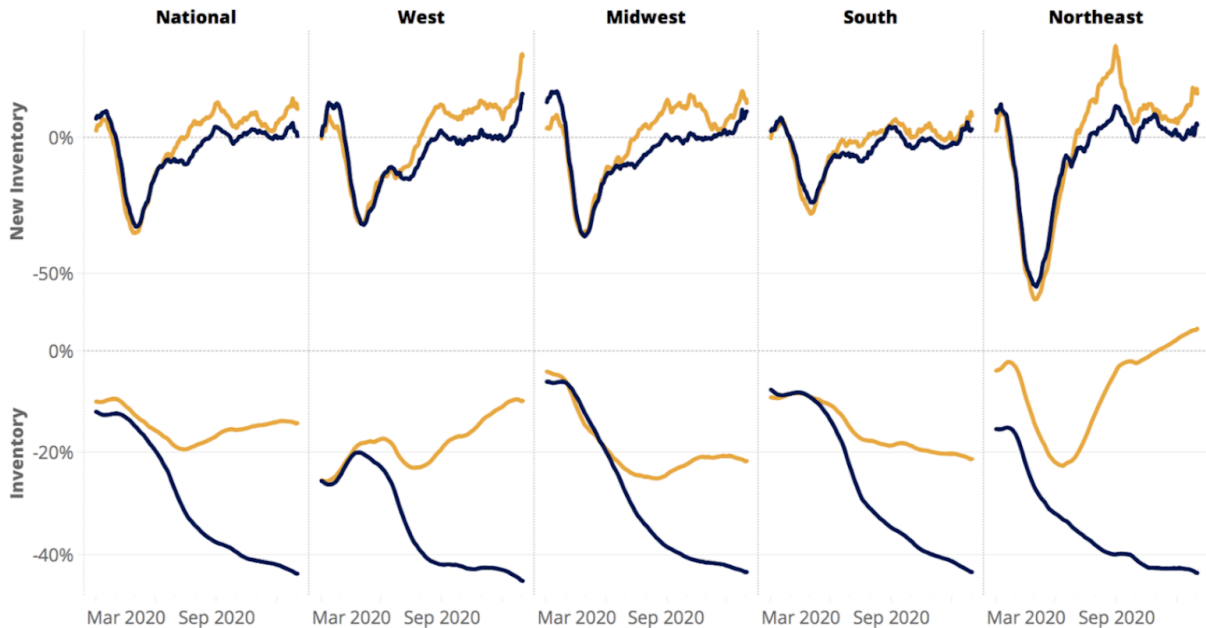
<sup>3</sup> <https://www.zillow.com/research/why-arent-sellers-selling-2020-28224/>

Year-over-year for-sale inventory growth, **condos** and **single-family homes**



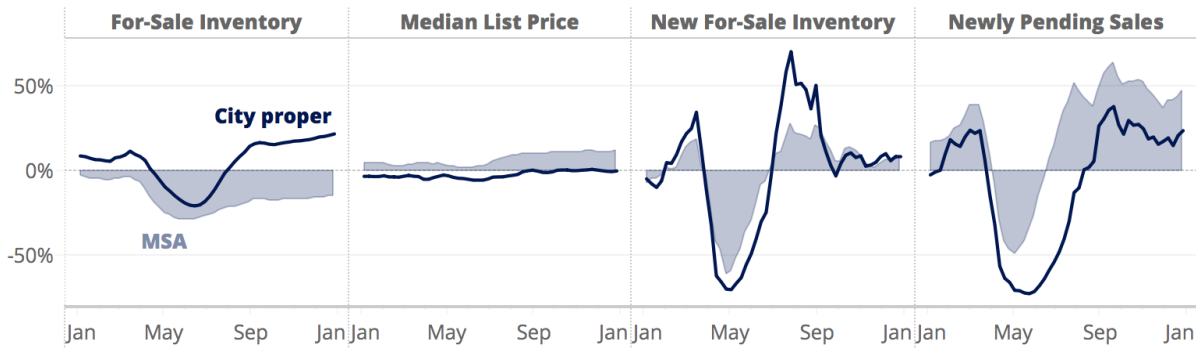
As of the end of 2020, suburban inventory was down more than 40% year over year, while urban inventory was down only about 15% year over year. This does not show that every city has a glut of unsold homes due to an “exodus”. It’s not a zero-sum game: rather, most urban markets are also hotter than the year before with less inventory, but it’s 2 or 3 times as severe in the suburbs.

