

real estate insights

April 2006

Real Intelligence –
Real Advantages

In This Issue

Existing-home sales rose 5.2 percent in February, posting 6.91 million seasonally adjusted annualized units. Both existing single-family homes and existing condominiums and co-ops experienced increased sales. February's pace was the first increase in five months. Home sales are expected to level-out in the months ahead. Home price appreciation continued in double-digit territory, with the national median existing-home price for all housing types at \$209,000 in February, up 10.6 percent from February 2005. Total housing inventory levels rose 5.2 percent at the end of February to 3.03 million existing homes available for sale, which represents a 5.3-months' supply at the current sales pace. **Read more.**

Tales from the City(ies). Not all markets benefitted equally from the recent housing boom. Some metropolitan areas posted healthy price appreciation and sales activity; others did not fare as well. But with the national housing market coming in for a soft landing, some of those "non-boom" markets could get their chance to shine. In his commentary this month, NAR Chief Economist David Lereah gives us a "tale of two cities." **Read more.**

Be It Ever So Humble ... there's no place like a second home. Recently released data from NAR Research indicates that the second-home boom continued in 2005. Whether for vacation, investment, or other purposes, second homes are an attractive option, especially for baby-boomers and others looking to diversify their investment portfolios. Paul Bishop reports. **Read more.**

"Working" towards homeownership. Maynard G. Krebs used to have a violent vocal reaction to the word "work". But jobs are one of the major drivers of housing activity. Even in an environment of rising interest rates, employment growth is a good indicator of the potential for a healthy housing market. Ken Fears looks at recent employment figures for each of the four regions of the U.S. and how and why they differ. **Read more.**

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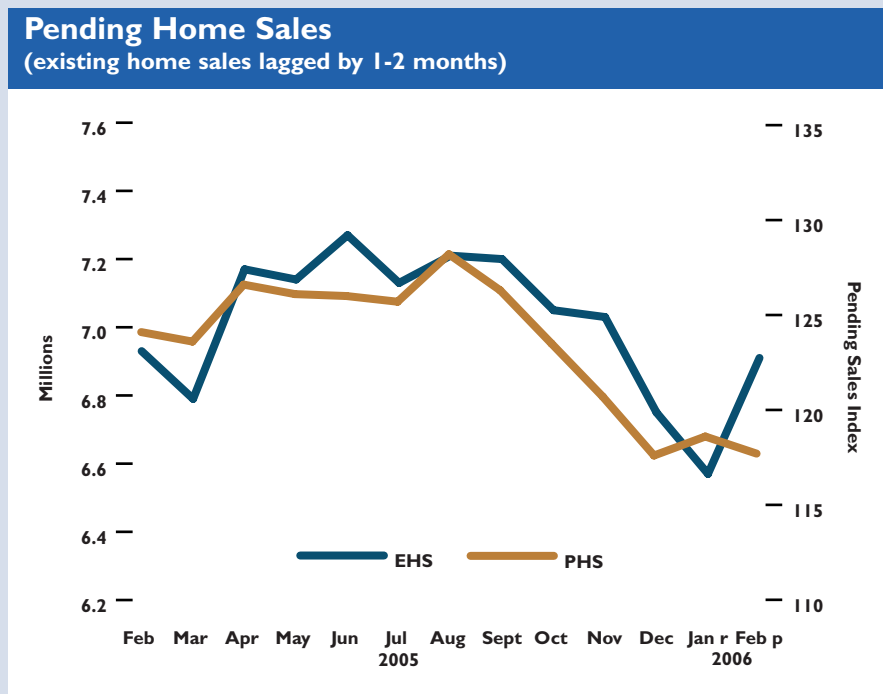
Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing-home Sales rose 5.2% in February to a seasonally adjusted annualized rate of 6.91 million units – ending five consecutive months of declines. Home prices continued to show strength, with the median price of an existing home rising 10.6% from February 2005 to \$209,000. The inventory of homes for sale rose by 150,000 in the past month to 3.03 million – a 5.3 months' supply at the current sales pace. Read more.</p>	Dec 6,750 Jan 6,570 Feb 6,910		Higher rates cutting home sales, particularly in high-priced markets
<p>New Home Sales In February, new home sales posted 1.08 million seasonally adjusted annualized units. The sales pace represents a 10.5% decrease from January's revised figure of 1.21 million units, and is 13.4% below the level in February of 2005. Inventory of newly constructed homes increased to 548,000 – a 6.3-months' supply at the current sales pace. Read more.</p>	Dec 1,275 Jan 1,207 Feb 1,080		A huge rise in unsold inventory
<p>Housing Starts declined in February to 2.12 million seasonally adjusted annualized units after soaring to their highest level in over 30 years in January. Both single-family and multifamily starts posted declines. But the current construction pace is still very robust. The 1.8 million single-family starts is higher than the last year's record of 1.7 million.. Read more.</p>	Dec 1,989 Jan 2,308 Feb 2,120		Mostly down, but affordable job creating regions may buck the trend
<p>Housing Affordability NAR's housing affordability index rose 0.8% in February to 117.6. Last month's index was revised upward slightly. Going forward, the affordability index should hover at similar levels for the remainder of the year as moderating home prices somewhat offset rising mortgage rates. Read more.</p>	Dec 117.0 Jan 116.7 Feb 117.6		Home prices rose faster than income over the past five years
<p>Mortgage Rates The 30-year fixed-rate mortgage edged up in March to 6.32% – an increase of seven basis points from February's level. Mortgage rates are expected to rise further as concerns on inflation put upward pressure on interest rates. The one-year adjustable rate increased eight basis points in March to 5.42%. Read more.</p>	Jan 6.15 Feb 6.25 Mar 6.32		Expanding global economy puts upward pressure on rates
<p>Purchase Applications The Mortgage Bankers Association's purchase index inched up to 407.6 in March. While the housing market begins cooling in most markets with both new and existing home sales expected to soften due to rising mortgage rates, the index level is still considerably strong and will remain healthy this year. Read more.</p>	Jan 452.7 Feb 406.6 Mar 407.6		Will be a difficult year for mortgage brokers
<p>Employment The economy added 211,000 jobs in March – stronger than the 190,000 most analysts had anticipated. Both February and January employment numbers were revised downward to 225,000 and 154,000, respectively. Unemployment decreased to 4.7% – its lowest level in 4 1/2 years. Read more.</p>	Jan 154 Feb 225 Mar 211		Two million net new jobs on tap for 2006
<p>Inflation The consumer price index (CPI) rose 0.1% in February. Two sectors – fuel and apparel – fell sharply, which helped to minimize the increase in the core index which rose 0.1%. The CPI should continue to grow at a projected average monthly rate of 0.3% for the next three months. Read more.</p>	Dec -0.1% Jan 0.7% Feb 0.1%		Inflation at the upward end of the comfort zone

