

# real estate insights

November 2006

Real Intelligence –  
Real Advantages

## In This Issue

**Existing-home sales** eased in September, posting a seasonally adjusted annual rate of 6.18 million units. The pace was 1.9 percent off the pace in August and 14.2 percent below that of September 2005 – the third strongest month on record. September’s slight decrease in resale activity is an indication that the housing market is stabilizing. The national median existing-home price for all housing types was \$220,000 in September – 2.2 percent below the median price in September 2005. Housing inventory fell 2.4 percent at the end of the month to a 7.3-month supply at the current sales pace. As inventory declines, price appreciation should turn positive.

**Read more.**

**Sign of the Times.** Is the worst behind us? Have home sales and prices ended their downward trend? Are home buyers ready to “come back” to the market? In his commentary this month, NAR Chief Economist gives us a look at what is likely to happen in housing markets down the road. **Read more.**

**The Great Profile.** Home buyers and sellers continue to rely on real estate professionals to assist them in the home sales transaction. And while technology is now dominating many aspects of the real estate business and how consumers buy and sell their homes, the most important factors are still human. The **2006 NAR Profile of Home Buyers and Sellers** was recently released at the NAR Annual Conference and Trade Expo, and this month’s market intelligence feature reports on some of the major findings of the study about buyers. **Read more.**

**All real estate is local.** That’s the *mantra* for real estate professionals. Changes in home prices can be significantly different from city to city and region to region. So what are the latest trends in home prices in your metro area? NAR’s quarterly report on metropolitan area home prices has just been released, and our regional feature looks at the latest figures. **Read more.**

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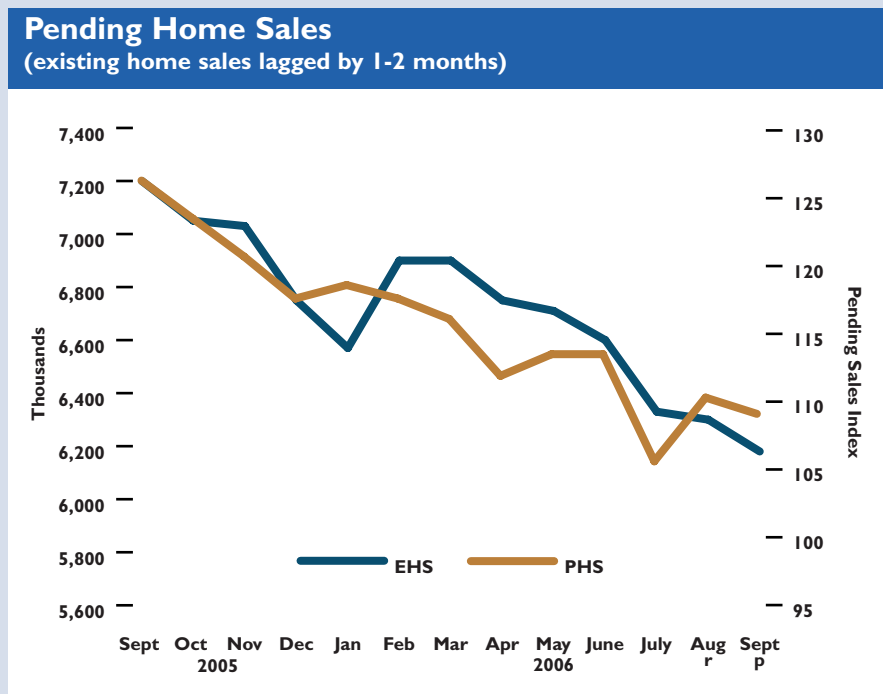
# Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p><b>Existing-home sales</b> fell 1.9% in September to a seasonally adjusted annualized rate of 6.18 million units – the lowest sales pace since January 2004. Existing-home inventory fell for a second consecutive month. A relatively healthy job market and recent price declines should lead to more buyers entering the market. <a href="#">Read more.</a></p>	July 6,330 Aug 6,300 Sept 6,180		The worst is pretty much over
<p><b>New home sales</b> rose 5.3% in September to a seasonally adjusted annualized rate of 1.1 million units – the third consecutive monthly increase. Still, new home sales are down 14.2% from year ago levels. Similar to that for existing homes, new home inventory also fell. <a href="#">Read more.</a></p>	July 984 Aug 1,021 Sept 1,075		Fewer construction will mean fewer sales of new homes
<p><b>Housing Starts</b> Housing starts rose 5.9% in September, posting 1.772 million seasonally adjusted annualized units. Both single-family and multifamily starts increased. But starts are still off by 18% from a year ago. Builders' sentiment has continued to fall implying lower new construction activity. <a href="#">Read more.</a></p>	July 1,760 Aug 1,674 Sept 1,772		Single-family construction to be down 15% and multifamily up 2% in 2007
<p><b>Housing affordability</b> Housing affordability conditions improved in September. NAR's composite housing affordability index rose 3.9% from August to 107.1. A decrease in mortgage rates as well as softening home prices both helped contribute to the rise in affordability. <a href="#">Read more.</a></p>	July 99.6 Aug 103.1 Sept 107.1		Wages have been climbing at 4% with home prices actually falling
<p><b>Mortgage Rates</b> The 30-year fixed mortgage rate slid in October to 6.36% – its lowest level since the first quarter of this year. Rates are expected to hover around mid-to-high 6% for the remainder of the year. <a href="#">Read more.</a></p>	Aug 6.55% Sept 6.41% Oct 6.36%		Low inflation rates provide comfort to bond investors in accepting low rates
<p><b>Purchase Applications</b> The Mortgage Bankers Association's purchase application index decreased to 381.5 in October. Buyers are "timing" their entry into the market, and will make the decision to purchase a home when they feel conditions are optimal. <a href="#">Read more.</a></p>	Aug 383.2 Sept 395.7 Oct 381.5		The bulk of mortgages go for existing home sales that are stabilizing
<p><b>Employment</b> Payroll employment rose by 92,000 in October, a modest figure in an expanding economy. But figures for August and September were revised significantly upward. In the past 12 months, 1.97 million jobs have been added to the economy. Expect modest improvements in hiring trends over the next three months. <a href="#">Read more.</a></p>	Aug 230 Sept 148 Oct 92		Unemployment can't possibly go lower than 4.4%, so job expansion while not robust will be respectable
<p><b>Inflation</b> The consumer price index (CPI) fell 0.5% in September. The core index (excluding food and energy) increased 0.2%. Transportation and energy prices fell noticeably, offsetting mostly modest increases in other sectors. The housing component should moderate in the coming months and leave the core component steady at a sustainable, low level. <a href="#">Read more.</a></p>	July 0.4% Aug 0.2% Sept -0.5%		Mild oil price crash helping to bring down prices at the pump and overall inflation

