

real estate insights

February 2006

Real Intelligence –
Real Advantages

In This Issue

Existing-home sales posted 6.60 million seasonally adjusted annualized units in December – a 5.7 percent decline from November’s pace and 3.1 percent down from their level in December 2004. Even with the decline, December resales easily set an annual record. There were 7,072,000 existing-home sales in all of 2005, up 4.2 percent from 6,784,000 in 2004. This is the fifth consecutive annual record since NAR began tracking the sales series in 1968. The level of home sales activity is now at a sustainable level, and is likely to pick up a bit in the months ahead. Overall fundamentals remain solid, driven by population and employment growth as well as favorable affordability conditions in most of the country. The national median existing-home price for all housing types was \$211,000 in December, up 10.5 percent from December 2004. [Read more.](#)

Defining Moment. In light of a new ruling from the Office of the Comptroller of the Currency that allows some banks to engage in some real estate brokerage activities, the argument about what constitutes commercial activities and what constitutes financial activities is in play again. REALTORS® maintain that real estate brokerage is a commercial activity; banks insist that real estate brokerage is a financial activity (or incidental to finance). In his commentary this month, NAR Chief Economist David Lereah tells us that is time for the Congress to make a firm determination on this issue. [Read more.](#)

Crystal Ball. Household income is up, but so are interest rates. Consumer confidence is soft, and the savings rate is in negative territory. Will people stop buying homes? Will American consumers continue to spend and borrow to purchase real estate and other big-ticket items? Will the tame (so far) winter turn savage? What’s in the crystal ball for the economy for 2006 and beyond? NAR’s Senior Forecast Economist, Lawrence Yun, give us a reading. [Read more.](#)

The Great Profile. Last month, the Real Estate INSIGHTS highlighted results of NAR’s most recent survey of homebuyers. In this month’s “Market Intelligence” feature, we look at the same survey from the seller’s point of view. How do home sellers use real estate professionals? What proportion of sellers try to sell their homes by themselves? [Read more.](#)

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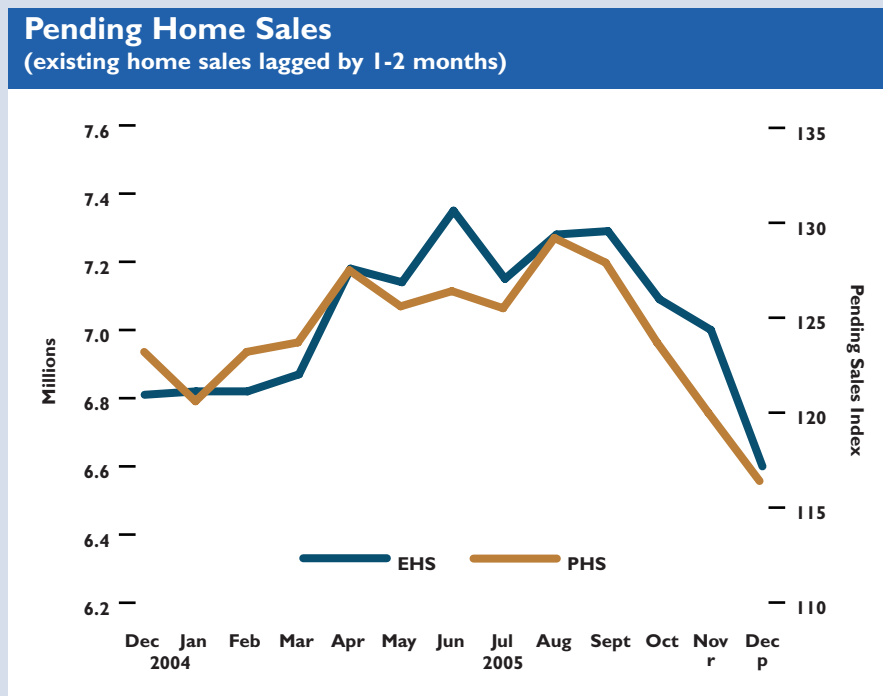
Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing-home Sales fell 5.7% in December to a seasonally adjusted annualized rate of 6.60 million units. Sales have declined for three straight months. Despite the decelerating sales trend, home prices continued to show strength. The median price rose 10.5% from a year ago period. Read more.</p>	Oct 7,090 Nov 7,000 Dec 6,600		Sales have noticeably come down already and will bounce up and down around this level
<p>New Home Sales in December were exceptionally strong, rising 2.9% to a seasonally adjusted annualized rate of 1.27 million units. 2005 was the fifth consecutive year of record sales, with an annual pace of 1.28 million units. The inventory of new homes rose to a 4.9-months' supply. Read more.</p>	Oct 1,358 Nov 1,233 Dec 1,269		Builders have added sizable incentives to move unsold inventory, but sales will trend lower
<p>Housing Starts decreased 9% in December to 1.9 million seasonally adjusted annualized units. October and November's figures were revised upward. The three-month moving average of 2.04 million would easily beat last year's annual total of 1.95 million. The 25-year high housing starts are, therefore, not an oversupply but builders just responding to strong housing demand. Read more.</p>	Oct 2,051 Nov 2,121 Dec 1,933		Unsold inventory of newly constructed homes are quite high
<p>Housing Affordability NAR's housing affordability index rose in December to 116.8 – the first increase since September. The rise was due primarily to decreases in the median existing-home price and qualifying income. Higher median household income also helped to offset the rise in mortgage rates. Read more.</p>	Oct 115.7 Nov 115.2 Dec 116.8		Home prices still running faster than family income
<p>Mortgage Rates The 30-year fixed mortgage rate inched lower in January to 6.15%. Mortgage rates will fluctuate in months ahead, but the trend is for higher rates in the long term. The one-year adjustable mortgage rate remained unchanged from December 2005. Read more.</p>	Nov 6.33 Dec 6.27 Jan 6.15		Higher, but will not cross the 7% marker in 2006
<p>Purchase Applications The Mortgage Bankers Association application index is at an 11-month low after the index fell minimally to 452.7 in January. A reading above 400 is still indicative of a healthy activity in the mortgage market. Furthermore, expectations for higher mortgage rates down the road should continue to fuel applications in the coming months. Read more.</p>	Nov 473.0 Dec 455.5 Jan 452.7		Mortgage lending for both purchases and refinancings will contract
<p>Employment Payroll employment rose by 193,000 in January. The latest three month average job gain of 229,000 is very robust. In the past 12 months, 2.1 million jobs have been added to the economy. The unemployment rate fell to 4.7%. Jobs in the professional business service sector (those that require commercial office spaces) rose by 24,000 during the month. Read more.</p>	Nov 354 Dec 140 Jan 193		Similar monthly job gains to be expected through the first half of 2006
<p>Inflation The consumer price index (CPI) fell 0.1% in December. Fuel prices continued their decline through December, falling 2.2% in November. Housing, food and beverages and recreation all rose 0.1%. The core index (excluding food and energy) rose 0.2%. Core prices have risen for the fourth straight month and are likely to remain at a strong pace through the winter and spring. Read more.</p>	Oct 0.2% Nov -0.6% Dec -0.1%		Though energy prices are high, they are no longer increasing