New inventory and inventory growth in **urban** and **suburban** markets by region

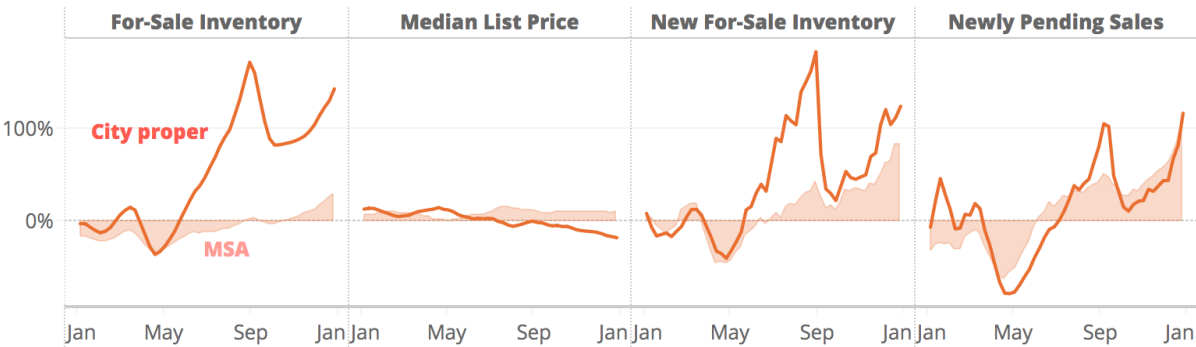


Nationally, the two submarkets that did have high inventory and falling prices throughout 2020 are New York City and San Francisco proper; it’s easy to see why their experiences might be disproportionately featured in national media’s perception of the pandemic’s effects.

**New York City** year-over-change in **MSA** and **city proper**



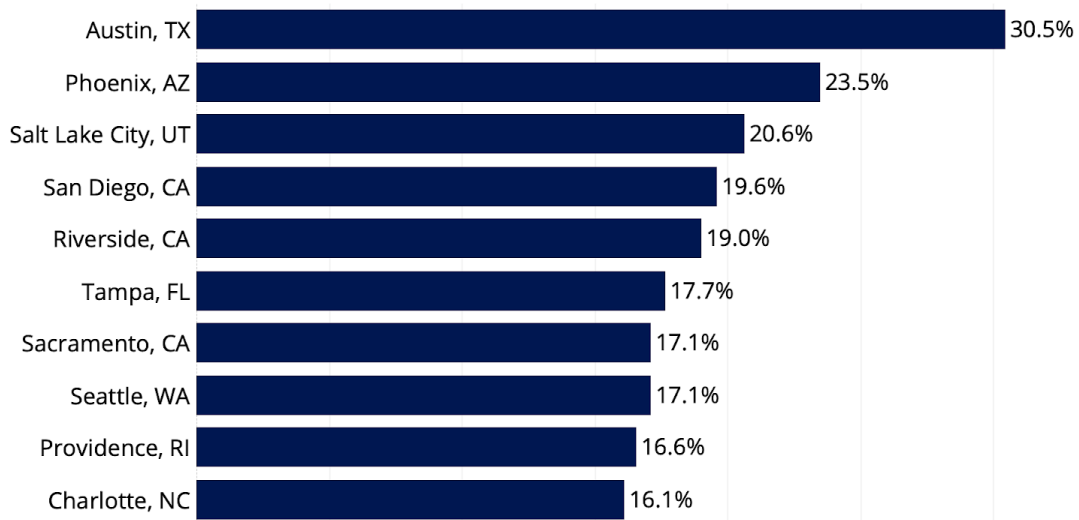
**San Francisco** year-over-change in **MSA** and **city proper**



**Local Dynamics**

While the for-sale market is hot across the country, the Southwest and Inland West are experiencing particularly strong price appreciation. Annual price growth in Austin topped 30% this spring, while growth in markets including Phoenix and Salt Lake City was at 20% or higher.