Notes: All rates are seasonally adjusted. Existing home sales, new home sales and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Inflation is shown as a month-to-month percent change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Mortgage Bankers Association and Freddie Mac. This report reflects data as of April 10, 2006.

NAR's Pending Home Sales Index

NAR's Pending Home Sales Index declined 0.8 percent in February to 117.7. The index was 5.2 percent below the level in February 2005. But January's Index was revised upward to 118.6 – the strong revision (from the preliminarily reported index of 116.3) was due primarily to additional data from the Northeast that showed a stronger performance than earlier believed. The index is derived from pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not yet closed; pending home sales typically are finalized within one or two months of signing. An index of 100 is equal to the average level of contract activity during 2001, the first year to be examined, and the first year of five consecutive record years for existing-home sales. February's index shows that pending home sales are showing signs of leveling out, indicating that the housing market is entering a period of stabilization. [Read more.](#)



Source: NAR Research
Note: Reflects revised data for 2005

A Tale of Two (types of) Cities

by David Lereah, *Chief Economist*

Well, the boom is over and most of our nation's hot housing markets are cooling. Home sales are off 5 to 20 percent in some markets that were once setting annual sales records. But there have been no signs of bubbles bursting as of yet. Real estate activity began slowing about six months ago, and – perhaps with some fingers and toes crossed – our nation's housing industry is managing a soft landing. And quite nicely, thank you. It is true, some of those “hot hot hot” markets are experiencing more of a cooling down than are others, but there is also a silver lining to that: some of America's non-boom markets are showing signs of life.

During the real estate boom's five-year run (2001 to 2005), about 65 of the 135 metropolitan areas on which the National Association of REALTORS® tracks price data experienced robust price appreciation. The households living in – and investors investing in – those 65 boom markets during those five years enjoyed substantial equity gains on their properties and no doubt engendered the envy of non-boom homeowners and investors. Indeed, to the dismay of the remaining 70 metro areas, the boom seemed to discriminate as it passed over them. But today, the housing coin has flipped – sales are softening in (former) boom cities and gaining momentum in non-boom cities. It appears the haves and the have-nots have reversed places.

What is driving that reversal of fortune? The answer is: affordability. Quite simply, affordable metros are in favor and unaffordable metros are experiencing a correction. Let's look at both situations.

Affordable Metros

The recent real estate boom seemed to have bypassed Denver, Salt Lake City, Houston, and Albuquerque, New Mexico; now those markets are raising some eyebrows. In recent months, they have shown a pick up in sales activity. What all four of these metros have in common is a healthy local economy (evident in their job creation figures) and affordable housing prices. It is becoming increasingly clear that in the aftermath of the boom, households are now seeking affordable property to purchase (and live in). For example, there are cases where households living in pricey northern California neighborhoods (such as San Francisco) are moving from an area where the median home price is a lofty \$730,000 to areas with substantially lower median home prices. Denver and Salt Lake City – as well as some still-hot markets like Las Vegas and Phoenix – could be the fortunate recipients of that trend.

Another way of viewing a healthy housing market is to look at the direction of months' supply of homes available for sale (the housing inventory). The top ten metros ranked by the largest year-over-year decrease in months' supply in February, reveals

that nine out of those ten areas are *affordable* markets. Led by Austin, Texas, which experienced the largest decrease (falling from a 5.0-months' supply in February 2005 to 4.3-months' supply in February 2006), the remaining nine metros were Houston, San Antonio, Raleigh-Cary, Albuquerque, Mobile, Fort Myers-Cape Coral, Kansas City, Beaumont-Port Arthur, Texas and Baton Rouge. Only Fort Myers-Cape Coral, Florida experienced the real estate boom and has a median home price higher than the national median home price.

Again, all of these metros share the two characteristics that are attracting future home buyers – a healthy local economy and a relatively low median home price. I expect these metros as well as other affordable and healthy metros to exhibit slow- to moderate growth during the remaining months of this year.

Boom Metros

Phoenix, Naples, Florida, and Washington, DC all experienced the boom during the past five years, but are now showing strong signs of cooling. What they all have in common are

a history of robust price appreciation and a healthy local economy. Ranking the top ten metros by the largest increase in months' supply (which is a sign of a “cooling” market) in February reveals that all ten metros were boom metros. From first to tenth are Phoenix, Palm Bay-Melbourne, Florida, Pensacola, Florida, Chicago-Naperville, Hagerstown-Martinsburg, Tucson, Orlando, Boston, Washington DC, and Worcester, Massachusetts. Phoenix experienced the greatest increase, where its months' supply rose from 1.2 months in February 2005 to 5.6 months in February 2006. Sales in all of these metros have also fallen within the past 6 months.

