

# real estate insights

January 2006

Real Intelligence –  
Real Advantages

## In This Issue

**Existing-home sales** posted 6.97 million seasonally adjusted annualized units in November. The 1.7 percent decline was expected in light of higher mortgage rates. But the current pace of sales activity remains historically strong. The national median existing-home price was \$215,000 in November, an increase of 13.2 percent from year ago levels. Total housing inventory rose 1.2 percent at the end of November to 2.90 million existing homes available for sale, which represents a 5.0-month supply at the current sales pace. [Read more.](#)

**Great Expectations** In spite of the moderating home sales activity in November, 2005 will enter the books as another record year for housing. But what can we expect in the new year? In his commentary this month, NAR Chief Economist David Lereah gives us a look down the road for 2006 and the factors that will impact real estate and housing markets. [Read more.](#)

**Northwest passage?** Brave Lochinvar came out of the west, but he may not be the only one. While some markets have weathered moderating home sales and price appreciation, in general the U.S. economy is in pretty good shape and is expected to continue to be healthy. One reason could be a trend that starts in the northwest and works its way throughout the country. [Read more.](#)

**The Great Profile.** NAR has just released one of its most popular and respected annual survey reports. The new **2005 NAR Profile of Home Buyers and Sellers** examines home purchase activity, who bought homes, why first-time buyers became homeowners, buyers' use of the Internet in searching for a home, and the role of real estate professionals. Consistent with previous year's studies, the report finds that the number one source of information for home buyers are real estate agents. [Read more.](#)

**Taking Inventory.** The latest existing-home sales figures also report on the supply of homes available for sale. Some doomsayers think that increasing inventory portends a precipitous slide in home prices. But a closer look at selected markets indicates that healthy inventory levels are a good sign of a balanced market. [Read more.](#)

### Table of Contents

Real Estate Monitor	2
Economic Commentary	4
The Forecast	5
U.S. Economic Outlook Table	7
Regional Outlook: Taking Inventory	8
Market Intelligence: The NAR Profile of Home Buyers and Sellers: Focus on Buyers	10
Links to Statistical Tables	13
Buy Research	14



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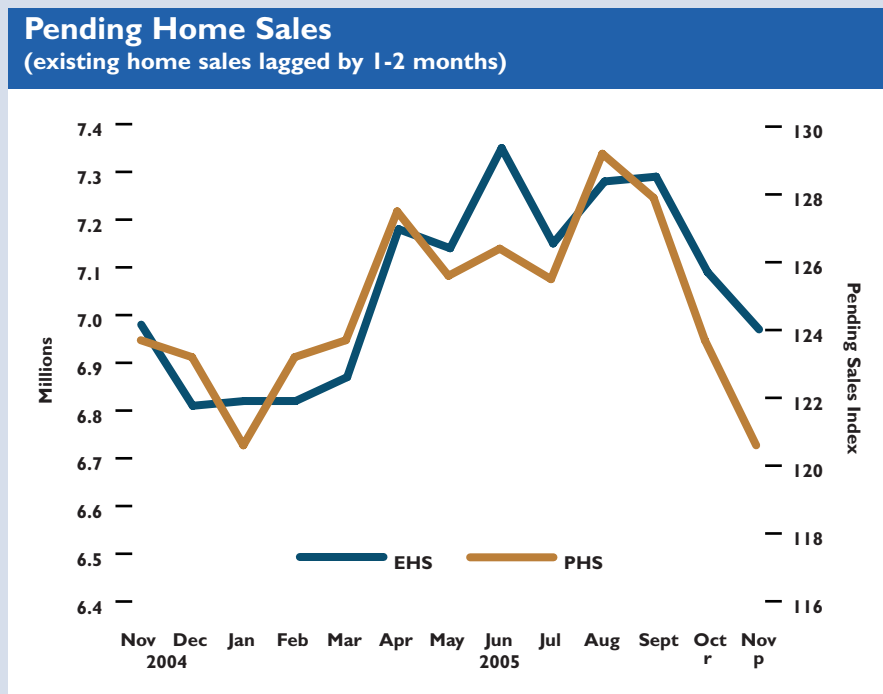
# Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p><b>Existing-home sales</b> eased 1.7% in November to a seasonally adjusted annualized rate of 6.97 million units. The national median existing-home price for all housing types was \$215,000 in November, up 13.2 percent from November 2004. Housing inventory levels improved, rising 1.2 percent at the end of November to 2.90 million existing homes available for sale – a 5.0-month supply at the current sales pace. <a href="#">Read more.</a></p>	Sep 7,290 Oct 7,090 Nov 6,970		Three straight months of falling pending sales portend a decline ahead
<p><b>New home sales</b> fell 11% in November to 1.25 million seasonally adjusted annualized units. Despite the decrease, the pace of newly built unit sales was still strong, coming off a record high in October. The inventory of new homes for sale rose to a 4.9 month supply. <a href="#">Read more.</a></p>	Sep 1,260 Oct 1,404 Nov 1,245		Stock market at a 5-year high could mean a shift in investor taste for financial equity over housing investment
<p><b>Housing starts</b> rose 5.3% in November, posting 2.12 million units. Single-family starts of 1.81 million matched their all-time high level; multifamily units were again weak, with only 315,000 units. The three-month moving average of 2.1 million total starts would easily beat last year's annual total of 1.95 million. <a href="#">Read more.</a></p>	Sep 2,160 Oct 2,017 Nov 2,123		A substantial rise in unsold inventory of new homes gives builders a reason to pause
<p><b>Housing affordability</b> NAR's housing affordability index fell slightly in November to 115.0 – its lowest level in the last 12 months. Even though household median income increased and the median sales price of a single family home decreased during the month, these factors were offset by an increase in mortgage rates. <a href="#">Read more.</a></p>	Sep 119.4 Oct 115.7 Nov 115.0		Income growth continues to trail home price growth
<p><b>Mortgage rates</b> The 30-year fixed mortgage rate slid 5 basis points from November, averaging at 6.27% in December. The economy is recovering rapidly and the resulting inflationary pressure is pushing up interest rates. Rates should hover around mid 6% during 2006. <a href="#">Read more.</a></p>	Oct 6.07 Nov 6.33 Dec 6.27		Higher, but do not expect the average rate to cross the 7% mark
<p><b>Purchase applications</b> The December purchase applications index was 455.5 – its lowest level since February 2005. The Index continues to fall due to rising mortgage rates cooling down the housing market and a decline in refinancing activities. <a href="#">Read more.</a></p>	Oct 469.4 Nov 473.0 Dec 455.5		Job losses ahead for mortgage lenders
<p><b>Employment</b> While payroll employment rose by only 108,000 in December, the previous month's figures were revised upwards by nearly 100,000. Manufacturing jobs showed a very respectable gain of 18,000 and jobs in the professional business service sector (those that require commercial office spaces) rose by 33,000 during the month. In the past 12 months, 2.0 million net payroll jobs have been added to the economy. <a href="#">Read more.</a></p>	Oct 25 Nov 305 Dec 108		4 million net new jobs over the next two years
<p><b>Inflation</b> The consumer price index (CPI) fell 0.6% in November. The decrease was due primarily to a decline in the transportation sector of -1.0%. The core index, which excludes food and energy rose 0.2%. Core prices have risen for the third straight month and are likely to remain at a strong pace through the winter as their demand rises from the rebuilding effort in the hurricane ravaged South and high fuel costs are passed through. <a href="#">Read more.</a></p>	Sep 1.2% Oct 0.2% Nov -0.6%		Inflation rate will decelerate (do not expect \$3 per gallon gas price)

