

REALTORS[®] CONFIDENCE INDEX

Report on the August 2016 Survey

National Association of REALTORS[®]
Research Department

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and Chief Economist

REALTORS[®] CONFIDENCE INDEX SURVEY

Report on the August 2016 Survey

The *REALTORS[®] Confidence Index (RCI)* report provides monthly information about real estate market conditions and expectations, buyer/seller traffic, price trends, buyers' characteristics, and issues affecting real estate transactions based on a monthly survey of REALTORS[®].

The August 2016 report is based on the responses of 3,270 REALTORS[®], 1,936 of which closed a sale.¹ Respondents reported on local market conditions experienced in August and the characteristics of their most recent sale for the month. The data is collected from a random sample of REALTORS[®] and is viewed to be representative of the sales for the month. The online survey was conducted from September 1–13, 2016. All real estate is local: conditions in specific markets vary from the overall national trends presented in this report. REALTORS[®] may be interested in comparing their markets against the national summary.

The RCI report is an output of the Research Division of the NATIONAL ASSOCIATION of REALTORS[®].² For questions or information about this report, please email dhale@realtors.org.

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¹ The survey is sent to 50,000 REALTORS[®] who are selected through simple random sampling. To increase the response rate, the survey is also sent to respondents in the previous three surveys who provided their email addresses. The number of responses to a specific question varies because the question may not be applicable to the respondent or because of non-response. To encourage survey participation, eight REALTORS[®] are randomly selected to receive a gift card.

² The team acknowledges Jessica Lautz, Managing Director, Survey Research and Communications, Meredith Dunn, Research Communications Manager, Amanda Riggs, Research Survey Analyst, and Brandi Snowden, Research Survey Analyst, for their inputs in improving the survey and in editing and disseminating the report. Acknowledgement also goes to Lisa Herceg, Director, Marketing Research, who sends out the survey to members.

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Summary

While local conditions vary, the REALTORS® buyer traffic and current conditions confidence indices remained above 50 in August 2016, indicating that more local markets were “strong” rather than “weak.” The buyer traffic index, an indicator of homebuying interest, stood at about the same level as last year but was lower than the previous month’s level, perhaps reflecting some seasonal slowdown as well as an easing of demand due to the steep price growth that has made purchasing a home increasingly less affordable.³ The seller traffic index has remained below 50 since September 2008, indicating that seller activity remains generally “weak.” Relatively strong demand amid tight supply has pushed prices up to increasingly less affordable levels.

First-time homebuyers accounted for 31 percent of sales, essentially unchanged from its levels one year ago and the previous month. Purchases for investment purposes made up 13 percent of sales, and cash sales accounted for 22 percent of sales, both substantially unchanged from the levels one year ago and the previous month. Distressed properties were five percent of sales, down from seven percent last year. Nationally, amid tight supply, half of properties that sold in August 2016 were on the market for 36 days or less compared to 47 days one year ago.

Very low supply, declining affordability, appraisal issues, and lender processing delays were reported as the key issues affecting sales. Still, most respondents were confident about the outlook for the next six months across all property types, with the six-month confidence indices for single-family homes and townhomes registering over 50. With home prices increasingly becoming less affordable, respondents typically expected prices to increase at a slower pace of 3.1 percent in the next 12 months.

August 2016 REALTORS® Confidence Index Survey Highlights

	August 2016	July 2016	August 2015
RCI Buyer Traffic Index	61	64	60
RCI Seller Traffic Index	44	45	45
RCI Current Conditions: Single-Family Sales	69	71	66
RCI Six-Month Outlook: Single-Family Sales	66	69	66
First-Time Home Buyers, as Percent of Sales ⁴	31	32	32
Sales to Investors, as Percent of Sales	13	11	12
Cash Sales, as Percent of Sales	22	21	22
Distressed Sales, as Percent of Sales	5	5	7
Median Days on Market	36	36	47
Median Expected Price Growth in Next 12 Months (%)	3.1	3.3	3.5

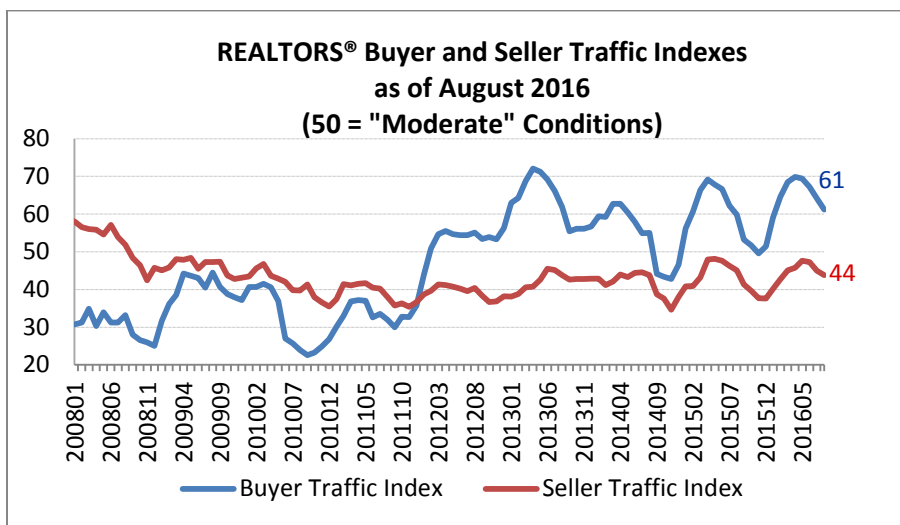
³ An index greater than 50 indicates the number of respondents who reported “strong” (index=100) outnumbered those who reported “weak” (index=0). An index equal to 50 indicates an equal number of respondents reporting “strong” and “weak” market conditions. The index is not adjusted for seasonality effects.

⁴ NAR’s 2015 *Profile of Home Buyer and Sellers (HBS)* reports that among primary residence home buyers, 32 percent were first-time home buyers. The HBS surveys primary residence home buyers, while the monthly *RCI Survey* surveys REALTORS® and also captures purchases for investment purposes and vacation/second homes.

I. Market Conditions

REALTORS® Reported Strong Buyer Traffic Amid Tight Supply

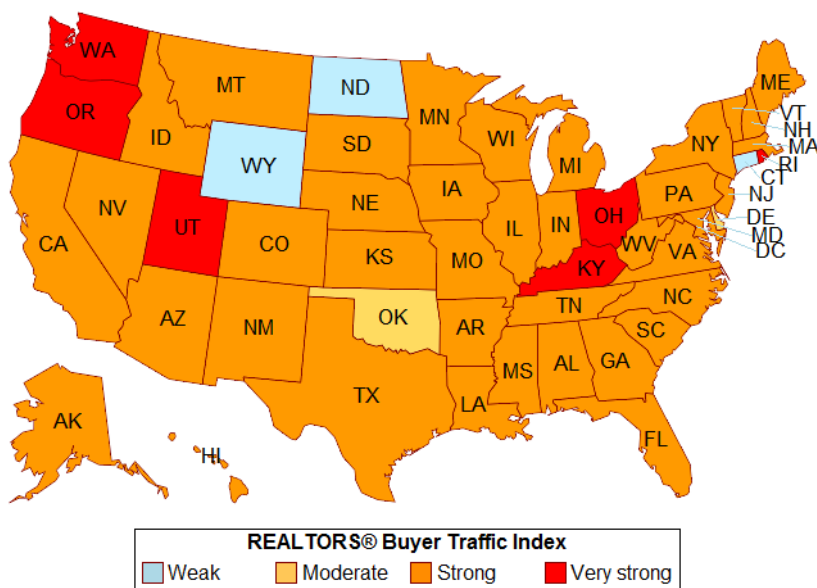
The *REALTORS® Buyer Traffic Index*⁵ registered at 61 (64 in July 2016; 60 in August 2015), indicating that more respondents viewed buyer traffic conditions as “strong” rather than “weak.” The index is essentially unchanged compared to one year ago, but it is lower compared to the previous month, possibly due to seasonal slowdown and the impact of higher prices on demand. Meanwhile, supply conditions remained, by and large, tight in many areas. The *REALTORS® Seller Traffic Index* registered at 44 (45 in July 2016; 45 in August 2015), indicating that more respondents viewed seller traffic conditions as “weak” rather than “strong.”



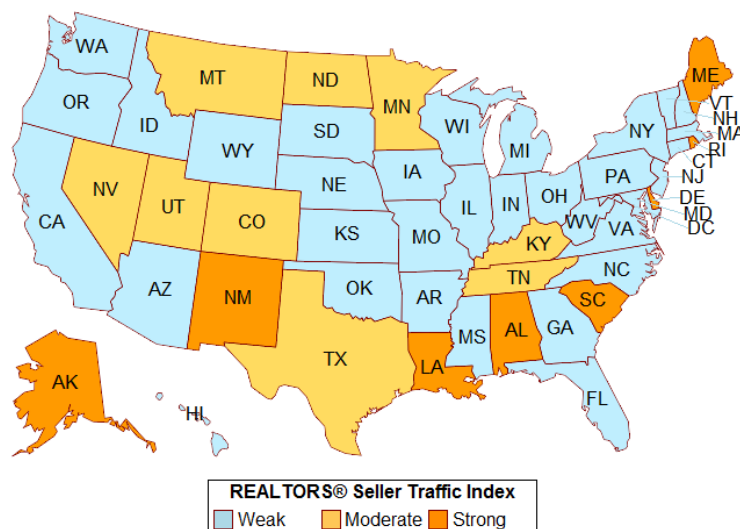
Local conditions vary in each state, but the *REALTORS® Buyer Traffic Index* indicates that markets were “moderate” to “very strong” in all states except in Wyoming, North Dakota, and Connecticut where buyer traffic was “weak.”⁶

⁵The Buyer Traffic Index provides information on the level of homebuying demand or interest which may materialize as a contract to purchase or closed sale after two or three months.