A Happy Ending

The good news is that affordable metros are beginning to expand while **boom** metros are cooling into a soft landing. There have been no bubbles bursting, as predicted by so many academics and Wall Street analysts during the past several years. The last time a bubble burst was in Boston in 1990/91. What happened in Boston? It experienced a negative local economic event – a sharp recession. During that time, Boston lost 15 percent of its labor force and the months' supply of homes climbed up to a remarkable 16 months! Something had to give so prices tumbled downward for the next four years. The difference between Boston's experience and today's cooling metros is the health of the local economy. Boston's economy experienced a contraction, while our boom markets all possess healthy, expanding economies. With job creation and income growth, households will continue to have the wherewithal to purchase property even in cooling local markets. That is a perfect recipe for a soft landing.

Another way of viewing a healthy housing market is to look at the direction of months' supply of homes available for sale – that is, the housing inventory.

Want more insights from NAR Chief Economist David Lereah? Visit REALTOR.org to see some of his latest comments from press interviews and speeches at www.REALTOR.org/Research.nsf/Pages/housingoverview

THE FORECAST

by Lawrence Yun, Senior Forecast Economist

Immigration is a not an easy subject to tackle. Should the U.S. have fully open borders and allow anyone from any country to come to the U.S. and contribute to and take advantage of American culture and citizenship? Or, should our nation build a fence around itself to protect it against illegal immigration and possible entry from potential terrorists? There are passionate feelings displayed by those who support a more open border approach to immigration and those who would restrict immigration or otherwise suppress activities by those who come here from another country. There are many well-reasoned arguments on both sides. The topic has led to intra-party disunity within both the Republican and Democratic parties.

But, there is one area where there is a little disagreement. Immigration has helped the housing market. Why? The answer is simple: people need a home in which to live. So it should not be surprising that dynamic housing markets are frequently those in regions that have significant immigrant populations. The fast growing regions of Las Vegas, Phoenix, Washington D.C. and much of Florida have seen strong housing demand – and a significant run-up in home prices – in no small part because these markets have strong immigrant populations.

So, what happens to housing markets when there is no immigration? Here's an example. Home prices in Japan have been stagnant for the past 20 years. One reason is that the country's population has been virtually unchanged during that same time period. The same stagnation is also present in eastern Germany (where many have left for the better western half). Similar situations can be found in areas of the U.S. like Elmira, New York and Danville, Illinois. What happens to those empty homes when people leave and there are no new households to occupy them?

An interesting study by the Philadelphia Federal Reserve Bank showed that home prices in immigra-

tion-heavy neighborhoods rise much more slowly than other neighborhoods in the local region. That is, the “there goes the neighborhood” reaction may be at work as established residents flee an area as newcomers move in. However, home prices in any overall metro region with a high number of immigrants in general rose at a significantly faster clip than those metro regions with little immigration. More people translates into more housing demand.

The Washington D.C. and New York regions have been a magnet for new immigrants in recent years. By contrast, Philadelphia – in the middle of these two cities – has attracted only a limited number of immigrants. And home prices have been least robust in Philadelphia compared to New York and DC. In the past five years of the “housing market boom,” home prices rose by a healthy 76% in the Philadelphia region, but measurably shy of 99% in New York and 138% in Washington D.C. Furthermore, home prices in Philadelphia were essentially half those in N.Y. and D.C. This is only one example of the impact of immigration on housing. Perhaps, similar conclusions hold, say between Chicago versus Milwaukee or Indianapolis. Or between Arizona and Utah.

Nationally, given the strong pace of immigration that has occurred in the U.S. in the past 10 to 20 years, housing demand will remain healthy -- and certainly healthier for the foreseeable years than it would otherwise be in the absence of immigration. As for 2006, home sales will reach their third best year ever; home prices are projected to rise 6.4%. These are both solid figures in a rising interest-rate environment.

The national job market also looks to perform well in 2006. The best guess for now is for 2.2 million net new jobs. Moreover, the stock market has been flirting with a 5-year high, which will translate into higher demand for vacation homes. The construction of these

homes, as many in the homebuilding industry will affirm, would not have been possible without immigrants.

Studies have shown that in Europe, second-generation immigrants more often than not fare worse than their

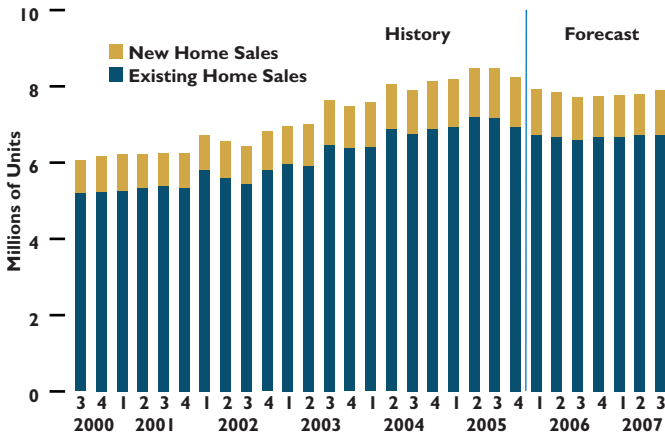
parents in terms of income and occupational status. The generally inflexible labor market in most European countries – where firing workers is extremely difficult – has led to negligible new hires, particularly immigrants. The recent street protests in France supporting the maintaining of the status quo in the labor laws will undoubtedly keep a large number of immigrants unemployed and in public housing.