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 January 6, 2006.

# NAR's Pending Home Sales Index

The Pending Home Sales Index (PHSI) slipped 2.5% in November to a reading of 120.6 from 123.7 in October. The Index is 2.5 percent below that of November 2004. The Pending Home Sales Index, a leading indicator for the housing market, is based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, and the sale is usually finalized within one or two months of signing. A Pending Home Sales Index of 100 is equal to the average level of contract activity during 2001, the first year to be analyzed, and was the first of four consecutive record years for existing-home sales. Sales in 2001 were fairly close to the higher volume of home sales expected in the coming decade, well above the levels that were seen in the mid-1990s, so an index of 100 is considered to be historically strong. Despite the decrease in November, the index remains at a high level and historically strong. It demonstrates that the housing market is moving from a prolonged boom to a more balanced period of sustainable sales. [Read more.](#)



Source: NAR Research

# Chinks in the Armor?

by David Lereah, NAR Chief Economist

While most economists are not predicting a recession this year, many are projecting slower economic activity due to the long awaited slowing in the housing sector. Most growth projections of gross domestic product, GDP, fall within the 2.75 to 3.5 percent range. I believe the economy will be somewhat stronger, projecting a 4 percent growth pace for the year. But I do think that a weaker economy is possible and that our nation's housing markets will be primarily responsible.

Concerns about slower economic growth are highlighted by what, at times, has spooked most economists: the flatness and at times, "inversion," of the Treasury bond yield curve. As of this writing (mid-January), the federal funds rate is 4.25 percent and expected to rise to 4.5 percent, while the 10-year Treasury yield hovers at a relatively low 4.4 percent. Historically, long-term rates lower than short-term rates (i.e., an inversion), portends a significant slowing in economic activity, culminating with recession. While a contraction in the economy at this time seems unlikely, the awkward shape of today's yield curve has made many of us nervous. The oddly shaped yield curve, combined with concerns about housing activity, have most economists believing that the U.S. economy will underachieve in 2006.

After five years of being the primary engine for economic growth in this country, the housing sector is likely to move to the back burner and could actually slow economic activity this year. Thirty-year mortgage rates should modestly trend up towards 6.7 percent this year from a beginning level of 6.3 percent, placing upward pressure on purchasing costs. Also, the real estate boom is winding down. Many of our nation's hot metro housing markets (69 metros experienced double-digit price appreciation last year) are expected to catch their collective breath and experience some fall-off in home sales. As a result, home construction should also fall as well as housing-related jobs.

Specifically, I expect home sales and housing starts to drop by about 5 percent and 8 percent, respectively, reducing the number of real estate transactions as well as real estate-related jobs throughout the nation. A drop in residential construction, jobs and sales all have a direct negative impact on GDP growth. I also expect home price appreciation to slow to 6 percent this year from a cyclical high of 13 percent last year. Smaller gains in

home values have two negative effects on consumer spending. Consumers will have less equity to borrow from via equity lines of credit to spend on goods and services. And, homeowners will feel less wealthy (based on their unrealized gain) this year versus last year, inhibiting consumer spending on big items (i.e., durable goods).

Notice, the housing sector is expected to experience a soft landing this year, rather than experience some "bursting" of balloons. There will be no sharp price drops or other negative events coming from the housing sector. But on balance, the housing sector is expected to be a negative rather than a positive on the economic activity this year, albeit minimally.

