

# real estate insights

September 2006

Real Intelligence –  
Real Advantages

## In This Issue

**Existing-home sales** posted 6.33 million seasonally adjusted annualized units in July, 4.1% off June's pace and an 11.2% decrease from the level in July 2005. But there were differences in sales levels depending on housing type. While single-family home sales declined, existing condominium and cooperative housing sales increased 2.8% from June to a seasonally adjusted annual rate of 818,000 units in July. Slowing sales drove inventory up. Total housing inventory levels rose 3.2% at the end of July to 3.86 million existing homes available for sale – a 7.3-months' supply at the current sales pace. Price appreciation softened. The national median sales price for an existing-home was \$230,000 in July, up 0.9% from July 2005. **Read more.**

**Back to the Future.** Summer's over. Kids are back at school. And many eyes are back looking at the housing market. With the recent slowdown in sales and a softening of price appreciation, many people are wondering what's ahead for the housing market and what impact it will have on the nation's economy. NAR Chief Economist David Lereah – also back from a well-deserved vacation – examines some of the trends to watch. **Read more.**

**Firm-ing Up.** The more than 1.3 million members of the National Association of REALTORS® have a wide variety of choice when deciding to affiliate with a real estate firm. They can work with a small, single-office company that only does residential brokerage in one market, a large firm with many offices around the country, or a real estate firm that is part of a national or regional franchise. A new report from NAR's Research Division, the **2006 NAR Profile of Real Estate Firms** takes a look at what those options are, what types of services firms are offering, and how technology is impacting firm business and operations. **Read more.**

**Metro Market Reports: A Closer Eye.** National statistics on housing market conditions make the evening news broadcasts and garner headlines. But more important to most of us – and to real estate professionals – is what's happening close to home in one's metropolitan area. NAR Research has just completed analysis of more than 100 metro areas. Our Regional Outlook column this month takes a look at four of them. **Read more.**

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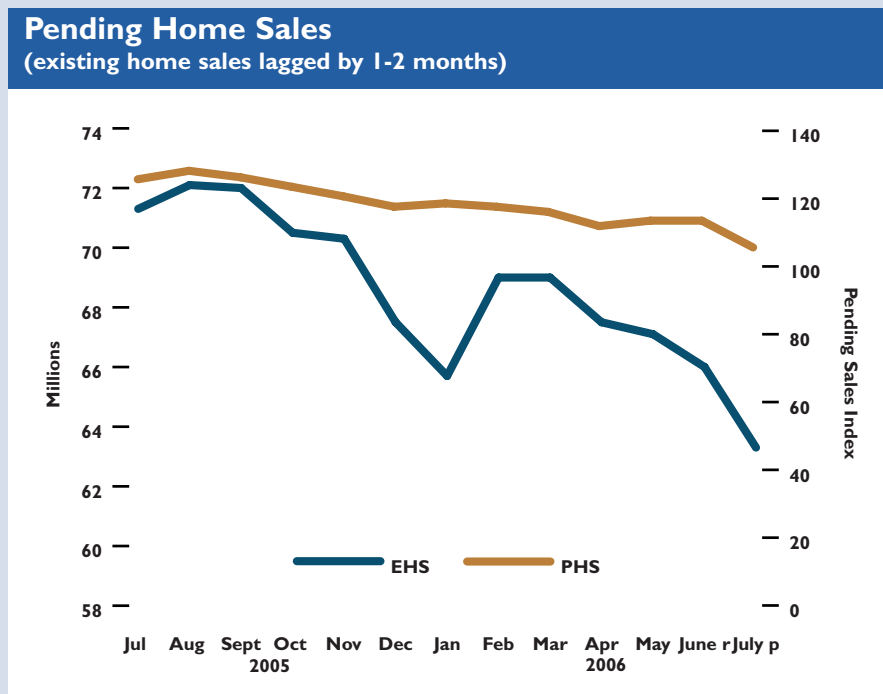
# Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p><b>Existing-home sales</b> fell 4.1% in June to a seasonally adjusted annualized rate of 6.33 million units – the lowest resale pace since January 2004. Existing home inventory rose to 3.86 million – a 7.3 month supply. The median price of \$230,000 in July was only 0.9% higher from one year ago. <a href="#">Read more.</a></p>	May 6,710 June 6,600 July 6,330		Much lower than a year ago but now stabilizing
<p><b>New home sales</b> also declined in July, dipping 4.3% to a seasonally adjusted annualized rate of 1.07 million units. So far in 2006 new home sales are 14% below last year's pace. The inventory of unsold new homes rose modestly to a 6.5 month supply. <a href="#">Read more.</a></p>	May 1,130 June 1,120 July 1,072		New and higher priced homes are more sensitive to the higher interest-rate environment
<p><b>Housing starts</b> fell 2.5% in July to a seasonally adjusted annualized rate of 1.795 million units – their lowest level since November of 2004. Builder's sentiment has continued to fall, and rising constructions costs are cutting into business profitability – both implying lower new construction activity in the coming months. <a href="#">Read more.</a></p>	May 1,953 June 1,841 July 1,795		Inventory needs to be worked off before builders regain confidence
<p><b>Housing affordability</b> NAR's housing affordability index was 102.8 in July, continuing a fall that began in February of this year. Increases in most of the major components of the affordability index – interest rates, qualifying income, and the median existing-home sales price – contributed to the decline. <a href="#">Read more.</a></p>	May 105.1 June 104.3 July 102.8		Home price appreciation measurably slowing, but modestly higher rates keep affordability on an even keel
<p><b>Mortgage rates</b> The 30-year fixed mortgage rate declined to 6.55% in August – its lowest level since April. Rates are expected to remain below 7% throughout the rest of the year. The one-year adjustable rate fell to 5.66% from 5.79% in July. <a href="#">Read more.</a></p>	June 6.68% July 6.76% Aug 6.55%		Up, but only modestly
<p><b>Purchase applications</b> dipped in August. The Mortgage Bankers Association purchase application index averaged 383.2 per week in August. Both existing and new home sales are expected to cool down. With the current 30-year fixed rate at its lowest since spring, more refinancing activities are anticipated. <a href="#">Read more.</a></p>	June 405.6 July 397.2 Aug 383.2		Mortgages for existing home sales are stabilizing but continuing to decline for new home mortgages
<p><b>Employment</b> The economy added 128,000 new jobs in August, and the three-month average is just as unimpressive at 128,000. About 200,000 net additions would be considered healthy. Still, in the past 12 months, 1.71 million jobs have been added to the economy. <a href="#">Read more.</a></p>	June 134 July 121 Aug 128		Subpar economic and employment growth for the next four quarters
<p><b>Inflation</b> The consumer price index (CPI) rose 0.4% in July. The core index (excluding food and energy) increased 0.2%, lower than expected and below June's core index figure. The CPI will continue to grow at a projected average monthly rate of 0.4% for the next three months. <a href="#">Read more.</a></p>	May 0.4% June 0.2% July 0.4%		Prices at the pump are finally declining, while "core" prices are mostly under control