### Markets With Fastest Growing Home Values

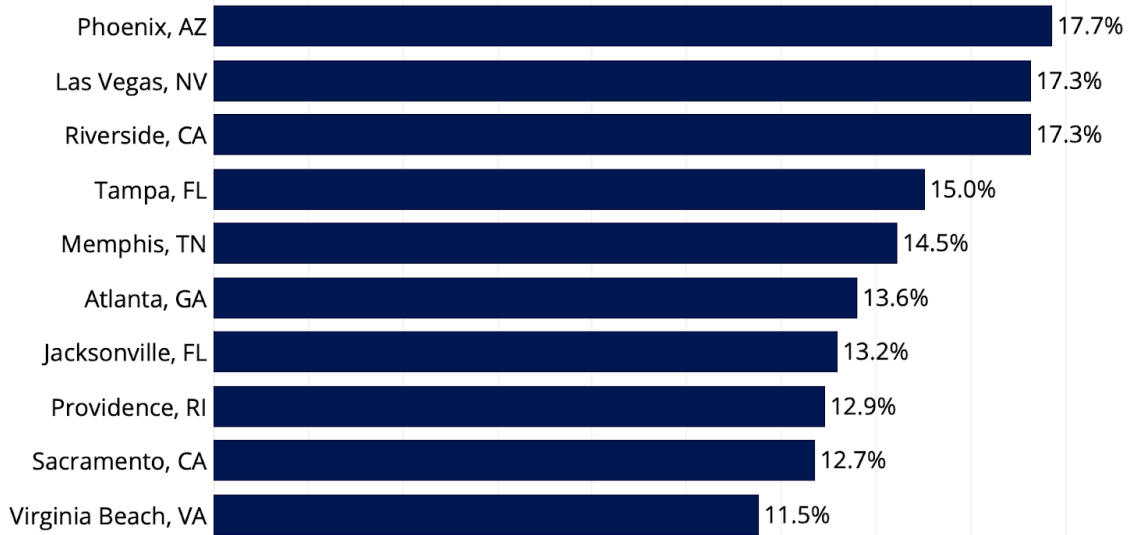


The rapid price appreciation in the West has spread from pricey coastal cities like Seattle and San Diego to encompass more affordable Inland West alternatives, stretching from Boise and Spokane down to Phoenix and Austin. Zillow’s analysis of years of moving data from North American Van Lines showed a major trend break in 2020, when for the first time the typical interstate mover was moving to a substantially more affordable ZIP code than where they moved from, after years of consistently moving to very similarly-priced ZIP codes.<sup>4</sup> Moreover, despite the price cut experienced by the average moving household in that data, they also typically moved to places with larger homes for sale. These moves are consistent with families finding more freedom, perhaps thanks to remote work possibilities, to seek out more-affordable, larger homes than were feasible in the past.

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<sup>4</sup> <https://www.zillow.com/research/interstate-movers-reshuffling-2020-29577/>

### Markets With Fastest Growing Rents



Rents are also rising fastest in the Inland West, good evidence that the for-sale price growth is reflecting fundamentals of the housing market, rather than loose lending or speculation.

