

real estate insights

August 2006

Real Intelligence –
Real Advantages

In This Issue

Existing-home sales posted 6.62 million units in June (seasonally adjusted and annualized), a modest decline of 1.3 percent off May's revised level of 6.71 million units. Home prices are only a little higher than a year ago, with the national median existing-home price at \$231,000 in June, up 0.9 percent from June 2005. Total housing inventory levels rose 3.8 percent at the end of June to 3.73 million existing homes available for sale – a 6.8-months' supply at the current sales pace. Sellers are recognizing that they need to be more competitive in their pricing given the rise in housing inventories. At the same time buyers who were discouraged by bidding wars that were so common over the last few years are finding more choices. **Read more.**

Corrections. The official metropolitan area price data (recently released) - shows the exact markets that are experiencing what analysts call a "correction." Condo price declines were concentrated in south Florida and California/Nevada markets. These markets were the high flyers with home prices in these areas having essentially doubled in the past three years. But the corrections in these regions are not a forerunner to corrections elsewhere. All in all, few markets are now undergoing a housing correction, and even that is likely to be short-lived. **Read more.**

Still Booming. The Baby-Boom generation was behind the nation's record-setting homeownership rate. It will continue to drive home sales as the leading edge of the "boomers" begin to retire. But what do baby-boomers want in their homes? What sorts of amenities will determine their home purchase? NAR recently partnered with Harris Interactive in surveying members of this influential group. **Read more.**

Taking a Breather. NAR Chief Economist David Lereah is taking a well-deserved break from his "commentator" duties this month. But you can still keep up to date with Dr. Lereah's pronouncements on housing and the economy. Visit www.realtor.org to see some of his latest speeches and presentations.

Table of Contents

Real Estate Monitor	2
The Forecast	4
U.S. Economic Outlook Table	6
Metro Area Home Prices: Transitioning in the Second Quarter of 2006	7
Baby Boomers: The Once and Future Drivers of Real Estate	9
Links to Statistical Tables	12
Buy Research	13



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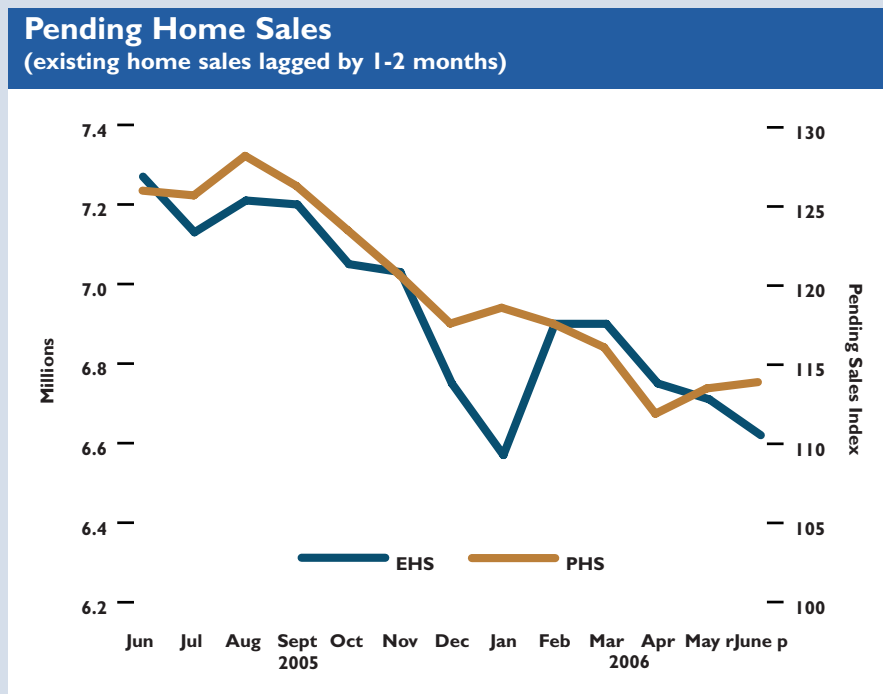
Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing-home sales fell 1.3% in June to 6.62 million seasonally adjusted annualized units. The overall inventory of homes for sale rose to 3.7 million. Inventory for condos rose to an 8-months' supply, while the months' supply of single-family homes increased to 6.6. Read more.</p>	Apr 6,750 May 6,710 June 6,620	↔	Stabilizing mortgage rates help hold up sales
<p>New home sales also decreased in June, dipping 3.0% to 1.13 million seasonally adjusted annualized units. The inventory of newly constructed homes remains close to balanced at a 6.1 months' supply at the current sales pace. Read more.</p>	Apr 1,160 May 1,165 June 1,131	↓	Bigger expensive homes are more susceptible to fall in a transitioning market
<p>Housing starts fell 5.3% in June. The latest figure of 1.85 million units and the 1.83 million in April are the lowest monthly figures in the past 24 months. Single-family starts accounted for the decrease, as multifamily starts were essentially unchanged. Rising construction costs are cutting into business profitability - also portending reduced activity ahead. Read more.</p>	Apr 1,832 May 1,953 June 1,850	↓	Huge inventory buildup needs to be worked off
<p>Housing affordability continues to decline. NAR's composite housing affordability index fell 1.3% in June to 103.7. The decline was expected given the upward trend in mortgage rates. However, slower home price growth should help to improve affordability conditions. Read more.</p>	Apr 108.7 May 105.1 June 103.7	↔	Wage gains now about the same pace as home price growth
<p>Mortgage rates Confirming expectations, the 30-year fixed mortgage rates rose 8 basis points in July to 6.76 percent. Inflation remains under control after two years of the Fed's rate hikes. Mortgage rates should remain under 7% for the remainder of the year. Read more.</p>	May 6.60% June 6.68% July 6.76%	↔	The Fed paused – Great news!
<p>Purchase applications The Mortgage Bankers Association mortgage loan application index continued to slip in July, posting a level of 397.2. This is the first time since October 2003 that the purchase applications index is below the 400 mark, and a definite signal that home sales are cooling down to a desirable balanced market. Read more.</p>	May 408.8 June 405.6 July 397.2	↓	Slight declines due to fewer new home purchases
<p>Employment The economy created 113,000 new jobs in July. Despite an upward revision of 3,000 in June's employment number, July's figure was significantly lower than market expectations. The manufacturing sector was hardest hit. As a result, the unemployment rate edged up to 4.8%, providing some slack in the labor market. Read more.</p>	May 100 June 124 July 113	↔	Subpar economic growth and subpar job growth
<p>Inflation The consumer price index (CPI) rose 0.2% in June. The core index (excluding food and energy) rose 0.3%. Fuel prices fell -0.9% in June, the first decline in three months. But the fighting in Lebanon and Israel, as well as the shutdown of the BP oil pipeline in Alaska will likely drive up fuel prices over the next few months. Read more.</p>	May 0.6% June 0.4% July 0.2%	↓	Oil prices likely to have peaked and on the way down (though modestly)