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

# NAR's Pending Home Sales Index

Pending home sales – a leading indicator for the housing market – were down in July. NAR's Pending Home Sales Index posted a level of 105.6, a 7.0% decrease from June's level, and 16.0% off the level in July 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 a month or two of signing. An index of 100 is equal to the average level of contract activity during 2001, the first year to be examined, and was the first of five consecutive record years for existing-home sales. Against a background of a healthy economy, still historically low interest rates, and meek but positive job creation, psychological factors are causing some buyers to remain on the sidelines, waiting for prices to stabilize or for more favorable news about the market and the economy. Contributing to this hesitancy is a lot of negative news stories about the housing market. NAR analysts expect that in the months ahead, underlying market fundamentals will prevail, and home sales should be leveling out, albeit at a lower pace. [Read more.](#)



Source: NAR Research

# Waiting in the Wings

by David Lereah, *Chief Economist*

The U.S. housing sector has entered uncharted territory. Despite historically low mortgage rates and a growing economy, it is contracting. What is going on here?

This market anomaly is defying the lessons of Economics 101. For the past century, every major downturn in the housing sector has been attributed to rising interest rates and a sluggish economy. Everyone knows that higher mortgage rates raise the costs of financing. And job losses due to a lack of economic growth can diminish many households' financial health and so not be able to qualify to purchase a home. But low-cost financing and jobs are plentiful today – both 30-year mortgage rates and the nation's unemployment rate are hovering near historic lows, about 6.6 percent and 4.7 percent, respectively. Meanwhile, the housing market is cracking.

And that crack is widening. In former boom markets that are now cooling – such as Miami, San Diego and Washington, DC – home sales have dropped substantially, posting 15 to 40 percent declines. For the nation as a whole, existing home sales are expected to drop by 8 percent by the end of the year, while new home sales are expected to fall by 16 percent. Adding insult to injury, housing inventories continue to mount. The nation's months supply of homes has risen sharply to over 7 months from 4 months in just a half a year's time, reflecting an excess supply of homes available for sale.

Many of the reasons for today's real estate slide are obvious: home values got too high, affordability deteriorated and the homebuying public lost confidence. Households and investors are now sitting comfortably and patiently on the sidelines waiting to get back into the real estate game, but only when property prices come down to more suitable levels. The good news is that prices are beginning to soften. Price growth (year over year) turned negative in the West and Northeast regions of the nation during July. Hopefully, this trend can continue for the next several months. With price reductions come gains in home sales. If prices continue to fall, the decline in sales might have bottomed out in July.

So prices now need to take center stage. Sellers need to abandon unreasonable expectations about the value of their homes. But there should be few worries for consumers. Most homeowners today have enjoyed substantial equity gains on their properties during the real estate boom years. Cutting prices by 5 or 10 percent will not wipe out their home equity gains.

Those of us involved in the real estate profession find ourselves in the awkward position of favoring price softening. REALTORS® are asking (pleading) sellers to accept market reali-

ties and reduce their listing price. And it is important to remember that the true measure of health in a nation's housing markets is sales *growth*, not price appreciation. The housing sector and the U.S. economy need home sales (transactions) more than home price appreciation. Every time a home is purchased, other industries, such as furniture and appliances are positively impacted. (Economists call this the “multiplier” effect.) You purchase a home; you then need to purchase furniture, appliances,

and so on. In fact, a healthy housing market impacts about 20 percent of gross domestic product – GDP. Once sales pick up, housing inventories drop. That places welcome upward pressure on home prices once again. And the cycle of life in the real estate markets as we know it, continues.

A price correction reduces the severity of the contraction (declining home sales) as well as its duration. Today's low mortgage rates and a growing economy provide a favorable backdrop for buyers and investors to purchase property at a right

and affordable (low enough) price.

Of course, some cooling metro markets will “correct” faster than others will. For example, households living in a healthy metropolitan area experiencing solid economic growth, job and income gains, and positive migration numbers are more likely to purchase property again at the right prices than households living in a metro area that is experiencing job losses and a loss of population. Washington, DC, which boasts a healthy local economy, will likely need a smaller price decline to stop the sales bleeding than some metropolitan areas in California where affordability conditions are forcing households to move to other locations.

Going forward, restoring buyer confidence is the key to ending today's real estate contraction. Only price reductions can bring confidence back to the market. So let's give a round of applause for prices taking center stage for a brief turn. The sooner home prices drop, the sooner we can stop the bleeding. Expect home prices to fall for most of the remainder of this year. Although it may seem to go against your better judgment, this is a good thing for the long-term health of housing.