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 November 5, 2006. Compiled by Wannasiri Chompoopet, Ken Fears, Kevin Thorpe and Lawrence Yun.

# NAR's Pending Home Sales Index

NAR's pending home sales index slipped 1.1% in September to 109.1. September's index follows a 4.5% gain in August, but is 13.6% below the index posted in September 2005. The index is derived from pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not yet closed. Pending sales typically are finalized within one to two months of signing. An index of 100 is equal to the average level for contract activity during 2001 – the first year to be examined and the first of five consecutive record years of existing home sales. September's pending home sales index indicates that home sales are expected to hold fairly steady in the months ahead. NAR analysts don't expect to see any major changes until early next year when there should be a modest lift to home sales activity. [Read more.](#)



Source: NAR Research

# Signs of the Times

by David Lereah, *Chief Economist*

Our nation's housing markets have been in a slump since late last year. Existing home sales are projected to fall by about nine percent this year. New home sales are expected to fall by almost 17 percent. But take heart – the worst may be over. As we enter the New Year, further contraction in the housing industry may be limited. The signs are out there – but you need to look.

The pace of existing home sales appears to be close bottoming out – resales have hovered around 6.3 million annualized units during the past several months. We'll need to wait for at least two more months of data before confirming that we have hit bottom. But year-over-year pending sales for existing homes are improving, from a 16 percent drop in July to a 13 percent drop in August to an 11 percent drop in September. More encouraging news: new home sales actually posted *positive growth* during the past two months. Home inventories are also improving. The supply of both existing and new homes fell during the past two months. The supply of existing homes has topped out at 7.3 months, while the supply for new homes fell from 7.1 months in July to 6.4 months in September.

Other housing measures also suggest that the industry's downturn may be over. The Mortgage Bankers Association's index of mortgage purchase applications has stabilized within the 380 to 400 range. Home price appreciation has turned negative the past two months. And while that may sound like bad news it may actually be a welcome development, forcing sellers to show some flexibility and bringing buyers back to the market. With household wages and incomes rising and home prices falling, housing affordability measures are improving. The National Association of REALTORS® Housing Affordability Index has moved up in September to 108 compared with 100 in July.

So why should the doomsayers of housing – those who are predicting a prolonged contraction and a tumbling of home prices – believe that the housing contraction of 2006 is almost near its end? The answer lies in the attitudes of households. The current contraction has to do with household confidence, or rather, lack thereof. Previous housing downturns were driven more by households' financial wherewithal to purchase a home. For instance the last two housing contractions (1979-1981 and 1989-1991) occurred against an economic backdrop of job losses, negative GDP growth (a recession), and double-digit mortgage rates. Simply stated, households did not have the wherewithal to purchase homes, even if they wanted to. Today's housing contraction has more to do with negative household confidence, and home prices rising to unaffordable levels.

It won't be surprising to see home sales bottom out after a year of slowing. During this past year, affordability measures improved. With every home price drop, there is a buyer who was standing on the sidelines and is now willing to get back into the home-buying market. There are also marginal home buyers who now qualify to purchase a home because of falling prices. Further, our growing economy is creating jobs and wage/income gains. With every job creation and every

wage/income gain, housing affordability improves for that waiting-on-the-sidelines home-buyer household. So over time, there are market forces that are working to improve affordability, thus permitting households to buy homes. This is why the 2006 housing contraction is almost over.

Of course, it's not going to be all roses and sunshine. There are a number of metropolitan areas that will continue to experience some pain well after the national housing market contraction ends. I estimate that 26 percent of our markets

will continue to contract in 2007. These are the hottest boom markets of the past five years that are cooling the fastest. (I guess the bigger they are, the harder they fall applies.) As you would expect, they are the usual suspects: California, southern and middle Florida, resort locations sprinkled down the east coast, Washington, DC, New York, Boston, Nevada and Arizona. Some of these markets will correct sooner than will others. The length of time for each market's correction and how far prices need to fall for that correction to be complete depends on some local market measures – local job creation, the median home price, net migration, affordability and the share of second-home buying. I expect most of these markets to fully correct by the second half of next year. But there may be some markets that may experience contraction well into 2008.

Still, we should put all of this into perspective. The real estate boom of 2002-2005 was unprecedented. The industry flew higher than it ever did. The plane needs to land and refuel in order to take off again.

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**With every job creation and every wage/income gain, housing affordability improves for that waiting-on-the-sidelines home-buyer household.**

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# THE FORECAST

by Lawrence Yun, Senior Forecast Economist

Many REALTORS® are nervous. The housing market has taken a beating over the last several months. Existing and new home sales are down by double-digit percentages from September 2005. Prices have also posted negative growth. The good news is that our REALTORS® are NOT on the verge of a breakdown. There are now signs in the market that the worst could well be behind us. Furthermore, the commercial real market has been performing well and looks to continue its expansion for the foreseeable future.