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 February 10, 2006.

NAR's Pending Home Sales Index

Pending home sales continue to decline but are expected to recover in the months ahead. NAR's latest Pending Home Sales Index, which is based on contracts signed in December, was 116.4 – down 3.0 percent from November's level and 5.5 percent below that of December 2004. Pending sales have been trending steadily downward from a record index of 129.2 last August. The index is based on pending sales of existing homes. A sale is listed as pending when the contract has been signed and the transaction has not closed, but the sale usually is finalized within one or two months 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. The current index reflects a delayed effect of mortgage interest rates that peaked in November but are now lower than expected. Pending home sales can be expected to rise in the next couple months. [Read more.](#)



Source: NAR Research

Needed: A “Defining” Moment

by David Lereah, NAR Chief Economist

Recent events have again highlighted some of the continuing differences of opinion between the banking and real estate industries. The Office of the Comptroller of the Currency (the OCC) in three separate interpretive letters has permitted national banks to “cross over” the line that traditionally separates banking and commerce. This action has galvanized REALTORS® who are once again reminded of the now five-year old battle between banks’ desire to engage in real estate brokerage and property management activities and our industry’s attempts to keep them out of the real estate business.

The separation of banking and commerce was mandated by Congress to protect consumers from potential conflicts of interest. The devastating savings & loan crisis of the 1980s and the historic collapse of the Japanese banking system of the 1990s are prime reminders of the toxic aftermath of mixing banking and commerce. Unfortunately, the OCC has let the fox into the hen house. Banks are now permitted to engage in some types of real estate development, raising eyebrows throughout both the banking and real estate industries.

Mark Twain once said, “History never repeats itself, but sometimes it rhymes.” This situation may not be as broad as Japanese banks taking equity ownership in different commercial industries during the 1980s and 1990s. But with the OCC’s ruling, U.S. national banks are now permitted to develop and operate a luxury hotel; finance, develop, operate and lease space in a mixed use building (including developing residential condominiums); and hold a 70 percent equity stake in a windmill business, qualifying for special tax credits. Three national banks were given the green light to engage in these activities. How many other national banks will engage in these real estate development activities tomorrow? We don’t yet know.

Permission was granted based on the rationalization that ownership limitations are imposed and that these deals are necessary to further bank operations. But from a real estate perspective, the OCC rulings are inconsistent with Federal statutes and other OCC precedents. The rulings also underscore concern that these actions will inevitably lead to an irreparable breach in the wall separating banking and commerce.

In light of the recent OCC rulings, it is time to remind ourselves and others of why REALTORS® are opposed to banks

engaging in real estate brokerage and property management activities. There are the usual competitive reasons. Bank entry into the real estate brokerage business would unlevel the playing field since banks are special government-subsidized institutions. Banks have advantages that real estate brokerage companies don’t have, such as the ability to borrow funds in the federal funds market or the Federal Reserve discount window. We can also say (as stated above) that banks involved in real

estate brokerage activities raise conflicts of interest issues. How can banks stay objective and fair when they are potentially granting loans to the same companies it finds itself competing with?

Banks counter that REALTORS® are afraid of the additional competition that their entry would provide. They also argue that they can build firewalls to minimize conflicts of interest and unfair competition issues. Both sides argue their positions until both are blue in the face with emotions running high.

But there is one question in this debate that has not often been asked that must be answered: is real estate brokerage a financial activity or incidental to a financial

activity; or is real estate brokerage a commercial activity? If real estate brokerage is a financial activity or incidental to a financial activity, then under the Gramm-Leach-Bliley Act, banks are permitted to engage in this activity. If real estate brokerage is a commercial activity, then banks are clearly *not* permitted to engage in this activity. Banks claim that real estate brokerage is a financial activity and thus they are permitted to engage in this activity. REALTORS® claim that real estate brokerage is a commercial activity and so banks are not allowed to participate.

To put this argument in the proper context, consider how the U.S. economy is categorized. At one end of the economy is the banking system, with its special subsidies. At the other end are commercial companies (e.g., automobiles, boats, furniture, and real estate brokerage). In between the two is a third category called financial services. It is here where both banks and commercial companies can compete head to head. Banks are permitted to engage in financial services such as insurance and the securities business. So are companies that engage in commerce. For instance, this is the space where General Motors or General Electric can have finance companies that compete against banks for consumer loans. This is also the space where

The recent OCC rulings underscore concern that the agency’s actions will inevitably lead to an irreparable breach in the wall separating banking and commerce.

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

real estate brokerage companies can offer what is often called “one-stop shopping” (real estate brokerage, title insurance and mortgage lending), and where banks can also offer one-stop shopping, including banking services (deposits, savings accounts), mortgage lending, and title insurance. But it is important to note: Real estate brokerage companies are not able to offer banking services and banking companies are not able to offer real estate brokerage services. And it is just as important to note: The system works! The financial services arena is fiercely competitive with both banks and commerce companies competing at a high level. Commercial companies are not permitted in banking and banking companies are not permitted in real estate brokerage.