⁶The index for each state is based on data for the last three months to increase the observations for each state. Small states such as AK, ND, SD, MT, VT, WY, WV, DE, and D.C., may have fewer than 30 observations. Respondents were asked “How do you rate the past month's buyer traffic in the neighborhood(s) or area(s) where you make most of your sales?” Respondents rated conditions or expectations as “Strong (100),” “Moderate (50),” and “Weak (0).” The responses are compiled into a diffusion index. For graphical purposes, index values 25 and lower are labeled “Very weak,” values greater than 25 to 48 are labeled “Weak,” values greater than 48 to 52 are labeled “Moderate,” values greater than 52 to 75 are labeled “Strong,” and values greater than 76 are labeled “Very strong.”

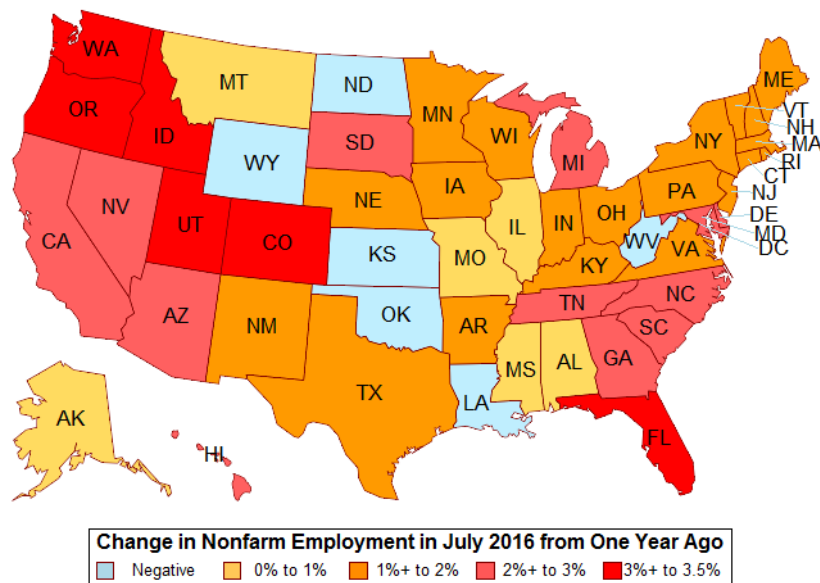


Seller traffic was “weak” in many states, measured by the *REALTORS® Seller Traffic Index*.⁷ However, seller traffic was “moderate” to “strong” in several states, including those that had benefited from the oil boom but are now facing slower job growth because of lingering lower oil and natural resources prices—Alaska, Montana, North Dakota, New Mexico, Texas, and Louisiana.



⁷ Respondents were asked “How do you rate the past month’s seller traffic in the neighborhood(s) or area(s) where you make most of your sales?” Respondents rated conditions or expectations as “Strong (100),” “Moderate (50),” and “Weak (0).” The responses are compiled into a diffusion index. A value of 50 indicates a balance of respondents who reported “Strong” and “Weak” markets. For graphical purposes, index values 25 and lower are labeled “Very weak,” values greater than 25 to 48 are labeled “Weak,” values greater than 48 to 52 are labeled “Moderate,” values greater than 52 to 75 are labeled “Strong,” and values greater than 76 are labeled “Very strong.”

Employment conditions affect the demand and supply for housing. The chart that follows shows the change in non-farm employment in July 2016 from July 2015 by state. Non-farm employment contracted in the oil-producing states of North Dakota, Wyoming, Oklahoma, and Louisiana and increased only modestly in several other natural resources states in the Midwest and South.⁸ The slower job growth and job cutbacks in these states are likely leading to more seller traffic and a shift to a buyer's market.⁹ Meanwhile, several other oil-states such as Utah, Colorado, Texas, and New Mexico have job growth near to or above the national average. Employment growth was strongest in Washington, Oregon, Idaho, Utah, Colorado, and Florida. Buyer traffic was “strong” to “very strong” in these states.



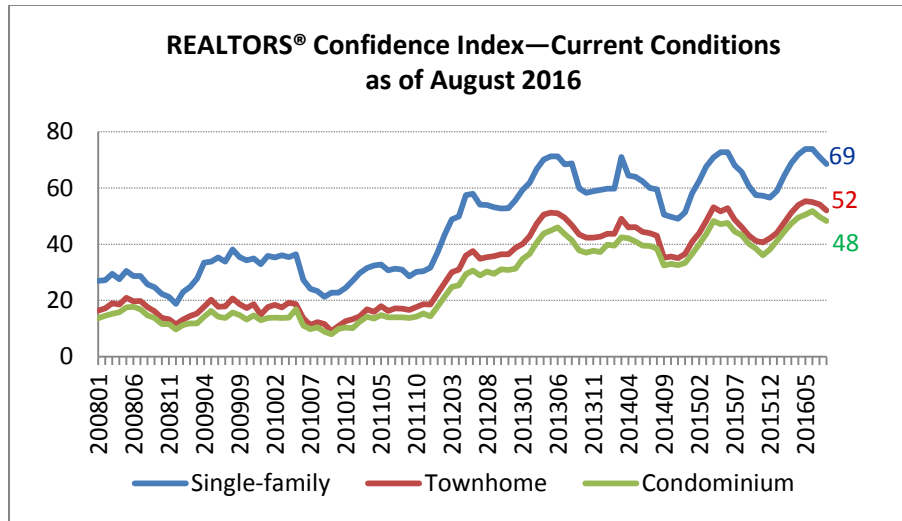
REALTORS® Largely Reported Strong Market Activity in August 2016

The *REALTORS® Confidence Index—Current Conditions* indices for single-family homes and townhomes each registered at 50 or above in August 2016 and were higher in August 2016 compared to one year ago.¹⁰ However, the indices are lower compared to July 2016, possibly due to seasonality effects.

⁸ For a review of states in which oil has an outsized economic impact, see this blog: <http://economistsoutlook.blogs.realtor.org/2016/03/21/is-california-an-oil-producing-state/>

⁹ <https://communityimpact.com/houston/the-woodlands/economic-development/2015/12/09/falling-oil-prices-starting-to-affect-woodlands-economy/>; <http://www.theatlantic.com/business/archive/2015/06/north-dakota-oil-boom-bust/396620/>

¹⁰ Respondents are asked “How would you describe the current housing market where you make most of your sales? For single-family homes? Townhomes? Condominiums?” The responses for each type of property are compiled into an index. An index of 50 indicates a balance of respondents having “weak” (index=0) and “strong” (index=100) expectations or all respondents having moderate (=50) expectations. The index is not adjusted for seasonal factors.



REALTORS® Are Generally Optimistic Over the Next Six Months

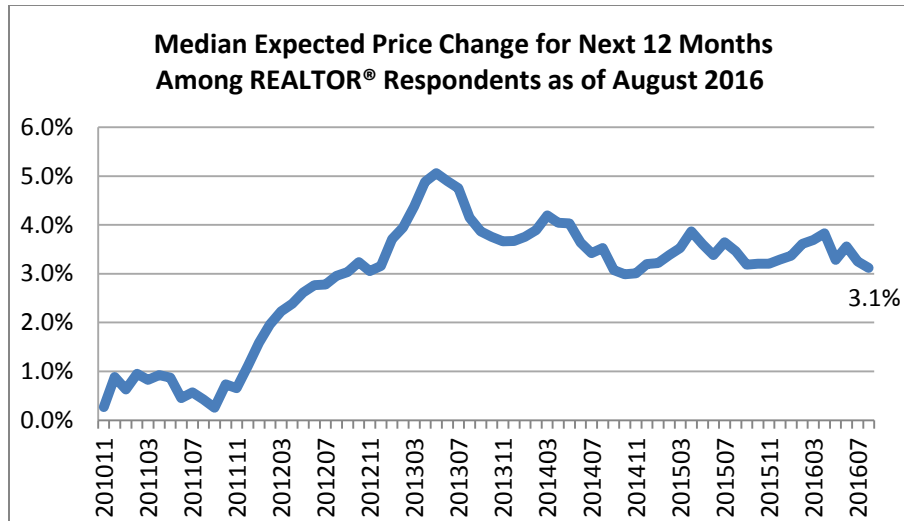
The *REALTORS® Confidence Index—Six-Month Outlook* for single-family homes and townhomes both registered above 50, indicating that more REALTORS® expected market conditions to be “strong” than “weak” over the next six months.¹¹ The index for condominiums dipped below 50, but remains above the 45 level registered at this time in 2015. The approval of H.R. 3700, the “Housing Opportunity Through Modernization Act of 2016,” likely contributed to the year over year improvement.¹² Among other measures, the law eases access to FHA condominium financing by reducing the FHA condo owner occupancy ratio from 50 percent to 35 percent, directing the FHA to streamline the condominium re-certification process, and providing more flexibility for mixed-use buildings.

In the single-family homes market, the market outlook in the next six months is “strong” to “very strong” in almost all states.¹³ In the townhomes markets, the outlook is more mixed in a narrow range, ranging from “weak” to “strong.” The condominium market shows the most variability with the outlook ranging from “very weak” to “very strong” across the fifty states and District of Columbia.

