

real estate insights

February 2008

Real Intelligence –
Real Advantages

In This Issue

Priorities. NAR surveys its members regularly to find out which policy issues affecting real estate are among their highest concern. Among the top-ranked issues in the latest survey is preventing abusive lending. In an environment where we are still suffering from the fall-out of the subprime mess, this should come as no surprise. In his commentary this month, NAR Chief Economist Lawrence Yun looks at why this issue is a priority for REALTORS®. **Read more.**

Statistics and anecdotes. NAR has just released its fourth quarter 2007 figures on both existing home sales by state and median sales price by metropolitan area. What the data clearly show is that there are significant variations across markets. This is borne out from reports of individual real estate professionals as well. Lawrence Yun's forecast column looks at both. **Read more.**

Rising foreclosures. The good news: there was a higher volume of mortgage loans in the third quarter of 2007. The bad news? There was also an increase in delinquencies and foreclosure rates. Where those foreclosures and delinquencies occurred, and what percentage of them were subprime loans is the topic of our *In Focus* article this month by George Ratiu. The information is based on the Mortgage Banker's Association National Delinquency Survey which collects data from over 80 percent of the 50 million outstanding loans in the housing market. **Read more.**

Condos – Still an Attractive Option for Home Buyers. Despite the fact that many property owners are choosing to delay "going condo," condominium/co-ops are still a significant part of the housing market. And in these days of tighter credit, for many home buyers condos are still their choice. Looking at data from **NAR's 2007 Profile of Home Buyers and Sellers**, Anna Barlett examines the characteristics of condominium home buyers. **Read more.**

Existing-home sales declined in December, but for all of 2007, they posted their fifth highest level on record. December resales slipped 2.2 percent to a seasonally adjusted annual rate of 4.89 million units. For 2007, more than 5.65 million existing homes were sold. The national median price for an existing home in December was \$221,600 – 6.0 percent below the price a year ago. Still, for all of 2007, the median price was \$218,900, down a mere 1.4 percent from 2006. **Read more.**

Table of Contents

Real Estate Monitor	2
Economic Commentary: Priorities	4
The Forecast	5
U.S. Economic Outlook Table	7
Mortgage Delinquencies and Foreclosures	8
Profile of Condominium Home Buyers	10
Links to Statistical Tables	15
Buy Research	16

Visit us on the web at
www.realtor.org/reinsights










NATIONAL ASSOCIATION
OF REALTORS®

REALTOR®



EQUAL HOUSING
OPPORTUNITY

Real Estate Monitor

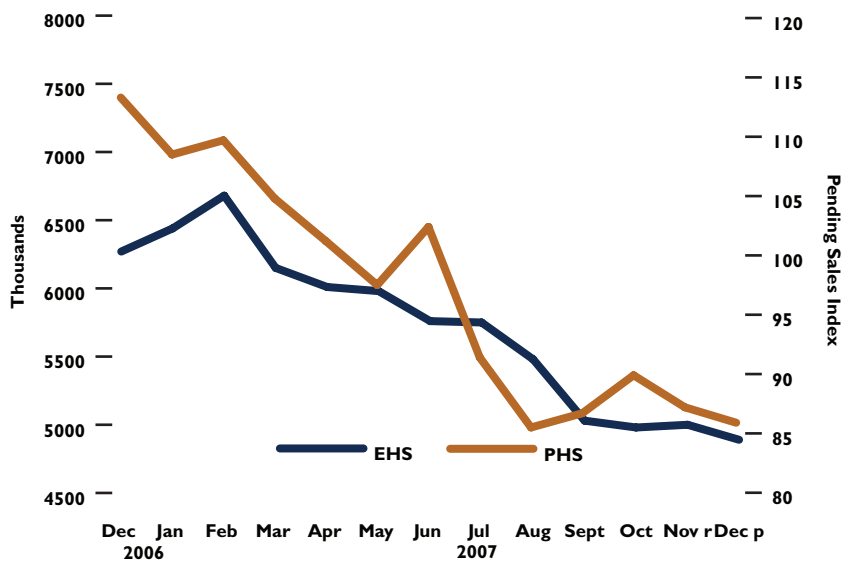
Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing-home sales slipped 2.2% in December, posting a seasonally adjusted annualized rate of 4.89 million units. Resales were off 22% from their level in December 2006. Despite the decline, 2007 registered the fifth highest resale rate on record. The national median sales price of an existing single-family home was \$208,400 in December. Some good news: the inventory of homes available for sale in December fell for the second month in a row to a 9.6 months supply – the lowest level since March of 2006. Read more.</p>	Dec 2007 4,890 Nov 2007 5,000 Dec 2006 6,270		Soft sales over the short-term before solid rise later in the year
<p>New home sales posted a seasonally adjusted annualized rate of 604,000 units in December – 4.7% off November's pace and 40.7% below that of December 2006. The inventory of new homes available for sale at the end of December was at a 9.6 months supply – the highest level of inventory for the year. For all of 2007, an estimated 774,000 new homes were sold – 26.4% below the 2006 annual figure. Read more.</p>	Dec 2007 604 Nov 2007 634 Dec 2006 1,019		Current level at less than half the pace during the boom years of 2005
<p>Housing starts fell in December to a seasonally adjusted annualized rate of 1.01 million units – a 14.2% decline from November's level and 38.2% off the rate in December 2006. Both single-family and multifamily starts declined. Ironically, while a decline in construction hurts economic growth, it could help the housing market as the still-high inventory needs to be worked off. Read more.</p>	Dec 2007 1,006 Nov 2007 1,173 Dec 2006 1,629		High inventory holds back builders
<p>Housing affordability rose in December. NAR's Housing Affordability Index registered 122.0 for the month, an increase from November's revised level of 120.1 and the fifth consecutive monthly increase. Decreases in the median home price, interest rates, and qualifying income coupled with a slight increase in the median family income contributed to gains in affordability. Read more.</p>	Dec 2007 122.0 Nov 2007 120.1 Dec 2006 109.6		Falling interest rates and falling home prices are raising affordability in many areas
<p>Mortgage rates The 30-year fixed mortgage rate clocked in at 5.78% in January -- its lowest point since September 2005. The 0.5% rate cut by the Federal Reserve pushed conforming rates to record lows. Rates are unlikely to move lower but should hover around this range for the next month. Read more.</p>	Jan 2008 5.78% Dec 2007 6.10% Jan 2007 6.22%		Aside from few months in 2003, rates are at their lowest in nearly 50 years.
<p>Employment 17,000 jobs were lost in January – that is the first net job loss in nearly five years. Still, the economy created just under a million jobs in the past 12 months. While the unemployment rate is rising slightly – to 4.9% in January – it is still near historic lows. Additional good news: wages have risen 3.7% year-over-year. Read more.</p>	Jan 2008 -17 Dec 2007 82 12-month total: 994		Recession will be avoided thanks to massive stimulus package
<p>Economic growth Real gross domestic product – GDP – grew at an “almost stalled” 0.6% growth rate in the 4th quarter of 2007 – the slowest pace since the first quarter of 2007 and well off the 4.9% growth rate posted in the 3rd quarter. This is the first “estimate” of GDP growth based on incomplete data. Both consumer and business spending slowed, and exports also slowed sharply in the 4th quarter. For all of 2007, the economy grew by just 2.2%, the weakest GDP annual growth in five years. Read more.</p>	2007:IV 0.6% 2007:III 4.9% 2006:IV 2.1%		Slowly but surely the economy will find its footing