## Stabilizing Housing Market

Several housing market indicators point toward stabilizing patterns after having experienced pronounced declines in the first nine months of the year. New home sales, which are based on contracts and not closings, rose in August and September. The rise in sales was accompanied by fewer overall new home listings. The result was a marked decline in the months' supply of inventory from 7.2 months in July to 6.4 months in September. Though new home sales rose in the past two months, sales were still running about 12 percent below year ago levels. However, a contraction of 20% in new single-family home construction is much sharper, implying a thinning of the inventory pipeline in the upcoming months. The months' supply could well reach under 6 months by early 2007. That is good news. It means the market will have returned to historically normal balanced market conditions.

Another positive sign is NAR's pending home sales. As with new home sales, *existing pending* home sales are based on contracts and hence more forward looking than the *existing closed* home sales. Pending sales were higher in August and September compared to their low point in July – just as in the case of new homes. Also similarly, the total number of existing homes on the market has declined for two straight months. Some of the declines are due to the usual sea-

sonal patterns of lower inventory in August and September. But an internal review of seasonally adjusted inventory figures showed a decline as well. The inventory decline is not a fluke – it's real. That means that the months' supply of existing homes also is likely to have already peaked. It is only a matter of a few more months before the market will be declared as being back to normal.

The perking of sales – which should be evident in a couple of months since existing home sales lag pending sales by about two months – was undoubtedly helped by falling mortgage rates. The

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**The months' supply of existing homes is likely to have already peaked. It is only a matter of a few more months before the market will be declared as being back to normal.**

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30-year fixed rate averaged 6.76 percent in July before sliding down 40 basis points to 6.36 percent in October. As of mid-month, the November rates looked to be very similar to October's. Bond investors evidently feel comfortable in holding onto such "low" yielding returns because the inflation rate is low. The mild crash in the energy sector has lowered prices at the pump. The expanding but sluggish economy has also tamed oil bulls.

## Expanding Commercial Real Estate

While the residential market has been in a bit of a slump, the commercial real estate market has been on a solid expansion for the past two years. Through the third quarter of 2006, private non-residential structure spending (i.e., for commercial buildings) rose a hefty 13.7 percent from a year ago. That easily tops the figure for consumer spending growth of 3 percent and busi-

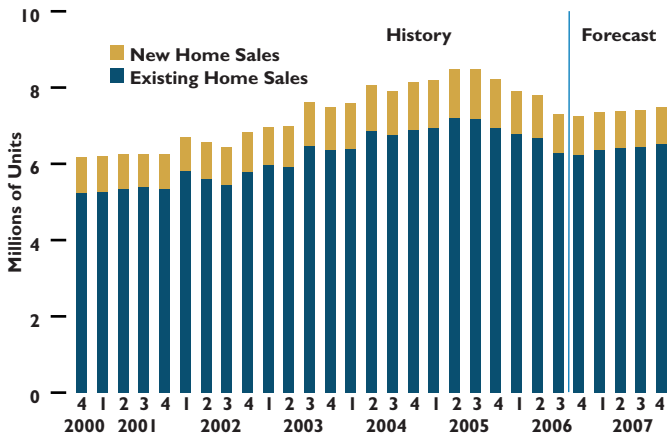
ness spending growth (outside of structure) of 6 percent. The healthy commercial market is reflected in other corroborating data: rising net absorption, falling vacancy rates, and increases in rents in the office, industrial, and multifamily sectors. Only the retail sector shows a weakening trend, as retailers are less aggressive about leasing in light of an anticipated deceleration in consumer spending. Home prices are not rising so consumers, who had viewed home values as virtual ATM machines, could hunker down.

## REALTOR® Membership

Only about 5 percent of REALTORS® specialize fully in commercial real estate. Therefore, overall REALTOR® membership has been primarily driven by residential housing market conditions. Membership has been positively associated with home sales and real home price growth – with a lag time of at least 12 months. It has also been associated – albeit negatively – with job growth. That is, the more jobs elsewhere the fewer people turn to real estate as a full-time profession. Now with sales turning negative, real home prices turning negative, and plentiful outside jobs, membership will decline somewhat in the upcoming year. But most career REALTORS® know that their industry is cyclical, and they will tough it out a few more months as we begin see the light at the end of the tunnel.