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 Aug 4, 2006.

NAR's Pending Home Sales Index

NAR's pending home sales index, a leading indicator of the health of the housing market, increased 0.4 percent in June to 113.9. June's index was revised upward. The index is based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not yet closed. Sales are usually 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 was the first of five consecutive record years for existing-home sales. The pending home sales index has risen for the last two months in a row, indicating that the housing market is showing signs of stabilization. [Read more.](#)



Source: NAR Research

THE FORECAST

by Lawrence Yun, Senior Forecast Economist

After several years of outpacing detached home sales prices, prices for condominium/co-ops prices have been falling noticeably in two regions of the country. In the South, they decreased 4.7% from June 2005 to June 2006, while in the West condo prices declined 6.7% during the same time period. The official metropolitan area price data (recently released) shows the exact markets that are experiencing this “correction.” Condo price declines were concentrated in south Florida and California/Nevada markets. These markets were the high flyers with home prices in these areas having essentially doubled in the past three years.

Those were the markets that drew speculators and buyers stretched themselves to the max with interest-only and option-adjustable rate mortgages. Rising mortgage rates, which increased from 5.8% last summer to 6.8% currently, evidently tipped the scale and affordability suffered; buyers were no longer able to afford to purchase and speculators were looking for a quick exit. A family with a median local income wanting to purchase a median-priced home would have to fork over 31% of its income for mortgage payments in Miami and 45% of income in Los Angeles and San Diego. The national average is 24%.

But the corrections in these regions are not a forerunner to corrections elsewhere. All real estate is local and many specific economic and housing market conditions in a vast number of American communities do not resemble those of Florida, Nevada, or California. Many markets did not experience the same dramatic price run-ups or the avid attention of speculators. The Carolinas, Texas and Utah have seen sales increases because rising mortgage rates are not a

big factor in these affordable regions. Inventory levels have been dwindling in the Pacific Northwest and, hence, that market has been showing solid price gains (of around 20%). This is the most important thing to remember about real estate: *each market is driven by its own locally specific factors.* If anything, the aforementioned price declines could be very short-lived in Florida and California given the solid job gains occurring in those regions. A price dip could very well bring out new set of homebuyers.

Be mindful, also, of the long-run demographic trends. Households -- particularly wealthy retirees -- are moving away from the northern half of the country into the southern half. In 1965,

Buffalo's population was about five times that of Las Vegas. Today, the Las Vegas metro area is 50% larger than Buffalo and is on track to be twice as big within 10 years. (Which begs the question: for how long can Buffalo hold on to its NFL franchise?) Orlando was about one-fifth the size of Pittsburgh 40 years ago. Orlando is now growing fast and could overtake Pittsburgh in five years. Such trends will no doubt imply robust long-term housing demand in the current soft markets of Florida, California, Nevada and Arizona. It could be just a matter of time before demand gets back on long-term track and even possibly re-heat these housing markets.

In the short-run, though, risks remain. Hurricanes and natural disasters have brought insurance market difficulties. Lenders dare not lend if the borrower does not have property insurance. Also, inflation is at an uncomfortable level and the Fed may further raise interest rates.

But the Fed should consider the artificial elevation in inflation due to excessive speculation in the energy market. Oil and

natural gas inventories are at historic highs but prices have stood firm. Hedge fund investment in energy rose from \$3 billion to \$90 billion in five years (2000 to 2005). This is a massive hoarding of energy by Wall Street in the hopes of getting higher future prices. Some energy price correction could take place within a year, and thus bring inflation back into the comfort zone. This factor should be considered in whether or not the Fed should continue its monetary tightening.

