

# real estate insights

June 2006

Real Intelligence –  
Real Advantages

## In This Issue

**Existing-home sales** eased in April, posting 6.76 million seasonally adjusted annualized units. Resales declined 2.0 percent after rebounding in February and March, and were 5.7 percent below the 7.17 million-unit pace in April 2005. Higher interest rates are slowing home sales, but NAR analysts note that this is another sign of a soft landing for the housing sector which remains at historically high levels. The national median existing-home price for all housing types was \$223,000 in April, up 4.2 percent from April 2005. Total housing inventory levels rose 5.8 percent at the end of April to 3.38 million existing homes available for sale -- a 6.0-months' supply at the current sales pace and at what is considered a "balanced" level. **Read more.**

**Time for a Time Out?** The Federal Reserve Open Market Committee has raised interest rates 16 times in their last 16 meetings. With the consumer price index hovering at or near the level that the Fed regards as uncomfortable, Ben Bernanke and the Fed Board of Governors are determined to keep inflation at bay. But with the housing market slowing due to higher interest rates and consumers not having as much money to spend, NAR Chief Economist David Lereah says it may be time for the Fed to stop those interest rate increases. **Read more.**

**Stormy Weather.** Hurricane season is already here. The highly unusual number of storms in 2004 and 2005 wrought catastrophic damage, and insurance companies have come under enormous financial strain and been forced to sharply raise insurance premiums or drastically lower their coverage. Florida historically has accounted for the most losses from hurricanes. An NAR Research study commissioned by the Florida Association of REALTORS® looks into the impact of such disasters on housing and economic activity in the state and if high-cost or limited coverage of property insurance affects the state's housing market. **Read more.**

**Real Estate Professionals and the Second Home Market.** NAR recently released the **2006 Profile of Second-home Owners**. Many factors underlie the surge in second-home purchases – aging baby-boomers, home price appreciation that often outpaces returns from the stock market, just to name two. Whether those second-home owners are purchasing properties for vacation or investment purposes, the majority of them use a real estate professional in their transactions. **Read more.**