The recent application of Wal-Mart to open an Industrial Loan Company (considered a bank) is a good case in point. REALTORS® are opposed to Wal-Mart getting into the banking business. It would be a violation of the separation of banking and commerce. REALTORS® have been consistent on this point. The same cannot be said for banks. On the one hand, banks oppose Wal-Mart’s entry into the banking business, leaning heavily on the principle of separating banking and commerce. On the other hand they argue that banks should be permitted to engage in the commercial activity of real estate brokerage. You can’t have it both ways.

Of course, banks claim that real estate brokerage is a financial activity, not a commercial one. Only Congress has the right and ability to define real estate brokerage as a financial activity. The good news is that our national legislature has already determined that real estate brokerage is a commercial activity. Banks want that definition changed and are looking for the Federal Reserve and Treasury Department to accept a new “financial” definition. Congress needs to settle this battle once and for all and define the real estate brokerage business for what it is—commerce.

On the one hand, banks oppose Wal-Mart’s entry into the banking business, leaning heavily on the principle of separating banking and commerce, while on the other hand argue that banks should be permitted to engage in the commerce activity of real estate brokerage.

For the latest information about banks in real estate, visit www.REALTOR.org.

THE FORECAST

by Lawrence Yun, Senior Forecast Economist

What has been very tight housing inventory is quickly loosening. Rather than the 4.3 months' supply in 2004 and the first half of last year, 2005 ended with a 5.1 months' supply – the highest level of homes available for sale in nearly seven years. Home sales have declined for the third straight month to their lowest activity in 20 months. At the same time, the number of homes listed for sale has ballooned to 2.8 million, an increase of 580,000 homes in the past 12 months. Homebuyers should be delighted. Choices are abundant and there is no pressure for a hurried decision.

The market has shifted fundamentally and people need to understand that the double-digit rate of home price appreciation that they've been used to is, with the exception of a few local markets, his-

tory. Home sellers will have to adjust their price expectations and sell their homes at more competitive prices. Rather than putting a home on the market at a 15% higher price than last year, sellers need to adjust their expected price only 5% higher. Interest rates have been about half of one percent higher in recent months compared to what had prevailed during the most of the past three years. Interest rates for the remainder of the year will be higher still. Higher rates mean more people getting bumped out of the eligibility pool.

Everyone has been waiting for a turning point in the housing market. Perhaps there is more nervousness than is justified in the market. A "wait and see" approach is excessively dampening the demand. But for those people waiting for a wholesale price reduction, a big disappointment awaits. Prices do not

decline in a job creating economy -- at least based on U.S. historical experience. It is true that the market is shifting, but it is shifting to healthy and sustainable levels. Once people realize that prices will not buckle, buyers will return. Home sales are not likely to return to the record-breaking levels we have seen over the past several years, but they will be higher than the cyclical low of last month's 6.6 million.

By all measure, home prices in the United Kingdom are far more prone to a price decline than they are in the U.S. Home prices across the Atlantic have risen at a much stronger pace and all the

ratios of price-to-income and price-to-rent are more out of the historic norm than here. Furthermore, the mortgage market in the U.K. is such that nearly all loans there are adjustable and bring

monthly changes in mortgage payments. Even so, home prices in the U.K., after pausing briefly (1% to 2% increases) in the middle of 2005, are showing signs of acceleration recently. Prices in January climbed back to 5%. Evidently people who have been waiting for the prices to fall were disappointed and have re-entered the market. The U.K. market should be closely monitored because if there is a housing bubble, then the British market will take the first plunge.

Meanwhile the U.S. economy is solid. The weak GDP growth of 1.1% in the fourth quarter should be thrown out. Several factors had artificially depressed growth. Vehicle sales were unusually low in November and December. January sales already showed a huge rebound and any normal sales patterns for February and March will be enough to bump consumer spending to grow by

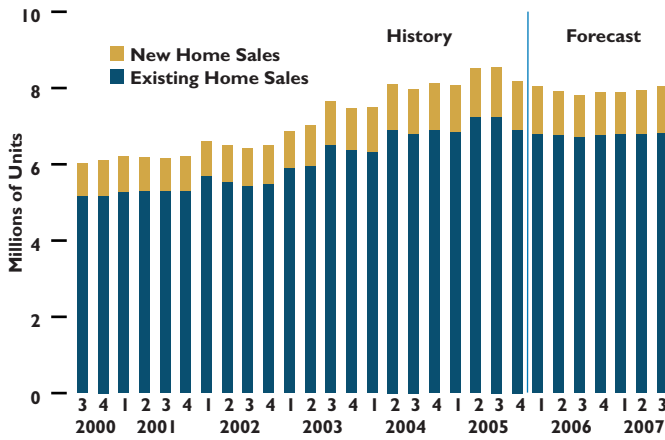
4.5% in the first quarter. Defense spending declined by 2% in the latest quarter – even with the war in Iraq and Afghanistan. The only explanation here is that the timing of spending was a bit off. Military spending will quickly rebound (since the government rarely under-spends its given budget). Also, business spending was unusually low in the fourth quarter; that is hard to explain in light of record high profits and a return of the stock market to a 5-year high. The first quarter 2006 GDP expansion will be impressive at a near 5% growth rate.

The job market looks equally solid. The unemployment rate has already hit 4-year low of 4.7%. The number of people on unemployment insurance has also been trending down significantly. The country will generate over 2 million new jobs this year. This job creation will largely neutralize any negative impact of rising mortgage rates. Home sales, after treading at 6.7 million in 2006, will steadily increase from 2007.

The housing market is shifting to healthy and sustainable levels.