The best guess (hope) is for the Fed to pause in its rate increases (as it did in August), and mortgage rates to stay near 7% for the next year and a half. Should mortgage rates rise to 7.5% or 8% then the home price correction will spread to more housing markets with some experiencing sharp distress of rising foreclosure rates.

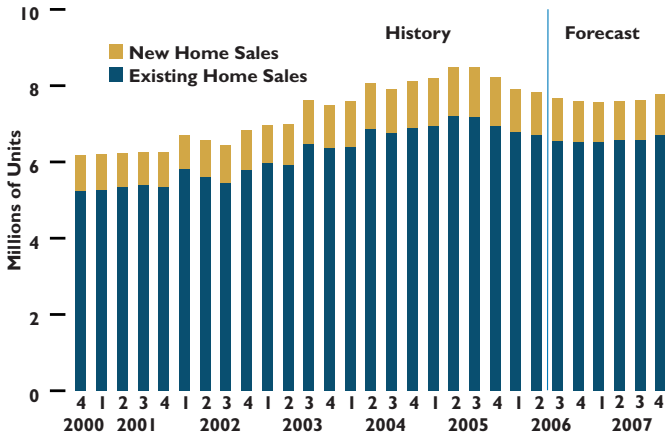
Assuming that the Fed continues its rate-hike “rest,” the economy hums along nicely. The economy is expected to advance modestly higher at 2.8% in the third quarter of this year compared to 2.5% in the second quarter; then expand at above 3% through the end of 2007. One key reason for the economic resilience is the growth in U.S. exports, which has been increasing at better than twice the overall economic growth. Exports of goods and services grew 7% in 2005 and it is on track for a similar expansion in 2006. U.S. companies have become more efficient (i.e., big rise in productivity gains) and are better at competing. In addition, major foreign economies are expanding at a faster pace - meaning higher spending in their economies, including for U.S. products.

All in all, few markets are now undergoing a housing correction, and even that is likely to be short-lived. Provided mortgage rates remain at manageable levels, home sales will stabilize at around 6.5 million unit sales for the next three quarters before turning up again by the spring of 2007. Home prices will grow 3% for the remainder of 2006 and then steadily climb towards 4% in 2007.

The most important thing to remember about real estate: each market is driven by its own locally specific factors.