In America, “the land of opportunity” slogan still resonates with newly arriving immigrants. That aspiration is reflected in a higher homeownership rate among immigrants (those who have been in the country for at least 30 years) than the national average. The concerns of whether or not the current swelling number of immigrants will eventually assimilate into the U.S. society are an open and legitimate question. But it appears without a doubt that, at least in regard to housing, immigrants are greatly supporting the housing sector now and will continue to support it in the future.

Housing demand will remain healthy -- and certainly healthier for the foreseeable years than it would otherwise be in the absence of immigration.

Home Sales

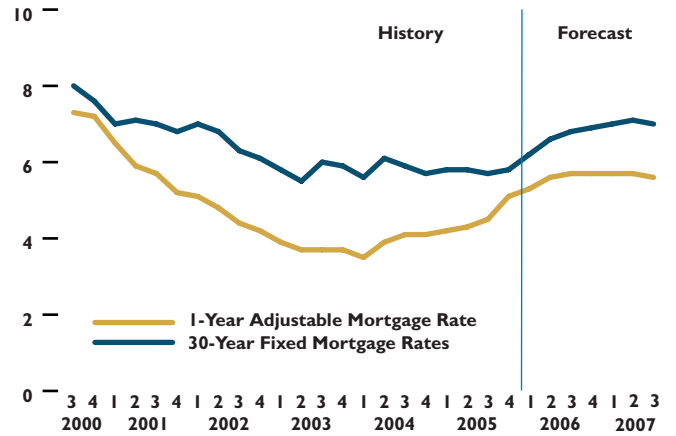
Even with slowing sales, still very healthy activity



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

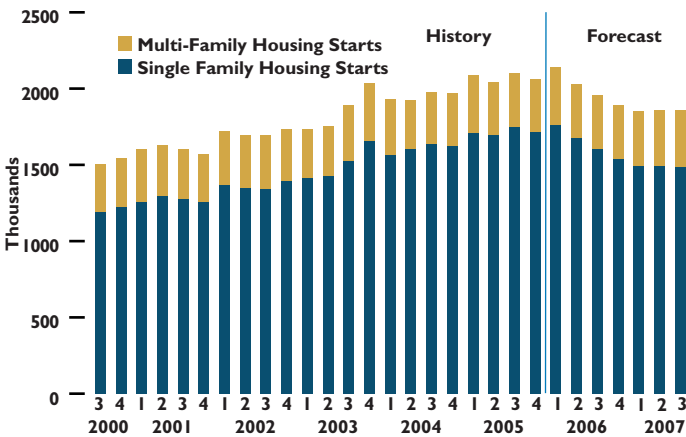
Rising rates contribute to slower sales pace



Sources: Freddie Mac, NAR Forecast

Housing Starts

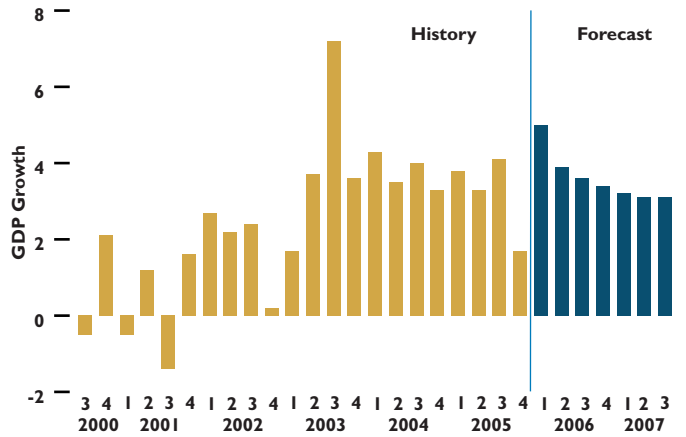
Decreasing nationally, but some individual markets may see increases