## Home Sales

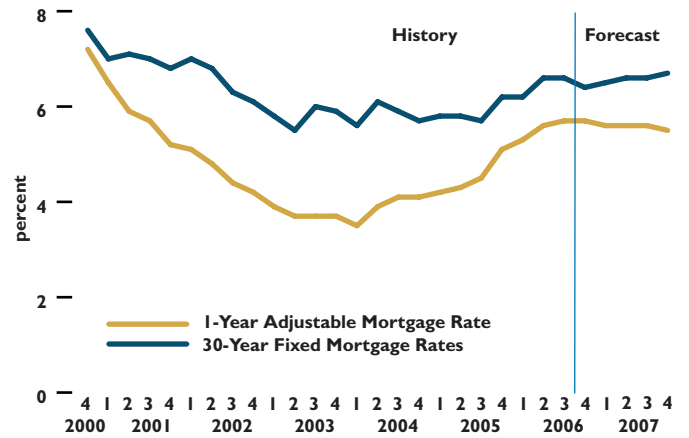
After 2006, the beginning of a recovery



Sources: NAR, Bureau of the Census, NAR Forecast

## Mortgage Rates

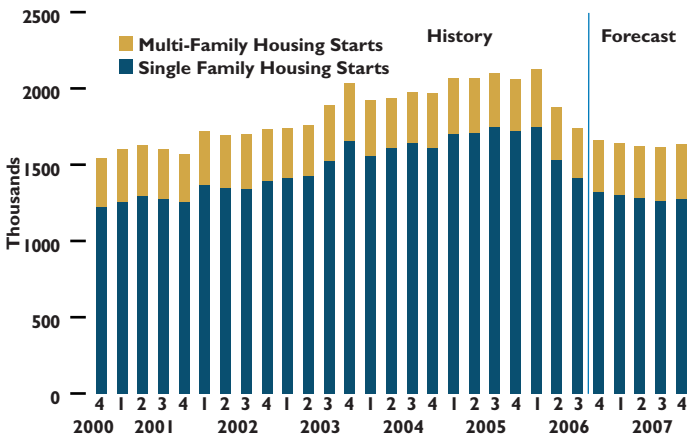
Slight shift upward in fixed rates



Sources: Freddie Mac, NAR Forecast

## Housing Starts

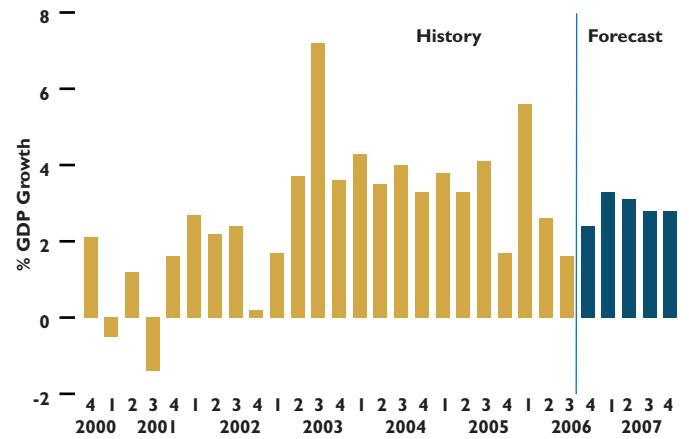
Healthier levels of multifamily starts to meet demand of new job holders