### **Demand: A generational wave of new buyers, empowered by record low mortgage rates**

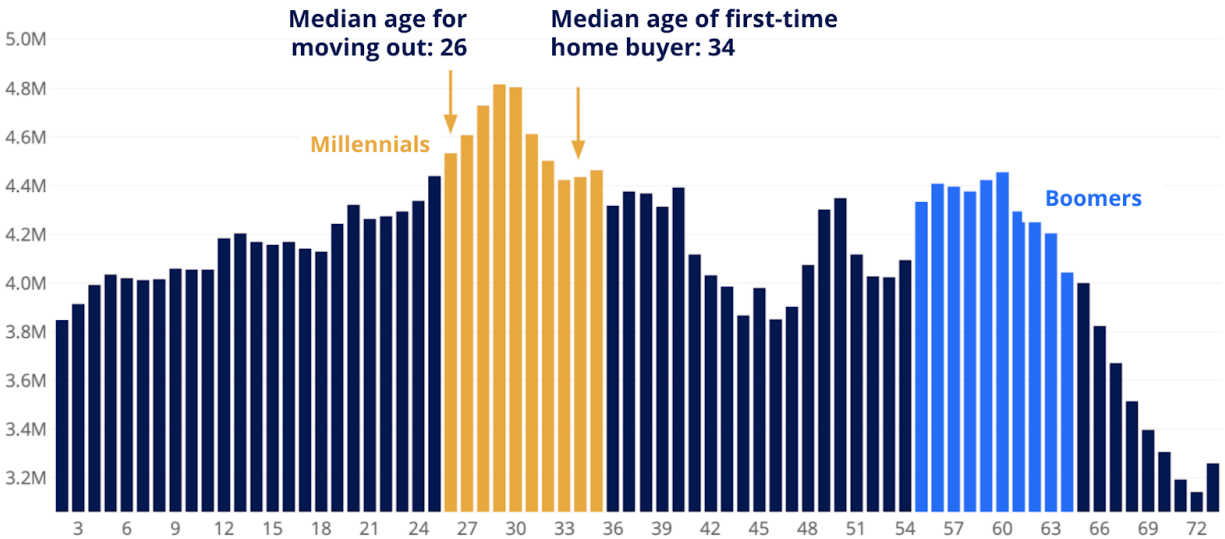
The sky-high demand that is driving the market right now has many sources. An unusually large number of people are currently entering their early 30s. There are currently some 46 million Americans aged 26 to 35 years old, the largest such 10-year cohort in the nation. For comparison's sake, there were roughly 41 million people in the same age range in 2010, and about 43 million people in that age range in 1989 -- when the previously largest generation, the Baby Boomers, reached their maximum number of people aged 26 to 35. This mid-twenties to mid-thirties age range is especially critical for housing demand -- as people age through these years, they become more likely to head their own household first as renters and then, by age 34 (the median age of first-time home buyers as of 2019<sup>5</sup>), as young homeowners.

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<sup>5</sup> [https://wp-tid.zillowstatic.com/50/CHTR2019\\_Buyers\\_webFINAL-ef2665.pdf](https://wp-tid.zillowstatic.com/50/CHTR2019_Buyers_webFINAL-ef2665.pdf)



### Age distribution for the United States



These demographic facts meant that America entered the pandemic with an unprecedented number of people who were likely to want to buy their first home in the near future. The pandemic itself may have pushed forward this decision for many as the need for more space and/or a shifting preference to be closer to family or favorite places rather than to work became more acute. Also during the pandemic, already-low mortgage interest rates -- which can help boost demand by keeping housing affordable -- fell to even lower levels.

### 30-Year Fixed Rate Mortgage Average in the United States



Source: Freddie Mac

All else equal, lower mortgage rates make homeownership more affordable and attractive relative to renting a home. For example, the mortgage payment on a typical home in July 2020, priced at \$255,897, was about \$1,086 after a 20% down payment and at the then-prevailing

3.02% average 30-year mortgage rate that month. In July 2018, a home purchased under the same conditions, at the same price and at the then-prevailing rate of 4.53% would have required a monthly payment of \$1,260, or 16% more. Put another way: The decline in mortgage rates over that time *more than offset* the rise in home values from July 2018 -- the typical home value at that time was \$234,713, and would have required a monthly payment of \$1,163, still higher than the July 2020 payment.

Mortgage rates rose from record lows early in 2021, but have since leveled off at around 3.0%, still representing a near-all-time bargain on borrowing costs.

The pandemic also changed, at least temporarily, the relative value of different home attributes in ways that would tend to shift demand from smaller to larger homes, and from rented to owned homes. With people spending much more time at home due to lockdowns and health precautions, the relative value of both indoor and outdoor home space rose substantially around the country. A home office or spare bedroom was now essential for families with one or more people working from home, or children attending school at home. Private outdoor space also became more important, especially for families with children who could no longer count on public playgrounds or schoolyards for their outdoor activities. Meanwhile, the premium people were willing to pay for proximity to job centers began to decline, as even short intra-city commutes for many office workers were replaced by the short walk from bedroom to home office<sup>6</sup>. Conversely, the commute time disamenity of very distant, exurban locations diminished<sup>7</sup>.

These forces combined to amplify demand for larger homes with yards, further out from job centers -- typically owner-occupied homes, which are generally larger and more likely to include a yard than rented homes<sup>8</sup>. All that extra demand from individuals of all ages has been multiplied by the unusually large size of the Millennial generation around age 30, yielding a large, sudden surge in demand to purchase homes this year.