Home Sales

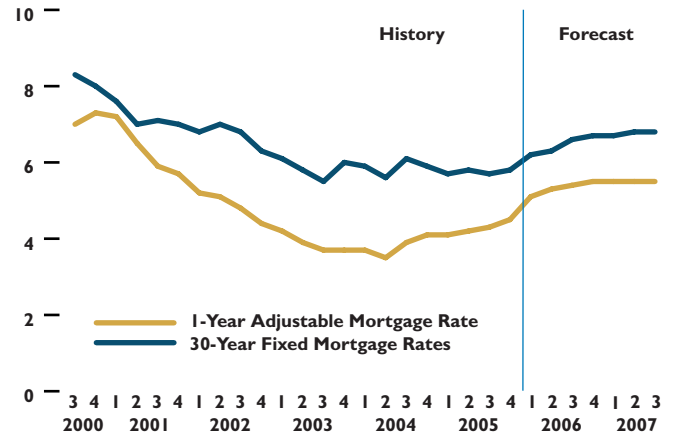
Off record levels, but still healthy



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

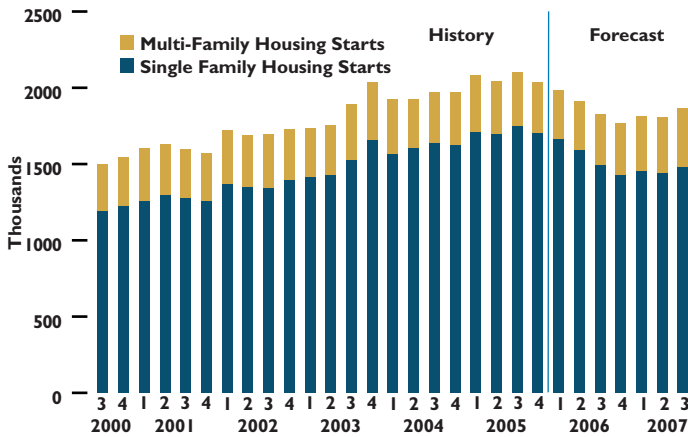
Inching upward, but still at or below 7 percent



Sources: Freddie Mac, NAR Forecast

Housing Starts

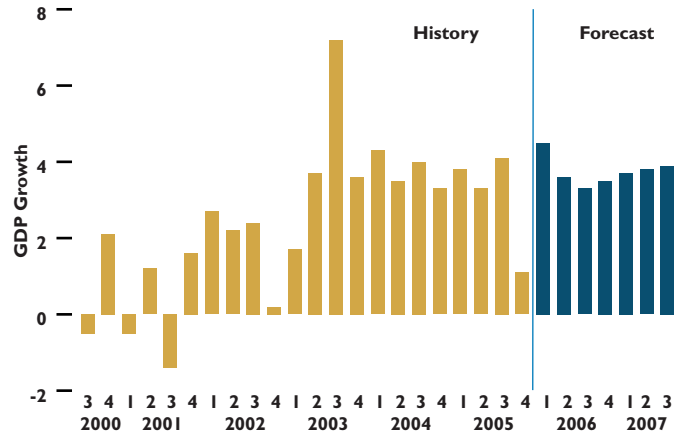
Starts reflecting increased construction costs