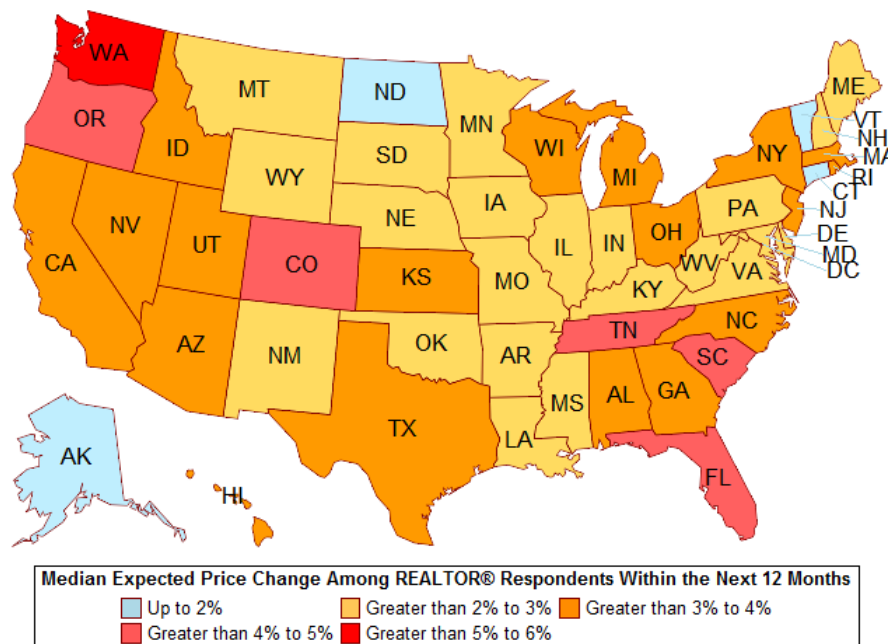
¹¹ Respondents were asked “What are your expectations for the housing market over the next six months compared to the current state of the market in the neighborhood(s) or area(s) where you make most of your sales?” The responses for each type of property are compiled into an index. An index of 50 indicates a balance of respondents having “weak” (index=0) and “strong” (index=100) expectations or all respondents having moderate (=50) expectations. The index is not adjusted for seasonality.

¹² The bill, which was championed by NAR, passed the House of Representatives 427-0 and the Senate under unanimous consent on August 14, 2016 and was signed by President Obama on August 29, 2016. See <http://www.realtor.org/articles/president-obama-signs-hr-3700>

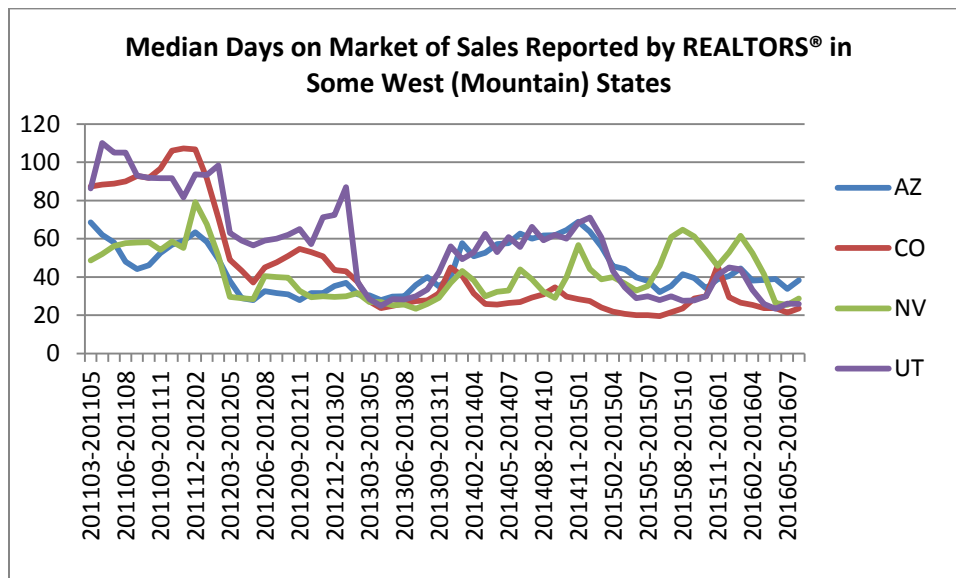
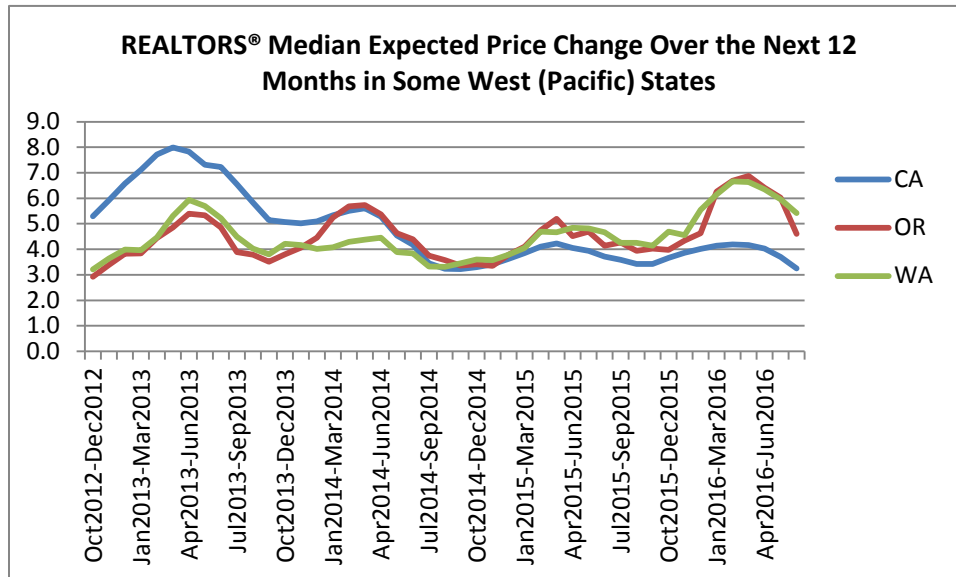
¹³ The market outlook for each state is based on data for the last three months to increase the observations for each state. Small states such as AK, ND, SD, MT, VT, WY, WV, DE, and D.C., may have fewer than 30 observations. Respondents rated conditions or expectations as “Strong (100),” “Moderate (50),” and “Weak (0).” The responses are compiled into a diffusion index. A diffusion index greater than 50 means that more respondents rated conditions as “Strong” than “Weak.” For graphical purposes, index values 25 and lower are labeled “Very weak,” values greater than 25 to 48 are labeled “Weak,” values greater than 48 to 52 are labeled “Moderate,” values greater than 52 to 75 are labeled “Strong,” and values greater than 76 are labeled “Very strong.”



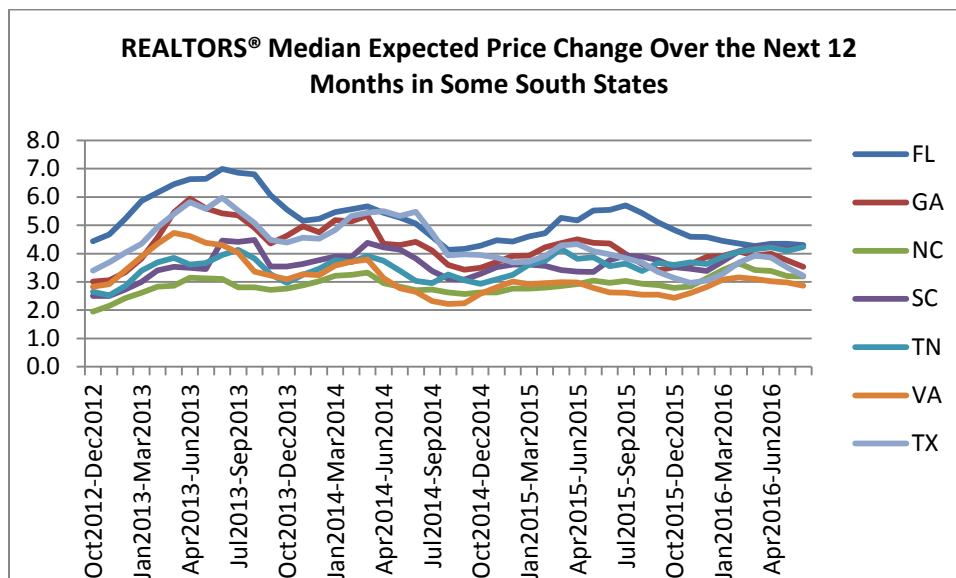
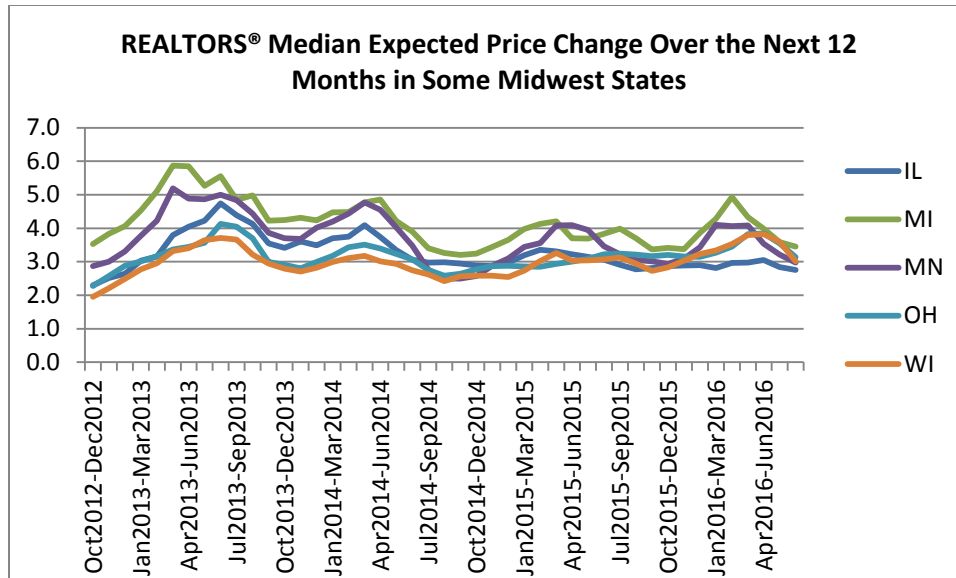
The map below shows the median expected price change in the next 12 months among REALTORS® who responded to the June–August 2016 RCI surveys. Price expectations vary by area, and the median expected price change is a measure that represents the middle value of the distribution of responses. The areas of strongest expected price growth are in the District of Columbia and Washington, where the median expected price growth was more than five to six percent. REALTOR® respondents from Oregon, Colorado, Tennessee, South Carolina, and Florida also expected strong price growth of greater than four to five percent.