Other negatives that could affect this year's economy include stubbornly high energy prices and a new Federal Reserve Chairman. While gasoline prices have returned to pre-Katrina levels, the impact of higher energy costs will be felt throughout the year. Natural gas also experienced recent price gains and combined with higher gasoline prices, promises to exert upward pressure into the cost of production of other goods and services. Higher

energy prices could inhibit manufacturing and other business activity, slowing overall economic growth.

As for the new Federal Reserve Chairman, Ben Bernanke—he has done nothing wrong and will probably make a great Chairman—but he is new to the job. Anything — or anyone -- new generates uncertainty in the financial markets, exerting some upward pressure on interest rates. Until the Chairman meets his first crises with success, the financial markets will be at a lower comfort level compared with the time-tested Mr. Greenspan.

Balancing the inhibiting effects of a slower housing market this year will be a strong demand for U.S. exports due to stronger growth in overseas economies. I also expect the manufacturing sector to display stronger growth this year vis a vis last year. Overall business spending should also continue to be strong and construction activity for the rebuilding of the Katrina-hit Gulf Coast both promise to positively impact GDP growth. So even with a modest slowing in housing expected this year, the economy promises to provide a favorable backdrop for both businesses and consumers.

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

# THE FORECAST

by Lawrence Yun, Senior Forecast Economist

The Federal Reserve's tightening of monetary policy has contained inflation. After a rise in the consumer price index (CPI) of 3.4% in 2005, the CPI will decelerate to 3% in 2006 and then to 2% in 2007. Low inflation will keep long-term bond rates at manageable levels. Further, the Federal Reserve can back off their interest-rate increases after one more rate hike at the end of January.

What will happen with mortgage rates? While the 30-year fixed rate will remain under 7% for the next two years, expect modestly higher rates in 2006 – 6.3% to 6.7% – compared to the 5.5-6% rates of the past three years. These higher rates will begin to rein in the super-hot housing activity that we've seen over the last three years. Indeed, in some pricier regions of the country homebuyers have already been stretched to the max. Look at San Diego where interest-only and adjustable-rate mortgages are prevalent; the market there could encounter difficulty in bringing in a new set of homebuyers. Prices will hold their ground, but sales activity will come down measurably.

The more affordable regions of the country – the vast chunk of middle America in the Central and Mountain Time zones – will fare better since modestly higher rates will not greatly impact affordability. Anyone with a job and a good credit can pretty much afford a commonly available \$150,000 home. Thus, home sales in the middle regions of the country will outperform the coastal regions.

But let's look at one particular area of the country. There is one coastal market that could outshine them all. Seattle, home of the 10,000 Microsoft millionaires, Costco, Amazon.com, Nordstrom and numerous other "trendy" shops and companies, will lead the country in home price growth in 2006. The latest median home price in the Seattle-Tacoma-Bellevue metro region was \$325,000.

That is 50% higher than the national median home price. Prices rose by 56% in the past 5 years – about the same as the national increase. However, the greater Seattle market was a significant underperformer when compared to other major western cities. Home prices had essentially doubled over the 5 years in Los Angeles, San Diego, Sacramento, Las Vegas, and Phoenix. Moreover, Seattle home prices in recent years were only 45% of the prices in San Francisco – that is much lower than their historical 55% of home prices in the City by the Bay. All the while, the cerebral Seattle residents (nearly half of adult population has college degrees – the highest percentage in the country) were scratching their heads looking for jobs. The high-tech meltdown led to 129,500 fewer jobs in the Emerald City from their peak in December 2000 to the trough in January 2005. The jobless rate had touched 7.3% in the middle of the downturn – near the top among major cities.

But a major change is occurring in Seattle's local economy. Boeing is getting bombarded with overseas orders for its aircraft. The area's ports are busy from a significantly higher international trade volume, both exports and imports. And a big turnaround is underway in the nation's technology sector. Jobs in the local region rose by 57,100 in the past 12 months. Its job creation rate of 3.5% is more than twice the national average and unusually high among large metro markets.

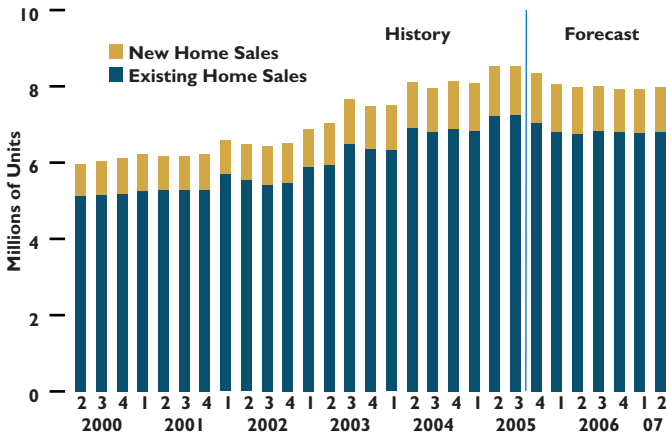
Seattle has a lot of catching up to do and its home prices would need to rise by essentially \$100,000 just to be at a relatively even position with other western cities. One may even argue that Seattle's relative position should be rising over time due to its brainy population (to the extent that income is associated with educational attainment) and its trend-setting lifestyle. Extensive water views throughout the

region and the looming snow-capped mountains help draw new residents. The forecast is for Seattle's median home price to rise by 40% over the next two years, even as most of the country's housing market will undergo a soft landing. Such a price rise means a housing equity gain of \$130,000 for a typical Seattle area homeowner – and about \$9 million for Bill Gates. That should be plenty to help them relax while sipping Starbucks espresso and watching Grey's Anatomy or the Seahawks.