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. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics and Freddie Mac. This report reflects data as of February 1, 2008. Compiled by Wannasiri Chompoopet, Ken Fears and Lawrence Yun.

NAR's Pending Home Sales Index

A continuation of soft market conditions is forecast for existing-home sales in the months ahead. NAR's Pending Home Sales Index for December, based on contracts signed that month, slipped 1.5 percent to a reading of 85.9 from a downwardly revised index of 87.2 in November. December's pending sales index is off 24.2 percent the level in December of 2006. The Pending Home Sales Index is a leading indicator for the housing sector, 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. The index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity from 2001 through 2004 parallels the level of closed existing-home sales in the following two months. Note that there is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons. An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales. Existing-home sales have moved in a narrow range since last September. December's index suggests that existing-home sales will hold in a narrow range, then begin an upward trend. If higher conventional loan limits are enacted very quickly, there is likely to be a notable rise in home sales and prices. [Read more.](#)

Pending Home Sales
(existing home sales lagged by 1-2 months)



Source: NAR Research

Priorities

by Lawrence Yun, NAR Chief Economist

A recent survey of REALTORS® regarding the most important policy issues impacting real estate reveals the mindset of NAR members. The top two issues (out of 34) are (1) preserving mortgage interest deduction and (2) preserving the capital gains exclusion from the sale of a principal residence. These two issues are the foundation of an ownership society. As such, they have always been – and will likely continue to be – the top issues for REALTORS®.

Fortunately for both REALTORS® and for homeowners, these policy issues are rarely in danger of being overthrown. Why? Well, one reason is because politicians of all stripes understand that nearly 70 percent of the population are homeowners, and voter turnout is heaviest among owners.

The next two issues on the top of the policy priority list for REALTORS® are more interesting, specifically because they are in play. REALTORS® want to keep banks out of real estate and they also want to see measures enacted that will prevent abusive lending practices. Much has been written about the concerns that would arise if banks are allowed to effectively be real estate brokerage firms. (You can access NAR's information on this issue via www.realtor.org).

As to the issue of abuse lending, late last year the Federal Reserve came out with its policy guidelines on mortgage lending. The guidelines were nearly identical to those recommendations that had been advocated by NAR for quite some time. They include establishing escrow accounts for property taxes and insurance, removing pre-payment penalties on mortgage refinances, and fully indexing adjustable rate mortgages so that borrowers do not go deep into debt. All are common-sense lending standards.

Why do REALTORS® place such a high importance on the issue of abusive lending? Perhaps it has to do with the fact that for most of their clients, REALTORS® are regarded as trusted advisors on households' real estate decisions. Also, it is simply a good business decision. Every successful REALTOR® understands the critical importance of repeat and referral business. Consider also, 68 percent of recent home buyers said that they would *definitely* use the same agent again or *definitely recommend* their agent to others. An additional 19 percent of buyers indicated they would *probably* use their agent again.

It should then be not surprising that REALTORS® initiated the development of brochures explaining “the risks and advantages of non-traditional mortgages” and “how to avoid predatory lending.” (These NAR brochures on these topics were developed in conjunction with the Center for Responsible Lending and are also available via the web site.)

It is in no one's interest to have people buy a home and then

Late last year the Federal Reserve came out with its policy guidelines on mortgage lending. The guidelines were nearly identical to those recommendations that had been advocated by NAR for quite some time.

for those homeowners to face foreclosure. Certainly, there were excess exuberance and greed during the housing market boom. The global capital providers were chasing after high-yields from subprime loans. The ratings agencies gave triple-A ratings in order to increase business revenue. Mortgage lenders made loans even though many well knew that the borrowers sitting right across the table would be unable to make payments after the interest-rate resets. Infomercial books on real estate sprouted up *en masse*. And it should be said: anyone, including real

estate agents, who engaged in fraud, needs to face the full consequences of the law.

Home sales have now retreated back to the pre-boom years. Excesses have been removed. REALTORS® clearly understand that their interests and those of consumers are the same. Moreover, REALTORS® serve in the communities in which they live. They have both a personal and professional interest in promoting sustainable homeownership and stable neighborhoods. Policy changes that encourage homeownership while preventing lending abuse are to everyone's benefit.

The Forecast

by Lawrence Yun, NAR Chief Economist

Though the national headlines have been pounding out the news of a housing market meltdown, implosion, and collapse, all markets are not equal. In NAR's latest metro price survey, roughly half of the country experienced a price increase. Upstate New York is one example. While folks in the area have been kicking through the snow, home prices in the final quarter of 2007 rose 9% in Buffalo, 8% in Rochester, and a whopping 15% in Binghamton. The Texas market has been also doing its two-step dance with Corpus Christi, Austin, and San Antonio experiencing price gains of 6%, 6%, 8%, respectively. Not to be outdone, Amarillo home prices soared 11% higher.

And yes, there were some areas that weren't dancing. Price declines are occurring no doubt, and quite notably in some coastal states and in markets with a high prevalence of subprime loans. Prices fell 13% in Cape Coral, 14% in Detroit, and 19% in Sacramento.