Sources: Bureau of the Census, NAR Forecast

Economic Growth

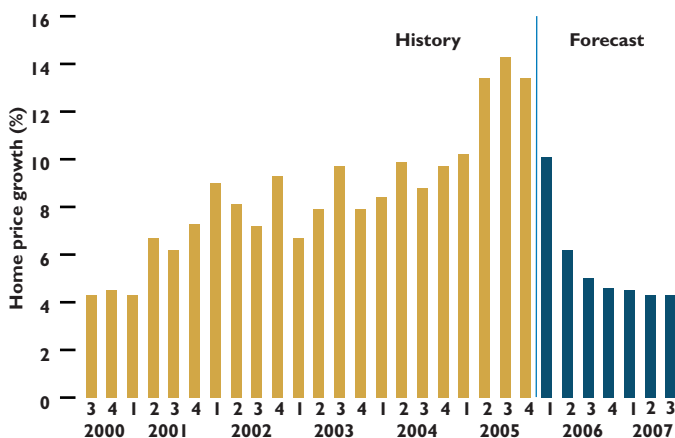
Slower growth, but still healthy



Sources: Bureau of Economic Analysis, NAR Forecast

Price Appreciation

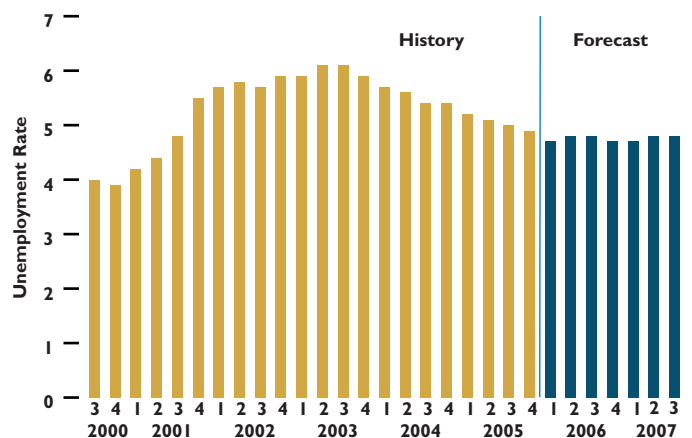
Settling down to historical norms



Sources: NAR, NAR Forecast

Unemployment

Staying below 5 percent



Sources: Bureau of Labor Statistics, NAR Forecast

U.S. ECONOMIC OUTLOOK

April 2006

	2005			2006				2007			2004	2005	2006	2007
	II	III	IV	I	II	III	IV	I	II	III				
U.S. Economy														
<i>Annual Growth Rate</i>														
Real GDP	3.3	4.1	1.7	5.0	3.9	3.6	3.4	3.2	3.1	3.1	4.2	3.5	3.7	3.3
Nonfarm Payroll Employment	1.6	1.6	1.2	2.1	1.5	1.8	1.7	1.6	1.2	1.5	1.1	1.5	1.7	1.5
Consumer Prices	3.7	5.5	3.2	3.3	2.6	2.5	3.1	2.6	2.2	2.3	2.7	3.4	3.4	2.5
Real Disposable Income	0.2	-1.4	6.7	4.4	4.2	4.3	4.4	4.7	3.4	3.4	3.4	1.5	3.8	4.0
Consumer Confidence	102	99	96	106	108	107	108	109	110	110	80	100	107	109
Percent Unemployment	5.1	5.0	4.9	4.7	4.8	4.8	4.7	4.7	4.8	4.8	5.5	5.1	4.8	4.8
<i>Interest Rates, Percent</i>														
Fed Funds Rate	2.9	3.5	4.0	4.4	4.9	5.0	5.0	5.0	5.0	4.8	1.3	3.2	4.8	4.9
3-Month T-Bill Rate	2.9	3.4	3.8	4.4	4.8	4.9	4.9	4.9	4.9	4.7	1.4	3.1	4.7	4.8
Prime Rate	5.9	6.4	7.0	7.4	7.9	8.0	8.0	8.0	8.0	7.9	4.3	6.2	7.8	7.9
Corporate Aaa Bond Yield	5.1	5.1	5.4	5.5	5.9	6.1	6.2	6.3	6.4	6.4	5.6	5.2	5.9	6.4
10-Year Government Bond	4.2	4.2	4.5	4.6	4.9	5.1	5.2	5.3	5.4	5.3	4.3	4.3	5.0	5.3
30-Year Government Bond	4.5	4.4	4.7	4.7	5.0	5.3	5.4	5.6	5.7	5.7	5.1	4.6	5.1	5.6
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.8	5.7	5.8	6.2	6.6	6.8	6.9	7.0	7.1	7.0	5.8	5.9	6.6	7.0
1-Year Adjustable	4.3	4.5	5.1	5.3	5.6	5.7	5.7	5.7	5.7	5.6	3.8	4.5	5.6	5.7
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	7,193	7,180	6,943	6,729	6,669	6,592	6,662	6,674	6,716	6,731	6,779	7,075	6,649	6,722
New Single-Family Sales	1,287	1,298	1,286	1,182	1,169	1,122	1,091	1,088	1,086	1,176	1,203	1,283	1,143	1,095
Housing Starts	2,044	2,101	2,059	2,139	2,025	1,954	1,890	1,855	1,856	1,857	1,956	2,068	2,002	1,850
Single-Family Units	1,693	1,747	1,716	1,757	1,677	1,606	1,537	1,494	1,490	1,488	1,611	1,716	1,645	1,481
Multifamily Units	351	354	343	382	348	348	353	360	366	370	345	352	358	369
Residential Construction**	599	610	614	626	627	614	600	588	583	584	562	602	617	584
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	4.7	6.5	0.9	-3.0	-7.3	-8.2	-4.1	-0.8	0.7	2.1	9.8	4.4	-6.0	1.1
New Single-Family Sales	7.0	11.5	3.5	-5.3	-9.1	-13.5	-15.2	-8.0	-7.1	4.8	10.8	6.7	-10.9	-4.2
Housing Starts	6.3	6.4	4.3	2.7	-0.9	-7.0	-8.2	-13.3	-8.3	-5.0	5.2	5.7	-3.2	-7.6
Single-Family Units	5.9	6.9	5.9	2.8	-1.0	-8.1	-10.4	-15.0	-11.2	-7.4	6.6	6.5	-4.2	-9.9
Multifamily Units	8.6	4.2	-2.6	2.1	-0.8	-1.6	3.0	-5.7	5.2	6.1	-0.9	1.9	1.6	3.1
Residential Construction	6.1	7.2	7.6	7.2	4.5	0.7	-2.3	-6.1	-7.0	-5.0	10.3	7.1	2.5	-5.3
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	209.3	216.3	214.7	209.6	222.3	227.1	224.6	219.0	231.8	236.9	185.2	208.3	221.7	231.6
New Home Prices	230.2	236.6	239.5	235.2	238.7	246.3	250.3	246.0	249.7	258.1	221.0	237.3	242.7	256.1
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	13.3	14.2	13.4	10.1	6.2	5.0	4.6	4.5	4.3	4.3	9.3	12.5	6.4	4.5
New Home Prices	6.3	10.5	5.2	2.3	3.7	4.1	4.5	4.6	4.6	4.8	13.3	7.4	2.3	5.5
Housing Affordability Index	121	118	116	117	107	106	109	108	105	105	134	122	110	106

Quarterly figures are seasonally adjusted annual rates. / * Existing home sales of single-family homes and condo/coops; ** billion dollars / Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy. / Assumptions and simulations by Dr. David Lereah and Dr. Lawrence Yun.