### **Supply shortfall: A decade of underbuilding left us unprepared for this demographic wave**

The pace of homebuilding in the United States slowed sharply after the 2007 crash, from an average of 1.6 million housing starts per year in 1993-2006 to 1.0 million annual starts from 2007 to 2020. Cumulatively, that meant approximately 8.7 million fewer homes were built between 2007 and 2020 than otherwise might have been<sup>9</sup>.

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<sup>6</sup> <https://www.nber.org/papers/w28876>

<sup>7</sup> <https://www.nber.org/papers/w28675>

<sup>8</sup>

[https://www.census.gov/content/dam/Census/library/visualizations/2021/demo/AHS-Profile\\_of\\_Owner\\_Renter\\_2021.pdf](https://www.census.gov/content/dam/Census/library/visualizations/2021/demo/AHS-Profile_of_Owner_Renter_2021.pdf)

<sup>9</sup> <https://fred.stlouisfed.org/series/HOUSTNSA#0>

New Privately-Owned Housing Units Started: Total Units



Source: Census; HUD

Recent estimates from Freddie Mac<sup>10</sup> and the National Association of Realtors<sup>11</sup> put the shortfall of existing homes relative to the number needed between 3.8 million and 5.5 million homes. Builders are now firing on all cylinders and their sentiment remains very strong despite recent supply-side difficulties including high lumber prices and scarce labor, but it will take several years to dig out of a hole that was more than a decade in the making.

One major headwind to homebuilding, especially in expensive cities with strong job markets, is the artificial constraint imposed by restrictive zoning laws and a myriad of other regulations that reduce the number of homes possible to build with the land cities have. Rules such as parking minimums, setbacks and lot coverage maximums effectively ban the construction of the types of dense, walkable neighborhoods anchoring even small towns' Main Streets from the pre-war era, and combined with limited land zoned for multifamily homes can make any substantial construction of affordable, smaller homes effectively infeasible. Meanwhile, even single-family zones could collectively provide many more homes than today, merely by relaxing minimum lot sizes, subdivision rules, and by permitting attached single-family homes<sup>12</sup>.

### **Affordability: Where does this price appreciation leave us?**

Homeowners have the advantage of low mortgage interest rates to help offset rising bottom-line home prices, but renters do not have this advantage. Conventional wisdom says that a household should not spend more than 30% of its income on housing without becoming unduly "housing cost burdened." For the typical homeowner earning the typical owner income and putting 20% down on the typical valued home, mortgage costs represent about 17% of their household income. The typical renter earning a renter income and leasing the standard rental

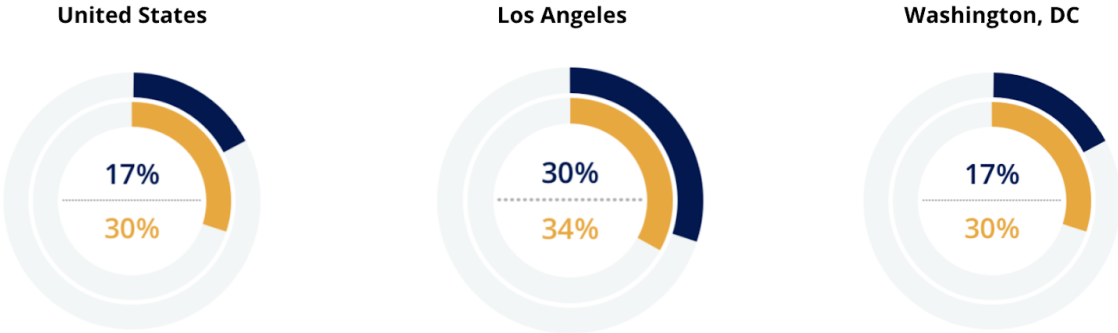
<sup>10</sup> [http://www.freddiemac.com/research/insight/20210507\\_housing\\_supply.page](http://www.freddiemac.com/research/insight/20210507_housing_supply.page)

<sup>11</sup> <https://www.nar.realtor/political-advocacy/housing-is-critical-infrastructure>

<sup>12</sup> <https://www.zillow.com/research/modest-densification-new-homes-25881/>

should expect to spend about 30% of their household incomes -- right at the line of being considered housing cost burdened. In some expensive West Coast markets, such as Los Angeles, mortgage payments can rise to 30% or higher for homeowners, but even in many otherwise pricey East Coast markets including Washington, DC, the cost of a mortgage for typical homeowners is similar to the national average, making the carrying cost of a mortgage relatively affordable for most homeowners.