Sources: Bureau of the Census, NAR Forecast

## Economic Growth

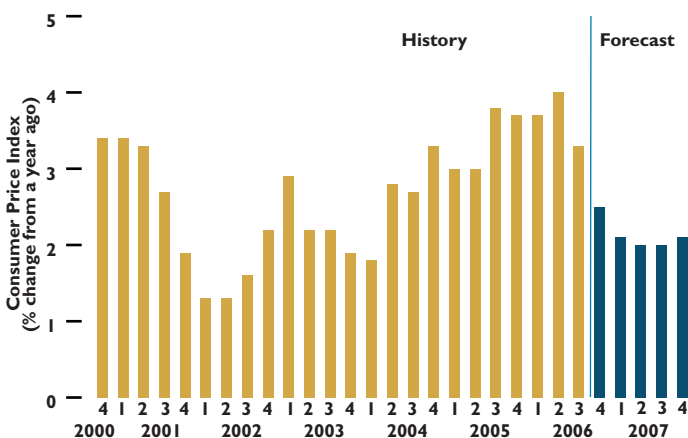
Healthy growth spurt in early 2007



Sources: Bureau of Economic Analysis, NAR Forecast

## Inflation

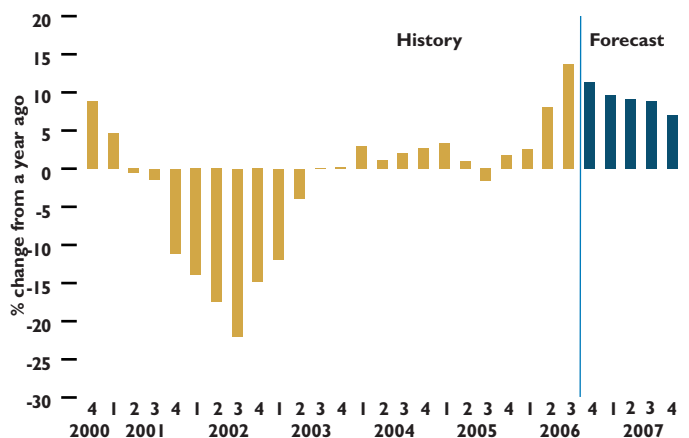
No major worries



Sources: Bureau of Labor Statistics, NAR Forecast

## Non-residential Construction

Will stay in positive territory



Sources: Department of Commerce, NAR Forecast

# U.S. ECONOMIC OUTLOOK

## November 2006

	2005		2006				2007				2004	2005	2006	2007
	III	IV	I	II	III	IV	I	II	III	IV				
<b>U.S. Economy</b>														
<i>Annual Growth Rate</i>														
Real GDP	4.2	1.8	5.6	2.6	1.6	2.4	3.3	3.1	2.8	2.8	3.9	3.2	3.3	2.7
Nonfarm Payroll Employment	1.6	1.2	1.7	1.2	1.2	0.6	0.8	1.0	1.5	1.1	1.1	1.5	1.4	1.0
Consumer Prices	5.5	3.2	2.2	5.0	2.9	0.1	2.7	2.8	2.6	2.1	2.7	3.4	3.4	2.3
Real Disposable Income	-0.6	5.5	4.6	1.7	3.7	5.4	3.6	2.9	2.5	2.4	3.6	1.2	3.3	3.5
Consumer Confidence	99	96	106	107	104	106	105	106	107	108	80	100	106	107
Percent Unemployment	5.0	4.9	4.7	4.6	4.7	4.5	4.6	4.7	4.8	4.8	5.5	5.1	4.6	4.7
<i>Interest Rates, Percent</i>														
Fed Funds Rate	3.5	4.0	4.5	4.9	5.3	5.3	5.3	5.2	5.0	4.8	1.4	3.2	5.0	5.1
3-Month T-Bill Rate	3.4	3.8	4.4	4.7	4.9	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	8.2	8.0	7.8	4.3	6.2	8.0	8.1
Corporate Aaa Bond Yield	5.1	5.4	5.4	5.9	5.7	5.5	5.6	5.7	5.9	5.9	5.6	5.2	5.6	5.8
10-Year Government Bond	4.2	4.5	4.6	5.1	4.9	4.7	4.8	4.9	4.9	5.0	4.3	4.3	4.8	4.9
30-Year Government Bond	4.4	4.7	4.6	5.1	5.0	4.8	5.0	5.1	5.2	5.2	5.1	4.6	4.9	5.1
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.7	6.2	6.2	6.6	6.6	6.4	6.5	6.6	6.6	6.7	5.8	5.9	6.5	6.6
1-Year Adjustable	4.5	5.1	5.3	5.6	5.7	5.7	5.6	5.6	5.6	5.5	3.9	4.5	5.6	5.6
<b>Housing Indicators</b>														
<i>Thousands</i>														
Existing Home Sales*	7,180	6,943	6,790	6,687	6,270	6,235	6,362	6,420	6,433	6,509	6,779	7,075	6,469	6,428
New Single-Family Sales	1,297	1,280	1,111	1,124	1,027	998	976	960	974	992	1,203	1,283	1,068	975
Housing Starts	2,101	2,060	2,123	1,873	1,735	1,660	1,641	1,624	1,619	1,635	1,956	2,068	1,848	1,630
Single-Family Units	1,748	1,718	1,747	1,530	1,413	1,322	1,301	1,280	1,265	1,272	1,611	1,716	1,503	1,280
Multifamily Units	353	342	376	343	323	338	340	344	354	363	345	352	345	350
Residential Construction**	620	619	619	601	573	547	531	525	523	524	560	608	585	526
<i>Percent Change – Year Ago</i>														
Existing Home Sales	6.5	0.9	-2.2	-7.0	-12.7	-10.2	-6.3	-4.0	2.6	4.4	9.8	4.4	-8.6	-0.6
New Single-Family Sales	11.9	3.1	-11.5	-12.5	-20.8	-22.0	-12.2	-14.6	-5.2	-0.6	10.8	6.7	-16.8	-8.7
Housing Starts	6.3	4.8	2.6	-9.3	-17.4	-19.4	-22.7	-13.3	-6.7	-1.5	5.2	5.7	-10.6	-11.8
Single-Family Units	6.5	6.7	2.6	-10.4	-19.2	-23.0	-25.5	-16.3	-10.5	-3.8	6.6	6.5	-12.4	-14.9
Multifamily Units	4.9	-3.7	2.9	-3.8	-8.7	-1.1	-9.6	0.3	9.7	7.5	-0.9	1.9	-2.0	1.6
Residential Construction	9.1	9.0	6.1	-1.5	-7.7	-11.7	-14.2	-12.6	-8.7	-4.1	10.3	8.6	-3.9	-10.1
<b>Median Home Prices</b>														
<i>Thousands of Dollars</i>														
Existing Home Prices	227.3	225.3	218.7	226.7	224.7	223.3	219.8	229.9	229.2	229.6	195.4	219.6	223.7	227.5
New Home Prices	236.6	240.1	244.8	242.2	231.0	236.3	244.8	244.1	234.9	242.4	221.0	240.9	238.4	241.4
<i>Percent Change – Year Ago</i>														
Existing Home Prices	14.2	13.4	9.5	3.0	-1.2	-0.9	0.5	1.4	2.0	2.8	9.3	12.4	1.9	1.7
New Home Prices	10.5	5.4	6.5	5.2	-2.4	-1.6	0.0	0.8	1.7	2.6	13.3	9.0	-1.1	1.3
Housing Affordability Index	109	107	109	103	103	108	109	106	107	108	134	122	106	108

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.

# Housing Market in Transition

by NAR Staff

Conditions for home buyers improved during the third quarter as existing single-family home prices in many metropolitan areas experienced corrections. NAR's report on third-quarter metropolitan area single-family home prices\* – examining changes in 148 metropolitan statistical areas – shows 102 metros experienced price gains. Of those, 21 posted double-digit annual increases. Forty-five areas reported price declines; one was unchanged.

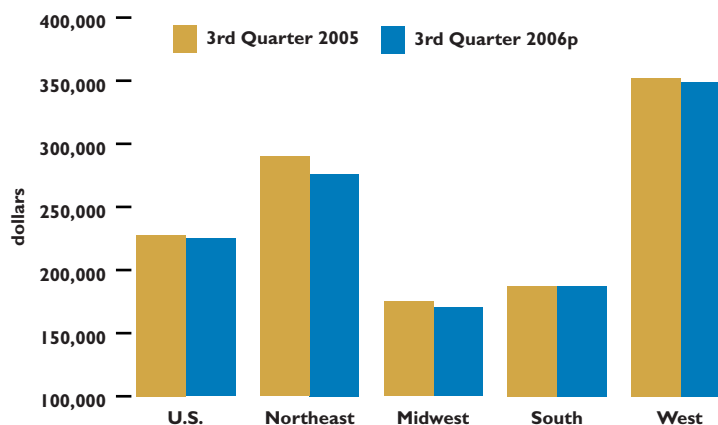
The largest single-family home price increase was in the Salem OR area, where the third quarter price of \$228,000 was 24.7 percent higher than in the third quarter of 2005. Next was Elmira NY – at \$93,600 – a price increase of 21.4 percent from the third quarter of 2005. The Salt Lake City also boasted a price increase with a third quarter median price of \$216,300, a 19.2 percent over the last four quarters.