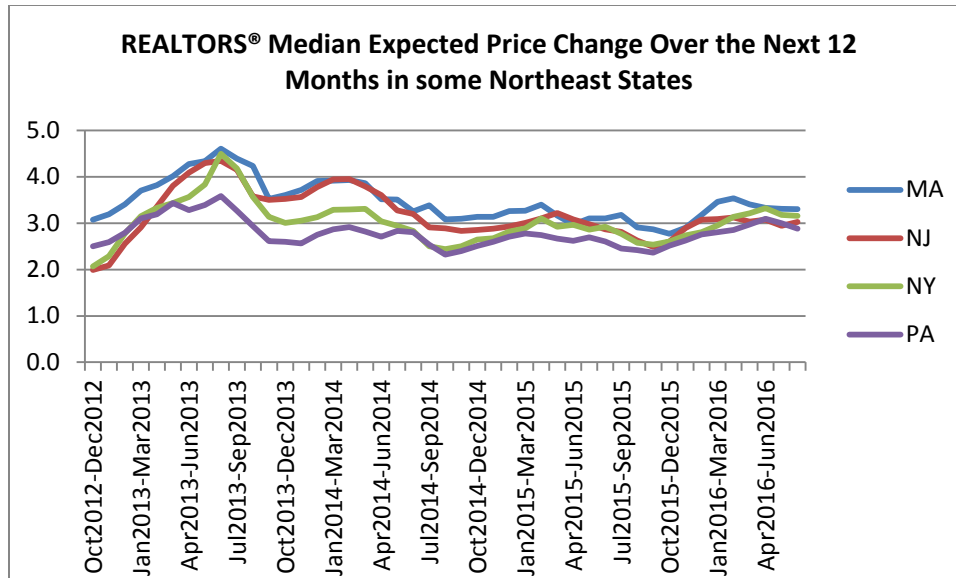


In many states, REALTORS® expect prices to increase but at a slower pace in the next 12 months than was expected in previous months.¹⁴



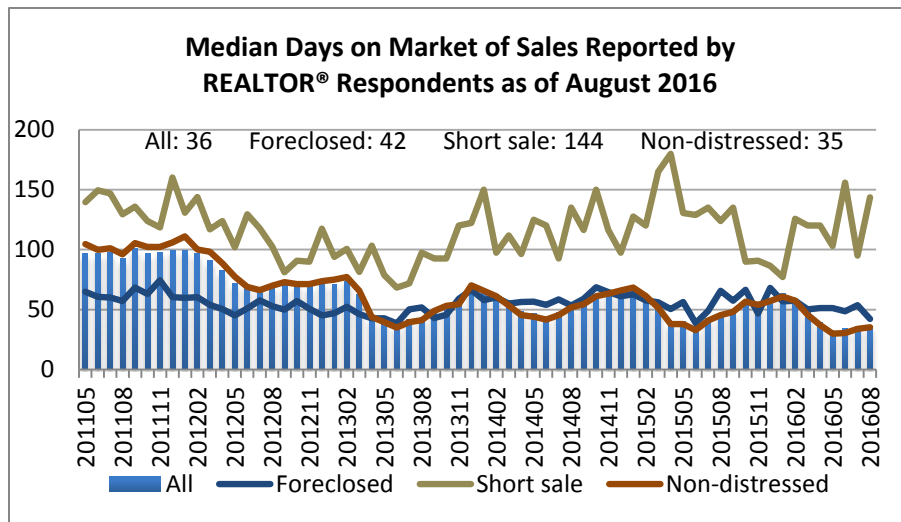
¹⁴ The data shown here are states with observations of about at least 150 over the rolling three-month period.





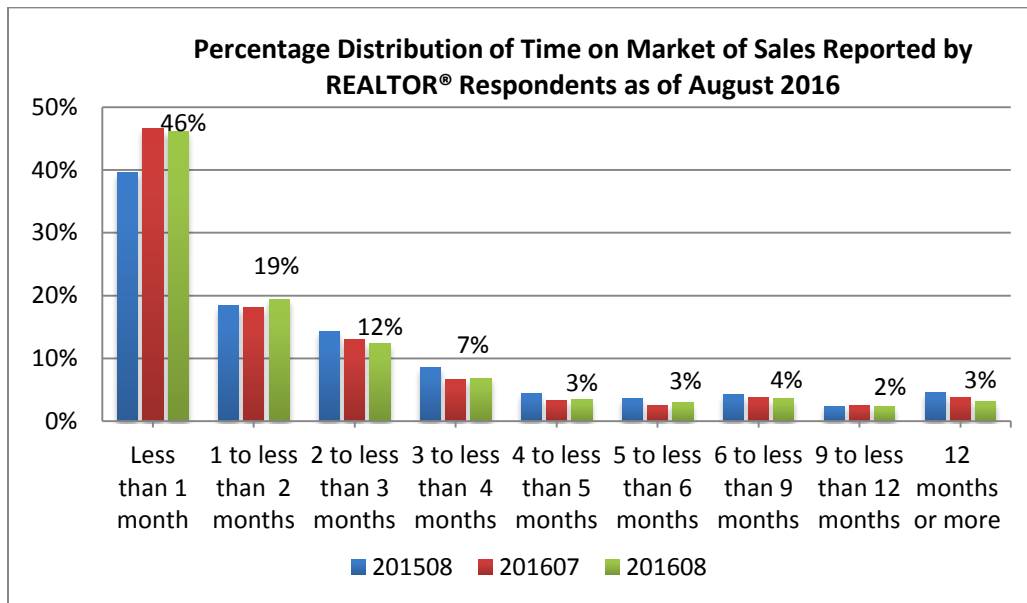
Properties Typically on the Market for 36 Days

Properties stayed on the market for fewer days in August 2016 compared to one year ago amid strong demand and tight supply. Nationally, properties sold in August 2016 were typically on the market for 36 days (36 days in July 2016; 47 days in August 2015).¹¹ Short sales were on the market for the longest time at 144 days, while foreclosed properties typically stayed on the market for 42 days. Non-distressed properties were typically on the market for only 35 days.

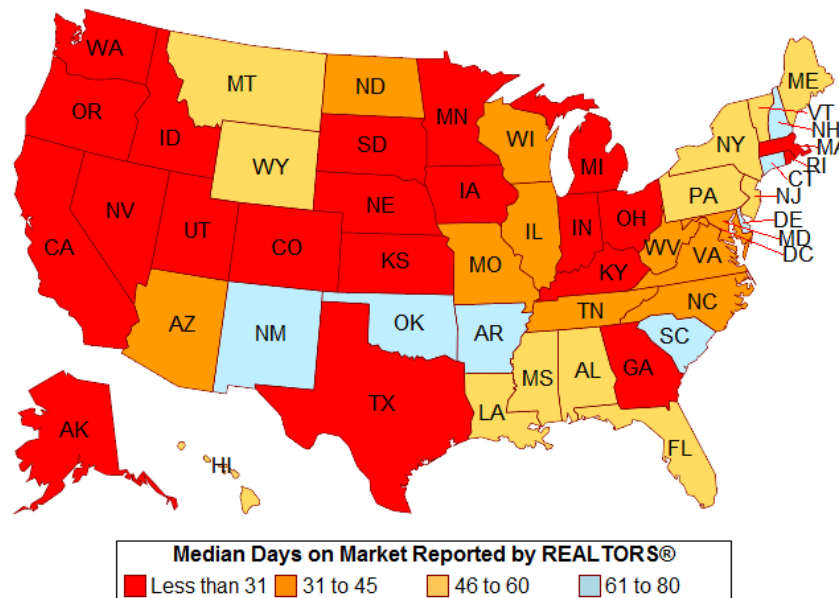


¹¹ Respondents were asked “For the last house that you closed in the past month, how long was it on the market from listing time to the time the seller accepted the buyer’s offer?” The median is the number of days at which half of the properties stayed on the market. In generating the median days on market at the state level, we use data for the last three surveys to have close to 30 observations. Small states such as AK, ND, SD, MT, VT, WY, WV, DE, and D.C., may have fewer than 30 observations.