So, are we changing the old adage to "as Seattle goes, so goes the nation?" Well, maybe, but it won't be a straight road. With Seattle as anchor, the rest of the Pacific Northwest will also get a lift. Expect strong performance in Portland and Boise as well. Other strong contenders in 2006 will be those markets near or with some affinity to markets that have seen great housing wealth gains. Investors won big in Las Vegas and California and Phoenix in the recent past. These same investors will be sniffing around in Salt Lake City, Albuquerque, and Colorado. Similarly, the Florida housing boom will trickle upwards into the Carolina coast. Delaware and Virginia coast will get a lift from its proximity to high priced markets of Washington D.C., New Jersey, and New York. Maine and New Hampshire will see more purchasers from Massachusetts. Yes, the healthy housing market is still on the road – and making plenty of stops along the way.

## Home Sales

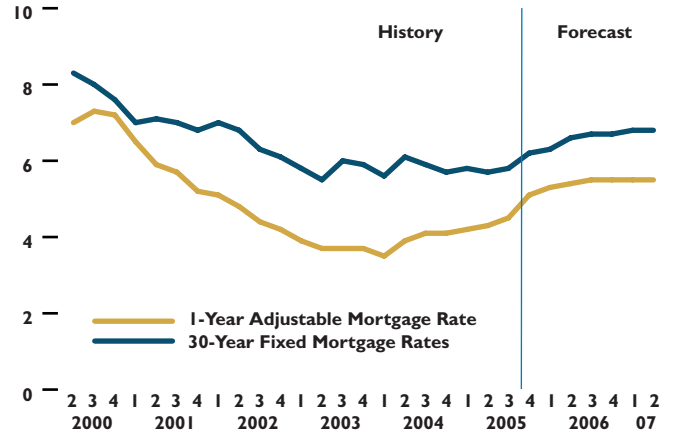
Sustaining a healthy pace



Sources: NAR, Bureau of the Census, NAR Forecast

## Mortgage Rates

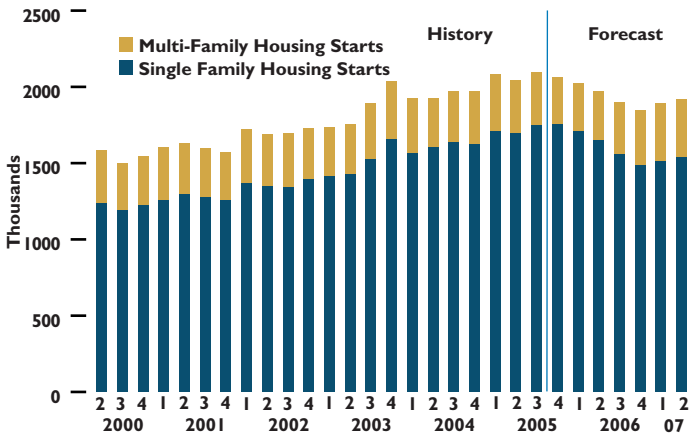
Still good news for homebuyers



Sources: Freddie Mac, NAR Forecast

## Housing Starts

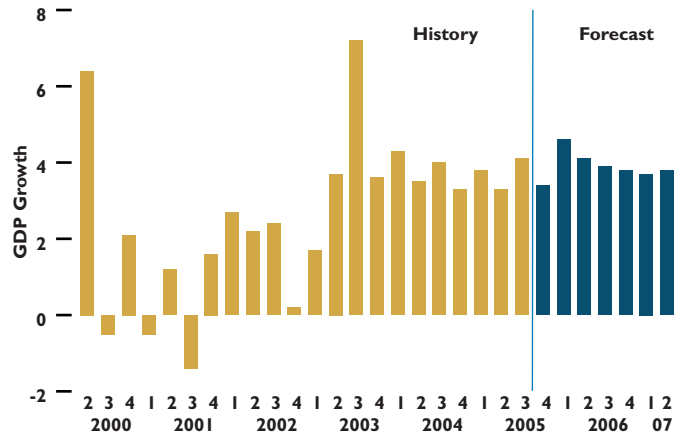
Builders getting cautious not to oversupply