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# THE FORECAST

by Lawrence Yun, Senior Forecast Economist

Home sales and home price growth forecasts have been lowered measurably. The past couple of months of housing data have been much lower than anticipated. Take a look at some of the recent figures:

- July existing-home sales were down 11% from a year ago
- July pending home sales were 16% lower from a year ago
- July new home sales were down 22% from a year ago
- June and July single-family housing starts were down 14% and 17%, respectively
- June and July single-family permits were down 17% and 23%, respectively
- June and July mortgage purchase applications were down 19% and 24%, respectively
- Inventories for both new and existing homes were at an all-time high - 4.4 million homes on the market, which is equivalent of one listing for every 17 homes in the country
- Home prices have been crawling with less than 1% appreciation from a year ago in the recent two months

That is not all. The economy has also been underperforming. The net payroll head count rose by an average of 142,000 per month in the past 12 months. In an expanding economy, the count should be above 200,000 per month. The forecast for GDP growth for the remainder of the year is also weak at only 2.5%. The weakening in the housing sector is the prime reason for the sub-par growth.

The only positive news is the recent declines in mortgage rates. From a cyclical high of 6.8% at the end of June, 30-year fixed rates have trended lower since then with the latest weekly reading (as of September 8) coming in at 6.5%. Had rates continued their upward path and reached 7.5%, perhaps a third of the country's housing markets would be experiencing home price declines.

Looking down the road, we see stabilizing mortgage rates and a modestly expanding economy through 2007. But housing will shift to the slower lane. The national forecast is for existing-home sales to fall 8% in 2006 followed by another 2% decline in 2007. The more cyclical new home sales will fall by an even greater amount -- 16% in 2006 and 7% in 2007. Correspondingly, the residential construction-spending portion of the economy will contract 3.4% in 2006 and 8.5% in 2007. In other words, \$21 billion will be *subtracted* from GDP in 2006 and another \$49 billion slashed in 2007. That would be a sharp contrast to near \$50 billion *additions* during the housing market boom. (There is a caveat: any significant shifts in mortgage rates and the state of the economy will alter the outlook.)

Home price growth will be minimal at less than 3% in both 2006 and 2007. But it is again worth emphasizing that all real estate is local. Some local markets will post much softer figures than that for the nation as a whole. Home price-to-income ratio, home price-to-rent ratio, and more importantly, mortgage debt servicing cost-to-income ratio have greatly increased in some markets to worrisome levels. The ratio metrics in Florida, California, Arizona, Nevada, Virginia, and Maryland markets exhibit trends far above local historical norms. So it would not be surprising to see price declines in these states. These states do have solid job growth, however. So any price declines can be neutralized somewhat as new job holders provide demand support for the housing market. If, however, mortgage rates were to rise measurably -- to say 7.5% or 8% from the current 6.5% -- for whatever reasons (be it Chinese dumping dollars on the market, higher inflationary expectations, or more monetary tightening by the Federal Reserve), then these markets will undoubtedly come under intense pressure.

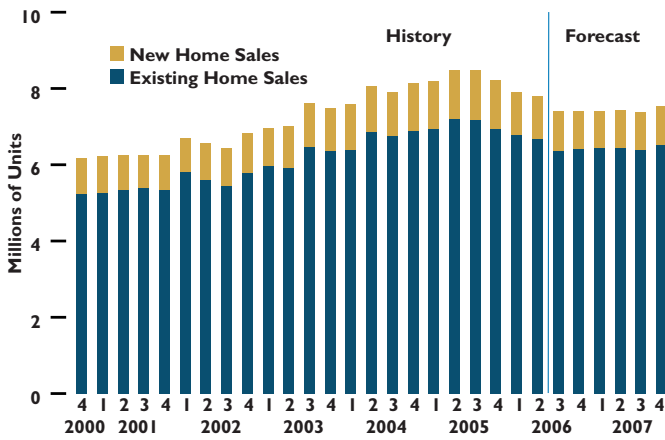
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## Home Sales

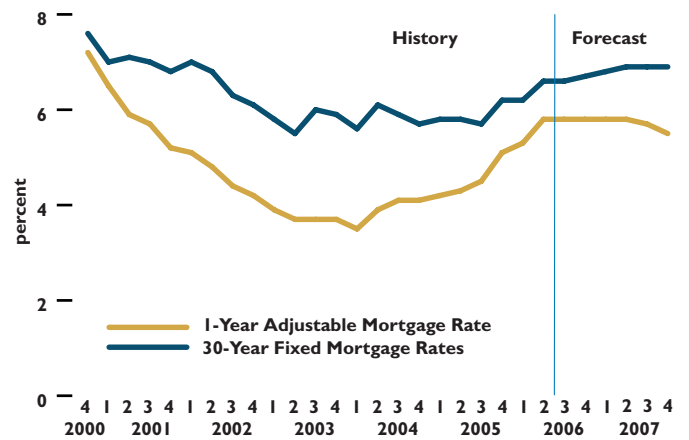
Sales pace slowing, but still above 6 million units