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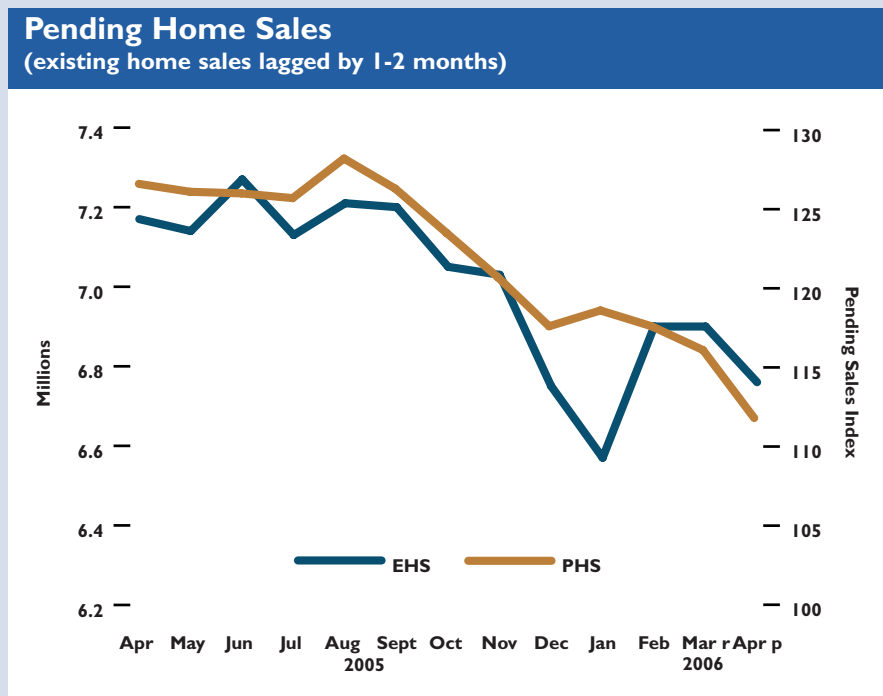
# Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p><b>Existing-home sales</b> fell 2.0% in April, posting 6.76 million seasonally adjusted annualized units. The national median price for an existing home rose to \$223,000, a 4.2% increase from April 2005. The inventory of homes increased to a 6.0 months' supply – the highest level since January 1998. <b>Read more.</b></p>	Feb 6,900 Mar 6,900 Apr 6,760		Homebuyers waiting and waiting to bottom fish
<p><b>New home sales</b> posted 1.20 million seasonally adjusted annualized units in April. The 4.9% increase was somewhat surprising, as many analysts expected a decline in light of higher mortgage rates and after a big rebound in March. The inventory of new homes on the market continued to rise, with 565,000 new homes listed for sale – representing a 5.8-months' supply. <b>Read more.</b></p>	Feb 1,020 Mar 1,142 Apr 1,198		Steep discounts but sales to weaken
<p><b>Housing starts</b> decreased 7.4% in April to 1.85 million units – the third straight monthly decline and their lowest level in about two years. Both single-family and multifamily starts fell. Rising interest rates are slowing housing demand, and contributing to rising inventory in many markets. Starts are expected to continue to decline for the remainder of the year. <b>Read more.</b></p>	Feb 2,132 Mar 1,996 Apr 1,849		Unsold inventory is 30% higher compared to a year ago
<p><b>Housing affordability</b> NAR's composite housing affordability index was 108.6 in April – a 2.9% decline from March. The affordability index is at its lowest level in more than 15 years. A slight increase in median family income was not enough to offset rising median home prices and the increase in mortgage rates. <b>Read more.</b></p>	Feb 113.1 Mar 111.9 Apr 108.6		Despite the cooling, home price appreciation still outpacing income growth
<p><b>Mortgage rates</b> increased for the fourth straight month. In May, the 30-year fixed rate rose to 6.60%, up from 6.51% in April. It was 5.72% this time last year. This is the highest mortgage rates have been since 2002. <b>Read more.</b></p>	Mar 6.32% Apr 6.51% May 6.60%		To top out at 7%
<p><b>Purchase applications</b> After tumbling sharply earlier in the year, dropping 10% in February, mortgage applications appear to have leveled off. In May, the index came in at 408.8, which is down just 0.8% from April. Still, the index is well below year-ago levels. <b>Read more.</b></p>	Mar 407.6 Apr 412.0 May 408.8		Not a fun time for mortgage brokers
<p><b>Employment</b> In May, 75,000 new jobs were created, a somewhat disappointing figure in an expanding economy. Still, in the past 12 months, 1.9 million jobs have been added to the economy. The unemployment rate declined slightly to 4.6% – a rate generally considered as “full employment.” Expect a slightly higher net hiring trend over the next three months. <b>Read more.</b></p>	Mar 175 Apr 126 May 75		Stinging oil prices cutting economic growth
<p><b>Inflation</b> The consumer price index (CPI) rose 0.6% in April. The core index (excluding food and energy) rose 0.3%. The strongest increase came in the energy sector – fuel prices rose 3.9%. Core prices will continue to rise steadily through the summer. Expect the CPI to grow at a projected average monthly rate of 0.4% for the next three months. <b>Read more.</b></p>	Feb 0.1% Mar 0.4% Apr 0.6%		Getting uncomfortably high, but will decelerate markedly once oil prices retreat

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 June 3, 2006.