Sources: Bureau of the Census, NAR Forecast

## Economic Growth

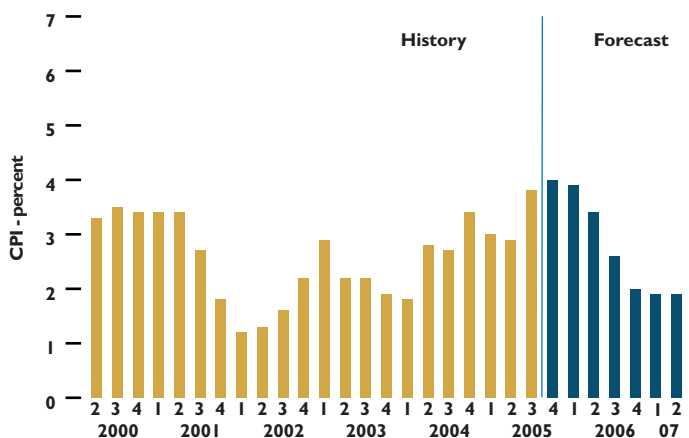
Steady and sustainable



Sources: Bureau of Economic Analysis, NAR Forecast

## Inflation

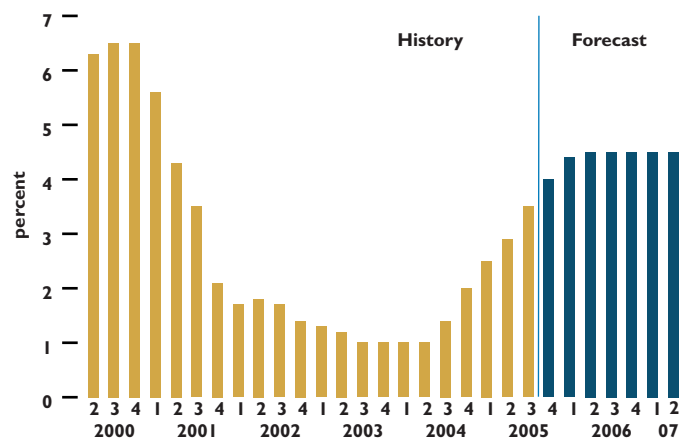
Under control



Sources: Bureau of Labor Statistics, NAR Forecast

## Federal Funds Rate

Federal Reserve policy working



Sources: Federal Reserve Board, NAR Forecast

# U.S. ECONOMIC OUTLOOK

## January 2006

	2005				2006				2007		2004	2005	2006	2007
	I	II	III	IV	I	II	III	IV	I	II				
<b>U.S. Economy</b>														
<i>Annual Growth Rate</i>														
Real GDP	3.8	3.3	4.1	3.4	4.6	4.1	3.9	3.8	3.7	3.8	4.2	3.6	4.0	3.8
Nonfarm Payroll Employment	1.6	1.9	1.6	0.8	1.8	1.8	1.8	1.7	1.6	1.6	1.1	1.6	1.6	1.7
Consumer Prices	2.4	4.2	5.1	4.3	2.2	2.0	1.8	1.9	1.9	2.2	2.7	3.4	3.0	2.0
Real Disposable Income	-3.4	0.2	-2.0	5.2	8.1	5.0	4.9	4.6	5.1	3.7	3.4	1.3	4.6	4.4
Consumer Confidence	104	102	99	96	101	104	106	107	108	109	80	100	105	109
Percent Unemployment	5.3	5.1	5.0	5.1	5.0	4.9	4.9	4.8	4.8	4.8	5.5	5.1	4.9	4.7
<i>Interest Rates, Percent</i>														
Fed Funds Rate	2.5	2.9	3.5	4.0	4.4	4.5	4.5	4.5	4.5	4.5	1.3	3.2	4.5	4.5
3-Month T-Bill Rate	2.5	2.9	3.4	3.9	4.3	4.3	4.3	4.3	4.3	4.3	1.4	3.2	4.3	4.3
Prime Rate	5.4	5.9	6.4	7.0	7.4	7.6	7.5	7.5	7.5	7.5	4.3	6.2	7.5	7.5
Corporate Aaa Bond Yield	5.3	5.1	5.1	5.5	5.8	6.0	6.1	6.1	6.1	6.1	5.6	5.3	6.0	6.2
10-Year Government Bond	4.3	4.2	4.2	4.5	4.7	4.9	5.0	5.0	5.1	5.1	4.3	4.3	4.9	5.1
30-Year Government Bond	4.7	4.5	4.4	4.7	4.9	5.1	5.2	5.2	5.2	5.2	5.1	4.6	5.1	5.2
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.8	5.7	5.8	6.2	6.3	6.6	6.7	6.7	6.8	6.8	5.8	5.9	6.5	6.8
1-Year Adjustable	4.2	4.3	4.5	5.1	5.3	5.4	5.5	5.5	5.5	5.5	3.8	4.5	5.4	5.5
<b>Housing Indicators</b>														
<i>Thousands</i>														
Existing Home Sales*	6,837	7,223	7,240	7,028	6,794	6,747	6,835	6,796	6,774	6,809	6,784	7,102	6,787	6,821
New Single-Family Sales	1,249	1,287	1,293	1,316	1,276	1,236	1,178	1,135	1,157	1,168	1,203	1,286	1,209	1,198
Housing Starts	2,083	2,044	2,101	2,066	2,028	1,975	1,897	1,845	1,893	1,923	1,950	2,074	1,936	1,943
Single-Family Units	1,709	1,693	1,747	1,755	1,708	1,648	1,554	1,488	1,512	1,537	1,604	1,726	1,600	1,544
Multifamily Units	374	351	354	311	320	327	343	358	381	385	345	347	337	399
Residential Construction**	584	599	610	625	623	615	602	586	582	589	562	604	607	595
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	8.2	4.7	6.5	2.2	-0.6	-6.6	-5.6	-3.3	-0.3	0.9	9.7	4.7	-4.4	0.5
New Single-Family Sales	5.0	7.0	11.1	5.9	2.2	-3.9	-8.9	-13.8	-9.3	-5.5	10.8	6.9	-6.0	-0.9
Housing Starts	8.0	6.3	6.4	4.7	-2.6	-3.4	-9.7	-10.7	-6.7	-2.6	5.2	6.3	-6.6	0.3
Single-Family Units	9.4	5.9	6.9	8.3	0.0	-2.7	-11.1	-15.2	-11.5	-6.8	6.6	7.6	-7.3	-3.5
Multifamily Units	1.9	8.6	4.2	-11.7	-14.4	-7.0	-3.0	15.0	18.9	18.0	-0.9	0.6	-3.1	18.5
Residential Construction	7.7	6.1	7.2	9.4	6.7	2.7	-1.4	-6.1	-6.6	-4.3	10.3	7.6	0.4	-2.0
<b>Median Home Prices</b>														
<i>Thousands of Dollars</i>														
Existing Home Prices	190.3	209.3	215.9	215.8	204.4	220.1	225.7	224.9	212.3	227.8	185.2	209.1	219.7	228.1
New Home Prices	229.9	230.2	230.1	235.5	244.4	244.0	243.7	249.2	257.3	256.0	221.0	231.3	245.2	256.3
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	10.2	13.4	14.0	14.0	7.4	5.1	4.5	4.2	3.9	3.5	8.5	12.9	5.1	3.8
New Home Prices	8.0	6.3	7.5	3.4	6.3	6.0	5.9	5.8	5.3	4.9	3.9	4.6	6.0	4.5
Housing Affordability Index	133	121	118	117	122	111	108	111	115	109	133	122	113	111