Sources: NAR, Bureau of the Census, NAR Forecast

## Mortgage Rates

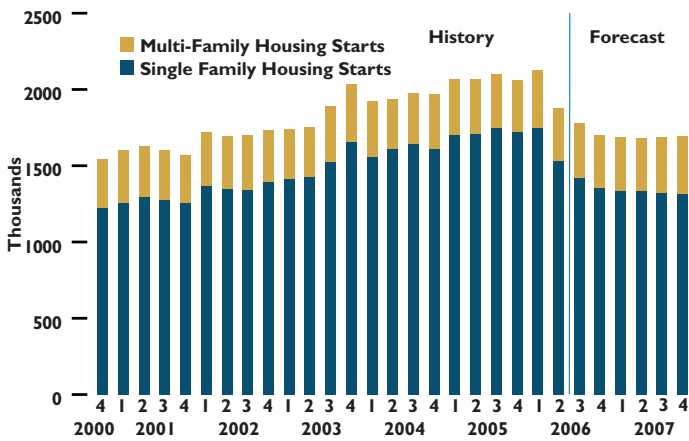
Rising slightly, then leveling off



Sources: Freddie Mac, NAR Forecast

## Housing Starts

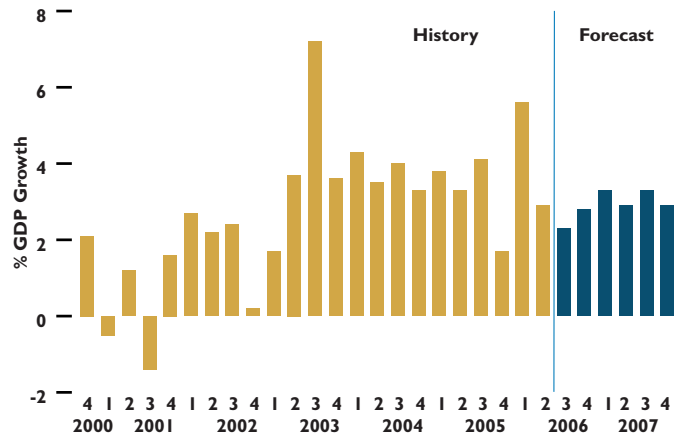
Rising costs temper building activity



Sources: Bureau of the Census, NAR Forecast

## Economic Growth

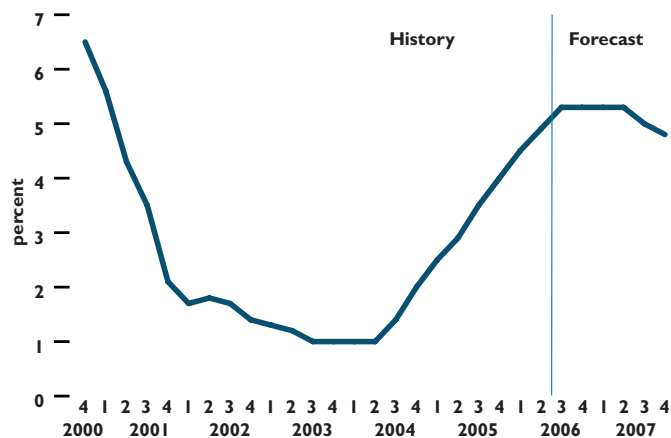
No major downturns expected



Sources: Bureau of Economic Analysis, NAR Forecast

## Federal Funds Rate

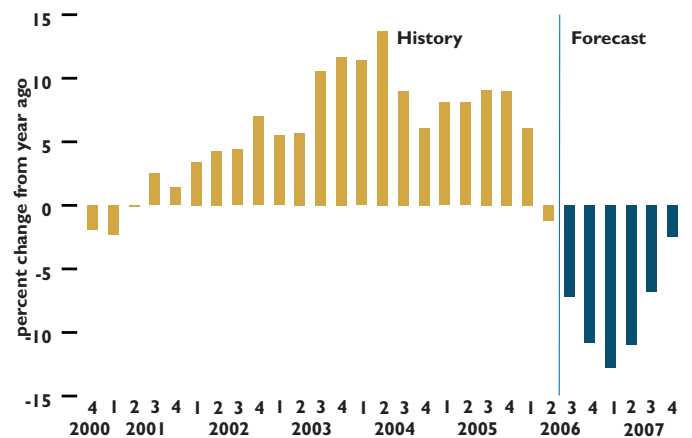
The Fed pauses



Sources: Federal Reserve Board, NAR Forecast

## Residential Construction Spending

Exuberant spending days are over for a while



Sources: Department of Commerce, NAR Forecast

# U.S. ECONOMIC OUTLOOK

## September 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	2.9	2.3	2.8	3.3	2.9	3.3	2.9	3.9	3.2	3.4	2.9
Nonfarm Payroll Employment	1.6	1.2	1.7	1.2	0.7	1.2	0.8	0.9	1.5	1.1	1.1	1.5	1.3	1.0
Consumer Prices	5.5	3.2	2.2	5.0	2.7	2.2	2.0	2.6	2.2	2.0	2.7	3.4	3.5	2.4
Real Disposable Income	-0.6	5.5	4.6	1.5	6.9	3.5	3.8	2.2	2.5	2.1	3.6	1.2	3.5	3.4
Consumer Confidence	99	96	106	107	102	103	103	103	105	106	80	100	105	104
Percent Unemployment	5.0	4.9	4.7	4.6	4.8	5.0	5.0	5.0	4.9	4.8	5.5	5.1	4.8	4.9
<i>Interest Rates, Percent</i>														
Fed Funds Rate	3.5	4.0	4.5	4.9	5.3	5.3	5.3	5.3	5.0	4.8	1.3	3.2	5.0	5.1
3-Month T-Bill Rate	3.4	3.8	4.4	4.7	5.1	5.1	5.0	5.0	4.8	4.5	1.4	3.1	4.8	4.8
Prime Rate	6.4	7.0	7.4	7.9	8.3	8.3	8.3	8.3	8.0	7.8	4.3	6.2	8.0	8.1
Corporate Aaa Bond Yield	5.1	5.4	5.4	5.9	5.6	5.8	6.0	6.0	6.1	6.1	5.6	5.2	5.7	6.0
10-Year Government Bond	4.2	4.5	4.6	5.1	4.8	5.0	5.1	5.2	5.2	5.2	4.3	4.3	4.8	5.1
30-Year Government Bond	4.4	4.7	4.6	5.1	4.9	5.1	5.3	5.3	5.4	5.4	5.1	4.6	5.0	5.4
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.7	6.2	6.2	6.6	6.6	6.7	6.8	6.9	6.9	6.9	5.8	5.9	6.5	6.9
1-Year Adjustable	4.5	5.1	5.3	5.6	5.8	5.8	5.8	5.8	5.7	5.5	3.9	4.5	5.6	5.7
<b>Housing Indicators</b>														
<i>Thousands</i>														
Existing Home Sales*	7,180	6,943	6,790	6,687	6,357	6,409	6,427	6,428	6,376	6,517	6,779	7,075	6,536	6,428
New Single-Family Sales	1,297	1,280	1,111	1,124	1,054	1,004	994	1,000	998	1,007	1,203	1,283	1,076	999
Housing Starts	2,101	2,060	2,123	1,875	1,778	1,700	1,685	1,677	1,685	1,696	1,956	2,068	1,869	1,686
Single-Family Units	1,748	1,718	1,747	1,532	1,421	1,351	1,334	1,333	1,322	1,316	1,611	1,716	1,513	1,326
Multifamily Units	353	342	376	343	357	349	351	345	363	380	345	352	356	359
Residential Construction**	620	619	619	603	576	552	539	536	537	538	560	608	587	538
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	6.5	0.9	-2.2	-7.0	-11.5	-7.7	-5.3	-3.9	0.3	1.7	9.8	4.4	-7.6	-1.7
New Single-Family Sales	11.9	3.1	-11.5	-12.5	-18.7	-21.6	-10.5	-11.1	-5.3	0.3	10.8	6.7	-16.1	-7.1
Housing Starts	6.3	4.8	2.6	-9.1	-15.4	-17.5	-20.7	-10.6	-5.2	-0.2	5.2	5.7	-9.6	-9.8
Single-Family Units	6.5	6.7	2.6	-10.2	-18.7	-21.4	-23.6	-13.0	-6.9	-2.6	6.6	6.5	-11.8	-12.3
Multifamily Units	4.9	-3.7	2.9	-3.8	0.9	2.0	-6.8	0.5	1.7	9.0	-0.9	1.9	1.1	1.0
Residential Construction	9.1	9.0	6.1	-1.2	-7.2	-10.8	-12.8	-11.0	-6.8	-2.5	10.3	8.6	-3.4	-8.5
<b>Median Home Prices</b>														
<i>Thousands of Dollars</i>														
Existing Home Prices	227.3	225.3	218.7	226.7	229.8	226.7	222.4	231.2	235.3	233.0	195.4	219.6	225.9	230.9
New Home Prices	236.6	240.1	244.8	242.2	237.5	241.6	248.0	247.8	244.6	249.1	221.0	240.9	241.4	247.3
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	14.2	13.4	9.5	3.0	1.1	0.6	1.7	2.0	2.4	2.8	9.3	12.4	2.8	2.2
New Home Prices	10.5	5.4	6.5	5.2	0.4	0.6	1.3	2.3	3.0	3.1	13.3	9.0	0.2	2.4