Share of income spent on **mortgage** and **rent**



However, comparing the cost of mortgages for existing homeowners to the incomes of existing homeowners can fail to capture the cost of entering homeownership today. The principal and interest payment on a typical mortgage today is \$964. After adjusting for inflation (excluding shelter), that is slightly below the average since 1996, of about \$999 in May 2021 dollars. Today's mortgage cost is 48% higher than its post-Great Recession low in 2012, and 32% lower than its peak in 2007.

Monthly mortgage payment on typical U.S. home value after 20% down (May 2021 dollars)



## **A widening wealth gap**

Homeownership remains financially out of reach for many Americans, especially due to the ever-rising hurdle of saving for a down payment<sup>13</sup>. It would take more than a quarter century for U.S. renters earning the typical renter income and saving up at the typical renter savings rate to save up for a 20% down payment on the typical U.S. starter home.

Even saving up for a bare-minimum 3% down payment on today's starter homes would take renters four years at their typical saving rate, during which time prices will have likely risen further. In fact, less than half of first time buyers said they saved the majority of their down payments themselves, meaning the rest used alternate means including gifts and loans from family and friends or tapping into retirement accounts and investments to come up with their down payments. But not everybody has those opportunities. Black and Latinx home buyers were more likely to say they saved at least some portion of their down payments themselves compared to white home buyers. Black and Latinx renter households also take longer to save for a down payment due to their lower median incomes, contributing to widening disparities in homeownership and access to the wealth-building advantages homeownership brings. In the past two years, the aggregate value of real estate held by households has increased by about \$3.7 trillion<sup>14</sup> -- gains in wealth that renter households are not able to experience.

Housing disparities, including homeownership and home value disparities, currently account for 38.4% (about \$1.18 trillion) of the overall \$3 trillion median Black-white wealth gap<sup>15</sup>. In the past decade-plus, the Black-white wealth gap has widened considerably -- the typical Black household currently has less than a quarter (23.3%) of the wealth of a typical white household, down from more than a third (34.6%) before the Great Recession.

## **What's next? Rising prices, possibly falling homeownership**

Looking ahead, Zillow's forecast for home value appreciation shows annual home value growth peaking at just over 18% in late 2021, before tapering gradually in 2022. We expect the typical U.S. home will be worth 15% more in May 2022 than it was in May 2021.

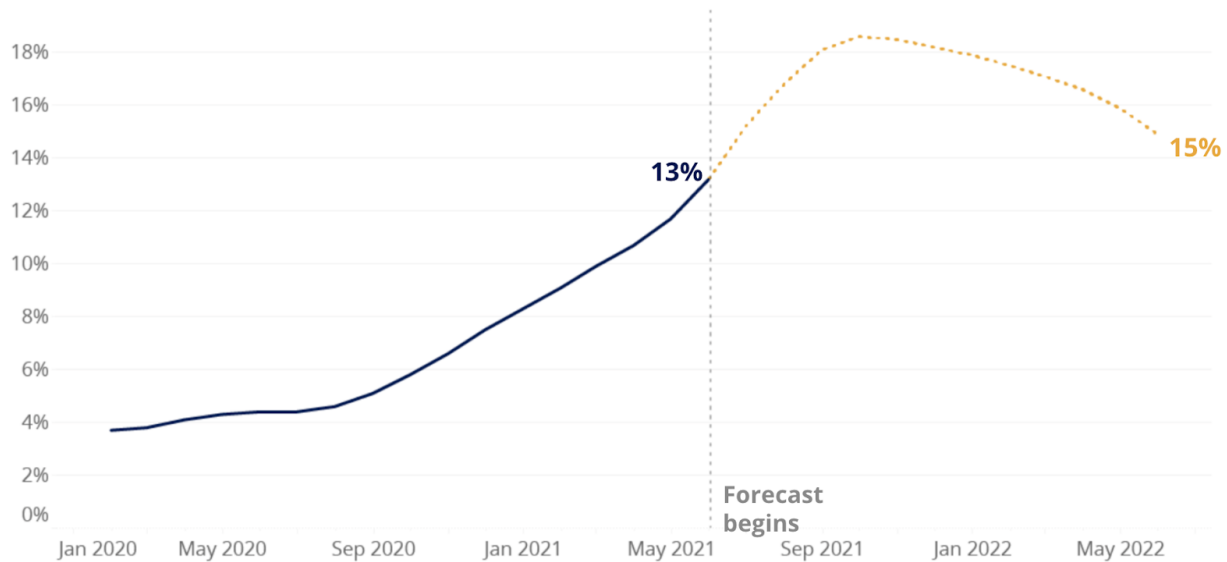
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<sup>13</sup> <https://www.zillow.com/research/how-long-to-save-a-down-payment-29735/>