Employment: Back on Track and Gaining Momentum

by Ken Fears, *Economist*

Much has been made about rising mortgage rates over the last six months. But mortgage rates are not the only driver of homeownership. Housing markets also rely on new jobs and rising incomes to drive sales. Rising incomes – in part resulting from new jobs – allow buyers to build up equity for a downpayment and to dedicate more of their income to monthly payments. Nationally, employment growth jumped 1.5% in 2005 after a 1.1% increase in 2004. While 2006 is expected to be another strong year for employment growth nationally, regional employment trends have seen some divergence.

The West

The West has continued to experience tremendous job growth. Washington, Oregon, Idaho, Wyoming, Nevada, Utah, Arizona and New Mexico all recorded employment growth of 3.0% or more from February 2005 to February 2006. California and Montana's employment grew even faster, in the range of 2.0% to 2.9%. The result was falling unemployment rates across the region. California, Washington, and New Mexico all have unemployment rates in the 4.5% to 5.4% range, but Montana, Nevada, Utah, Arizona and Colorado are around 3.5% to 4.4% and Idaho and Wyoming are even stronger.

The South

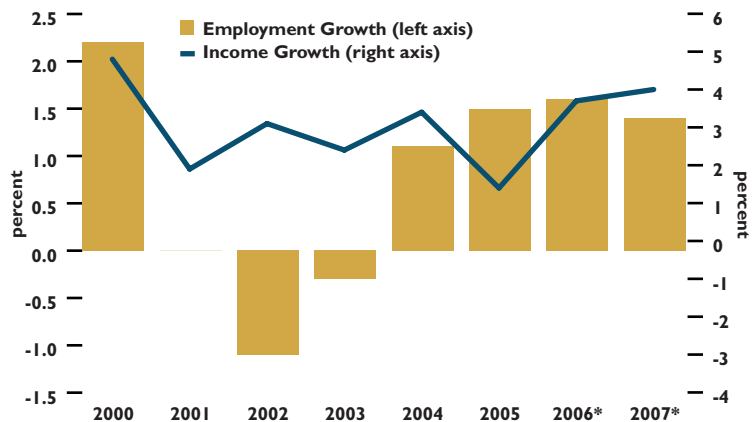
It's a different story in the South. Louisiana and Mississippi were hit hard by hurricanes Katrina and Rita and these areas continue to suffer from the effects of those storms. The

unemployment rate in Mississippi jumped by 1.6% from February 2005 to February 2006 and nearly 165,000 jobs were lost in Louisiana since February of last year. Kentucky also suffered setbacks as the unemployment rate rose seven tenths of a percentage to 6.3%. Elsewhere in the South employment has been on the rise. Arkansas, Tennessee, North Carolina, Virginia, West Virginia, and Maryland all experienced employment growth in the neighborhood of 1.0% to 1.9%, while in Florida, Alabama and Georgia employment grew by 2.0% or more. Unemployment rates throughout the South, excluding Mississippi, Louisiana, and Kentucky, are currently hovering around 5.4% or lower, with two states, Virginia (3.0%) and Florida (3.2%) at even lower levels.

The Midwest

The Midwest has been a mixed bag. After sputtering at flat or negative growth for much of 2003 and 2004, employment in Wisconsin, Minnesota, Iowa, Nebraska, Montana, and North Dakota grew between 1.0% and 1.9% during the 12 months ending in February of 2006. South Dakota employment increased 2.0% to 2.9%. Illinois, Indiana, and Ohio employment has improved, but increased just 0.0% to 0.9%. Michigan, on the other hand, has experienced a 0.9% decrease in employment, losing 38,900 jobs. While the unemployment rate for most of this region hovers in the 3.5% to 5.5% range, Michigan's is still at 6.6%. The hard times that have befallen the General Motors Corporation and the layoffs at Delphi, GM's largest parts supplier, are undermining a recovery in Michigan and

Employment and Income Growth
2000-2007



Sources: Bureau of Labor Statistics, NAR Projections
*projections

Want more information on the employment situation in the U.S.? Visit the Bureau of Labor Statistics web site at www.bls.gov.

affecting a large swath of the Midwest. North Dakota and Nebraska are the shining stars of this region, both at an unemployment rate of 3.4%.

The Northeast

The Northeast continues to maintain a solid employment market. Pennsylvania and New Jersey experienced employment growth of 1.0% and 1.1%, respectively, while the rest of the region grew from 0.1% to 0.9%. This region reported strong growth over the last two years, so while growth has slowed, new jobs are being tacked onto what were already high levels. The unemployment rate ranges from 4.5% to 5.4% for the entire region with the exceptions of New Hampshire and Vermont, both of which recorded 3.5% unemployment rates.

What's Ahead

Over the next two years, NAR Research expects job growth to continue at a healthy clip, rising 1.6% in 2006 and 1.4% in 2007. As a result, the unemployment rate should ease to 4.8% this year before slipping to 4.7% in 2007. More importantly, incomes, which grew 1.5% last year, are expected to increase 3.7% in 2006 and 4.0% in 2007. Rising employment will help to increase the pool of potential buyers looking for housing, while rising incomes will help to offset the eroding power of rising mortgage rates. These two effects will combine to help smooth the transition of the U.S. housing market into a higher interest rate environment over the coming years.