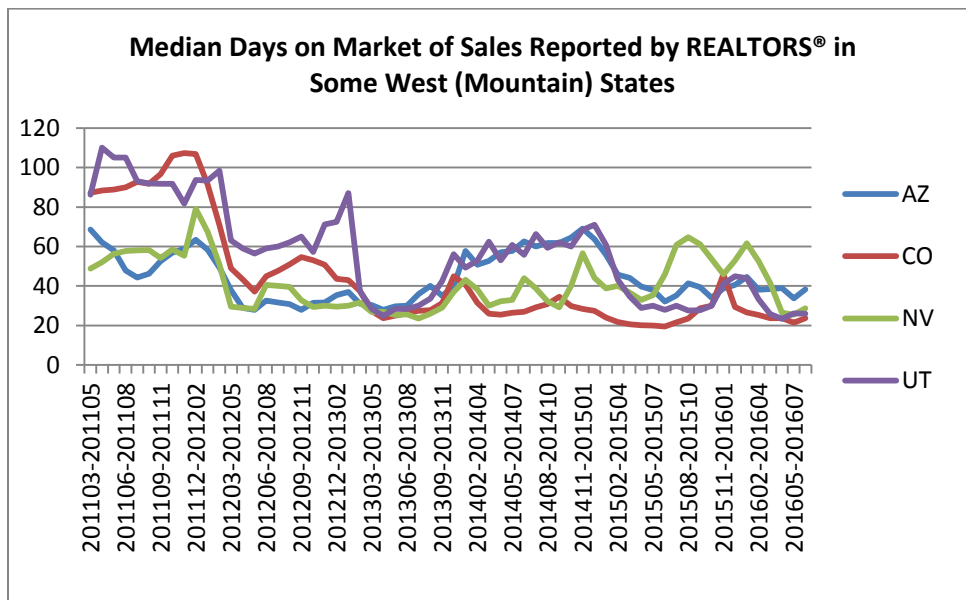
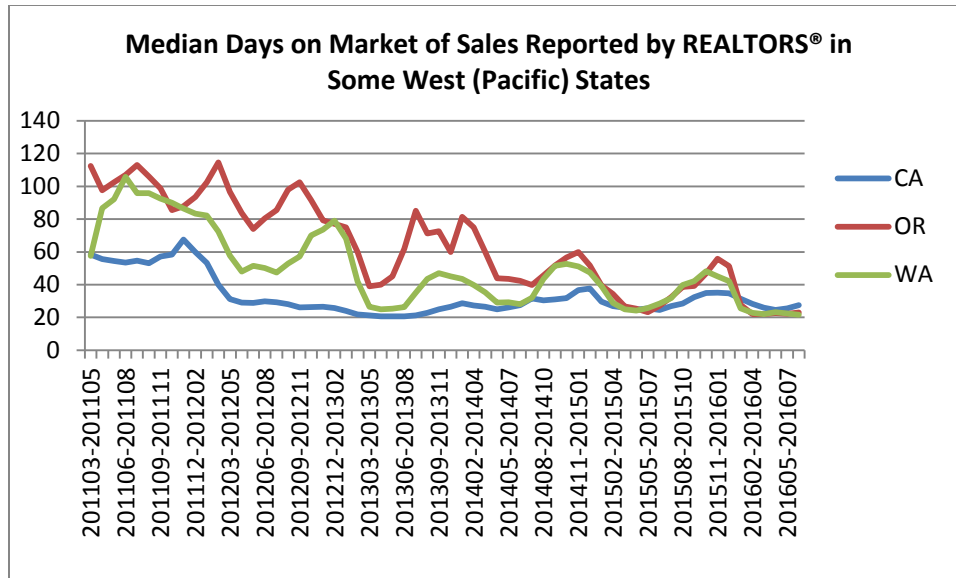
Nationally, 46 percent of properties were on the market for less than a month¹⁵. Only nine percent of properties were on the market for six months or longer.



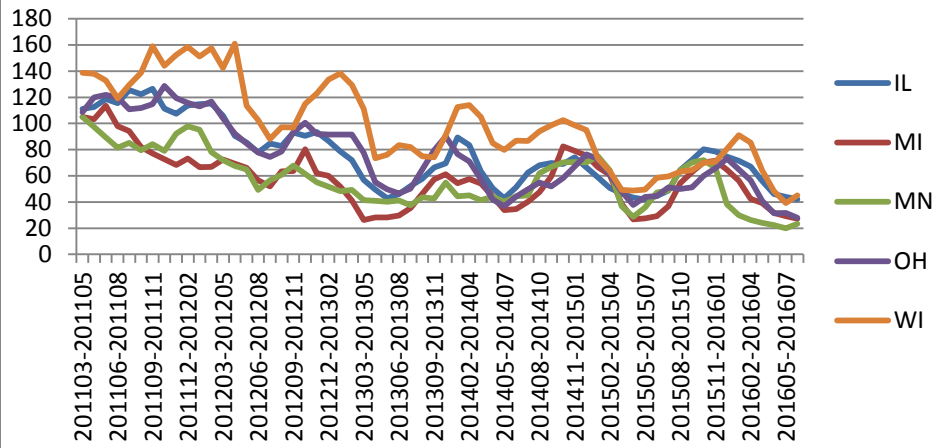
Half of the properties that sold in June–August 2016 were on the market for less than 31 days in many states. Looking at changes in this value over the last few years, in most states, the median length of time that properties stay on the market continues to fall, amid tight inventory conditions. Local conditions vary, and the data is provided for REALTORS® who want to compare local markets against other states and the national summary.



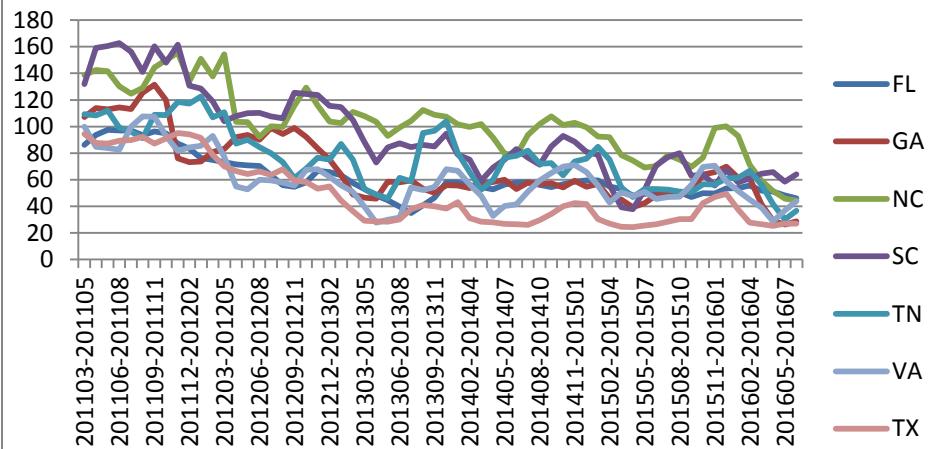
¹⁵ Days on market usually refers to the time period from listing date to contract date.