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.

# Taking Inventory

by Kevin Thorpe & Wannasiri Chompoopet, NAR Research

In November, housing inventory – the number of homes available for sale – rose to its highest level since April 1986. Once again, the Chicken Littles came out of the henhouse shouting the “sky is falling”. They suggest that, with mortgage rates rising and demand slowing, a rise in inventory will inevitably cause home prices to crash. Yet, the National Association of REALTORS® reported that in November existing home sales posted a 6.97 million unit seasonally adjusted annualized sales rate – a higher sales rate than the record home sales last year. And home prices surged 13.2%. The months’ supply of homes – a much more relevant indicator of inventory conditions because it factors in the sales rate – was at 5 months. That means that there is a 5-month supply of existing homes available for sale at the current sales rate. That is still a very lean market. Generally, a 6-month supply of homes is indicative of a “balanced” market.”

## No helmet required

Well, for those waiting for the crash, you can leave your protective headgear behind. Home prices are not going to crash. It’s simply not in the cards. In the 37 years since NAR began tracking the price data, median home prices on a national level have never declined. Even in April 1986, when inventory was 3.04 million units and the months’ supply was 10.3, home prices did not decline. In fact, they rose 7.2% that month and 6.4% for the entire year of 1986. The latest figures indicate that with the months’ supply at 5, that is half of what it was in April 1986.

There are other reasons why prices won’t crash. One of them is demand. Demand for homes is double what it was in 1986. Another reason: fundamentals. The U.S. economy is fundamentally sound – jobs are being created, interest rates are still low (and will remain under 7 percent – see page 5), mortgage credit is readily available, and homeownership has

## Top 10 Markets ranked by increase in Month-supply

Metropolitan Statistical Area	Months Supply		Percent Change
	2004:3rd Quarter	2005: 3rd Quarter	
1 Chicago-Naperville-Joliet IL	1.8	4.2	132.2
2 Binghamton NY	2.3	5.3	125.6
3 Boston-Cambridge-Quincy MA/NH	1.8	4.0	115.7
4 Washington DC-MD-VA	1.4	2.9	98.6
5 Baltimore-Towson MD	1.6	3.2	95.9
6 Palm Bay-Melbourne-Titusville FL	2.2	4.4	94.8
7 Champaign-Urbana-Rantoul IL	1.2	2.2	83.6
8 Cumberland MD-WV	2.7	4.7	73.1
9 Hagerstown-Martinsburg MD-WV	2.7	4.5	64.1
10 Madison WI	3.3	5.1	55.1

Source: NAR Research

proven itself as a viable investment alternative to stocks and bonds. Since 2000, there have been \$4 trillion dollars in home equity gains. That is equivalent to \$70,000 per household, an exceptional return on investment. For most homeowners, their home has an additional benefit – it provides shelter for them and their families.

## Some changes ahead

The housing market is going through a transition, shifting from a hot sellers market, as it has been for several years now, to a more-balanced market. At the national level, we can see that home sales are slowing, the month-supply is rising, and as a result, balance is returning to the market. As a result, we do expect home prices to soften in the coming months. And slowing sales are good for the long-term health of the housing sector. So we should welcome a moderate slowdown, not panic from it.

## Regional and Local Trends

Real estate is a local business, so NAR Research looked at some regional and local data. Specifically, we examined month-supply and home price data for 80 selected markets across the

country. We looked at the most recent data available (third quarter 2005). From the data, we can see the trends that we observed at the national level also hold true at the local level. That is, the month-supply is rising in most markets, but overall, inventory is still quite lean. Of the 80 markets studied, 75 had a month-supply under 6.0. The other five were either at 6.0 or slightly above. This means that the majority of markets are still lean.

It is also useful to look at the top 10 markets by increase in month-supply from the third quarter of 2004 to the third quarter of 2005. These would be the markets that some might consider as potential “red flags” because of the run-up in inventory. But the data does not support that notion whatsoever. In fact, all of these markets posted healthy price gains in 2005Q3; indeed, more than half of them experienced double-digit gains. Moreover, despite the rises in inventory, the month-supply in these markets is still extremely lean (below 6.0 in all cases).

Forty-six of the 80 markets we examined experienced an increase in month-supply of homes in the third quarter of 2005. Interestingly, 33 markets actually saw a decrease in

month-supply. Even then, in the vast majority of these markets home prices continued to rise, while only three had slight price declines – Kankakee-Bradley IL (-0.3%), Pittsfield MA (-0.1%), and Topeka KS (-1.3%). Clearly, the declines were negligible, and could simply be explained by quarter-to-quarter sample volatility.