Sources: Bureau of the Census, NAR Forecast

Economic Growth

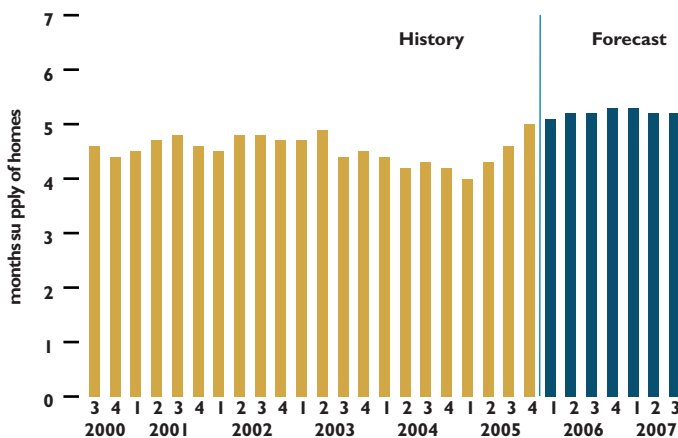
Sufficient growth for job creation



Sources: Bureau of Economic Analysis, NAR Forecast

Housing Inventory

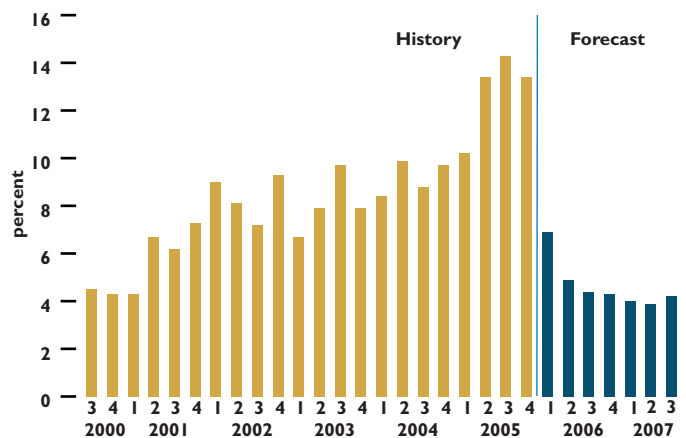
Edging closer to a "balanced" supply



Sources: NAR, Bureau of the Census, NAR Forecast

Home Price Appreciation

Sustainable levels



Sources: NAR, NAR Forecast

U.S. ECONOMIC OUTLOOK

February 2006

	2005			2006			2007			2004	2005	2006	2007	
	II	III	IV	I	II	III	IV	I	II	III				
U.S. Economy														
<i>Annual Growth Rate</i>														
Real GDP	3.3	4.1	1.1	4.5	3.6	3.3	3.5	3.7	3.8	3.9	4.2	3.5	3.4	3.6
Nonfarm Payroll Employment	1.9	1.6	1.0	1.5	1.1	1.4	1.5	1.4	1.2	1.7	1.1	1.6	1.4	1.4
Consumer Prices	4.2	5.1	3.2	2.5	2.6	2.5	2.3	2.4	2.3	2.2	2.7	3.4	3.1	2.3
Real Disposable Income	0.2	-2.0	7.0	5.9	3.6	4.1	4.3	4.9	3.7	4.1	3.4	1.4	3.9	4.2
Consumer Confidence	102	99	96	106	107	109	110	110	109	110	80	100	108	110
Percent Unemployment	5.1	5.0	4.9	4.8	4.8	4.8	4.8	4.9	4.9	4.8	5.5	5.1	4.8	4.8
<i>Interest Rates, Percent</i>														
Fed Funds Rate	2.9	3.5	4.0	4.4	4.8	4.8	4.8	4.8	4.8	4.8	1.3	3.2	4.7	4.8
3-Month T-Bill Rate	2.9	3.4	3.8	4.4	4.7	4.7	4.7	4.7	4.7	4.7	1.4	3.1	4.6	4.7
Prime Rate	5.9	6.4	7.0	7.4	7.8	7.8	7.8	7.8	7.8	7.8	4.3	6.2	7.7	7.8
Corporate Aaa Bond Yield	5.1	5.1	5.4	5.8	6.1	6.3	6.3	6.3	6.3	6.4	5.6	5.2	6.1	6.4
10-Year Government Bond	4.2	4.2	4.5	4.5	4.8	5.1	5.2	5.2	5.3	5.3	4.3	4.3	5.0	5.3
30-Year Government Bond	4.5	4.4	4.7	4.7	5.0	5.3	5.5	5.6	5.7	5.7	5.1	4.6	5.3	5.6
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.8	5.7	5.8	6.2	6.5	6.8	6.9	6.9	7.0	7.0	5.8	5.9	6.6	6.9
1-Year Adjustable	4.3	4.5	5.1	5.3	5.6	5.7	5.7	5.7	5.7	5.7	3.8	4.5	5.6	5.7
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	7,223	7,240	6,897	6,788	6,748	6,698	6,757	6,774	6,776	6,799	6,784	7,072	6,736	6,795
New Single-Family Sales	1,287	1,298	1,287	1,247	1,179	1,125	1,138	1,121	1,154	1,249	1,203	1,282	1,173	1,158
Housing Starts	2,044	2,101	2,035	1,986	1,914	1,826	1,768	1,812	1,809	1,868	1,956	2,065	1,873	1,840
Single-Family Units	1,693	1,747	1,702	1,664	1,588	1,493	1,424	1,450	1,437	1,480	1,611	1,714	1,542	1,462
Multifamily Units	351	354	333	321	326	333	344	362	372	388	345	350	331	378
Residential Construction**	599	610	615	614	604	587	570	565	568	575	562	602	594	573
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	4.7	6.5	0.3	-0.7	-6.6	-7.5	-2.0	-0.2	0.4	1.5	9.7	4.2	-4.7	0.9
New Single-Family Sales	7.0	11.5	3.5	-0.2	-8.4	-13.3	-11.5	-10.1	-2.1	11.0	10.8	6.6	-8.5	-1.3
Housing Starts	6.3	6.4	3.1	-4.7	-6.4	-13.1	-13.1	-8.7	-5.5	2.3	5.2	5.6	-9.3	-1.8
Single-Family Units	5.9	6.9	5.0	-2.6	-6.2	-14.6	-16.3	-12.9	-9.5	-0.9	6.6	6.4	-10.0	-5.2
Multifamily Units	8.6	4.2	-5.5	-14.1	-7.2	-5.9	3.4	12.6	14.2	16.5	-0.9	1.3	-5.4	14.3
Residential Construction	6.1	7.2	7.7	5.1	0.7	-3.8	-7.3	-8.0	-6.0	-2.1	10.3	7.2	-1.4	-3.6
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	209.3	216.3	214.7	203.5	219.6	225.8	223.9	211.6	228.1	235.3	185.2	208.7	219.2	228.8
New Home Prices	230.2	236.6	228.7	249.0	249.1	255.1	250.4	263.9	261.3	266.8	221.0	237.3	250.9	263.2
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	13.3	14.2	13.4	6.9	4.9	4.4	4.3	4.0	3.9	4.2	8.5	12.7	5.0	4.4
New Home Prices	6.3	10.5	0.4	8.3	8.2	7.8	9.5	6.0	4.9	4.6	3.9	7.4	5.7	4.9
Housing Affordability Index	121	118	116	121	110	107	110	114	108	106	134	122	112	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.

Fourth Quarter Metro Home-Price Appreciation

by NAR Staff

Numerous metropolitan areas showed double-digit annual home price appreciation in the fourth quarter of 2005. The National Association of REALTORS® Fourth Quarter Metropolitan Area Home Price report, released on February 15, shows that while the overall pace of growth has cooled slightly, annual appreciation in metro area condo prices was mostly in the double-digit range.

The Association's fourth-quarter metro area single-family home price report covers 145 metropolitan statistical areas,* and shows a record 72 metro areas experienced double-digit annual increases in median existing single-family home prices. Only six areas posted price declines. The previous record for areas showing double-digit price appreciation was 69 metros in the third quarter of 2004.

The biggest single-family price increase in the nation was in the Phoenix-Mesa-Scottsdale area of Arizona, where the fourth quarter price of \$268,400 rose 48.9 percent from a year earlier. Next was Cape Coral-Fort Myers FL at \$293,100, up 48.0 percent from the fourth quarter of 2004.

Median fourth-quarter metro area single-family prices ranged from \$63,800 in Danville IL to nearly 12 times that amount in the San Jose-Sunnyvale-Santa Clara area of California where the median price was \$747,000. The second most expensive area in the United States was the San Francisco-Oakland-Fremont area at \$718,700, followed by the Anaheim-Santa Ana-Irvine area (Orange Co. CA) at \$699,800. For comparison, the national median existing single-family home price was \$213,000 in the fourth

quarter, up 13.6 percent from a year earlier when the median price was \$187,500. In the third quarter of 2005, the annual rate of home-price appreciation was 14.7 percent.

Behind the Numbers

The modest dip in home price growth is an early sign of a market adjustment. Even though home sales have eased, the tremendous momentum in price appreciation was sustained in the fourth quarter. Why? Tight inventories. The balance between the supply of homes available for sale and the demand from homebuyers still favored sellers. That helped boost home prices. The good news is that the supply of homes on the market has been trending upward. We are now entering a period of a more normal balance in supply and demand. In December the inventory of homes for sale was at a 5.1-months'

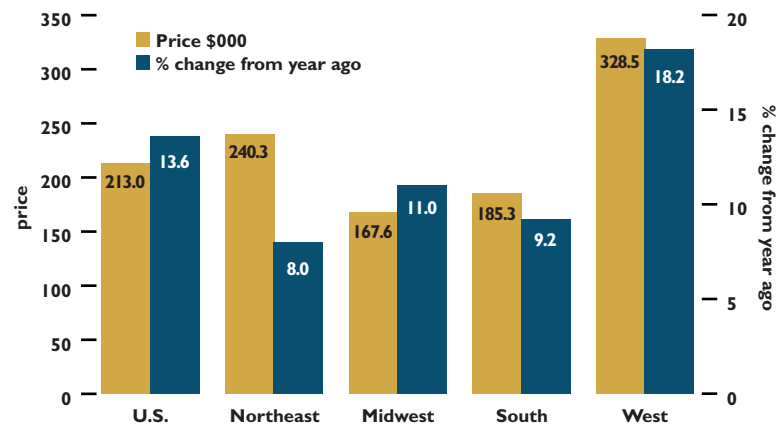
supply. Generally, a six-month supply is considered a "balanced" market.