Housing Affordability Index	112	110	112	106	105	106	106	105	106	106	134	122	107	106

Quarterly figures are seasonally adjusted annual rates. / \* Existing home sales of single-family homes and condo/coops; \*\* billion dollars / Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy. / Assumptions and simulations by Dr. David Lereah and Dr. Lawrence Yun.

# Metro Markets: A Closer Eye

by Lawrence Yun and Keunwon Chung, NAR Research

Home sales, home prices, mortgage costs, jobs. Whenever there are new statistics on these indicators, we hear about them. Most of the time, the headlines focus on what is happening nationally. While that is great in terms of a country-wide perspective, real estate professionals know that all real estate is local. What's happening in the national housing market isn't necessarily the same as what is occurring in your neighborhood. In addition, housing trends in one state or metro area aren't the same as those in another state or locality.

While providing reports on national trends in the housing sector, NAR Research also conducts analysis for more than 100 metropolitan areas. Each quarter NAR releases statistics on existing-home sales by state, and median sales prices of existing homes by metropolitan statistical area.\* Recently, the Research Division has studied those metro areas more closely, looking not only at housing but also the fundamentals that impact local housing markets, such as jobs, population trends, and the costs of borrowing. Below we highlight four metro markets from each of the four regions of the country.

## Austin, Texas

Home prices in the Austin area have taken a turn for the better. After near zero growth from 2001 to 2004, prices have accelerated in recent quarters. In 2005 the median home price in Austin was affordable at \$163,800. It is particularly affordable considering a higher-than-normal concentration of workers in the high-tech industry. Homebuying activity is outperforming that of the country as a whole in spite of rising interest rates. That is not surprising since the affordable markets such as Austin are less sensitive to interest-rate changes and more dependent on job market conditions.

The job market was awful in the three-year span from 2001 to 2003. But jobs have come around nicely in the past two years. As a result, there are now 21,000 more jobs in the region compared to five years ago. The 3.2% growth rate in the 12 months from May 2005 to May 2006 more than doubles the national job growth rate during the same period. Job growth attracts additional potential homebuyers to the market. The high tech industry has been on a strong recovery after the heavy fallout in the aftermath of the dot-com bubble collapse in 2000. The

Texas economy is also benefiting from energy-related employment. The local area and the state are likely to outpace the nation as a whole in job growth for the foreseeable future.

After flat price movements in 2003 and 2004, there are now accelerating trends in home prices. In the first quarter of 2006, the median price rose 8.5% from a year ago. If history is a guide, the recent job gains will help support home prices.

## Boston, Massachusetts

After posting a respectable 24% price appreciation in the past three years, home prices in the Boston area turned negative in recent months. The median home price rose to \$410,800 in 2005, a 6.1% increase. The median price fell 1.5% in the first quarter of 2006 from a year ago. The slowdown in price growth is due primarily to higher mortgage rates, which have risen roughly one percentage point since last summer. Higher rates have dragged sales down in Massachusetts by 5%.