Home Sales

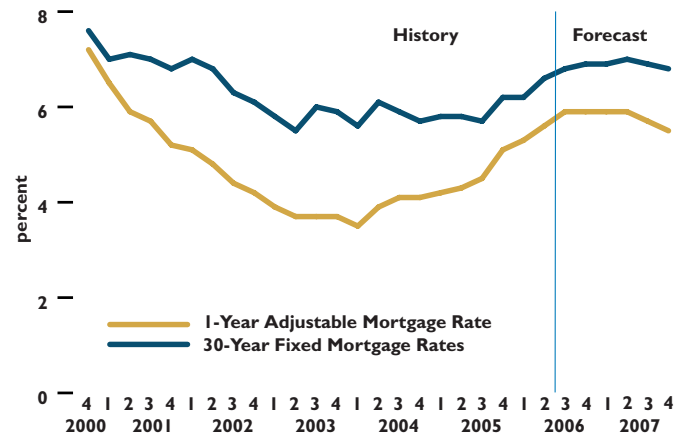
Housing market stabilizing



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

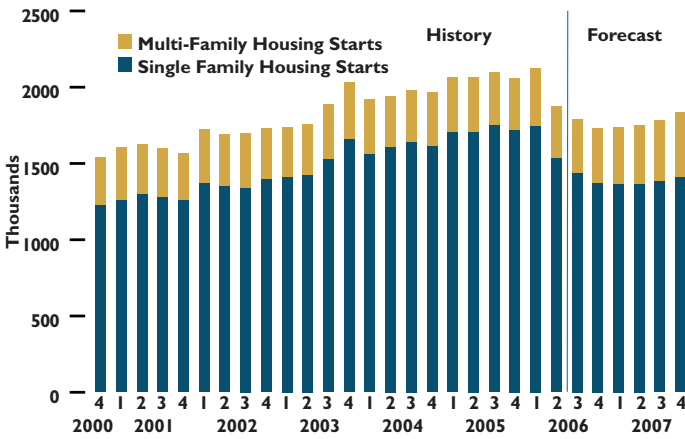
Topping off at 7 percent



Sources: Freddie Mac, NAR Forecast

Housing Starts

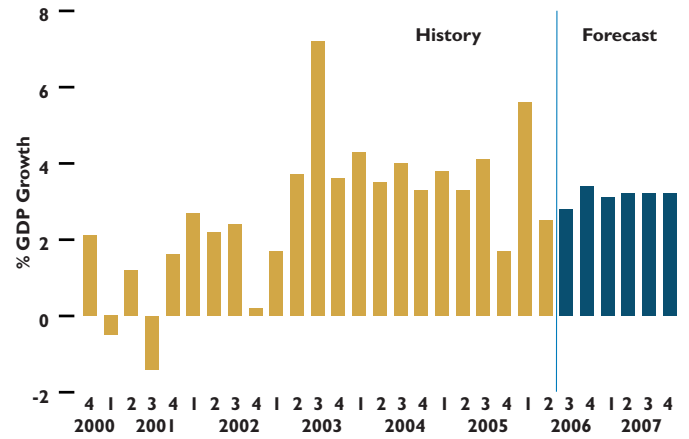
Multifamily starts to remain healthy



Sources: Bureau of the Census, NAR Forecast

Economic Growth

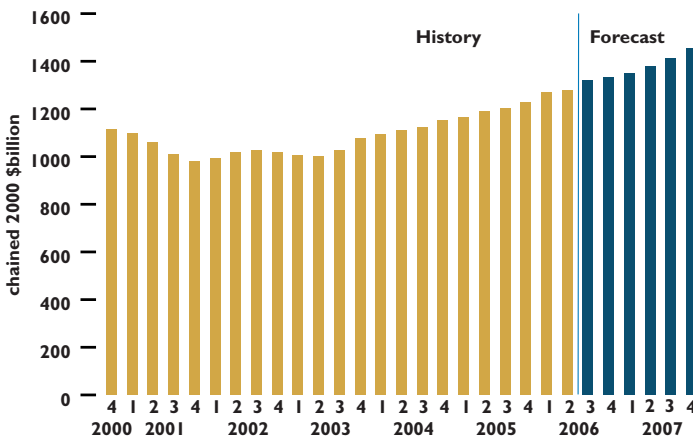
Very steady economic expansion



Sources: Bureau of Economic Analysis, NAR Forecast

U.S. Exports

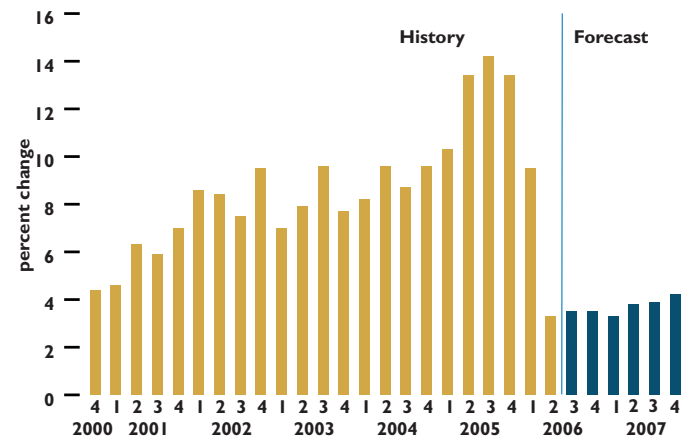
U.S. products being bought overseas



Sources: Bureau of Economic Analysis, NAR Forecast

Home Price Growth

Back to "normal" and sustainable levels



Sources: NAR, NAR Forecast

U.S. ECONOMIC OUTLOOK

August 2006

	2005			2006			2007			2004	2005	2006	2007	
	III	IV	I	II	III	IV	I	II	III	IV				
U.S. Economy														
<i>Annual Growth Rate</i>														
Real GDP	4.2	1.8	5.6	2.5	2.8	3.4	3.1	3.2	3.2	3.2	3.9	3.2	3.5	3.1
Nonfarm Payroll Employment	1.6	1.2	1.7	1.2	1.3	1.3	1.2	1.3	1.6	1.3	1.1	1.5	1.4	1.3
Consumer Prices	5.5	3.2	2.2	5.0	2.5	2.7	2.0	2.5	2.4	2.5	2.7	3.4	3.5	2.6
Real Disposable Income	-0.6	5.5	1.7	1.0	9.3	4.4	4.7	3.2	3.2	2.5	3.6	1.2	3.0	4.3
Consumer Confidence	99	96	106	107	106	105	104	104	105	106	80	100	106	105
Percent Unemployment	5.0	4.9	4.7	4.6	4.7	4.7	4.8	4.8	4.7	4.7	5.5	5.1	4.7	4.8
<i>Interest Rates, Percent</i>														
Fed Funds Rate	3.5	4.0	4.5	4.9	5.3	5.3	5.3	5.3	5.0	4.8	1.3	3.2	5.0	5.1
3-Month T-Bill Rate	3.4	3.8	4.4	4.7	5.1	5.1	5.0	5.0	4.8	4.5	1.4	3.1	4.8	4.8
Prime Rate	6.4	7.0	7.4	7.9	8.3	8.3	8.3	8.3	8.0	7.8	4.3	6.2	8.0	8.1
Corporate Aaa Bond Yield	5.1	5.4	5.4	5.9	6.0	6.2	6.3	6.3	6.3	6.3	5.6	5.2	5.9	6.3
10-Year Government Bond	4.2	4.5	4.6	5.1	5.2	5.4	5.4	5.5	5.4	5.3	4.3	4.3	5.1	5.4
30-Year Government Bond	4.4	4.7	4.6	5.1	5.4	5.5	5.6	5.6	5.6	5.6	5.1	4.6	5.1	5.6
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.7	6.2	6.2	6.6	6.8	6.9	6.9	7.0	6.9	6.8	5.8	5.9	6.6	6.9
1-Year Adjustable	4.5	5.1	5.3	5.6	5.9	5.9	5.9	5.9	5.7	5.5	3.9	4.5	5.7	5.8
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	7,180	6,943	6,790	6,693	6,533	6,508	6,506	6,559	6,579	6,704	6,779	7,075	6,613	6,584
New Single-Family Sales	1,297	1,280	1,111	1,152	1,128	1,078	1,050	1,038	1,044	1,056	1,203	1,283	1,119	1,046
Housing Starts	2,101	2,060	2,123	1,878	1,791	1,732	1,737	1,751	1,785	1,836	1,956	2,068	1,881	1,777
Single-Family Units	1,748	1,718	1,747	1,533	1,437	1,372	1,364	1,366	1,382	1,408	1,611	1,716	1,522	1,380
Multifamily Units	353	342	376	345	353	360	373	385	403	428	345	352	359	397
Residential Construction**	620	619	619	608	577	556	546	546	551	560	560	608	590	551
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	6.5	0.9	-2.2	-7.0	-9.0	-6.3	-4.2	-2.0	0.7	3.0	9.8	4.4	-6.5	-0.4
New Single-Family Sales	11.9	3.1	-11.5	-10.3	-13.0	-15.8	-5.5	-9.9	-7.5	-2.1	10.8	6.7	-12.8	-6.5
Housing Starts	6.3	4.8	2.6	-9.0	-14.8	-15.9	-18.2	-6.8	-0.3	6.0	5.2	5.7	-9.1	-5.5
Single-Family Units	6.5	6.7	2.6	-10.2	-17.8	-20.2	-21.9	-10.9	-3.8	2.6	6.6	6.5	-11.3	-9.3
Multifamily Units	4.9	-3.7	2.9	-3.3	0.0	5.3	-0.8	11.6	14.0	18.8	-0.9	1.9	1.8	10.8
Residential Construction	9.1	9.0	6.1	-0.2	-6.9	-10.2	-11.7	-10.3	-4.6	0.7	10.3	8.6	-2.9	-6.7
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	227.3	225.3	218.7	227.3	235.3	233.2	225.9	235.9	244.5	243.0	195.4	219.6	229.0	237.8
New Home Prices	236.6	240.1	244.8	240.0	239.4	244.7	251.4	247.9	248.0	254.0	221.0	240.9	242.1	250.2
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	14.2	13.4	9.5	3.3	3.5	3.5	3.3	3.8	3.9	4.2	9.3	12.4	4.3	3.8
New Home Prices	10.5	5.4	6.5	4.2	1.2	1.9	2.7	3.3	3.6	3.8	13.3	9.0	0.5	3.4
Housing Affordability Index	112	110	112	106	104	104	104	104	103	105	134	122	107	104