Median third-quarter metro area single-family prices ranged from a very affordable \$86,000 in both Decatur, Ill., and the Youngstown-Warren-Boardman area of Ohio and Pennsylvania, to nearly nine times that amount in the San Francisco-Oakland-Fremont area where the median price was \$749,400. The second most expensive area was the San Jose-Sunnyvale-Santa Clara area of California, at \$747,400, followed by the Anaheim-Santa Ana-Irvine area (Orange Co. CA), at \$705,000. For comparison, the national median existing single-family home price was \$224,900 in the third quarter, down 1.2 percent from a year earlier when the median price was \$227,600.

## Behind the Numbers

The figures shows that market conditions are nearly the opposite of a year

## Metropolitan Area Home Prices, Single-Family Homes



Source: NAR Research  
p = preliminary

ago. Last year posted record home sales and historically tight supplies of homes. Buyers were bidding over the asking price. But the market has transitioned considerably. The sales pace has slowed, and housing inventory is over a seven months' supply – its highest level in over a decade. Mortgage interest rates continue at historically low levels. Buyers now have more choices and are no longer under "pressure" to overbid. Sellers are more willing to negotiate. Under these circumstances it is no surprise that overall home prices are slightly below a year ago.

## Regional Differences

The median existing single-family home price in **the South** was \$187,300 in the third quarter, just 0.1 percent below year ago levels. The strongest increase in the South was in the Virginia Beach-Norfolk-Newport News area, where the median price of \$243,800 was 16.9 percent above the third quarter of 2005. Next was

Gainesville FL at \$215,200, up 15.9 percent from a year ago.

In **the Midwest**, the median existing single-family home price was \$170,500 in the third quarter, down 2.6 percent from a year earlier. The strongest metro price increase in the region was in the Wichita KS area, where the median price of \$127,900 was 15.0 percent higher than in the third quarter of 2005. Next was Bismarck ND at \$140,400, up 7.4 percent from year-ago levels.

The median single-family home price in **the Northeast** was \$276,000 in the third quarter of 2006 – a 4.8 percent decline from the same period in 2005. After Elmira NY (see above), the strongest price increase in the Northeast was in Atlantic City NJ which posted a median price of \$277,200, up 12.0 percent from the third quarter of last year. In Binghamton NY the median price was \$107,400, up 10.0 percent.

The median existing single-family home price in **the West** slipped 0.9 per-

\*The full report, including tables of percent changes and some historic data are available at [www.REALTOR.org/research](http://www.REALTOR.org/research). Click on Housing Statistics, then to Metropolitan Area Home Prices. Metropolitan 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: <http://www.census.gov/population/estimates/metro-city/0312msa.txt>

## Housing Market in Transition (continued)

cent from the third quarter of 2005 to the third quarter of 2006 to \$349,000. After Salem OR and Salt Lake City (see above) the strongest increase in the West was in the Seattle-Tacoma-Bellevue area of Washington, where the median price was \$372,400, up 14.6 percent from the third quarter of 2005.

### Focus on Condos

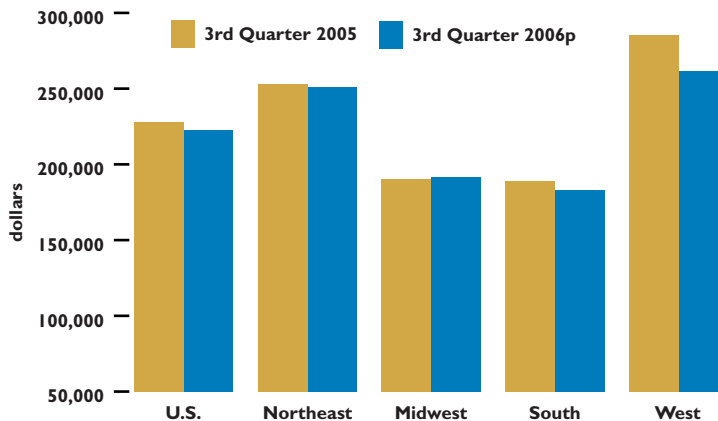
In the condo sector, metro area condominium and cooperative prices (covering changes in 57 markets) show the national median existing condo price was \$222,900 in the third quarter, down 2.1 percent from the same period in 2005. Thirty-one metros showed annual increases in the median condo price, including eight areas with double-digit gains; 26 metros had price declines.

Metro area median existing condo prices in the third quarter ranged from \$108,200 in Rochester NY to \$600,600 in the San Francisco-Oakland-Fremont area. The second most expensive reported condo market was Los Angeles-Long Beach-Santa Ana, at \$384,500, followed by the San Diego-Carlsbad-San Marcos area of California at \$361,100. Some affordable condo markets include Bismarck ND at \$109,000, and Greensboro-High Point NC at \$113,000.

The strongest condo price gains were in the Knoxville TN area, where the third quarter price of \$155,700 rose 29.0 percent from a year ago. In Wichita KS, the median condo price of \$130,300 rose 25.5 percent from the third quarter of 2005, while in Albuquerque NM the median price of \$153,300 was an increase of 21.0 percent.

Because there is a concentration of condos in high-cost metro areas, the national median condo price sometimes is higher than the median single-family

### Metropolitan Area Home Prices, Condominium/Co-ops



Source: NAR Research  
p = preliminary

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.

### Looking Ahead

NAR analysts expect the “buyer’s market” to continue in the months ahead. This window of opportunity will continue into the new year. But inventories are starting to decline. Sellers will be less willing to negotiate when conditions begin to balance in most areas around early spring. Home price appreciation should turn positive in most of the country in 2007.