New Condominium Price Series

Beginning with this report, NAR launched a new series on metro area condominium and cooperative prices, covering changes in 51 markets; co-ops are a very small market share and are included with condo data. In the fourth quarter, the national median existing condo price was \$228,200, which is 12.3 percent higher than a year ago. In all, 27 areas showed double-digit annual gains in the median condo price; there were seven areas with declines. Interestingly, the national condo price is higher than the median single-family home price. This is because there is a high concentration of condos in the more expensive metropolitan areas. But it is important to note that the data shows that within a given area, the typical

Metropolitan Area Home Prices

Single-family (detached) homes only, 4th Quarter 2005



Source: NAR Research

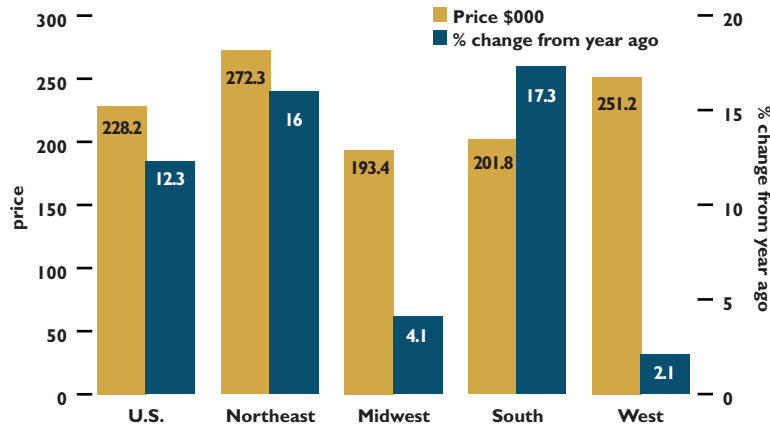
*Areas are generally metropolitan statistical areas as defined by the U.S. Office of Management and Budget.

A list of counties included in MSA definitions is available at:

<http://www.census.gov/population/estimates/metro-city/0312msa.txt>

Metropolitan Area Home Prices

Condominium/Co-op Units only, 4th Quarter 2005



Source: NAR Research

single-family home costs more than the typical condo.

The strongest gains in condominium prices were in the Phoenix-Mesa-Scottsdale area, where the fourth quarter price of \$175,600 jumped 50.9 percent from a year ago. In the Tampa-St. Petersburg-Clearwater area of Florida, the median condo price of \$185,400 rose 37.1 percent from the fourth quarter of 2004, while the Honolulu area, at \$300,000, increased 36.4 percent. In all, 52.9 percent of the available markets experienced double-digit annual condo price appreciation.

Metro area median existing condo prices ranged from \$105,700 in Bismarck, North Dakota, to \$616,800 in San Francisco-Oakland-Fremont. The second most expensive reported area for condos was Los Angeles-Long Beach-

Santa Ana, at \$406,600, followed by the San Diego-Carlsbad-San Marcos area of California at \$390,300. Low cost condo markets include Rochester NY at \$108,800, and Greensboro-High Point NC at \$109,000.

The condo price series will be expanded in the future as more data becomes available.

Regional Differences**

Regionally, the strongest increase in the median existing single-family home price was in the West, up 18.2 percent over the last year to \$328,500 during the fourth quarter. After Phoenix-Mesa-Scottsdale, the strongest increase in the West was in the Tucson area, at \$245,200, up 32.3 percent, followed by Salem OR at \$194,100, up 28.3 percent from the fourth quarter of 2004, and Honolulu, at \$620,000, up 26.5 percent.

In the **Midwest**, the fourth-quarter median existing single-family home price of \$167,600 rose 11.0 percent from the same period in 2004. The strongest metro increase in the Midwest was in Peoria IL, where the median price of \$112,700 was 18.4 percent higher than the fourth quarter of 2004. Next was Bismarck ND, up 16.0 percent, and Danville IL, at \$63,800, up 12.5 percent in the last year.

In the **South**, the typical existing single-family home price was \$185,300 in the fourth quarter, up 9.2 percent from a year earlier. After the Cape Coral-Fort Myers and Orlando areas of Florida, the strongest increase in the South was in Ocala FL at \$161,100, up 41.2 percent from the fourth quarter of 2004. Next was Tampa-St. Petersburg-Clearwater, where the fourth quarter median price of \$223,000 was 32.3 percent higher than a year ago, and the Virginia Beach-Norfolk-Newport News area of Virginia and North Carolina, at \$220,500, up 31.5 percent.

Homes on the Gulf Coast that escaped damage from Hurricane Katrina were in high demand, resulting in strong price appreciation. The New Orleans-Metairie-Kenner area experienced an annual rate of appreciation in the fourth quarter of 29.2 percent. Gulfport-Biloxi was up 24.9 percent and Beaumont-Port Arthur rose 18.8 percent.

In the **Northeast**, the median resale single-family home price during the fourth quarter was \$240,300, up 8.0 percent from a year ago. The strongest increase in the region was in the New York City-Wayne-White Plains area of New York and New Jersey, at \$537,300, up 19.2 percent from the fourth quarter

**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. The only valid comparisons for median prices are with the same period a year earlier due to seasonality in buying patterns. Quarter-to-quarter comparisons do not compensate for seasonal changes, especially for the timing of family buying patterns.

of 2004. They were followed by Reading PA which posted a median price of \$143,200, up 16.9 percent, and the larger region of the New York-Northern New Jersey-Long Island area of New York, New Jersey and Pennsylvania, at \$459,600, up 16.0 percent.