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.

Metro Area Home Prices: Transitioning in the Second Quarter of 2006

by NAR Staff

The national housing market is transitioning from a protracted sellers' market – one that began back in 2001 – to a balanced market, and in some areas, a buyers' market. According to the National Association of REALTORS® second quarter metropolitan area survey,* single-family home prices have cooled to single-digit rates in most areas. The condo market is going through a similar transition, albeit, the slowdown has been more pronounced due mainly to quicker ramp up in inventories. Nationally, condo prices essentially recorded no growth in the second quarter.

In the single-family report, covering changes in 151 metro areas, shows 37 areas with double-digit annual increases and 26 metros experiencing generally minor price declines.

In many of those metros with declines, local labor markets are also showing weakness.

Median second-quarter metro area single-family prices ranged from \$65,200 in Danville IL to nearly 12 times that amount in the San Francisco-Oakland-Fremont area where the median price was \$751,900. The second most expensive area was the San Jose-Sunnyvale-Santa Clara area of California, at \$748,200, followed by the Anaheim-Santa Ana-Irvine area (Orange Co.CA), at \$726,200. Nationally, the existing single-family home price was \$227,500 in the second quarter, up 3.7 percent from the second quarter of 2005.

The largest single-family home price increase was in the Baton Rouge LA area, where the second quarter price of \$172,300 was 27.3 percent higher than a year ago. Next was Ocala FL at \$169,500, up 25.3 percent from the second quarter of 2005.

Most metro area condo prices were essentially flat compared to June 2005. Metro area condominium and cooperative prices, covering changes in 57 markets, show the national median existing condo price was \$225,800 in the second quarter, down 0.3 percent from a year earlier. Fifteen metros showed double-digit annual gains in the median condo price, and 14 areas had declines. Metro area median existing condo prices in the second quarter ranged from \$109,900 in Greensboro-High Point NC to \$647,200 in San Francisco-Oakland-Fremont. The second most expensive reported condo market was Los Angeles-Long Beach-Santa Ana, at \$410,500, followed by the San Diego-Carlsbad-San Marcos area of California at \$373,800.

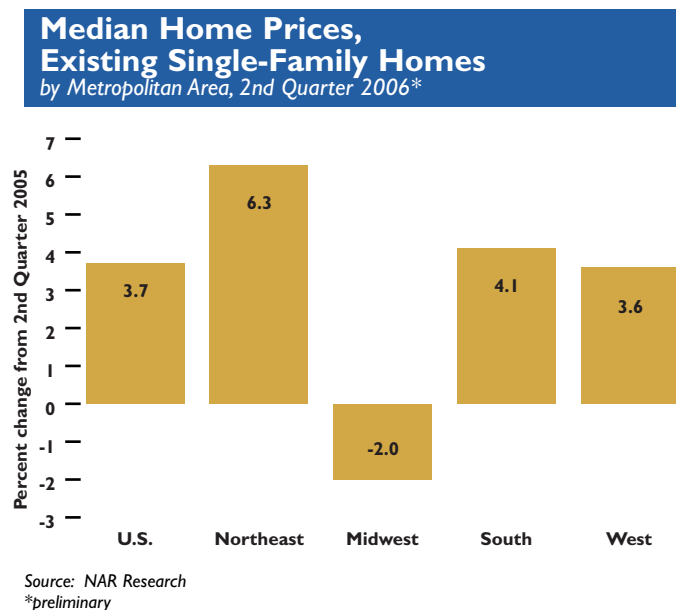
In the condo sector, the strongest gains were in the Phoenix-Mesa-Scottsdale area, where the second quarter price of

\$189,600 rose 25.3 percent from a year ago. In the Trenton-Ewing area of New Jersey, the median condo price of \$261,600 rose 23.3 percent from the second quarter of 2005.