The price decline, though very modest, in the first quarter of 2006 is a bit disconcerting. If history is a guide,

### Home price and job activity – Austin, TX

Year	Existing-home Price	Price Growth	12-month job gain
2001	\$152,500	3.4 %	1,400
2002	156,700	2.8	-15,700
2003	156,100	-0.4	-5,400
2004	154,800	-0.8	14,400
2005	163,800	5.8	25,800

Sources: NAR Research, Bureau of Labor Statistics

### Home price and job activity – Boston, MA

Year	Existing-home Price	Price Growth	12-month job gain
2001	\$288,400	4.5 %	-4,300
2002	331,900	15.1	-69,500
2003	356,300	7.4	-55,700
2004	387,300	8.7	-5,900
2005	410,800	6.1	18,200

Sources: NAR Research, Bureau of Labor Statistics

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

## Metro Markets (continued)

### Home price and job activity – Columbus, OH

Year	Existing-home Price	Price Growth	12-month job gain
2001	\$135,200	5.1 %	4,500
2002	139,000	2.8	-6,300
2003	144,800	4.2	-3,000
2004	145,700	0.6	5,400
2005	150,200	3.0	6,200

Sources: NAR Research, Bureau of Labor Statistics

### Home price and job activity – San Diego, CA

Year	Existing-home Price	Price Growth	12-month job gain
2001	\$198,700	11.3 %	24,600
2002	361,500	21.0	12,200
2003	422,300	16.8	9,500
2004	547,700	29.7	20,200
2005	603,000	10.1	21,500

Sources: NAR Research, Bureau of Labor Statistics

recent job additions will help stabilize the market. Job losses of about 150,000 in the early part of the decade are still weighing down on the market. The good news is that the local job market has taken a turn for the better. There were 18,200 net new jobs in 2005 and the job gaining trend appears to be accelerating in 2006. A total of 23,700 net new jobs in the 12 months May 2005 to May 2006 will begin to bring a new set of homebuyers to the market. This suggests that the current price decline is likely to be short lived.

However, the biggest risk is the drastic slowdown in home sales activity that could result from further measurable increases in interest rates. Should the 30-year average fixed rate approach 7.5% (from its current 6.8%) as a result of too much monetary tightening by the Federal Reserve, home prices in the region could come under pressure.

#### Columbus, Ohio

Home prices in the Columbus region have risen at a moderate pace in recent years. Prices rose by only 1.1% in the first quarter of 2006. But there are few concerns about a price bubble or a large price correction given the highly

affordable conditions in the region. In 2005 the median home price in Columbus was affordable at \$150,100. Rising mortgage rates - roughly one percentage point increase in the past 12 months - have not significantly deterred homebuying. That is not surprising since the affordable markets are less sensitive to interest-rate changes and more dependent on job market conditions.

The affordable home price and the associated low mortgage servicing costs in the local region suggest that there is a good possibility of better-than-average price growth in the coming years. In fact, home prices have underperformed compared with the country as a whole. So there is an opportunity for a measurable "catch-up" effect in the upcoming years.

But that depends on whether the local economy generates jobs at a respectable pace. Jobs suffered following the 2001 recession and only recently has the market turned positive. The three-year job growth of 0.9% is still well below the national pace, but the local unemployment rate of 5.3% in the first quarter is an improvement compared to the recent past. From May 2005 to May 2006, 9,000 jobs were added to the local

economy. Job growth attracts additional potential homebuyers to the market and helps support home prices.

Risks remain, nonetheless. High oil prices have raised inflation and have slowed economic growth. The Midwest economies generally tend to suffer more than the rest of the country during a recession due to a higher concentration of manufacturing industries in the region. Therefore, should the national economy tip into a recession, job cuts in the local region are likely and could even be severe. Home prices would be dragged down as a result.

#### San Diego, California

San Diego home prices posted five straight years of double-digit gains from 2000 to 2005, including a whopping 30% annual appreciation rate in 2004. 2005 was another strong year, with the median home price rising 10.1% to \$603,000. But prices in the San Diego area have decelerated significantly in recent months -- the first quarter 2006 price appreciation slowed to 4% from a year ago. The slowdown in price growth is due primarily to higher mortgage rates, which have risen roughly one percentage point since last summer.

For information on employment statistics, visit The Bureau of Labor Statistics web site at [www.bls.gov](http://www.bls.gov).

## Metro Markets (continued)

Higher rates have dragged sales down in all of California by almost 20% and by even more in the higher-priced major coastal cities in the state.

The good news is that local job growth has been strong. Job gains have been robust in the last five years. A total of 88,000 jobs were added during that time. The three-year job growth of 4.2% is nearly two times as fast as the national increase. The local unemployment rate of 4.3% in the first quarter of 2006 implies full employment in the region. Job growth attracts additional potential homebuyers to the market. Any price declines will likely be short lived given the additional buyers ready to enter the market. If history is a guide, the robust job gains of 21,500 net new jobs in 2005 and continuing job gains in 2006 will keep home prices from falling.

As with the Boston market, the biggest risk is the impact on home sales from higher interest rates. If the 30-year average fixed-rate approaches 7.5%, home prices in the San Diego area could decline.

### **For more information**

One market's statistics do not necessarily represent that for the entire state or the region in which it is located. As much as possible, it is important to "read" the fundamentals of individual markets to gain a clearer picture of how home sales and home price appreciation is likely to perform in your area. Reports on more than 100 metropolitan area markets are available by visiting [www.realtor.org/research](http://www.realtor.org/research).