Rising employment will help to increase the pool of potential buyers looking for housing, while rising incomes will help to offset the eroding power of rising mortgage rates.

In the next issue of *Real Estate Insights*, our regional focus will discuss the first quarter figures on metropolitan area home prices.

Second Home Sales: Another Record in 2005

by Paul Bishop, Manager, Real Estate Research

Last month's *Real Estate INSIGHTS* reported on the nation's second-home purchase trends based on mortgage loan activity analyzing data from the Home Mortgage Disclosure Act. This month, NAR released new information about second-home sales based on two surveys conducted by the Association's Research Division.* The recent data show that both vacation- and investment-home sales set records in 2005. In fact, the combined total of second-home sales accounted for four out of 10 residential transactions.

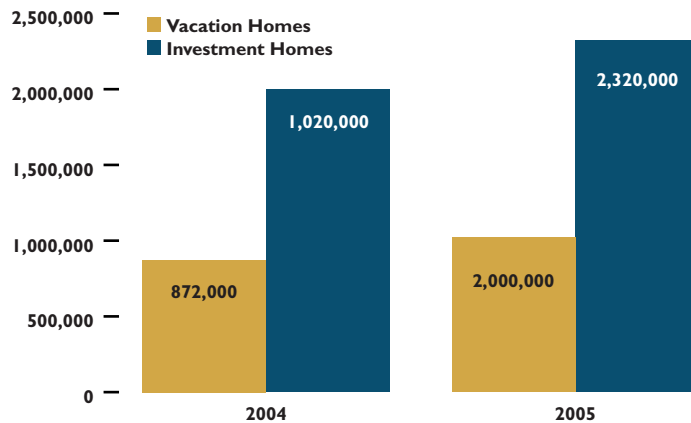
All together, there were 3.34 million second-home sales in 2005, up 16.0 percent from an upwardly revised total of 2.88 million in 2004. The market share of second homes rose from 36.0 percent of transactions in 2004 to 39.9 percent in 2005. The report shows that 27.7 percent of all homes purchased in 2005 were for investment purposes; another 12.2 percent were purchased as vacation homes. Vacation-home sales increased 16.9 percent last year to a record 1.02 million from a downwardly revised 872,000 in 2004, while investment-home sales rose 15.7 percent to a record 2.32 million in 2005 from an upwardly revised 2.00 million in 2004.

Vacation homes generally had a higher purchase price than did investment homes. The median price of a vacation home in 2005 was \$204,100, up 7.4 percent from \$190,000 in 2004. The typical investment property cost \$183,500 last year, up 24.0 percent from \$148,000 in 2004.

Behind the Numbers

What's driving this second-home buying boom? The primary driver is

Second-Home Purchases



Source: NAR Research

demographics – in a phrase, it's the baby-boom generation. Baby-boomers are at the optimum point in life when people become interested in second homes. In addition, they are at the peak of their earnings cycle, want to take advantage of still-historically low interest rates, and want to diversify their investments in order to plan for their future retirement.

But there are significant motivational differences between vacation-home buyers and investment buyers. Vacation-home buyers are making lifestyle choices and purchasing primarily for their own enjoyment. And although vacation-home buyers also cited portfolio diversification as a reason to purchase their second-home, investment-home buyers are more likely to seek rental income and diversification than are vacation-home purchasers.

In listing the reasons for purchase, 41 percent of vacation-home buyers said they would use the property for vacations, 31 percent bought the second home to use as a family retreat and 28 percent to diversify investments. For investment-home buyers, 55 percent said rental income was the primary factor for buying, and 35 percent wanted to diversify investments.

It's important to note that not all second homes sales are actually a "second" home, particularly for investment buyers. In fact, some of these purchases may be a third, fourth or fifth investment property. The lion's share of investment homes is actually the primary residence of a renter. Most investment owners are seasoned buyers who understand the long-term benefits of ownership, but not

*This second-home report is based on two surveys. One, to determine market share and to extrapolate sales data, was conducted in March 2006 of a panel of recent home buyers. That survey captured data for 3,406 home buyers in 2004 and 2005, with roughly equal samples for each year; data were weighted to correspond with demographic findings in an earlier mailed survey. To determine median home prices, most of the demographics and buyer preferences, NAR mailed an eight-page questionnaire to a national sample of 145,000 buyers who purchased their homes between mid-2004 and mid-2005 based on county records. It generated 7,813 usable responses; the response rate was 5.4 percent. Data in this report only includes data from respondents who indicated that they purchased a vacation home or investment property.

Second Home Sales

everybody is cut out to be a landlord. Four percent of all homeowners hold three or more properties; 11 percent own two properties.

Vacation vs. Investment Home Buyers

The typical vacation-home buyer in 2005 was 52 years old, earned \$82,800, and purchased a property that was a median 197 miles from their primary residence; however, 47 percent of vacation homes were less than 100 miles and 43 percent were 500 miles or more from a primary residence. Investment-home buyers last year had a median age of 49, an income of \$81,400, and bought a home that was close by – a median of 15 miles from their primary residence.