What the data clearly illuminate is that there are significant variations across markets. As real estate practitioners know very well, there are further measurable differences across neighborhoods within a metro market. No doubt, there are some people under great financial stress. Subprime products that should never have entered the marketplace have wreaked havoc on many communities around the country. Homeowners unable to meet payments are losing their homes and falling home values have cut the equity of those homeowners who make their mortgage payments on time. Investors taking a walk may not feel the same financial squeeze but they are getting hit on credit scores – that is, many investors using low documentation loans bought multiple properties and are now simply walking away from those properties in declining markets. The calculus was simple – heads I win and tails I don't lose. Prices rise, get the profit. Prices decline, then walk away – and let the lenders take the loss.

But as I said, all markets are not equal. Many markets have solid fundamentals of very affordable home prices, solid job

Job gains and rising affordability conditions are the right combination to induce buyers into the marketplace.

and wage gains, and limited new home construction to keep inventory in check. Madison, Kansas City, and Oklahoma City are just a few examples. These markets have virtually no chance of prolonged significant price declines. Yet the constant message we hear in the media of a major housing crisis – perhaps the worst since the Great Depression -- is raising fear among consumers.

As I travel around the country speaking with many REALTORS®, I hear their side of the state of housing. Now, anecdotal information always should be read with caution. However, what does it mean when several REALTORS® in Columbus, Ohio say they have never seen such an upturn in foot traffic in open houses after the New Year? One of them said he had over 30 visitors in January, when just a few months earlier had about only one or two onlookers. A similar buzz was evidence during my recent visits to Maryland, Virginia, and Arizona. What was lacking from the buzz was the actual eagerness to sign contracts. Buyers were looking -- but unwilling to commit. In other words, the weakened confidence is evidently holding back buyers.

All markets are unequal in other ways. Consider a Microsoft engineer in Seattle with a great salary and a top-notch credit score. A good-sized home in an upper-middle class neighborhood is priced at about \$800,000. A jumbo loan is required. But a jumbo loan in the current environment is very expensive. Fortunately relief is on the way. Congress and the White House have realized the unequal treatment of loans to some consumers and have now decided to raise the loan limits on FHA and GSE loans (albeit temporary).

As a result, by late spring, home sales on higher-priced homes will pick up.

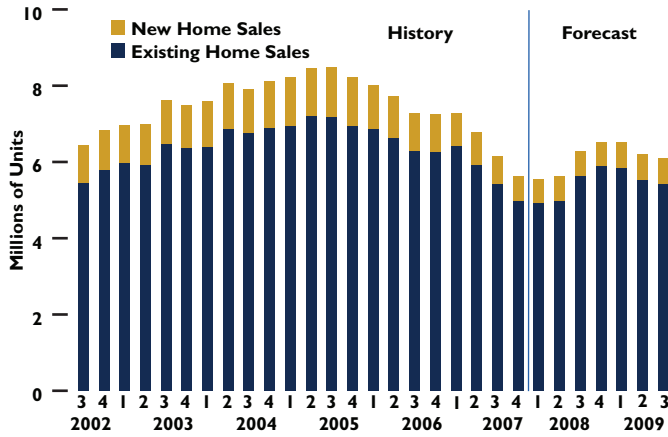
As for the economy, it will be close, but we will skirt recession. Job gains of around one million can be expected for all of 2008, though that would be down from the 2-million annual average gains over the past two years. Affordability will improve as well – NAR's housing affordability index is expected to rise from 113 in 2007 to 129 in 2008. Job gains and rising affordability conditions are the right combination to induce buyers into the marketplace.

The current market cycle is unique because of significant local market variations. It is also unique because of the buyer psychology factors – in spite of pent-up demand and improving affordability conditions. Our forecast is, therefore, more uncertain. Having said that, home sales in the second half of 2008 will be notably higher than in the first half of the year.

Finally, let me paraphrase Warren Buffet's investment philosophy: when everyone is greedy, be scared and when everyone is scared, be brave. Now, I am not an investment counselor and I do not encourage people to buy simply based on this logic. Rather, if people have the financial capacity and are looking for a home for the long haul, the fear factor should be put aside. Current situations in many local markets present a golden opportunity in attaining the American Dream with historically low interest rates.

Home Sales

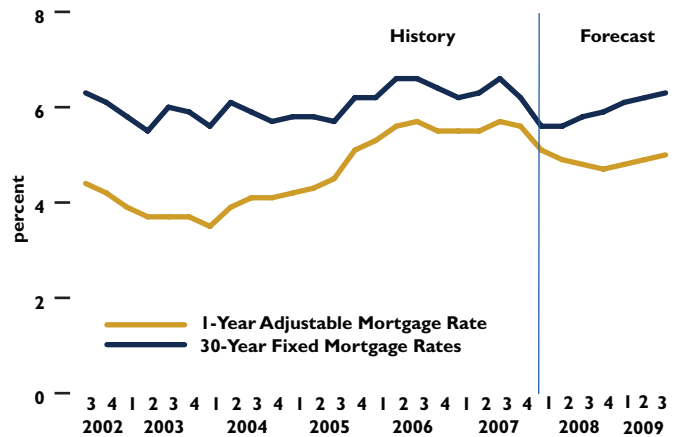
Recovering in 2nd half of 2008



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

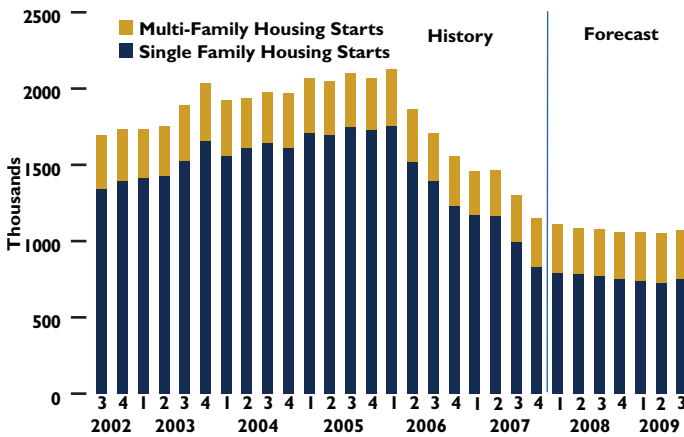
Inching up as stimulus package takes hold