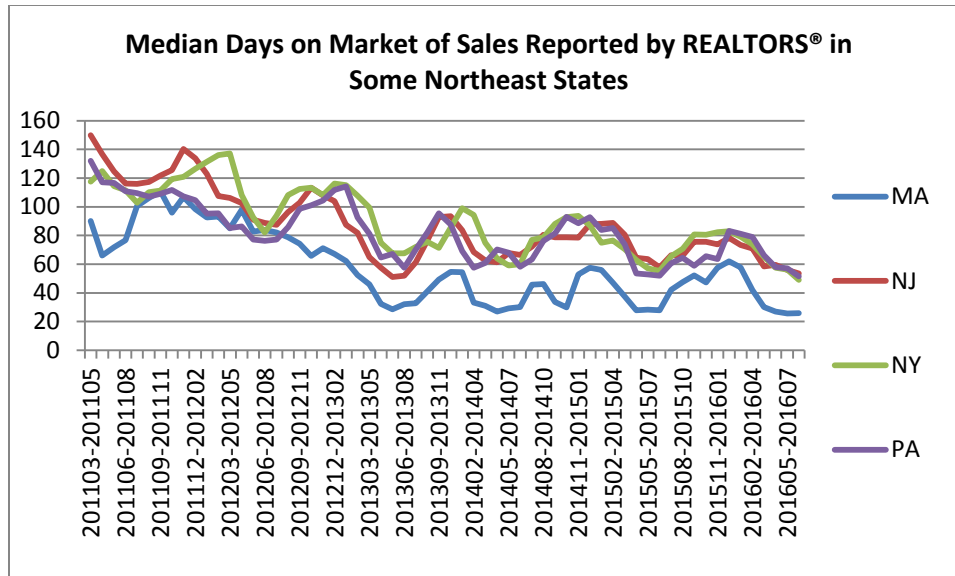


**Median Days on Market of Sales Reported by REALTORS® in
Some Midwest States**



**Median Days on Market of Sales Reported by REALTORS® in
Some South States**





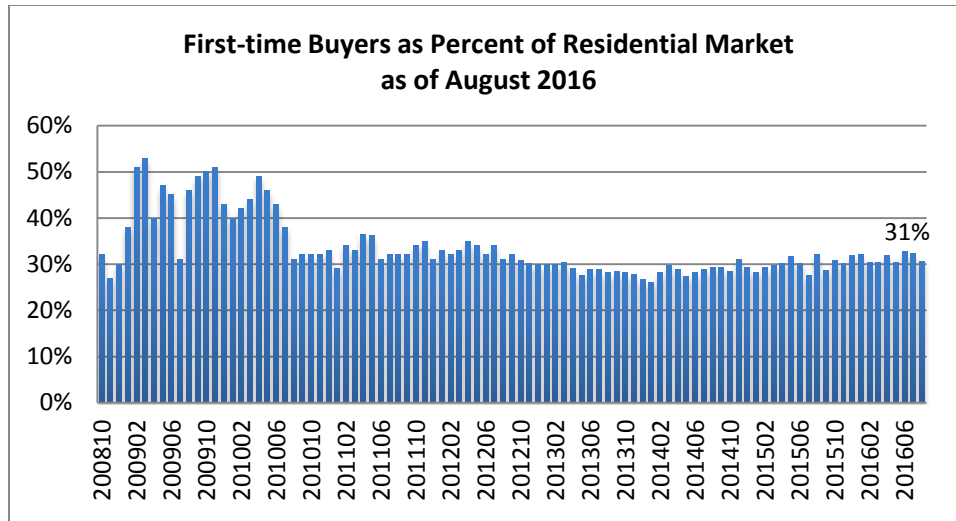
II. Buyer and Seller Characteristics

Sales to First-Time Buyers: 31 Percent of Sales

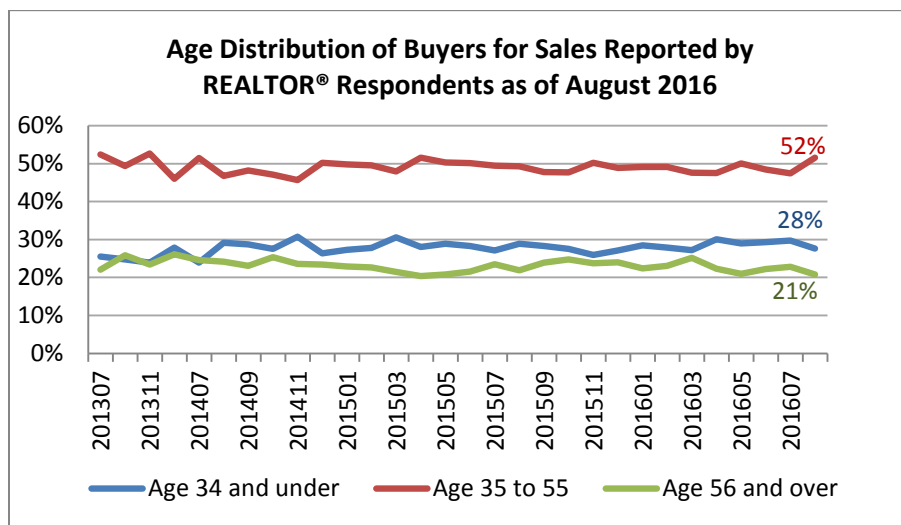
The share of first-time home buyers accounted for 31 percent of residential sales in August 2016 (32 percent in July 2016; 32 percent in August 2015).¹² Sustained job creation, historically low mortgage rates, and measures to loosen credit are conditions that are helpful to first-time buyers. However, tight supply and relatively stringent credit standards continue to make it challenging for first-time borrowers. According to NAR’s 2016 Q3 Housing Opportunities and Market Experience (HOME) Survey, 65 percent of consumers who do not currently own a home think it would be difficult to qualify for a mortgage given their current financial situation.¹⁶ Low downpayment loans are available, but some buyers may want to save for a bigger downpayment to save on mortgage insurance premium payments and avoid the increased mortgage payment that comes with a lower downpayment.

¹² First-time buyers accounted for about 32 percent of all home buyers based on data from NAR’s 2015 [Profile of Home Buyers and Sellers](#) (HBS). The HBS is a survey of primary residence home buyers and does not capture investor purchases but does cover both existing and new home sales. The *RCI Survey* is a survey of REALTORS® about their transactions and captures purchases for investment purposes and second homes for existing homes.

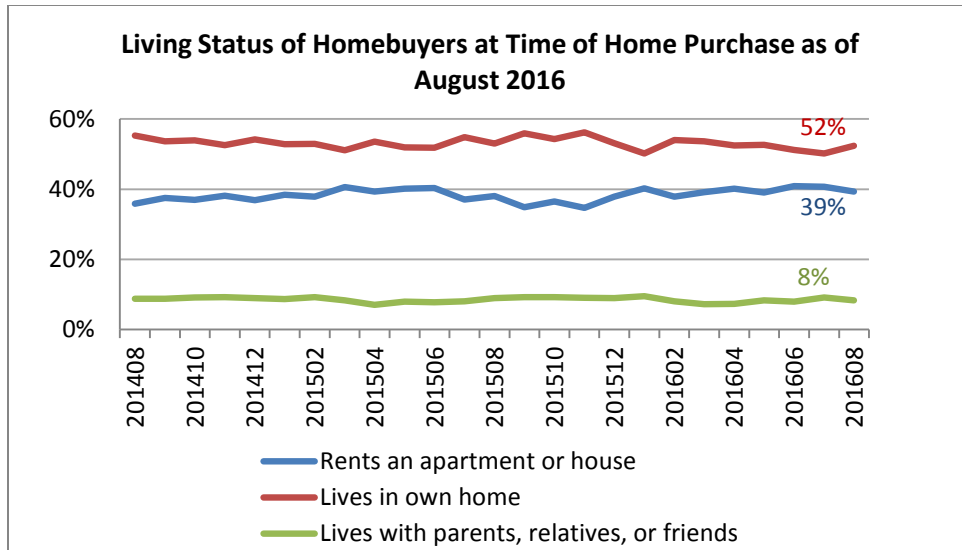
¹⁶ See: <http://www.realtor.org/reports/2016-q3-homeownership-opportunities-and-market-experience-home-survey>. Results are given for those who do not own a home and indicate that it would be “somewhat difficult” or “very difficult” to qualify for a mortgage given their current financial situation.



Buyers 34 years old and under, who are likely to be first-time buyers, accounted for 28 percent of residential buyers in August 2016, (30 percent in July 2016; 29 percent in August 2015). This slight decrease in the share of younger buyers from recent months was made up by a slight increase in the share among middle-aged buyers.

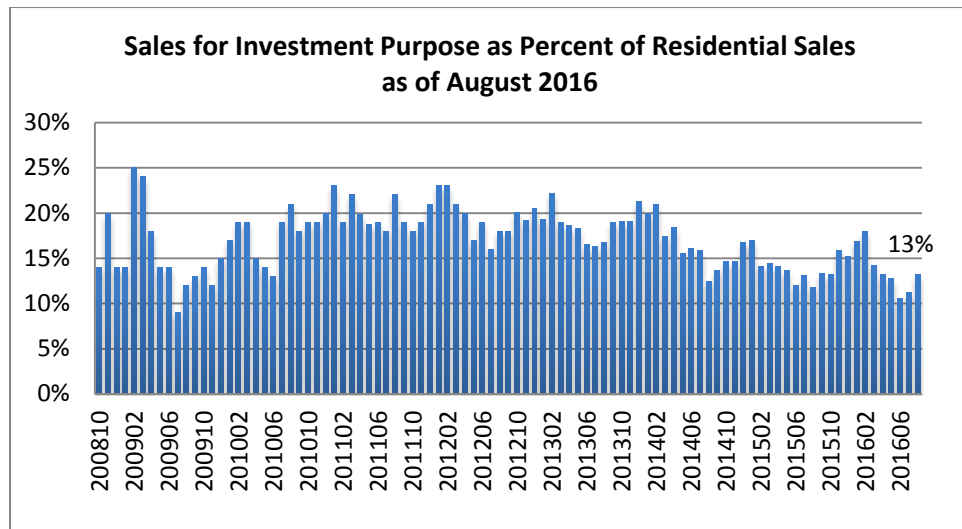


Homebuyers who were renting prior to their recent home purchase accounted for 39 percent of sales (41 percent in July 2016; 38 percent in August 2015). The slight decline in buying by previous renters was coupled with an increase in buyers who previously owned their home.



Sales for Investment Purposes: 13 Percent of Sales

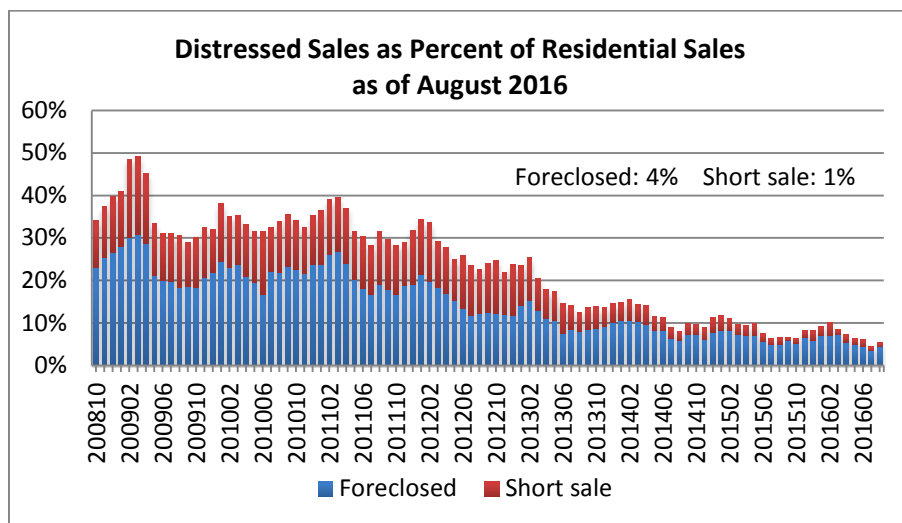
Investment sales made up 13 percent of sales (11 percent in July 2016; 12 percent in August 2015). At their peak in 2009, investment sales were 25 percent of sales. Purchases for investment purposes have generally been on the decline with fewer distressed sales on the market and with home prices rising to levels that make the purchase less attractive as an investment. Low mortgage rates are less of a benefit to investors since many of them use cash to purchase a home.¹⁷



¹⁷ See page 18, section on Cash Sales.