# The 2006 NAR Profile of Real Estate Firms: An Industry Overview

by Paul Bishop and Shonda Hightower, Real Estate Research

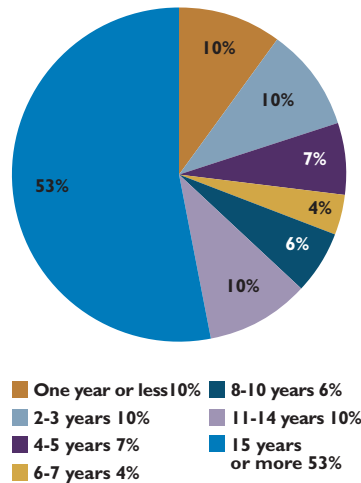
According to the U.S. Census Bureau, there are more than 76,000 establishments involved in real estate brokerage, plus thousands of firms engaged in other areas of commercial or residential real estate. Real estate firms are engaged in many activities based on a variety of business models. This diversity allows both large and small firms to compete side-by-side in either large, widely dispersed geographic markets or in niche markets that focus on specific communities.

To provide a clearer understanding of how the real estate industry is evolving to meet these demands for services, the National Association of REALTORS® surveyed real estate firms with which members of the Association are affiliated.\* The survey collected information on the business characteristics and activities of firms, training programs and technology usage, as well as the extent to which firms are involved with affinity and relocation arrangements. Results of this survey are presented in the **2006 NAR Profile of Real Estate Firms: An Industry Overview**. The report provides a detailed analysis of the business characteristics and activity of real estate firms, as well as information about technology and training that firms have embraced. Below are highlights of the study.

## CHARACTERISTICS OF REAL ESTATE FIRMS

Real estate firms vary by size, number of offices, and affiliation with a

**Years in Real Estate Business, All Firms**  
(Percentage Distribution of Firms)

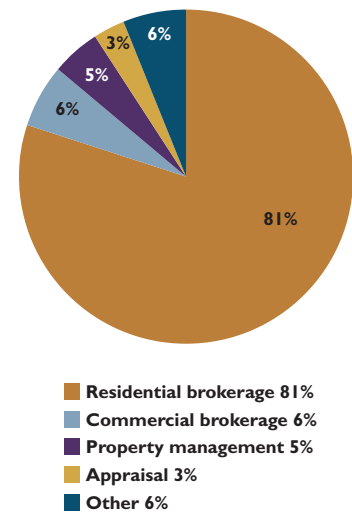


Source: The 2006 NAR Profile of Real Estate Firms

national or regional franchise. While there have been a noticeable number of new entrants into the real estate industry over the past year, more than half of real estate firms have been in business 15 years or more.

- Ninety-two percent of residential brokerage firms with five or fewer licensees operate only one office, while over half of firms with 51 or more licensees operate three or more offices.
- Ninety-one percent of firms opened no new offices in 2005 and 94 percent closed no offices.
- Ninety-six percent of large firms,

**Primary Real Estate Activity of All Firms**  
(Percentage Distribution of Firms)



Source: The 2006 NAR Profile of Real Estate Firms

those with 51 or more licensees, report they are actively recruiting sales agents.

- Franchised firms report being affiliated with a franchise for a median of 11 years.

## BUSINESS ACTIVITY OF REAL ESTATE FIRMS

These firms offer many services to home and commercial property buyers and sellers. Some firms focus only on brokerage activities. Others provide property management and appraisal services to their clients. Still others have a business line in other real estate-related services, such as escrow

\*In March 2006, the Research Division of the National Association of REALTORS® mailed a 74-question survey to a national sample of 39,000 real estate firms. A survey questionnaire was also mailed to each of the 500 largest firms to assure adequate representation of these firms. A firm was defined as a commercial or residential brokerage firm if commercial or residential brokerage was the primary business activity of the firm – that is if it accounted for at least 50 percent of firm revenue. Survey results were weighted to be broadly consistent with information from the U.S. Census Bureau on the distribution of firms by size. Information presented in this report representing annual totals or annual averages is characteristic of 2005. All other information, unless noted otherwise, is characteristic of early 2006.

## Profile (continued)

### Effect of Training on Firm Operations (Percentage Distribution Among Firms Offering Training)

	Improved Considerably	Improved Moderately	No Effect	Diminished
Acquiring listings	22	59	19	
Advertising effectiveness	14	48	38	*
Agent/Broker retention	22	45	33	*
Development of management skills	19	52	29	*
Effective use of technology	29	55	16	*
Firm name recognition	20	45	36	*
Sales volume	22	60	18	*
Profitability	21	58	21	*
Recruiting sales agents	17	42	41	*

\* Less than one percent

Source: The 2006 NAR Profile of Real Estate Firms

and settlement services and even home inspection and home warranty services.

- Eighty percent of firms are active in residential brokerage and 36 percent are involved in commercial brokerage as a secondary activity.
- Nearly half of firms offer home warranty services through outsourcing or relationships with another firm; 8 percent offer the service in-house.
- One in ten small residential brokerage firms, those with five or fewer licensees, participate in affinity arrangements. Thirty-nine percent of large residential firms, those with 51 or more licensees, participate in affinity arrangements.
- Among residential brokerage firms with an affinity arrangement, 59 percent have an affiliation with a financial organization.
- Brokerage firms with an affinity arrangement report a median 5 percent of transactions result from this relationship.
- Fifty-five percent of large residential firms have a relocation department within their organization.
- Sixty-six percent of firms indicated that their profits increased in 2005, including 66 percent of residential brokerage firms and 72 percent of commercial brokerage firms.

### TRAINING AND EDUCATION ACTIVITIES

Education and training allows real estate professionals to stay abreast of changes in the industry. This training helps keep salespeople and licensees up to date on the latest laws, technologies and trends that affect real estate. Even more importantly, training helps both staff and licensees develop the skills necessary to grow their businesses and better serve clients in an increasingly competitive real estate marketplace. Indeed, a certain level of training is required of brokers and agents to maintain their licenses.