Sources: Freddie Mac, NAR Forecast

Housing Starts

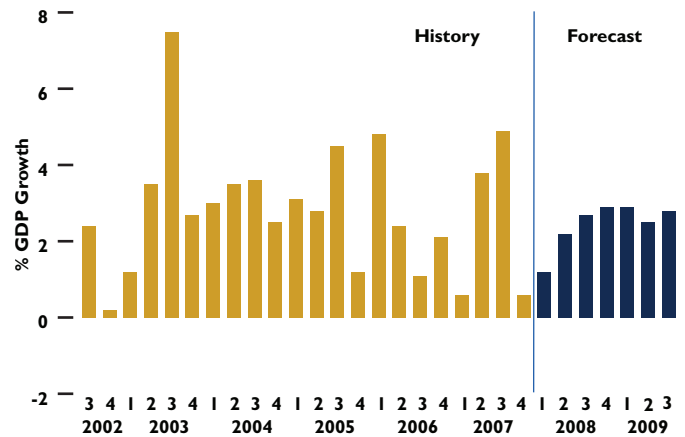
Builders cautious about over-supply



Sources: Bureau of the Census, NAR Forecast

Economic Growth

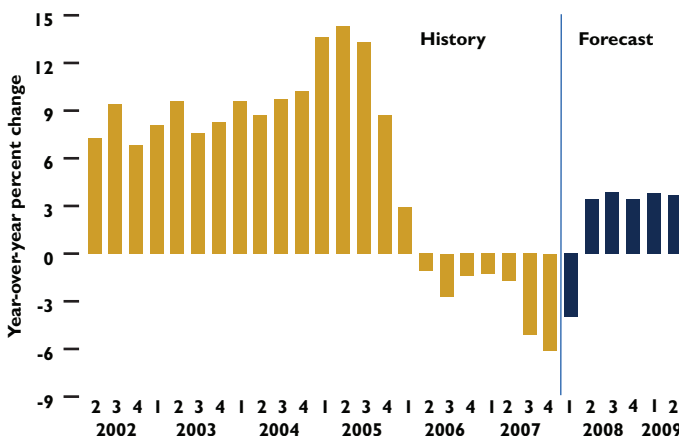
Low interest rates and stimulus package help turn economy around



Sources: Bureau of Economic Analysis, NAR Forecast

Existing Home Price Growth

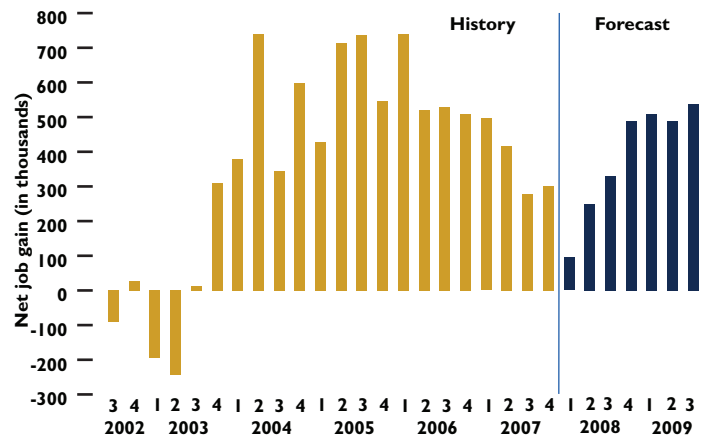
Need to wait a bit longer for appreciation to turn positive



Sources: NAR, NAR Forecast

Employment

Job gains return after stalling



Sources: Bureau of Labor Statistics, NAR Forecast

U.S. Economic Outlook

February 2008

	2007			2008				2009		2006	2007	2008	2009
	II	III	IV	I	II	III	IV	I	II	III			
U.S. Economy													
<i>Annual Growth Rate</i>													
Real GDP	3.8	4.9	0.6	1.2	2.2	2.7	2.9	2.9	2.5	2.8	2.9	2.2	2.2
Nonfarm Payroll Employment	0.9	0.8	0.8	0.0	0.5	1.0	1.2	1.3	1.4	1.5	1.9	1.1	0.6
Consumer Prices	6.0	1.9	4.3	2.4	2.2	1.3	1.5	1.4	1.3	1.3	3.2	2.9	2.7
Real Disposable Income	-0.8	4.5	0.3	1.0	2.0	2.8	3.1	4.7	3.4	3.3	3.1	3.1	1.7
Consumer Confidence	110	107	106	91	87	85	85	86	90	92	106	103	87
Percent Unemployment	4.5	4.7	4.8	5.1	5.2	5.4	5.4	5.3	5.2	5.1	4.6	4.6	5.3
<i>Interest Rates, Percent</i>													
Fed Funds Rate	5.3	5.1	4.5	3.2	3.0	3.0	3.0	3.3	3.5	3.8	5.0	5.0	3.0
3-Month T-Bill Rate	4.7	4.3	3.4	2.7	2.7	2.8	2.9	3.2	3.4	3.6	4.7	4.4	2.8
Prime Rate	8.3	8.2	7.5	6.2	6.0	6.0	6.0	6.3	6.5	6.8	8.0	8.1	6.0
Corporate Aaa Bond Yield	5.6	5.8	5.5	5.1	5.2	5.3	5.4	5.5	5.6	5.7	5.6	5.6	5.2
10-Year Government Bond	4.8	4.7	4.3	3.7	3.8	4.0	4.2	4.3	4.4	4.5	4.8	4.6	3.9
30-Year Government Bond	5.0	4.9	4.6	4.0	4.2	4.3	4.5	4.6	4.7	4.8	4.9	4.8	4.3
<i>Mortgage Rates, percent</i>													
30-Year Fixed Rate	6.3	6.6	6.2	5.6	5.6	5.8	5.9	6.1	6.2	6.3	6.4	6.3	5.7
1-Year Adjustable	5.5	5.7	5.6	5.1	4.9	4.8	4.7	4.8	4.9	5.0	5.5	5.5	4.9
Housing Indicators													
<i>Thousands</i>													
Existing Home Sales*	5,917	5,420	4,957	4,912	4,982	5,637	5,884	5,845	5,530	5,411	6,478	5,652	5,380
New Single-Family Sales	855	730	654	641	633	633	643	678	675	703	1,051	774	637
Housing Starts	1,464	1,300	1,151	1,111	1,085	1,075	1,056	1,056	1,051	1,073	1,801	1,354	1,082
Single-Family Units	1,166	990	830	791	781	773	752	737	726	748	1,465	1,046	774
Multifamily Units	299	310	321	320	304	302	305	319	325	326	336	308	307
Residential Construction**	491	463	433	406	395	392	389	387	385	388	570	473	396
<i>Percent Change -- Year Ago</i>													
Existing Home Sales	-10.7	-13.8	-20.9	-23.5	-15.8	4.0	18.7	19.0	11.0	-4.0	-8.5	-12.8	-4.8
New Single-Family Sales	-21.3	-26.6	-33.7	-24.9	-26.0	-13.3	-1.7	5.8	6.8	11.1	-18.1	-26.4	-17.7
Housing Starts	-21.3	-23.7	-26.0	-23.9	-25.9	-17.3	-8.2	-4.9	-3.1	-0.2	-12.9	-24.8	-20.1
Single-Family Units	-23.3	-28.9	-32.6	-32.5	-33.0	-21.9	-9.5	-6.8	-7.0	-3.3	-14.6	-28.6	-26.0
Multifamily Units	-12.4	-0.3	-0.7	10.8	1.7	-2.7	-5.0	-0.1	6.9	8.0	-4.5	-8.3	-0.2
Residential Construction	-16.5	-16.5	-18.3	-19.8	-19.4	-15.4	-10.0	-4.8	-2.5	-1.1	-4.6	-16.9	-16.4
Median Home Prices													
<i>Thousands of Dollars</i>													
Existing Home Prices	223.9	221.2	208.0	200.9	214.9	228.7	216.1	207.8	223.1	237.2	221.9	218.9	216.3
New Home Prices	241.0	241.0	231.6	235.7	231.1	242.0	236.2	241.1	240.4	253.1	246.5	246.9	236.3
<i>Percent Change -- Year Ago</i>													
Existing Home Prices	-1.3	-1.7	-5.2	-6.1	-4.0	3.4	3.9	3.4	3.8	3.7	1.0	-1.4	-1.2
New Home Prices	-2.1	2.0	-5.5	-7.9	-4.1	0.4	2.0	2.3	4.0	4.6	2.3	0.2	-4.3
Housing Affordability Index	109	109	121	139	132	121	127	129	120	111	106	113	129