Distressed Sales: Five Percent of Sales

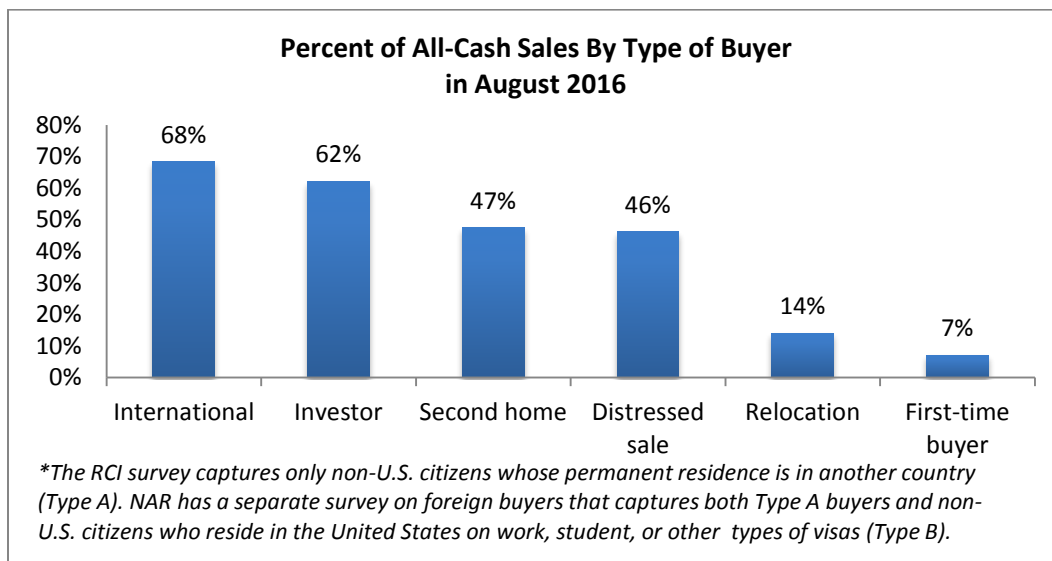
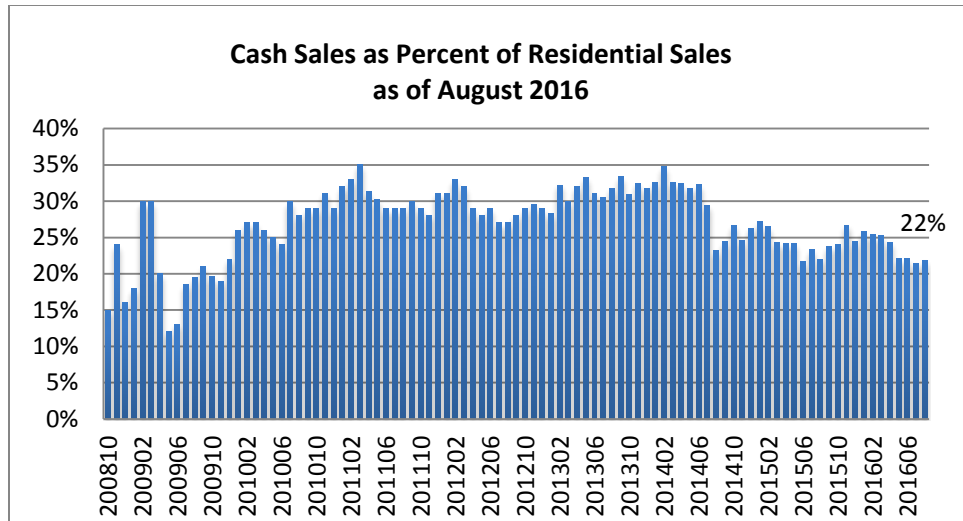
Distressed sales accounted for five percent of sales (five percent in July 2016; seven percent in August 2015). Foreclosed properties were four percent of residential sales, while short sales were only one percent of residential sales.¹³ With rising home values and fewer foreclosures, the share of sales of distressed properties has generally continued to decline. Distressed sales accounted for about a third to half of sales until 2012 when they began to fall below this level.



Cash Sales: 22 Percent of Sales

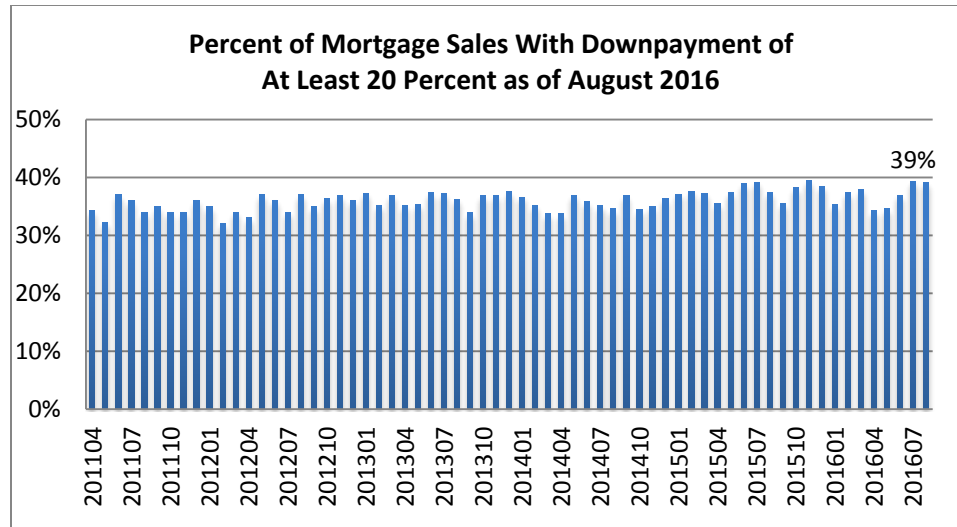
Purchases that were financed with cash were 22 percent of sales (21 percent in July 2016; 22 percent in August 2015). Buyers of homes for investment purposes, second homes, and foreign clients are more likely to pay cash than first-time home buyers. As the shares of investment and distressed sales to total sales have declined, so has the share of cash sales.

¹³ The survey asks respondents who had a sale in the month to report on the characteristics of the most recent sale closed.



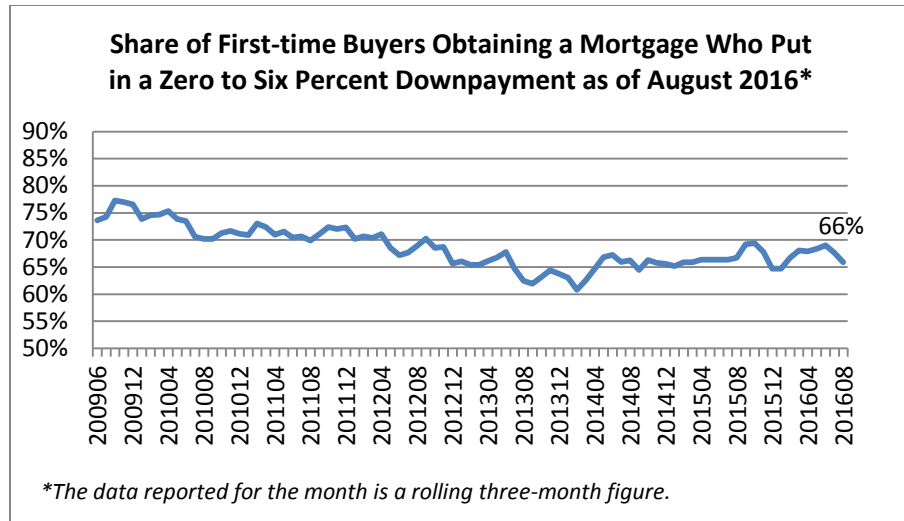
Buyer Downpayments

Among all buyers who are financing a home purchase, 39 percent made a downpayment of at least 20 percent, a share that has remained about the same since NAR began collecting this information in 2011.



Among sales to first-time buyers who purchased a property in June–August 2016 and who obtained a mortgage, 66 percent made a downpayment of zero to six percent (68 percent in July 2016; 67 percent in August 2015). In June 2009 when NAR first collected this information, 74 percent of first-time homebuyers obtained loans with a zero to six percent downpayment. Recent moves have been implemented to make credit more widely available such as FHA’s reduction of its annual mortgage insurance premiums and the acceptance of GSEs of three percent downpayment mortgages. However, these measures do not appear to have made a significant impact on attracting first-time homebuyers, perhaps due to lack of information about these products. In fact, NAR’s 2016 Q3 Housing Opportunities and Market Experience (HOME) Survey found that 37 percent of those aged 34 or under believe that they need more than 20 percent for a downpayment while only 13 percent believe they need a downpayment of five percent or less.¹⁸ Additionally, although low downpayment loans are available, some buyers may want to save for a bigger downpayment to save on mortgage insurance premium payments and to avoid the cost that comes with making a lower downpayment.