- Nearly half of all firms provide training for both staff and sales agents. An additional 21 percent of firms provide training for sales agents only.
- Thirty-five percent of residential firms schedule formal training sessions for their staff and sales agents compared with 27 percent of commercial firms.
- New sales agents participate in a median 20 hours of training per year.
- For firms offering training using outside companies, the broker is a decision-maker for half of these firms, the owner for 41 percent and the firm executive for 26 percent.

- Forty-six percent of training among all firms is provided by fellow real estate professionals.
- Eighty-one percent of firms report that their training programs contributed to their ability to acquire listings.

### THE ROLE OF TECHNOLOGY

One aspect of the real estate business that has changed rapidly over the past decade is the role of technology, which streamlines many operational activities of firms or allows for more efficient and more frequent communication with clients. Technologies such as interactive Web sites allow homebuyers to search for homes and to keep up with new listings as they become available.

- Forty-one percent of large residential brokerage firms and 16 percent of small firms communicate internally using email about 75 percent of the time.
- Eight percent of residential brokerage firms charge their professionals a technology fee. Among large firms, 30 percent charge a fee.
- Of the firms that do charge technology fees, the services most frequently provided are email (71 percent), use of shared computer workstations (68 percent) and technology training and support (60 percent).
- Seventy-eight percent of firms have a Web site and have had their Web site a median 5 years.
- Firms with a Web site indicated that a median 10 percent of leads were generated through their site.
- Ninety-one percent of firms include property listings on their site; 71 percent include agent and staff profiles and 58 percent include mortgage or financial calculators.

## Profile (continued)

### CONCLUSION

Real estate firms have evolved over time. More firms are expanding into other business activities that were not the traditional domain of real estate firms a few years ago. Large firms now offer escrow services, business brokerage, home improvement and insurance services, for example.

How the real estate industry and real estate firms change in the future will be determined by many factors. Consumer demand for services will provide opportunities for both large and small firms. Some firms will compete in niche markets serving a clientele in a particular geographic region or consumers looking for particular types of residential or commercial property. Technology will increase productivity and provide opportunities for new and innovative ways of doing busi-

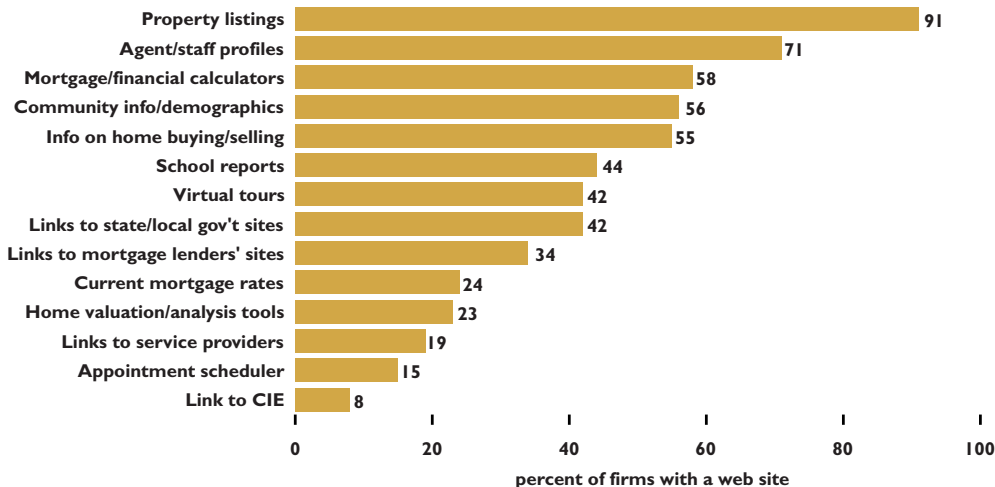
ness. Ongoing analysis such as that provided in the **2006 NAR Profile of Real Estate Firms**, will enable real estate professionals at all levels, as well as industry analysts, to track the real estate industry and anticipate many of the changes that will occur in the next several years.

### FOR MORE INFORMATION

The complete report, **The 2006 NAR Profile of Real Estate Firms: An Industry Overview**, is available for purchase. Call 1-800-874-6500, and ask for item #186-02-06. Or visit [www.realtor.org/research](http://www.realtor.org/research) and click on "Buy Research."

### Information Included on Firms Web Site

(Percent of Firms with a Web Site)



Source: The 2006 NAR Profile of Real Estate Firms

# Links to Statistical Data Series

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

## Existing Home Sales – Monthly series

- [July existing home sales and median sales prices](#) – single-family and condominiums/co-ops
- [Single-family home sales and median sales prices](#)
- [Condominium/co-op sales and median sales prices](#)
- The latest EHS statistics in spreadsheet format available [here](#)

## Existing Home Sales and Metropolitan Area Median Home Sales Prices – 2nd Quarter 2006

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

## NAR's Pending Home Sales Index

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

## NAR's Housing Affordability Index

- [July HAI Index](#)
- July Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
  - [2nd Quarter 2006 Affordability Index](#)
  - 2nd Quarter 2006 Affordability Index in spreadsheet format available [here](#)
  - [First-time homebuyer Affordability Index, 2nd 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 Real Estate Firms: An Industry Overview

Real estate firms are engaged in many activities based on a variety of business models. This diversity allows both large and small firms to compete side-by-side in either large, widely dispersed geographic markets or in niche markets that focus on specific communities.

This latest in NAR's series of industry Profile reports provides a look at real estate firms – their size, sources of income, business specialty, franchising, computerization, in-house training, sales force turnover, E&O insurance, affinity relationships and more. The *2006 NAR Profile of Real Estate*

*Firms* is an ideal guide for planning how to compete in the changing real estate environment. It is an easy-to-understand resource containing the latest statistics on all types of real estate brokerage firms!

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