Quarterly figures are seasonally adjusted annual rates.

* Existing home sales of single-family homes and condo/coops; ** billion dollars

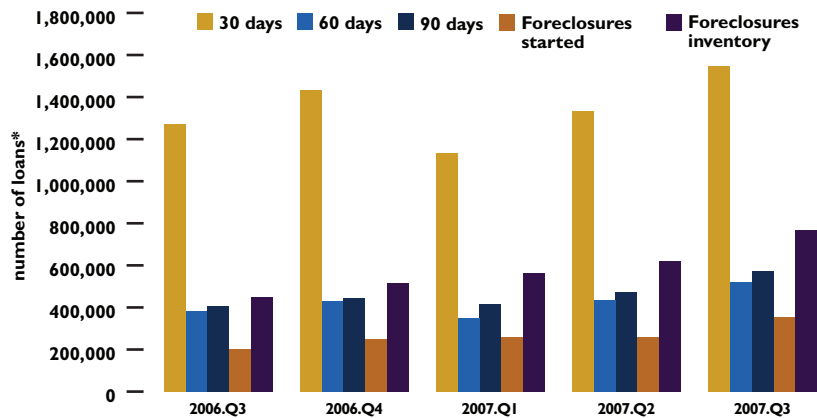
Mortgage Delinquencies and Foreclosures: Third Quarter Data Show Increases in Both

by George Ratiu, Economist, NAR Research

The numbers tell the story – more households are delinquent in their mortgage payments, and foreclosures are on the rise. According to data from the Mortgage Bankers Association’s (MBA) National Delinquency Survey, the third quarter of 2007 recorded an increase in both mortgage delinquency and foreclosure rates.

First, let’s discuss mortgage loans outstanding. Nationally, the number of mortgages increased by 2.64 percent from that in the second quarter of last year; on a year-over-year basis, the increase was 6.61 percent. Not all areas of the country exhibited the same level of activity. The states with the highest increase in year-over-year mortgage volume were Vermont (20.98%), Delaware (21.40%), South Dakota (25.57%) and North Dakota (27.41%). Meanwhile, two states

Delinquency activity by type (number of loans)*



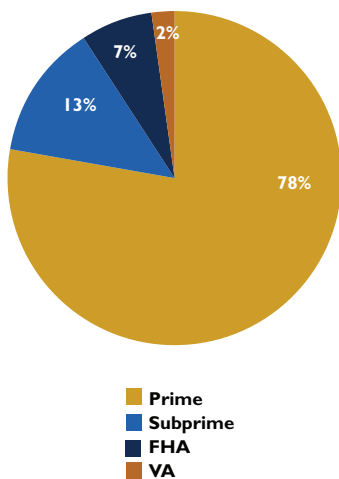
Source: The Mortgage Bankers Association
*all loans

experienced a drop in mortgages serviced compared with the second quarter—Idaho (-5.92%) and Utah (-1.83%).

5.06 percent to 5.81 percent in the third quarter compared with the previous quarter. Year-over-year, the number of delinquent mortgages was up 27.89 percent. The one exception was the state of Louisiana which recorded a 7.11 percent drop in the number of Total Past Due mortgages, mostly fueled by a 42.36 percent decrease in mortgages with 90-day Past Due installments. The figure reflects past Katrina rebuilding activity in the New Orleans area.

Mirroring the upward swing in the number of delinquencies, foreclosure starts were also higher in the third quarter of 2007 than in the previous quarter or the third quarter of 2006. The number of foreclosure starts was up 35.70 percent compared with the level in the second quarter, and 76.93 percent higher year-over-year. In terms of numbers, there were 354,254 foreclosure starts in the third quarter of 2007 versus 261,063 in the prior quarter, and 200,223 in the third quarter of 2006. Nationally, there were nine states that posted more

Composition of Mortgage Loans, 3rd quarter 2007 percentage distribution by type of loan



Source: Mortgage Bankers Association

Composition of the Mortgage Market

The composition of mortgage loans shifted from the second to the third quarter of 2007, with a one-percent drop in subprime loans being offset by a one-percent increase in prime mortgages. As of the third quarter, prime mortgages accounted for 78 percent of the total loans serviced. Subprime loans made up the second largest group of mortgages – 13 percent – followed by FHA loans (7%) and VA loans (2%). Keep in mind that these percentage breakouts pertain to homeowners who have mortgages. There are approximately one-third of homeowners who do not have a mortgage because they have paid it off.