While housing inventory – the number of homes available for sale – has increased to just slightly over a six-months' supply, the growth in inventory is more pronounced in the condo sector. Speculators have left the market, meaning most buyers in the market today – both single-family and condo – are serious buyers who plan to stay in their homes as a long-term investment.

Regional Differences

Regionally, the strongest increase in was in **the Northeast** where the median resale single-family home price in the second quarter was \$299,200, up 6.3 percent from a year ago. The strongest



*Areas are generally metropolitan statistical areas as defined by the U.S. Office of Management and Budget. A list of counties included in MSA definitions is available at: www.census.gov/population/estimates/metro-city/0312msa.txt Regional median home prices include rural areas and samples of many smaller metros that are not included in this report; the regional percentage changes do not necessarily parallel changes in the larger metro areas. The only valid comparisons for median prices are with the same period a year earlier due to seasonality in buying patterns. Quarter-to-quarter comparisons do not compensate for seasonal changes, especially for the timing of family buying patterns.

Metro Area Home Prices (continued)

increase in the region was in Elmira NY, up 12.4 percent from year-ago levels to a median price of \$87,300. Glens Falls NY was next, with a median price of \$158,700, up 11.8 percent.

In **the South**, the median existing single-family home price was \$188,200 in the second quarter, up 4.1 percent from a year earlier. After Baton Rouge and Ocala, the most pronounced increase was in the Virginia Beach-Norfolk-Newport News area of Virginia and North Carolina, with a second quarter median price of \$237,300, a 23.6 percent increase in the last year. Gainesville FL, at \$214,100, posted a 19.7 percent increase from the second quarter of 2005.

In **the West**, the median existing single-family home price rose 3.6 percent to \$350,800 during the second quarter. The strongest increase in the West was in the Portland-Vancouver-Beaverton area of Oregon and Washington, at \$242,700, up 19.1 percent from second quarter of 2005, followed by Spokane WA at \$179,000, up 18.6 percent from a year ago.

In **the Midwest**, the second-quarter median existing single-family home price of \$167,400 slipped 2.0 percent from a year earlier. The strongest metro increase in the Midwest was in Bismarck ND, where the median price of \$138,600 was 14.1 percent higher than the second quarter of 2005. Next was the St. Louis area, at \$153,000, up 7.8 percent in the last year.

Behind the Numbers

These latest price data indicate that the housing market is in transition. There are now more sellers competing for the pool of buyers and so the environment is changing from a sellers' market to a buyers' market. Consequently, the pressure on home prices has evaporated in most metro

areas. But after a full year of double-digit gains in the national median price, the timing is right for a cooling in the rate of growth. Still, even with the slowdown in appreciation rates, over the long haul, housing is the most solid investment that most people make.

Median Sales Price of Existing Condominium/Co-ops

by Metropolitan Area, 2nd Quarter 2006*



Source: NAR Research
*preliminary

Because there is a concentration of condos in high-cost metro areas, the national median condo price often is higher than the median single-family price. In a given market area, condos typically cost less than single-family homes. As the reporting sample expands in the future, additional area will be included in the condo price report.

Tables of metropolitan area median prices, percent changes and some historic data are available at www.realtor.org/research. Click on Housing Statistics, then scroll down the center to Metropolitan Area Prices. NAR began publication of metropolitan area median single-family home prices in 1982; the metro area condo price series was launched earlier this year. Third quarter median sales prices are scheduled to be released on November 20, 2006.

Baby Boomers: The Once and Future Drivers of Real Estate

by Paul C. Bishop, Manager, Real Estate Research

The Baby-Boom Generation. It's a phrase we hear frequently in news stories about the future of health care, social security, community planning, product development and politics. Our current and previous presidents are baby boomers. Oprah is a baby-boomer. The majority of REALTORS® are baby-boomers, as well.

Baby boomers – those persons born between 1946 and 1964 – are members of the largest generation in history. They have influenced how we live, what we watch on television, fashion and who we elect to political office. But boomers have played an especially strong role in real estate markets. They helped drive the recent real estate boom, and they will continue to fuel the demand for homes well into the future. In order to get a picture of this generation and what their preferences are for real estate, NAR partnered with Harris Interactive on a survey of baby-boomers. Analysis of results from that survey are being published in the 2006 National Association of REALTORS® study, **BABY BOOMERS AND REAL ESTATE: Today and Tomorrow**.^{*} Following are some highlights from that report.