**Don't Panic**

So, even though inventory may rise, home prices are not necessarily headed for a downturn. It is true that price appreciation may slow due to a softening of demand because of higher interest rates. But there will still be buyers out there. The good news is that there will be an available supply of homes for them to purchase.

**Price Growth for Select 10 markets**

Metropolitan Statistical Area	Price Growth	
	2004:3rd Quarter	2005: 3rd Quarter
1 Chicago-Naperville-Joliet IL	10.3 %	10.8 %
2 Binghamton NY	6.3	8.7
3 Boston-Cambridge-Quincy MA-NH	11.0	5.8
4 Washington DC-MD-VA	21.7	26.3
5 Baltimore-Towson MD	21.4	19.6
6 Palm Bay-Melbourne-Titusville FL	22.3	33.6
7 Champaign-Urbana-Rantoul IL	7.4	5.1
8 Cumberland MD-WV	-2.8	24.9
9 Hagerstown-Martinsburg MD-WV	12.2	29.5
10 Madison WI	11.2	6.3

Source: NAR Research

**Even though housing inventory is rising in most markets, it is still quite lean.**

\*NAR calculates month supply (inventory) of existing homes each month. The information is detailed in the Association's Existing Home Sales release. For more information, visit [www.REALTOR.org/research](http://www.REALTOR.org/research).

# The Great Profile: NAR's Profile of Home Buyers and Sellers

by Paul Bishop, Shonda Hightower and Harika Bickicioglu

Existing home sales set a record last year, as the combined forces of low mortgage interest rates, strong demand and a strengthening economy contributed to robust homebuying activity. Home price appreciation was also healthy – in many metropolitan areas at double-digit rates – which contributed significantly to the growth in household wealth. The strength of the housing market was reflected in a homeownership rate of 69 percent.

But who are today's homebuyers? How many of them use real estate professionals in their home purchase transactions? What do they want those real estate professionals to do for them? To what degree do buyers use the Internet as an information source? To answer these and other questions, each year, the National Association of REALTORS® conducts a survey of recent home purchasers and sellers. The most recent one was conducted in August of 2005 and surveyed 90,000 consumers who bought a home between August 2004 and July 2005.\* Results of the survey have just been released in the new **2005 NAR Profile of Home Buyers and Sellers**. Following are highlights from this report focusing on homebuyers.

## Characteristics of Home Buyers

Many factors influence the decision to purchase a home. The demographic characteristics of homebuyers can provide insight into how the demand for housing will evolve over time. Smaller households (those with fewer young children) and aging baby-

## Age of First-time and Repeat Homebuyers (percent distribution)

	First-time buyers	Repeat Buyers
Less than 25 years	14%	1%
25-34 years	50	20
35-44 years	22	26
45-54 years	10	25
55-64 years	2	18
65-74 years	1	9
75 years or older	*	3
Median age	32 years	46 years

Source: The 2005 NAR Profile of Home Buyers and Sellers  
\*less than one percent

boomers approaching retirement will influence the type of homes those households purchase. The **NAR Profile** reports on a number of demographic characteristics of homebuyers – both first-time and repeat purchasers – including age, income, household type, and race/ethnicity.

- First-time homebuyers accounted for 40 percent of homes purchased.
- Thirty-eight percent of recent homebuyers were under 35 years old.
- As reflected in previous surveys, first-time homebuyers tend to be younger than repeat buyers. Half of first-time buyers were between 25 and 34 years old; most repeat buyers were between 35 and 54 years old.
- The majority of homebuyers – 61 percent – were in households where there were no children under 18 years old residing in the home.

- Homebuyers tend to have a larger income than the population in general. The 2004 median household income for buyers was \$71,600. As a comparison, the Census Bureau reports that the median income for all households was \$44,389 in 2004.
- First-time homebuyers had a lower median household income – \$57,200 – than do repeat buyers (\$83,200).

## What They Buy

Buyers purchase homes in different areas – suburban or city – and of different types and at different prices. Existing homes account for the majority of homes sold in any year, but new homes are popular.

- Three out of four homes purchased in 2005 were detached single-family homes.
- The typical homebuyer purchased a home 12 miles from their previous residence.

\*Hurricane Katrina disrupted mail service in late August 2005 in some areas of the country, and artificially depressed the response rate to the survey. Consequently, the questionnaire was re-fielded to an additional 55,000 homebuyers in selected areas. The survey yielded 7,813 usable responses for a response rate of 5.4 percent. Consumer names and addresses were obtained from Experian, a firm that maintains an extensive database of recent homebuyers derived from county records. All information in the Profile is characteristic of the 12-month period ending July 2005, with the exception of income data which was reported for 2004.

## The Great Profile (continued)

- Fifty-six percent of homes purchased were in the suburbs.
- One in five recently purchased homes was a newly constructed one.