Delinquency rates

Mortgages with installments past due – i.e., delinquent – increased from

*MBA’s National Delinquency Survey collects data from over 80 percent of about 50 million outstanding loans in the housing market. For more information, visit www.mbaa.org

Mortgages Delinquencies and Foreclosures (continued)

Percent change in subprime loans serviced

2nd quarter 2007 to 3rd quarter 2007

Alabama	-2.29
Alaska	-0.89
Arizona	-2.68
Arkansas	-3.27
California	-3.14
Colorado	-4.27
Connecticut	-2.53
Delaware	-2.52
District of Columbia	-2.78
Florida	-2.22
Georgia	-2.79
Hawaii	-3.17
Idaho	-3.20
Illinois	-3.89
Indiana	-3.55
Iowa	-5.05
Kansas	-4.87
Kentucky	-3.11
Louisiana	-2.19
Maine	-1.20
Maryland	-3.57
Massachusetts	-2.78
Michigan	-3.90
Minnesota	-3.58
Mississippi	-2.98
Missouri	-4.06
Montana	-3.50
Nebraska	-3.36
Nevada	-2.24
New Hampshire	-2.02
New Jersey	-2.73
New Mexico	-3.13
New York	-1.72
North Carolina	-2.91
North Dakota	-3.22
Ohio	-3.20
Oklahoma	-3.22
Oregon	-3.53
Pennsylvania	-2.53
Rhode Island	-3.31
South Carolina	-2.67
South Dakota	-3.47
Tennessee	-3.24
Texas	-3.08
Utah	-3.95
Vermont	-2.05
Virginia	-2.43
Washington	-4.14
West Virginia	-1.27
Wisconsin	-3.50
Wyoming	-3.28

Source: Mortgage Bankers Association

than a 100 percent increase in foreclosure starts.

It wasn't all bad news. Indeed, there were some bright spots in this landscape. Three states experienced decreases in year-over-year foreclosure starts—Vermont (-26.28%), South Dakota (-16.99%), and Utah (-15.75%).

Foreclosure inventories also increased in the third quarter. They rose by 23.90 percent from the level in the second quarter. On a yearly basis, inventories were up 71.59 percent compared with the third quarter in 2006. The increase in foreclosure inventories was most severe in four states that experienced high home price appreciation coupled with speculative real estate investing—Arizona, California, Nevada and Florida.

Subprime loans

The subprime fallout continues to have an impact. The number of subprime loans serviced nationally during the third quarter was down 3.45 percent from that in the second quarter. Compared with the previous quarter, every state recorded a decrease in the number of subprime mortgages, with Iowa, Kansas and Colorado posting the largest changes: -5.05%, -4.87%, and -4.27%, respectively.

In contrast with the decrease in the number of *subprime* loans serviced, the delinquency rate for subprime mortgages moved from 14.54 percent in the second quarter of 2007 to 16.68 percent in the third. Subprime mortgages also posted an upward swing in foreclosure starts—25.31 percent higher than in the second quarter, and 74.53 higher than in the third quarter of 2006.

Foreclosure inventories were 85.15 percent higher for subprime mortgages year-over-year. This increase was driven mostly by 13 states that posted increases of 100 percent or more—California, Nevada, Arizona and Florida among them.

On the flip side, three states recorded drops in foreclosure starts for subprime mortgages on a year-over-year basis—Utah (-32.26%), Vermont (-51.39%), and South Dakota (-58.81%). Moreover, one other state—Montana—showed a decline in foreclosure inventories of 9.88 percent.

What it means for the housing market

The increase in mortgage delinquencies and foreclosures are taking a toll on housing markets, particularly in states where rapid price appreciation combined with speculative investing led to the proliferation of subprime and adjustable rate mortgages. Looking forward to the months ahead, the states with high delinquency rates will continue to experience downward pressures on home prices. The passage of the national economic stimulus package is likely to mitigate some of the effects of rising delinquencies and foreclosures. Based on an economic impact study conducted by NAR, it is estimated that increasing the GSEs' conforming loan limits would result in as many as 500,000 refinanced loans and a potential 210,000 reduction in foreclosures.

Condo Buyers: Who They Are and What They Want When Purchasing a Home

by Harika “Anna” Barlett, NAR Research

Historically, condominiums and co-ops account for around 12 percent of existing home sales. Results from the **2007 NAR Profile of Home Buyers and Sellers*** indicate that between July of 2006 and June of 2007, about one-in-ten home buyers purchased an apartment or condominium in a building with 5 or more units; an additional two percent of home buyers purchased a duplex, apartment or condominium in a building with 2 to 4 units.

Condo buyers have characteristics distinct from buyers of other types of homes, and those characteristics also differ between the two groups of condo buyers identified above. Knowing the traits of these buyers, their home feature preferences, and their home purchase process can help real estate professionals better serve these segments of the market, while enhancing their own business. Following is an analysis of those traits based on data from the **2007 NAR Profile of Home Buyers and Sellers** and the **2007 NAR Profile of Buyers' Home Feature Preferences.****

Who They Are

The median age of the typical home buyer was 39. But the typical buyer of condominiums in buildings with five or more units was younger than the typical home buyer – a median age of 38. The opposite was true for the typical buyer of condos in two-to-four unit buildings who had median age of 41.

There were also differences in median household income between all buyers and condo buyers. Median 2006 household incomes of the two groups of condo buyers were nearly the same (\$60,400 - \$60,700), but about \$14,000 lower than the median household in-

come of all buyers, which was \$74,000. Some of this income difference is due to differences in household size and the number of income earners. While married couples constituted 62 percent of all buyers, their share among condo buyers in 5+ unit buildings was less than one-third, and among condo buyers in 2-4 unit buildings was 44 percent. Forty-one percent of 5+ unit building condo buyers and 29 percent of buyers of condos in 2-4 unit buildings were single females, compared to 20 percent of all buyers.

Condo buyers also tend to have fewer children under 18 living at home. While households with no children accounted for 60 percent of all buyers, their share was more than 80 percent among all condo buyers.

Condo buyers in 5+ unit buildings were more racially diverse than their counterparts who purchased condos in 2-4 unit buildings. Among the first

group, 77 percent identified themselves as white, compared to 84 percent among the second group. Sixteen percent of the first group of buyers were born outside United States, and seven percent reported a language other than English as their primary language, compared to 9 percent and 4 percent of the second group, respectively.

Compared to all buyers, the shares of first-time buyers were also higher among both groups of condo purchasers. More than half of condo buyers in 5+ unit buildings (53 percent), and nearly half of condo buyers in 2-4 unit buildings (48 percent) were first-time buyers. For all buyers, the share of first-time purchasers was 41 percent.