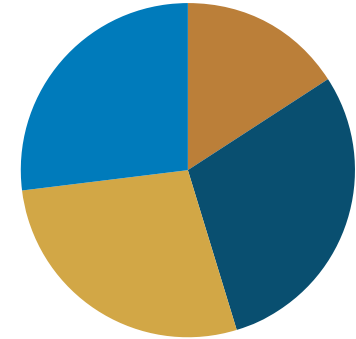
Baby Boomer Profile

Baby boomers range in age from 42 to 60 years old. The typical baby boomer is 50 years old. Forty-six percent of boomers are still in their 40s while one in six is between 42 and 44 years old. At the same time, the number of boomers turning 60 will grow rapidly since more than one-quarter of boomers are now at least 55 years old.

Among all baby boomers, 37 percent live in the suburbs, 24 percent live in urban areas and the remaining 40 percent live in rural areas or small towns. There are some notable differences in the ages of boomers who live in each of these areas. Although 46 percent of baby boomers are in their 40s, they account for 51 percent of boomers living in urban areas. This boomer age group is less likely to live in a rural area, accounting for 42 percent of all rural boomer residents. In contrast, baby boomers at least 50 years old are somewhat more likely to live in a rural area and account for more than half of the boomers living in the suburbs.

Over 60 percent of baby boomer households are empty-nesters or two-person households. Twenty-five percent

Age of Baby Boomers



■ 55 - 60 years ■ 45 - 49 years
■ 50 - 54 years ■ 42 - 44 years

Sources: NAR Research, Harris Interactive®

of baby boomers live alone while only 13 percent have three or more adults in the household. As their children leave home, older baby boomers are more likely to live in a household with two adults. Fifty-eight percent of boomers between 42 and 49 years old live in a household with two adults compared with 64 percent of those between 50 and 60 years. The share of baby boomers living alone remains nearly constant, at about one-quarter, in each age group.

Seventy-eight percent of survey respondents reported their race as White while 10 percent considered themselves Black or African American. The racial composition of baby boomers varies considerably across each region of the country. The share of White baby boomers is greatest in the Northeast and the Midwest. Black baby boomer households are more concentrated in the South while Hispanic/Latino households are most prevalent in the South and West. The racial composition of baby boomers is quite consistent across different age groups with relatively little

Age of Baby Boomers, by Location of Residence (Percentage Distribution)

	BABY BOOMERS LIVING IN:				
	All Baby Boomers	An urban or city area	A suburban area next to a city	A small town	A rural area
42 - 49 years	46 %	51 %	44 %	45 %	42 %
50 - 60 years	54	49	56	55	58
Median age (years)	50	49	50	51	51

Sources: NAR Research, Harris Interactive®

^{*}The comprehensive study of nearly 2,000 Americans born between 1946 and 1964, conducted for NAR by Harris Interactive®. Harris Interactive Inc. (www.harrisinteractive.com), based in Rochester, N.Y., is the 13th largest and the fastest-growing market research firm in the world, most widely known for *The Harris Poll*® and for its pioneering leadership in the online market research industry.

Baby Boomers (continued)

Type of Real Estate Owned Other Than a Primary Home, by Age *(Percent of Respondents)*

	All Baby Boomers	Age:	
		42-49	50-60
Vacation home	5%	4%	6%
Seasonally occupied home	2	2	2
Rental property	8	8	9
Commercial property	2	2	2
Land	13	13	12
Other	3	4	3
None	75	76	74

Sources: NAR Research, Harris Interactive®

variation between the youngest and oldest baby boomers.

The median household income of baby boomers in 2005 was \$64,700. This compares with a median household income of \$44,400 in 2004 (the latest national data available) for all households. Thirty-eight percent of boomer households report a household income of less than \$50,000 while over one quarter (26 percent) has a household income of at least \$100,000. The median income of younger boomer households in their 40s is somewhat lower than that for older households—\$63,000 versus \$65,900.

Household income varies by location as well as by age of boomers. Boomers who live in suburbs report the highest median income at \$81,700 while boomers in rural areas report the lowest at \$48,200. Thirty-six percent of suburban baby boomer households

earned at least \$100,000 compared with just 16 percent of rural households. Over half of rural households had incomes of less than \$50,000. Baby boomers who own their home have a median income of \$73,400 with just over one fourth (29 percent) reporting a household income of less than \$50,000.

Baby-Boomers: Living the American Dream of Homeownership

Baby-boomers have a strong affinity for real estate. The homeownership rate for boomers is 78 percent – exceeding the overall national rate of 69 percent. Almost nine out of ten have owned a home at some point in their lives and 96 percent believe owning a home is a good financial investment.

While three-quarters of baby boomers reside in a detached single-family home, this preference is even

stronger among those who own their home. Eighty-four percent of boomer homeowners reside in a detached single-family home. Among boomer households that own their home, 38 percent are in the suburbs compared with about one in five in each of the other locations.

In addition to a higher rate of homeownership, analysis by NAR shows baby boomers are proportionately more active in the second home market, owning 57 percent of all vacation/seasonal homes and 58 percent of rental property. For the segment of boomers who own rental investment property, 34 percent own multiple properties: 14 percent own two rentals, 5 percent own three and a small number own four properties; however, 14 percent own five or more rental units. Of the portion who own vacation homes or seasonally occupied property, 13 percent said they own two or more vacation or seasonal homes. Four out of ten respondents who own a vacation home or seasonal property intend to eventually make that property a primary residence. Historically, other NAR survey data shows only one in five vacation-home buyers had such intentions when they first purchased the property.

Baby-Boomers and Future Real Estate Plans

Baby boomers plan to live in their current home a median of five years. Age has little impact on boomer expectations with younger boomers planning to live in their current home five more years and older boomers expecting to remain in their current home for a median of six years.