\*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. NAR began publication of metropolitan area median single-family home prices in 1982; the metro area condo price series was launched at the beginning of 2006.

# The 2006 NAR Profile of Home Buyers and Sellers: Focus on Buyers

by Paul C. Bishop and Harika Bickicioglu, NAR Research

Home buyers and sellers rely on real estate professionals to assist them in many aspects of the home sales transaction. From the initial search to closing, real estate agents and brokers help guide home buyers through the many steps that culminate in a successful home purchase. Real estate professionals also help home sellers by developing market plans, pricing homes competitively and utilizing their experience to assist sellers through each step of the process.

The National Association of REALTORS® annually surveys home buyers and sellers to gather detailed information on the home buying and selling process.\*The survey results provide REALTORS® with insights into the characteristics and needs of their clients. It also helps them to improve client services. Others can also benefit from the findings through a better understanding of the housing market and

how the unique role of real estate professionals continues to evolve. The latest survey results were recently released and published in the **2006 NAR Profile of Home Buyers and Sellers**. Below are highlights from the report that focus on home buyers.

## Characteristics of Home Buyers

Who are today's homebuyers? The demographic characteristics of home buyers can provide insight into how the demand for housing will evolve over time. Smaller households (those with fewer young children) and aging baby-boomers approaching retirement will influence the type of homes those households purchase. In addition, healthy levels of legal immigration will contribute to household formation, fueling housing demand.

- The typical home buyer was 41 years old. As in previous surveys, first-time

## Information Sources Used in the Home Search (percent)

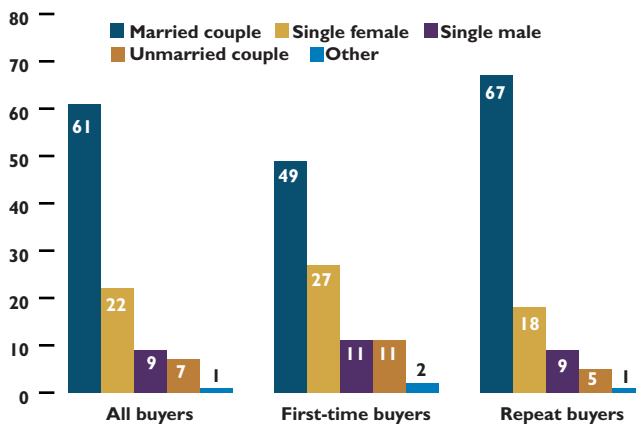
Real estate agent	85
Internet	80
Yard sign	63
Print newspaper ad	55
Open house	47
Home book/magazine	34
Home builder	26
Television	11
Billboard	9
Relocation company	5

Source: The 2006 NAR Profile of Home Buyers and Sellers

buyers tended to be younger than repeat buyers. Among first-time buyers, the median age was 32; for repeat buyers, the median age was 47. The largest percentage of all home buyers – 30 percent – were between 25 and 34 years old.

- The majority of homebuyers – 62 percent – were in households where there were no children under 18 years old residing in the home. Fewer than one in five buyers had one child under 18 years old who still lived at home.
- Home buyers tended to have a larger income than did the population in general. The 2005 median household income for buyers was \$71,800. As a comparison, the Census Bureau reports that the median income for all households was \$46,326 in 2005 (latest data available).

## Household Composition of Home Buyers (percent distribution)



Source: The 2006 NAR Profile of Home Buyers and Sellers  
detail may not add to 100 percent due to rounding

\*These surveys provide information on demographics, housing characteristics and the experience of buyers and sellers in the housing market. Buyers and sellers also share information on the role of real estate professionals in their home sales transactions. The 2006 survey results are representative of home purchases between July 2005 and June 2006. Consumer names and addresses were obtained from Experian, a firm that maintains an extensive database of recent home buyers derived from county records. Information about sellers comes from those buyers who also sold a home.

## Focus on Buyers (continued)

- First-time home buyers accounted for 36 percent of homes purchased -- the first decrease in the share of first-time home buyers since 2001.
- First-time homebuyers had a lower median household income – \$58,300 – than did repeat buyers (\$81,900). That is not surprising since first-time buyers are generally younger than repeat buyers.

### What They Buy

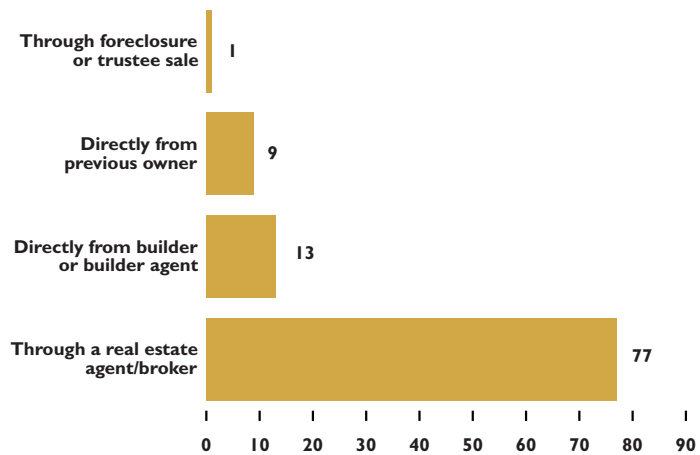
Buyers purchase homes in different areas – suburban or city – and of different types and at different prices. As in previous surveys, existing homes accounted for the majority of homes sold during the survey period, but new homes were also popular.

- One in five homes purchased by recent buyers was newly built.
- Similar to results in the previous survey, three out of four homes purchased in 2005 were detached single-family homes.
- The typical home buyer purchased a home 13 miles from their previous residence in a suburb or subdivision.
- The median price of a home purchased by the typical buyer was \$214,000. First-time buyers generally purchased less expensive homes – \$165,000 – than did repeat buyers – \$249,000. This is not surprising since repeat buyers tend to have higher incomes and can use the equity from their previous home toward their next purchase.