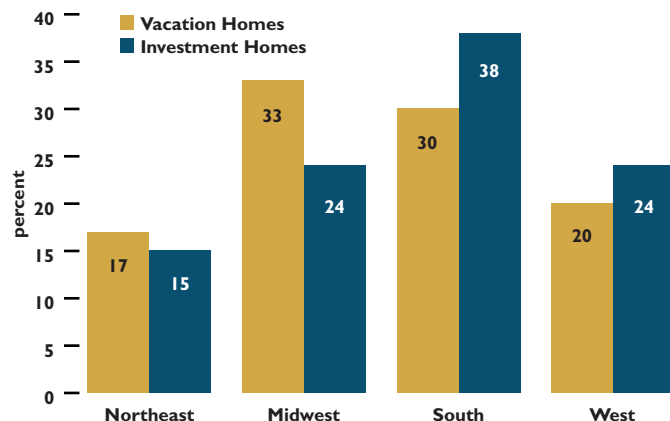
More than three-fourths of vacation-home buyers have no interest in renting their property; in fact, 21 percent said it would become a primary residence on retirement compared with only 2 percent of investment buyers. Fourteen percent of investment buyers and 6 percent of vacation-home buyers purchased a property that their son or daughter could live in while attending school.

What Do They Look For

Vacation-home buyers look for a variety of characteristics in the property they purchase. The most popular one was proximity to an ocean, river or lake. More than one third of vacation-home purchasers bought a home because it was close to family members. Other characteristics of second-home properties included being close to recreational activities, primary residence, or near a job or school. Activities of interest that affected the decision to buy a particular vacation home include beach, lake or water sports, cited by 37 percent of buyers; golf, 29 percent; theme parks, 18 percent; winter recreation, 16 percent; hunting or fishing, 12 percent; and boating, 9 percent. Smaller categories included gambling; biking, hiking or horseback riding; and tennis.

The largest concentration of vacation home buyers were in the Midwest,

Where Second-Home Buyers Live by Region



Source: NAR Research

accounting for 33 percent of vacation home sales, although the property may be located in another region. Buyers in the South accounted for 30 percent of vacation home transactions, the West, 20 percent, and the Northeast, 17 percent. Most investment home buyers were in the South – 38 percent of the total. Buyers in the Midwest and Western regions each purchased 24 percent of investment property, and the Northeast, 15 percent.

Looking Ahead

One-third of vacation-home buyers and 36 percent of investment-home buyers said it was very likely that they would purchase another home, in addition to properties currently owned, within the next two years. But it is difficult to project where the second-home market will go in 2006. It is likely that vacation-home sales will remain strong for the foreseeable future given the fact that baby boomers are favorably positioned in terms of affordability, as well as being at the stage in life when people are most interested in making that kind of a lifestyle purchase. Currently, there are 36.0 million people aged 50 to 59. However, there are 45.2 million people aged 40 to 49. That younger segment will

become a driving force in the second home market over the next decade.

Investment home sales are likely to decline this year, in part because of higher interest rates. There are fewer incentives to speculate in the market with price appreciation cooling in much of the country, and more oversight is being encouraged in the mortgage market. NAR survey data shows only 2 percent of homes are sold in one year or less, but investment homes likely are under-represented in that particular reporting sample. Long term, the outlook for second homes is favorable because more people will be moving into the prime years for buying a second home.

More Information Coming Soon

A more extensive study, *The 2006 National Association of REALTORS® Profile of Second Home Owners*, currently is under way and will be released in late spring. This study will be based on a large sample of existing owners and will update NAR's benchmark study of second-home owners that was published in 2002.

Links to Statistical Data Series

To view the latest housing statistics from NAR, click on the links below.

Existing Home Sales – Monthly series

- [February existing home sales and median sales prices](#) – single-family and condominiums/co-ops
- [Single-family home sales and median sales prices](#)
- [Condominium/co-op sales and median sales prices](#)
- The latest EHS statistics in spreadsheet format available [here](#)

Existing Home Sales and Metropolitan Area Median Home Sales Prices – 4th Quarter 2005

- 4th Quarter 2005 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 4th Quarter 2005 [Median Home Prices by Metropolitan Area](#)
 - [4th Quarter Single-family median home prices](#)
 - 4th Quarter Single-family median home prices in [spreadsheet format](#)
 - [4th Quarter Condominium/Co-op median sales price](#)
 - 4th Quarter Condominium/Co-op median sales price in [spreadsheet format](#)

NAR's Pending Home Sales Index

- [February pending home sales index](#)
- The latest pending home sales index in spreadsheet format available [here](#)

NAR's Housing Affordability Index

- [February HAI Index](#)
- February's Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
 - [4th Quarter 2005 Affordability Index](#)
 - 4th Quarter 2005 Affordability Index in spreadsheet format available [here](#)
 - [First-time homebuyer Affordability Index](#), 4th Quarter 2005
 - First-time homebuyer Affordability Index in spreadsheet format available [here](#)

Click [here](#) for more details about NAR's existing home sales, pending home sales, and housing affordability index series, including methodology, links to the latest news releases, statistical release schedule, and how to access historical information.

Coming Soon from NAR Research!

The new 2006 Profile of Second-Home Owners

Did you know ...

- the median age of vacation-home owners is 59
- the typical vacation home is 220 miles away from the owner's primary residence
- 35 percent of investment properties are located in the suburbs
- 85 percent of investment properties were previously owned
- vacation-home owners spend a median of 39 nights in their vacation home

Owning a second home is becoming more and more popular. Whether a second home is used as a vacation retreat, an investment, or as an eventual retirement residence, second-home owners have taken advantage of historically low interest rates and the equity they've built up from owning their primary residence. The newest information about second-home owners will soon be available from NAR.

For more information about purchasing the new **2006 Profile of Second-Home Owners**, call 1-800-874-6500; ask about item #186-55-06, or visit www.realtor.org/research, and click on "Buy Research."