Geographically, the share of condo buyers in a 2-4 unit building was proportionally much higher in the Northeast, and smaller in the South and the West. The share of those who purchased a condo

Demographics of Condominium Home Buyers

	Buyers of:		
	All Buyers	Apartment/condo in building with 5 or more units	Duplex/apartment/condo in 2 to 4 unit building
Age (median)	39	38	41
Income (median, 2006 household)	\$74,000	\$60,400	\$60,700
Households without children	60 %	84 %	82 %
Race/Ethnicity			
White/Caucasian	83 %	77 %	84 %
Black/African-American	7	8	6
Hispanic/Latino	6	8	6
Asian/Pacific Islander	5	6	6
Other	2	3	1
Foreign born	9 %	16 %	9 %
First-time home buyers	39	53	48

Source: The 2007 NAR Profile of Home Buyers and Sellers

*In August 2007, NAR mailed an eight-page questionnaire to a national sample of 150,000 home buyers and sellers who purchased their homes between July 2006 and June 2007, according to county records. It generated 9,966 usable responses; the adjusted response rate was 6.9 percent. All information is characteristic of the 12-month period ending in June 2007 with the exception of income data, which are for 2006. Due to rounding and omissions for space, percentage distributions for some findings may not add up to 100 percent.

Condo Buyers (continued)

Household Type of Condominium Buyers

(Percentage distribution)

	Buyers of:		
	All Buyers	Apartment/condo in building with 5 or more units	Duplex/ apartment/ condo in 2 to 4 unit building
Married couple	62 %	32 %	44 %
Single female	20	41	29
Single male	9	18	15
Unmarried couple	7	7	10
Other	2	2	2

Source: The 2007 NAR Profile of Home Buyers and Sellers

Factors Influencing Neighborhood Choice

(Percent of Respondents)

	Buyers of:		
	All Buyers	Apartment/condo in building with 5 or more units	Duplex/ apartment/ condo in 2 to 4 unit building
Quality of the neighborhood	65 %	56 %	63 %
Convenient to job	50	56	51
Overall affordability of homes	42	40	53
Convenient to friends/family	37	41	48
Quality of the school district	28	8	15
Convenient to shopping	27	32	30
Design of neighborhood	26	23	28
Convenient to schools	20	8	7
Convenient to entertainment/ leisure activities	19	35	23
Convenient to parks/recreational facilities	16	22	13
Availability of larger lots or acreage	15	1	3
Convenient to health facilities	10	12	11
Home in a planned community	8	5	14
Convenient to public transportation	7	24	13
Convenient to airport	7	10	10
Other	5	4	7

Source: The 2007 NAR Profile of Home Buyers and Sellers

in a 5+ unit building was proportionally lower in the South and higher in the West.

Why They Purchased a Home and How Long They Expect to Own This Home

Condo buyers were more likely than all buyers to report that the primary reason for their home purchase was a desire to own a home of their own or establish a household (41 percent among buyers in 5+ unit buildings and 38 percent among buyers in 2-4 unit buildings, compared to 33 percent for all buyers). Those who purchased a condo in a 2-4 unit building also had a higher tendency than other home buyers, including other condo buyers, to have traded down to a smaller size home (10 percent among buyers in 2-4 unit buildings; 6 percent among buyers in 5+ unit buildings; 4 percent of all home buyers). Those who purchased a condo in a building with 5+ units were more likely than others to cite financial security reasons for their home purchase.

Additionally, one-in-ten condo buyers mentioned it was very likely that they would buy another home within two years (comparable number among all buyers was 7 percent).

Condo buyers in 5+ unit buildings reported they expect to stay in the home they purchased for a median of five years, and those in 2-4 unit buildings for a median of 10 years – similar to results for all buyers. Among recent home buyers who had owned and recently sold a condo, their actual tenure in the condo they sold was five years for those who sold a condo in a 5+ unit building, and seven years for those who sold one in a 2-4 unit building.

What They Purchased and Where

Overall, slightly over one-in-five home buyers purchased a newly built home, and the rest purchased a previously owned home. The results were similar for all condo purchasers.

Nearly half of condos purchased in buildings with 5+ units (47 percent) were located in urban or city areas, compared with about one quarter of condos in 2-4 unit buildings (26 percent). These percent-

Condo Buyers (continued)

Home Searchers Who Thought Finding a Home With a Particular Feature Was “Very Important” or “Somewhat Important”

(Percent of Respondents Ranking “Very Important” or “Somewhat Important”)

	Buyers of:		
	All Buyers	Apartment/condo in building with 5 or more units	Duplex/ apartment/ condo in 2 to 4 unit building
Exterior Features			
Garage	92 %	66 %	83 %
Garage with two or more spaces	79	42	60
Reserved parking	30	77	42
In-ground pool	19	34	15
Interior Design Features			
Eat-in kitchen	67	51	63
Hardwood floors	64	70	57
High-end kitchen appliances	62	65	53
Granite (or similar) countertops	56	64	50
Systems			
High-speed Internet access	68	82	71
Air filtration system	43	39	52
Monitored security system	36	44	23
Intercom system	9	24	8
Neighborhood Features			
Close to work	69	80	63
Near shopping	67	77	61
Near restaurants, entertainment areas	65	85	65
Near cultural activities, museums, theaters	45	68	46
Near park or playground	43	49	34
Near public transportation	26	52	33
Neighborhood Features			
Water view	22	31	18

Source: The 2007 NAR Profile of Buyers' Home Feature Preferences

ages are significantly larger than the 16 percent of all recently purchased homes located in these areas. Fifty-six percent of all recently purchased homes were located in suburban areas. The comparable shares were about one third among recently purchased condos in 5+ unit buildings, and 42 percent among those in 2-4 unit buildings. Only about ten percent of condos in 5+ unit buildings were located in small towns, compared to one-quarter of condos in 2-4 unit buildings, and 16 percent of all homes.

The median size of recently purchased condos in 5+ unit buildings was 1,110 square feet with a median price of \$210,000. That was much smaller but more expensive than the 1,550 square foot median size of condos in 2-4 unit buildings, which cost a median of \$173,000. Condo buyers in 5+ unit buildings cited size of the home as the biggest compromise they made among the characteristics of the home they purchased.