The 2006 National Association of REALTORS® study, **BABY BOOMERS AND REAL ESTATE: Today and Tomorrow, is based on an online survey conducted for the Association by Harris Interactive® between March 31 and April 6, 2006, among a nationwide cross section of 1,969 U.S. adults born between 1946 and 1964. The study will be available in September, and can be ordered in advance by calling 1-800-874-6500. The cost is \$50 for NAR members and \$125 for non-members. For more information, see page 13, or visit www.realtor.org/research.

Baby Boomers (continued)

The survey shows three quarters of all boomers are satisfied with their present homes. Among boomer homeowners, satisfaction is somewhat higher at 81 percent. But that still indicates that a good portion of baby boomers may be considering a move, so it's important for the industry to understand their preferences and needs.

Ten percent of all boomers said they are likely to buy additional real estate in the next 12 months. Two-thirds of those respondents said they were considering a primary residence, but 26 percent were interested in land, 19 percent in rental property, 15 percent in a vacation or seasonal home and 14 percent in commercial property. In deciding whether to buy a primary residence in the future, nearly half of the respondents that were considering a purchase said having sufficient wealth or favorable mortgage financing were factors.

Three out of five say their idea of the perfect location to retire is in a rural area or small town, with only 12 percent saying an urban or city setting, and nearly half would consider living in an age-restricted community; 38 percent want to be close to family. If money were no object, access to quality health care is important to more baby-boomers than being on a golf course (38 percent vs. 4 percent). Ideally, they would like to live in a rural area with access to quality health care.

The Future

Marketing to this generation has been and can be a challenge. As a group, boomers are in their peak earning years and continue to wield great influence in the U.S. economy, but they are not homogeneous – there are significant variances in needs, behavior, attitudes and resources. They have an almost insatiable desire for real estate, with some owning multiple properties. At the same time, many have not adequately planned for retirement. What should not be overlooked are the discretionary spending interests of this generation, and their appreciation of housing as a great investment.

It is important to note that eight out of ten boomers used a real estate agent the last time they sold a home. The things they value most in a real estate agent when they buy a home are representation of interests and coordinating with other parties in the process; explaining all contracts, forms and agreements; and management of the closing process from start to finish. In selling a home, they also want agents to establish the right asking price, show the home and negotiate all offers received on their behalf.

The leading edge of the baby-boom generation is beginning to retire. Those coming close after them are making their plans now for where (and when)

they will retire, and whether or not they will do so in the home they currently own or if they will purchase another property. As they have in the past, baby-boomers will help drive the demand for real estate in the years ahead. By learning all they can about the attitudes, behaviors and preferences of this generation, real estate professionals can continue to provide these important clients with a high level of service well into the future.

Attitudes Toward Home Ownership, by Age

(Total of "Strongly Agree" and "Agree" by Percent of Respondents)

	All Baby Boomers	Age:	
		42-49	50-60
Owning a home is good financial investment	96 %	96 %	96 %
It is important to me to pay off a home loan quickly	65	64	66
I am comfortable buying a house with a very small down payment	58	59	57
It would be hard for me to qualify for a mortgage loan	29	35	24
I am willing to postpone buying a house until I can pay for it in cash	13	13	13
It is a good idea to buy the most expensive home I qualify for	13	10	15

Sources: NAR Research, Harris Interactive®

Links to Statistical Data Series

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

Existing Home Sales – Monthly series

- [June 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 – 2nd Quarter 2006

- 2nd Quarter 2006 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 2nd Quarter 2006 [Median Home Prices by Metropolitan Area](#)
 - [2nd Quarter Single-family median home prices](#)
 - 2nd Quarter Single-family median home prices in [spreadsheet format](#)
 - [2nd Quarter Condominium/Co-op median sales price](#)
 - 2nd Quarter Condominium/Co-op median sales price in [spreadsheet format](#)

NAR's Pending Home Sales Index

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

NAR's Housing Affordability Index

- [June HAI Index](#)
- June Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
 - [2nd Quarter 2006 Affordability Index](#)
 - 2nd Quarter 2006 Affordability Index in spreadsheet format available [here](#)
 - [First-time homebuyer Affordability Index, 1st Quarter 2006](#)
 - 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.

From NAR Research

Baby boomers have been a driving force in many areas of the economy, culture and consumer attitudes for several decades. As the oldest boomers approach retirement in the next few years they will begin contemplating not just whether to retire, but also where they want to live in the next stage of their life. One big component of this decision is the housing choices that boomers will make as they decide whether to sell a home, relocate or invest in real estate. Get the scoop on more valuable market information in ***Baby Boomers and Real Estate: Today and Tomorrow***.

This brand new profile provides information in a user-friendly format, and looks at:

- The characteristics of boomers and their current housing choices
- Reasons some boomers prefer renting over owning a home
- What baby boomers expect from real estate professionals when buying or selling real estate
- Boomers' plans for buying real estate including vacation homes and investment property
- The amenities that boomers find most appealing
- Where baby boomers would like to retire

Baby Boomers and Real Estate: Today and Tomorrow will give you the insights you need to serve this important segment of your business.

AVAILABLE SEPTEMBER 2006.

For more information, visit
www.realtor.org/prodser.nsf/OpenProd?OpenForm&IN=186-77-06