The median price of a home purchased by the typical buyer was \$195,000. First-time buyers generally purchased less expensive homes than did repeat buyers. 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

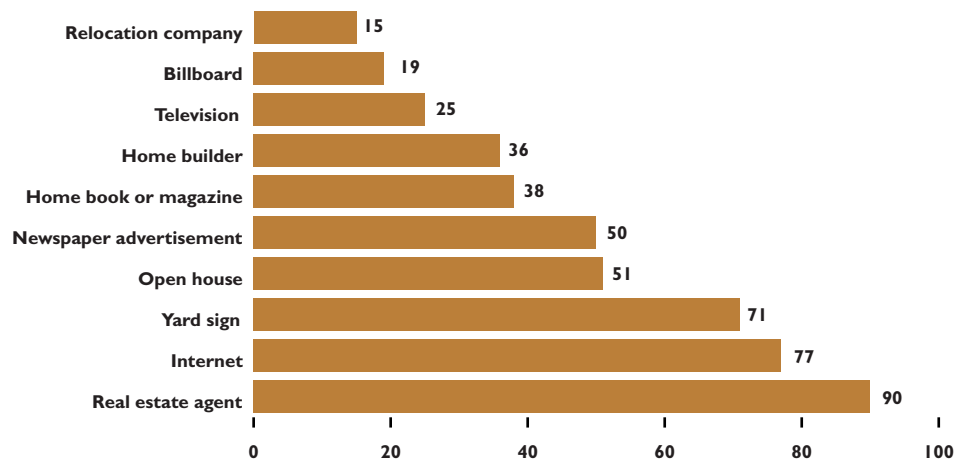
People buy homes for many reasons: as an investment, for more space, to be closer to schools, relatives, or their work. And the reasons for purchasing a home differ for first-time buyers and repeat buyers. The most important motivation for first-time buyers is the desire to own a home of their own. The desire for more living space was the cited as the primary reason for a housing change by 29% of repeat buyers. Other reasons for a home purchase include retirement, a job relocation, and desire for less space due to a change in household size (children have left home, divorce, etc.).

### Finding a Home

There are many ways to find a home. The Internet, yard signs, open houses and newspapers are frequently cited as information sources. The Internet, in particular, continues to increase in popularity among home buyers as a search tool.

- More than three quarters of buyers – 77 percent – used the Internet as an information source.

### Information Sources Used by Buyers in Home Search (percent)



Source: The 2005 NAR Profile of Home Buyers and Sellers

- Almost one fourth – 24 percent – of buyers first found the home they eventually purchased on the Internet.
- First-time buyers used the Internet more frequently than did repeat buyers to search for homes.

Repeat buyers used a home builder as an information source more often than did first-time buyers. This is likely due to the fact that repeat buyers were more likely to purchase a new home and so consequently use a builder (or builder's agent) when searching for that newly constructed home.

### The Use of Real Estate Professionals

In spite of the burgeoning use 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, 93 percent of Internet-searchers also used a real estate agent as a source of information. Both Internet-searchers and non-Internet-searchers were equally likely to first learn about the home they 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 – or homebuyers purchased their home through a real estate agent. Interestingly, even those homebuyers who used the Internet to search for a home were more likely to use a real estate agent in the home purchase transaction.

Homebuyers rely on the experience and professionalism of their real estate agents. The two most important factors in choosing an agent are reputation and

\*\*The **2005 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).

## The Great Profile (continued)

knowledge of the neighborhood. More than half of first-time buyers found their real estate agent through a referral from a friend, neighbor or relative (or knew the agent). Well over one third of repeat buyers (38%) also depended on referrals for an agent, but 17 percent of repeat buyers also relied on their previous experience with an agent. Regardless of how they found that real estate professional, what buyers most wanted from their agent was help finding the right home to purchase.

### Conclusion

The professionalism, responsiveness, knowledge and efficiency that real estate professionals bring to their homebuyer clients pays off in repeat business. The **2005 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 those homebuyers 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, their characteristics and those of their homes, FSBOs, and the role of real estate professionals.

### What Buyers Want Most from Real Estate Professionals

(percent distribution)

Help finding the right home to purchase	59
Help with price negotiations	10
Help with paperwork	10
Help determining what comparable homes were selling for	9
Help determining how much buyer can afford to spend on home	5
Help finding/arranging financing	3
Help finding renters for buyer's property	1
Other	3

Source: The 2005 NAR Profile of Home Buyers and Sellers

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**Real estate professionals are the number-one source of information about homes for sale.**

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# Links to Statistical Data Series

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

## Existing Home Sales – Monthly series

- [November 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 2005

- 3rd Quarter 2005 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 3rd Quarter 2005 [Median Home Prices by Metropolitan Area](#)
- Metropolitan Area Home Prices in [spreadsheet format](#)

## NAR's Pending Home Sales Index

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

## NAR's Housing Affordability Index

- [November HAI Index](#)
- November's Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
  - [3rd Quarter 2005 Affordability Index](#)
  - 3rd Quarter 2005 Affordability Index in spreadsheet format available [here](#)
  - [First-time homebuyer Affordability Index](#), 3rd Quarter 2005
  - First-time homebuyer Affordability Index in spreadsheet format available [here](#)

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

# New – From the National Association of REALTORS® Research Division

## ***The 2005 NAR Profile of Home Buyers and Sellers***

One of NAR's most popular tools for real estate professionals!

- Who are today's homebuyers and sellers?
- How are they using the Internet in their home search?
- What do they look for from their real estate agents?
- What kinds of homes are they buying?
- How do FSBOs feel about trying to sell their next home themselves?

For answers to these and other questions, get your copy of the new ***2005 NAR Profile of Home Buyers and Sellers***. This report is an essential tool in helping real estate professionals identify what consumers want from

their real estate agents, how they find those agents, and what role the Internet plays in the homebuying and selling transaction.

To order, call 1-800-874-6500, and ask for Item # 186-45-0506. The member price is \$50; non-member price: \$125. You can also visit [www.REALTOR.org/research.nsf/pages/ResearchProducts?OpenDocument](http://www.REALTOR.org/research.nsf/pages/ResearchProducts?OpenDocument).