### Why They Buy

People buy homes for many reasons: as an investment, for more space, to be closer to schools, relatives, or their work. But the reasons for purchasing a home can differ for first-time buyers and repeat buyers.

### Method of Home Purchase, 2006 (percent distribution)



Source: The 2006 NAR Profile of Home Buyers and Sellers

- The most frequently cited reason for purchasing a home – whether a first-time or repeat purchase – was the desire to own a home of one's own. As might be expected, this was most important for first-time buyers (74 percent).
- The desire for more living space was cited as the primary reason for a housing change by 20 percent of repeat buyers, but 16 percent of them purchased another home due to a job relocation or move.
- Other reasons for a home purchase include retirement, change in family situation and desire for less space.

### Finding a Home

Home buyers can turn to many information sources when searching for a home to purchase. Real estate agents and the Internet are the two most popular sources of information cited in the latest survey. Yard signs, open houses and newspapers are also frequently cited as information sources.

The Internet, in particular, has continued to increase in popularity among home buyers as a search tool. Eighty percent of buyers used the Internet as an information source. Almost one fourth – 24 percent – of all buyers first found the home they eventually purchased on the Internet.

There were differences in the type of information used between first-time and repeat buyers. First-time homebuyers were more likely to cite the Internet as a home search tool than were repeat buyers (83 percent vs. 78 percent). Repeat buyers used a home builder as an information source more often than did first-time buyers. (30 percent vs. 19 percent).

### The Use of Real Estate Professionals

In spite of the continued rise of the Internet as a home search tool, real estate professionals are still the number one source of information about homes for sale. In fact, 87 percent of Internet searchers also used a real estate agent as a source of

## Focus on Buyers (continued)

information, and 35 percent of them found the home they ultimately purchased through a real estate agent.

Use of the Internet has not diminished the role of real estate professionals in the home purchase process. More than three quarters – 77 percent – of home buyers purchased their home through a real estate agent. Interestingly, even those home buyers who used the Internet to search for a home were more likely to use a real estate agent in the home purchase transaction.

### What Buyers Look for in Their Real Estate Professional

Homebuyers rely on the experience and professionalism of their real estate agents. The two most important factors in choosing an agent are the agent's honesty and trustworthiness and her reputation. That honesty and repute can result in additional business. Almost half of first-time buyers found their real estate agent through a referral from a friend, neighbor or relative (or knew the agent themselves). Over one third of repeat buyers (35%) also relied on referrals for an agent, but 19 percent of them also relied on their previous experience with an agent. Regardless of how they found their real estate professional, what buyers most wanted from their agent was help finding the right home to purchase. Interestingly, this factor was more important for repeat buyers than first-time buyers; first-time buyers more often wanted guidance in determining how much home they could afford.

### Conclusion

The professionalism, responsiveness, knowledge and efficiency that real estate professionals bring to their home-buyer clients pays off in repeat business. The **2006 NAR Profile of Home Buyers and Sellers**\*\* shows that two thirds of agent-assisted buyers would definitely use their same agent again or recommend that agent to others.

Many of the home buyers surveyed for this report will use their agents to help them sell a home in the future. Next month in this column, we will take

a brief look at the profile of home sellers based on the results of the 2006 survey – their characteristics and those of their homes, FSBOs, and the role of real estate professionals.

### What Buyers Want Most from Real Estate Agents (percent distribution)

Help finding right home to purchase	50
Help negotiating terms of sale	13
Help determining what comparable homes were selling for	10
Help with price negotiations	9
Help with paperwork	8
Help determining how much buyer can afford to spend on home	5
Help finding/arranging financing	3
Help finding renters for buyer's property	*
Other	2

Source: The 2006 NAR Profile of Home Buyers and Sellers  
\*less than one percent  
detail may not add to 100 percent due to rounding

\*\*The **2006 NAR Profile of Home Buyers and Sellers** is available for purchase. To order, call 1-800-874-6500. Ask for item #186-45-0506. Price for members is \$50; for nonmembers \$125. Or visit, [www.REALTOR.org/research.nsf/pages/ResearchProducts?OpenDocument](http://www.REALTOR.org/research.nsf/pages/ResearchProducts?OpenDocument).

# Links to Statistical Data Series

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

## Existing Home Sales – Monthly series

- [September 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 –

- 3rd Quarter 2006 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 3rd Quarter 2006 [Median Home Prices by Metropolitan Area](#)
  - [3rd Quarter Single-family median home prices](#)
    - 3rd Quarter Single-family median home prices in [spreadsheet format](#)
  - [3rd Quarter Condominium/Co-op median sales price](#)
    - 3rd Quarter Condominium/Co-op median sales price in [spreadsheet format](#)

## NAR's Pending Home Sales Index

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

## NAR's Housing Affordability Index

- [September HAI Index](#)
- September Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
  - [3rd Quarter 2006 Affordability Index](#)
    - 3rd Quarter 2006 Affordability Index in spreadsheet format available [here](#)
  - [First-time homebuyer Affordability Index, 3rd 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.

New from NAR Research

# THE 2006 NAR PROFILE OF HOME BUYERS AND SELLERS

One of the most valuable research tools for real estate professionals –

- Who are today's home buyers and sellers?
- What types of homes are they buying?
- How are they using the Internet to search for properties?
- What are the latest trends in for-sale-by-owner purchases?
- What do buyers and sellers want most from their real estate agents?

The NAR Profile of Home Buyers and Sellers answers these and many other questions to help real estate agents and brokers build their business and serve their clients.

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