<sup>14</sup> [https://www.federalreserve.gov/releases/z1/20210311/html/recent\\_developments.htm](https://www.federalreserve.gov/releases/z1/20210311/html/recent_developments.htm)

<sup>15</sup> <https://www.zillow.com/research/black-white-wealth-gap-housing-29353/>

## Zillow Home Value Index (ZHVI) Forecast



In part because of these growing affordability challenges and widening disparities in the ability to save for a down payment and/or access social and family networks that may help bridge the down payment gap, there is a risk that U.S. homeownership may decline in coming years. The Urban Institute recently estimated that the overall homeownership rate will decline moderately by 2040, and will decline dramatically for Black households.<sup>16</sup> By the time Black millennials reach the age of current boomers in 2040, they will have a homeownership rate of 41%, 9 percentage points lower than current boomers, while the gap between white millennials and boomers will be just 4 percentage points. All told, they predict about 3.3 million fewer owner-occupied households in 2040 than there would be if age-specific homeownership rates remained steady, though the gap is largest amongst Black households -- 12.4% of Black renter households are projected to miss out on homeownership. These projections mean that racial disparities in wealth overall stand to worsen considerably if homeownership gaps continue widening on their current trajectories.

## Policy Considerations

Overall, the nation's housing market has proven itself remarkably resilient and strong throughout the pandemic, and will remain on solid ground going forward. This is in large part due to decisive actions by lawmakers and federal regulators at the beginning and throughout the pandemic. In a majority of areas, simple and sound economic principles of supply and demand are driving the market forward, and we expect more supply in coming years from builders and those less-anxious to sell in the post-pandemic period will help cool rapid price appreciation to levels more in line with historic norms.

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<sup>16</sup>

<https://www.urban.org/urban-wire/2040-us-will-experience-modest-homeownership-declines-black-households-impact-will-be-dramatic>

The factors driving the market today are not the same as the ones that drove the drastic run-up and subsequent crash in 2007-2008.

Despite underlying market forces that are in line with the economics of supply and demand, it is also true that this market is neither perfect or equal, or entirely sustainable. Rapid housing cost growth runs the risk of pricing out a large portion of would-be homeowners, keeping them renting in an increasingly unaffordable environment. And millions of renters, especially, continue to teeter on the brink of housing insecurity as some well-paying job opportunities prove slow to bounce back. The nation's communities of color largely do not share in the same access to housing or opportunities enjoyed by their white peers, in fact, the homeownership gap between white and black Americans is larger today than it was in 1960. Housing costs cannot continue growing at 15%, 20% or 30% in some areas forever without difficult consequences.

Policies that encourage more housing supply are critical, as well as targeted assistance to those with the most difficulty getting on the housing ladder. Traditional government insured programs, targeting low to moderate income, first time homebuyers, such as the FHA, USDA or VA should also be modernized to ensure they remain viable options for market participants. Today, too many borrowers who rely on these programs are losing bidding wars to buyers with all cash or conventionally financed mortgages. Homeownership has always been and remains a large part of the American Dream, and ensuring it stays as accessible as possible for the broadest possible swath of Americans demands constant effort.

## **Conclusion**

In conclusion, I want to emphasize that not one policy or economic trend has gotten the housing market to this point and not one policy or proposal should be viewed as a silver bullet. These complex issues will require federal, state, and local decision makers to utilize all the tools in their toolbox. Zillow stands ready to partner with policy makers to provide data and transparency to ultimately help consumers gain access to affordable housing.

I want to thank the members of the subcommittee and their staff for holding this hearing on such an important topic and I welcome your questions.