What's Ahead

The long-term outlook for home prices and sales is favorable. The population is growing, job creation is healthy, and there is a powerful underlying demand for homes. That should keep housing on a high plateau. The children of the baby-boom generation, often called the echo-boomers, are the second largest generation in U.S. history and are just entering the period in which people typically buy their first home. Along with a strong immigrant impact, and the boomers themselves who remain in peak earnings years, this means the need for housing will stay strong over the next decade and long-term prices will continue to rise.

NAR began publication of metropolitan area median single-family home prices in 1982; the metro area condo price series is being launched with this report. As the reporting sample expands in the future, additional areas will be included in the condo price report. Tables of metropolitan area median prices, percent changes and some historic data are available at www.realtor.org/research. Then click on "Existing home sales".

Because there is a concentration of condos in high-cost metro areas, the national median condo price is higher than the median single-family price. In a given market area, condos typically cost less than single-family homes.

The Great Profile: Today's Home Sellers

by Paul Bishop, Shonda Hightower and Harika Bickicioglu

Who are today's home sellers? How many of them use real estate professionals in their home sales transactions? What do they want those real estate professionals to do for them? Is the Internet proving an effective tool in marketing their properties?

Last month in this column we looked at the results from NAR's recently released **2005 Profile of Home Buyers and Sellers**,* and focused on the characteristics of buyers, homes they purchased, and the role of real estate professionals in the home purchase transaction. This month, we examine the profile of home sellers – how their demographic traits differ from buyers, how they use real estate professionals, and the challenges faced by For-Sale-By-Owner sellers.

Characteristics of Home Sellers

The **NAR Profile** reports on a number of demographic characteristics of home sellers – such as age and income. The typical home seller is older than the typical homebuyer. The median age was 47 among home sellers in 2005, compared to 35 years for buyers. Both because they are older, and also because generally they have realized a return on their investment from owning a previous home, home sellers tend to have higher incomes than homebuyers. The median income of home sellers was \$85,200 in 2004; the 2004 median income for buyers was \$71,600.

The typical seller household has owned their home for six years – this

Method Used to Sell Home (percent distribution)

Sold home using an agent/broker	85 %
Seller used agent/broker only	81
Seller first tried to sell home themselves, then used an agent	4
FSBO	13
Seller sold home without using an agent or broker	11
Seller first listed with an agent but then sold home themselves	1
Sold home to a homebuying company	1
Other	2

Source: The 2005 NAR Profile of Home Buyers and Sellers
detail may not add due to rounding

length of tenure has changed little over the past several years. Recent home sellers have owned a median of three homes, a number that has also varied little during the past several years. Most recent sellers were not selling their first home. In fact, just 13 percent were first-time sellers.

Why and What They Sold

There are many reasons why homeowners decide to sell their current home. Some want to trade up to a larger home because of a growing family. Others decide to move closer to friends or family as they age. Still others need to relocate because of a new job or a job transfer.

One in five sellers sold their current home so they could purchase a larger home. The choice of whether to trade up or trade down is often related to the age of the home seller.

Home sellers 54 years old or younger tended to trade up with the largest increase in home size among the younger age groups. Home sellers 55 years or older tended to purchase a smaller home.

Four of five sellers sold a detached single-family home, a share that has varied between 74 percent and 86 percent in recent years. Eight percent of seller households sold a townhouse or row house with a similar percentage selling a home in a multifamily structure. Fifty-six percent of the homes sold were in a suburb.

Most homes sold at or slightly less than the listing price. The median sales price was 99 percent of the listing price nationwide, but there was some variation across regions of the country. The typical home was on the market for four weeks. Nearly one in ten homes sold in one week or less.

* In August 2005, NAR surveyed 90,000 consumers who bought or sold a home between August 2004 and July 2005. 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)

The Role of Real Estate Professionals

Selling a home involves a long list of tasks: determining the list price, developing a marketing plan, preparing for settlement, among many. Home sellers overwhelmingly depend on real estate professionals to assist them in a successful home sale. Eighty-five percent of sellers used a real estate agent in their recent sales transaction. That is an increase from 82 percent in 2004, and continues an upward trend from less than 80 percent in the late 1990s.

When searching for an agent, sellers most often seek out referrals from friends or relatives or use the same agent they worked with in an earlier home sales transaction. More than two fifths of sellers (43 percent) chose agents based on a referral by a friend, neighbor or relative and 28 percent relied on their previous experience with the agent. Fifty-seven percent of sellers said reputation was the most important factor in selecting an agent, followed by their knowledge of the neighborhood, 17 percent.

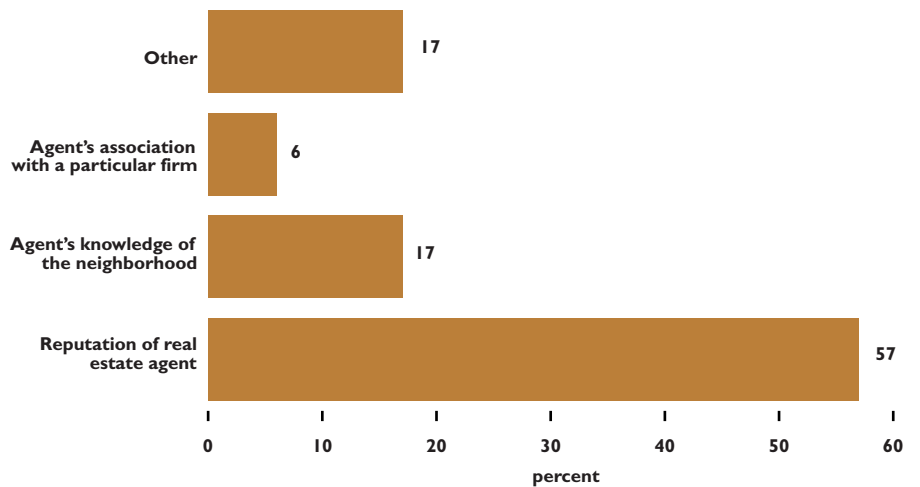
Methods of Marketing

Real estate agents use many methods to market a home. The Internet as a marketing tool now outranks the yard sign for the first time (84 percent vs. 79 percent), not only nationally, but in all four major regions of the country as well. Open houses and newspaper advertisements were used in at least half of recent sales transactions.