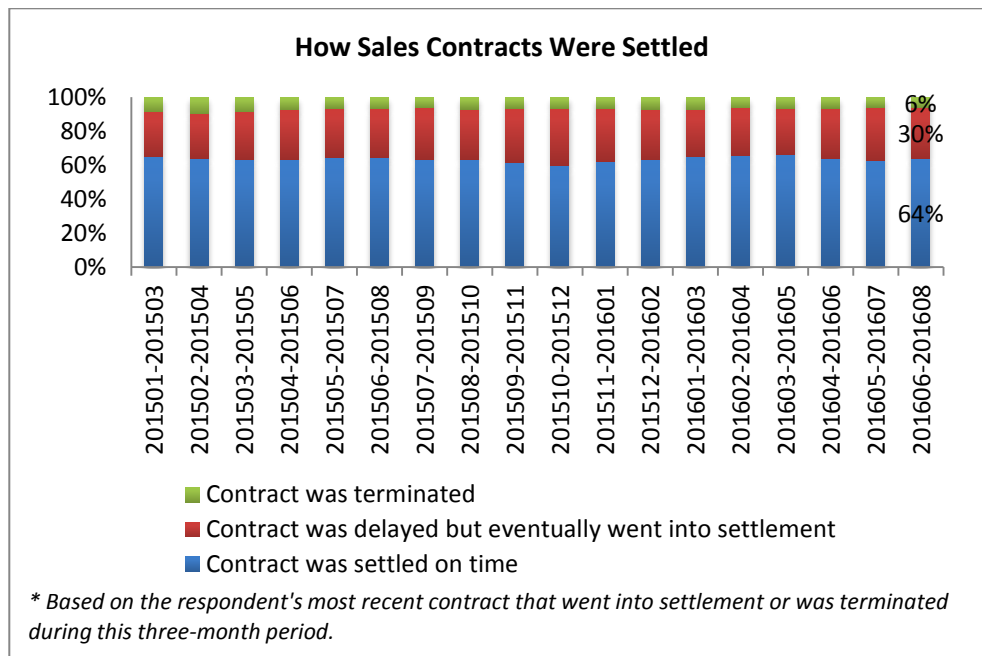
¹⁸ See: <http://www.realtor.org/reports/2016-q3-homeownership-opportunities-and-market-experience-home-survey>.



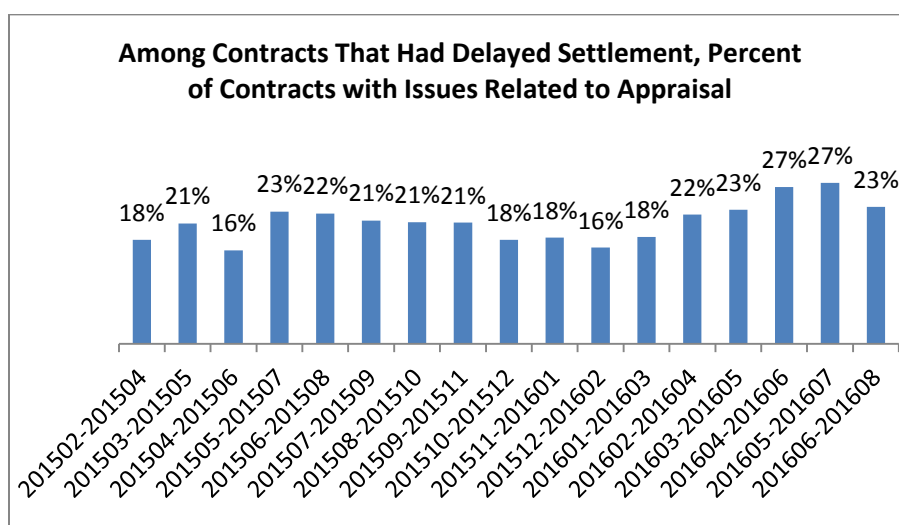
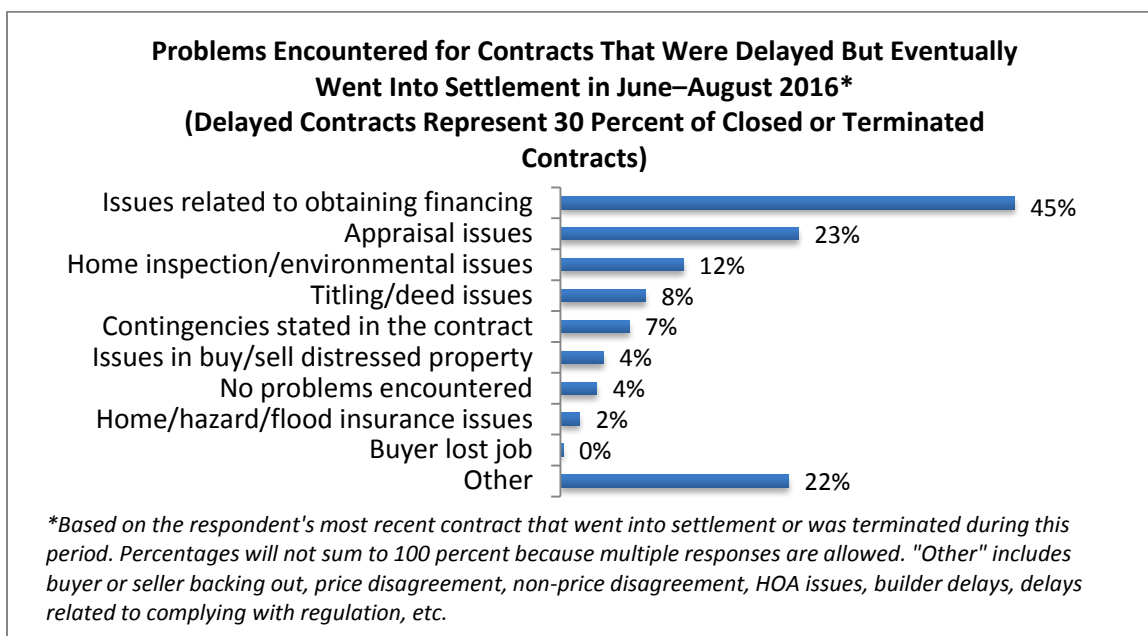
III. Issues Affecting Transactions

Contract Settlement: Financing, Home Inspection, and Appraisals are Major Issues

In reporting on their last contract that went into settlement or was terminated over the period June–August 2016, respondents indicated that 64 percent of contracts were settled on time, 30 percent had delayed settlement, and six percent were terminated.

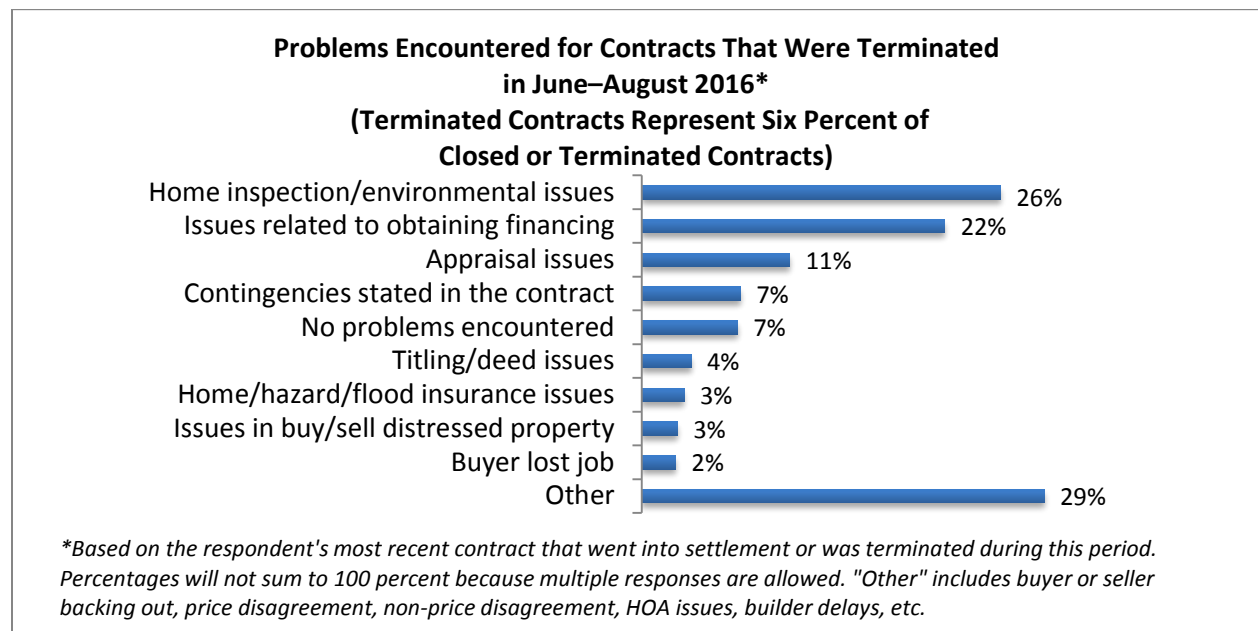


Among contracts that had a delayed settlement (30 percent), issues related to obtaining financing, appraisal, and home inspection were the primary causes of the delay. The fraction of delays due to appraisals has increased in recent months, in part due to a shortage of appraisers and other issues reported by REALTORS® (e.g., being asked to make “inspections”).¹⁹



¹⁹ Danielle Hale, “Concern about Fast-Rising Prices, or Overworked Appraisers?”
<http://economistsoutlook.blogs.realtor.org/2016/08/24/concern-about-fast-rising-prices-or-overworked-appraisers/>

Among contracts that were terminated (six percent), issues related to home inspections, obtaining financing, and appraisals were the major causes of termination.





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