What Factors Influenced the Neighborhood Choice

The quality of neighborhood, the most frequently cited reason impacting buyers' choice of a neighborhood, was somewhat more important for condo buyers in 2-4 unit buildings than other condo buyers. For those buyers in buildings with 5+ units, convenience to job was equally important as the quality of the neighborhood. Overall affordability of homes, convenience to friends or family, quality of the school district, and home in a planned community were more important factors among buyers in 2-4 unit buildings. Convenience to entertainment or leisure activities, parks or recreational facilities, and public transportation were more influential among buyers in buildings with 5+ units.

How the Importance of Desirable Home Features Differed Between Condo Buyers

While energy efficiency of a home, central air conditioning, a garage, and a walk-in closet in master bedroom were among the most desirable features for most home buyers during their search for a home, there were significant differ-

Condo Buyers (continued)

How Buyer Found Real Estate Agent (Percentage Distribution)

	All Buyers	Buyers of:	
		Apartment/condo in building with 5 or more units	Duplex/ apartment/ condo in 2 to 4 unit building
Referred by (or is)			
a friend, neighbor or relative	43 %	42 %	54 %
Used agent previously	11	11	8
Internet Web site	8	11	7
Visited an open house and met agent	6	6	5
Saw contact information on For Sale sign	7	7	6
Referred by another			
real estate agent/broker	5	5	2
Walked into or called office and agent was on duty	4	5	2
Referred through employer or relocation company	5	3	3
Personal contact by agent (telephone, email, etc.)	3	2	4
Other	7	9	9

Source: The 2007 NAR Profile of Home Buyers and Sellers

ences in the importance of many home features for the two groups of condo buyers. Condo buyers in buildings with 5+ units placed more importance on neighborhood features, including proximity to work, shopping, restaurants and entertainment areas, and public transportation, and having high speed Internet access, hardwood floors, high-end kitchen appliances, and reserved parking. Condo buyers in 2-4 unit buildings gave higher rankings to finding a home with a garage, or a garage with two or more spaces, an eat-in kitchen, and an air filtration system.

Looking for a Home

Among information sources used during their home search, buyers who purchased a condo in a building with 5+ units used real estate agents (83 percent), the Internet (81 percent), open houses (53 percent), television (8 percent), and

billboards (11 percent) to a greater extent than did other condo buyers. While over three-quarters (77 percent) of those who purchased a condo in a 2-4 unit building used real estate agents, they also used home books or magazines (32 percent) to a larger extent than the first group.

For both groups of condo buyers, when it came to finding the home they finally purchased, the most frequently reported information source was real estate agents. Indeed, over one-third of condo buyers in each group indicated they first found the home they purchased through a real estate agent. But there were also significant differences between the two groups. Those who bought a condo in a building with 5+ units were more likely to first hear about their condo via the Internet (29 percent versus 22 percent), and those who purchased a condo in 2-4 unit

buildings were more likely to have found it through a friend, relative, or neighbor (11 percent versus 7 percent).

Real Estate Professionals and Condo Buyers

Home buyers who work with an agent most frequently rely on friends, relatives, or neighbors for referrals to help them find their real estate agent. For more than half of condo buyers in 2-4 unit buildings this was the most dominant way of finding an agent. Although much less frequently, buyers in this group also reported more often than other buyers to have found their agents through personal contact by agent by telephone, mail, email, etc.

While 42 percent of condo buyers in buildings with 5+ units also relied on referrals by friends or relatives, buyers in this group were more likely than other condo buyers to find their agents through the Internet, through referral by another real estate agent or broker, or by walking into or calling a real estate office.

Among the benefits provided by their real estate agents, condo buyers were more likely than other home buyers to report that their agents helped them understand the home buying process, negotiated better sales contract terms for them, provided a better list of service providers, and a better list of mortgage lenders. This is probably because a greater share of condo purchasers were first-time buyers and consequently unfamiliar with the home purchase transaction process.

Conclusion

Knowing the demographic characteristics and specific needs of different segments of home buyers help real estate professionals develop better ways to communicate and target their services according to the needs and requirements of their clients. Additionally, since

****The 2007 National Association of REALTORS® Profile of Home Buyers and Sellers and 2007 National Association of REALTORS® Profile of Buyers' Home Feature Preferences** can be ordered by calling 800/874-6500, or online at www.realtor.org/newresearch. The cost is \$50 for NAR members and \$125 for non-members.

Condo Buyers (continued)

referrals are the best source of future business, improved service also improves real estate agents' business.

While housing market activity is slower than in recent years, there are still over six million households a year purchasing homes. Housing continues to be a good long-term investment and the best way of wealth accumulation for most households. The condo market is especially important for first-time buyers and those trading down to a smaller size home, and will continue to constitute an important segment of the market. Many first-time buyers with a desire to own a home of their own start by purchasing a condo. As reported by recent condo buyers, real estate agents can particularly add value to the home purchase transaction by helping these buyers understand the home buying process, negotiating better price and contract terms, and providing guidance for additional services required during the complex process of home purchase.

Links to Statistical Data Series

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

Existing Home Sales – Monthly series

- [December 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 – Fourth Quarter 2007

- Fourth Quarter 2007 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- Fourth Quarter 2007 [Median Home Prices by Metropolitan Area](#)
 - [Fourth Quarter Single-family median home prices](#)
 - Fourth Quarter Single-family median home prices in spreadsheet format [here](#)
 - [Fourth Quarter Condominium/Co-op median sales price](#)
 - Fourth Quarter Condominium/Co-op median sales price in spreadsheet format [here](#)

NAR's Pending Home Sales Index

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

NAR's Housing Affordability Index

- [December HAI Index](#)
- December Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
 - [Fourth Quarter 2007 Affordability Index](#)
 - Fourth Quarter 2007 Affordability Index in spreadsheet format available [here](#)
 - [First-time homebuyer Affordability Index, Fourth Quarter 2007](#)
 - 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.

New from NAR Research Selling Green!

Ninety-two percent of all home buyers consider energy efficiency at least somewhat important in their decision to purchase a particular home. In fact, 46 percent of all home buyers rank energy efficiency as *very important* when considering a home for purchase. Increasingly, consumer preferences for products and services reflect awareness about energy efficiency, and those preferences even extend to characteristics of homes that consumers are looking to purchase.

The National Association of REALTORS® newly released “**Selling Green**” brochure evaluates the characteristics of home buyers and their home feature preferences in regards to energy efficiency. The data in the brochure is culled from the **2007 NAR Profile of Buyers Home Feature Preferences**. Brochures come in packs of 50. Order this valuable tool today. Visit www.realtor.org/prodser.nsf/Research