The local multiple listing service (MLS) allows home sellers to increase the exposure of their property among hundreds, and sometimes thousands, of

Most Important Factor in Choosing a Real Estate Agent to Sell Home

(percentage distribution)



Source: The 2005 NAR Profile of Home Buyers and Sellers

real estate agents assisting homebuyers in their home search. Among recent sellers, 89 percent reported that their home was listed on a MLS.

Expectation and Satisfaction

Like homebuyers, home sellers have many expectations of their real estate agent. More than one quarter of sellers wants their agent to find a buyer for their home while a nearly equivalent share want their agent to sell their home within a specific time frame. Seventeen percent of sellers want some assistance in setting a competitive price for their home.

Sellers' satisfaction with their agent was high. More than half of sellers also used the same agent for their home purchase. In addition, 82 percent indicated they were likely to use the same agent again or recommend their agent to others.

FSBOs

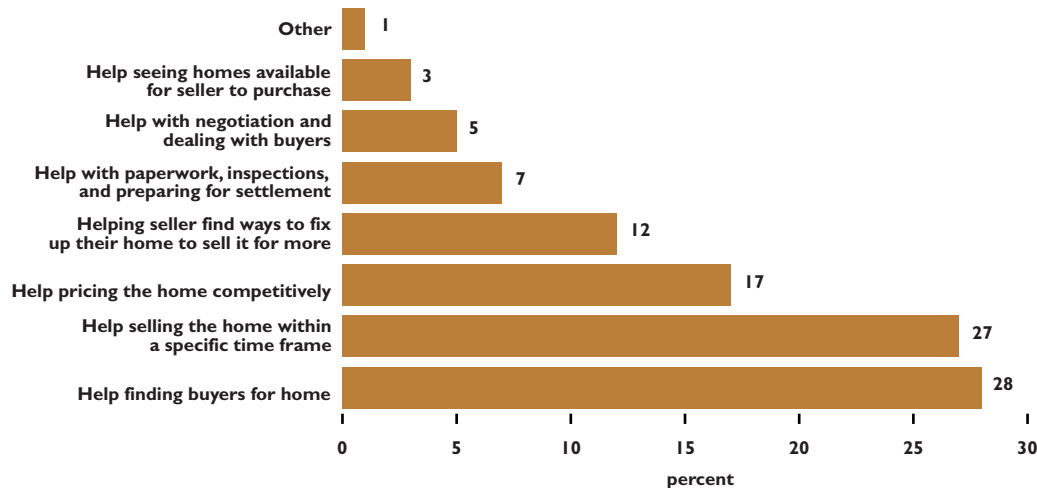
Some sellers choose to sell their home without the assistance of a real estate professional. Many of these for-sale-by-owner (FSBO) transactions occur between buyers and sellers who knew each other prior to the transaction. The most frequently cited reason given by FSBO sellers (53 percent) was that they did not want to pay the real estate agent's commission. A significant share (22 percent) did not use an agent because they sold their home to a friend or relative. Among sellers who sold their home without ever using an agent, 39 percent sold it to someone they knew.

But the share of FSBO sales has steadily declined from 18 percent in 1997 to 13 percent today. One reason could be the considerable difference in the median selling price for FSBO 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. You can also visit www.REALTOR.org/research.nsf/pages/ResearchProducts?OpenDocument

The Great Profile (continued)

What Home Sellers Most Want from Their Real Estate Professionals (percentage distribution)



Source: The 2005 NAR Profile of Home Buyers and Sellers

final sales price of agent-assisted sales. The median home price for sellers who used an agent was 16.0 percent higher than that for a home sold directly by an owner – \$230,000 vs. \$198,200. While the survey data do not explain the price difference, FSBOs face challenges that agent-assisted sellers do not. Agents know best how to prepare a home and maximize value; they provide broader exposure to the market and are more likely to generate multiple bids. In addition, sales that are between private parties are likely to be at a lower price than those on the open market.

FSBO sellers must make many key decisions about how to price and market their home, often based on limited experience. The most difficult task, cited by 17 percent of FSBOs, was understanding and completing paperwork. The other major problem areas were knowing how to fix up and prepare the home for sale, setting the sales price, and being able to sell the home in the allotted time.

Like agent-assisted sellers, FSBOs use several methods to market their home. The yard sign remains the most frequently used tool when selling a home (61

percent) followed by friends and family (46 percent). Fewer than one in five FSBO sellers used the Internet compared with four of five agent-assisted sellers.

What's the future for FSBOs? Even among the 13 percent of sellers who are FSBOs, only slightly more than half (53 percent) reported that they would sell their current home without the assistance of a real estate professional. Fourteen percent indicated they would definitely use an agent in their next home sale transaction, while more than one third were unsure how they would sell their home.

Conclusion

Home sellers rely on the experience and professionalism of their real estate agents to market their homes, find buyers for their properties, and to assist them in the completion of the home sales transaction. In addition, their real estate professionals often help home sellers to purchase another home. The efficiency and knowledge provided by real estate agents and brokers have helped to contribute to record-setting home sales in 2005, and will continue to propel the housing market in 2006.

Most Difficult Task for FSBO Sellers (percent distribution)

Understanding and completing paperwork	17 %
Preparing/fixing up home for sale	16
Getting the price right	14
Selling within the time planned	13
Attracting potential buyers	9
Having enough time to devote to all aspects of the sale	8
Helping buyer obtain financing	3
Other	20

Source: The 2005 NAR Profile of Home Buyers and Sellers

Links to Statistical Data Series

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

Existing Home Sales – Monthly series

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

Existing Home Sales and Metropolitan Area Median Home Sales Prices – 4th Quarter 2005

- 4th Quarter 2005 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 4th Quarter 2005 [Median Home Prices by Metropolitan Area](#)
- Metropolitan Area Home Prices in [spreadsheet format](#)

NAR's Pending Home Sales Index

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

NAR's Housing Affordability Index

- [December HAI Index](#)
- December's Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
 - [4th Quarter 2005 Affordability Index](#)
 - 4th Quarter 2005 Affordability Index in spreadsheet format available [here](#)
 - [First-time homebuyer Affordability Index](#), 4th 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.

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