# NAR's Pending Home Sales Index

Pending home sales, a leading indicator for the housing sector, are continuing to ease. NAR's pending home sales index fell 3.7% in April to 111.8. This is the third consecutive monthly decline in the index, and is 11.7% below the level in April 2005. The index 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 yet closed. Pending sales are generally 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. Because various housing and economic indicators have been moving in different directions, pending homes sales probably are the best measure for the overall direction of the housing market. April's pending home sales index shows that the housing market is in a period of transition, easing off from historical highs. [Read more.](#)



Source: NAR Research

# Time for a Time Out?

by David Lereah, NAR Chief Economist

The Federal Reserve came out swinging with closed fists this past month to beat down inflationary pressures. Federal Reserve Chairman Ben Bernanke began the charge by telling an audience at an International Monetary Conference that the Fed needs to be more vigilant about controlling inflation. Throughout the ensuing days, several other members of the Federal Open Market Committee (the committee that decides interest-rate policy) echoed the Chairman's sentiments in other public settings. The good news is that it appears a Bernanke-led Fed will be more open with the public about its intent to conduct monetary policy. The bad news is that the Fed may be gambling with a wobbly consumer.

Chairman Bernanke's remarks made it clear that the Fed's priority will be containing inflationary pressures over slowing economic growth. The Chairman said that the pace of core prices (the consumer price index excluding food and energy) was at the upper range that the Fed views as consistent with price stability and that this was an unwelcome development. He then said the U.S. economy is showing signs of slowing. More specifically, he remarked: "The anticipated moderation of economic growth seems now to be underway." Pushing all that "Fed Speak" aside, the Fed basically announced to the world that it will continue to exert upward pressure on interest rates to contain what it perceives to be high inflationary pressures.

From a real estate market perspective, these revelations are disquieting. At present, over half of the nation's housing markets are experiencing a meaningful cooling of home sales activity. Home sales for the entire state of Florida are down about 25 percent year to date (as of April), and California is posting similar dire numbers. There is no doubt that a transition is taking place in the real estate sector and with fingers (and toes) crossed we hope it will be an orderly transition from boom to soft landing.

In the wake of the real estate boom, there are a number of large metropolitan areas whose housing markets are now fragile and vulnerable to higher interest rates. To the point, these markets have an inordinately high market share of speculative investors and variable-rate mortgage loans. Over 70 percent of all mortgages originated in California during the past two years were variable rate loans. And most of those loans were interest-only loans. It is easy to explain why: affordability. A median income household living in San Francisco had to stretch its credit

with an interest-only mortgage to afford a home in a metro area where the median price was over \$740,000. And California is not alone. Metros such as Miami, West Palm Beach, Orlando and Washington, DC also have a high composition of variable rate mortgage loans. The bottom line? If rates continue to increase, the higher monthly mortgage payments from the re-pricing of variable rate mortgages could result in higher delinquency and foreclosure rates, which could aggravate already sluggish local housing markets.

That could impact consumer spending. A cooling housing sector combined with a prolonged period of high oil prices and rising interest rates are already taking their toll on consumers. How many times can consumers get a blow to the head until they finally fall to the mat? The Fed has increased the federal funds rate 16 consecutive times, oil prices are hovering at an unprecedented \$70 per barrel and the diminishing wealth effect in homeownership has taken away the ability of property owners to tap their equity to spend on goods and services. Consumer spending has already shown signs of measurable deceleration, with spending growth project-

ed to fall between 2.7 and 3 percent for the remainder of this year, compared to a 5.1 percent burst in the first quarter.

I am the first to say—take some medicine now so that the patient will be healthier in the longer-run. I have supported the Fed the previous 16 times it has raised interest rates. But my support will dissipate if the Fed chooses to hike rates a seventeenth time at the end of this month. At present, the risks of a weakened consumer are greater than the risks of inflationary pressures. Wage inflation, as measured by average hourly earnings has been relatively tame. Core inflation has been hovering around 2 percent. Some Fed Governors believe 2 percent is too high; I disagree, particularly when the trade-off is a debilitated consumer.

My vote (and I know I have no vote): postpone a rate hike at the Fed's June FOMC meeting. This is not the time to gamble on a weakening economy. I urge the Fed to digest more information about some of our nation's fragile housing markets and as well as gather more evidence about inflationary pressures and the long-term negative effects of a prolonged period of high oil prices on consumer spending. It is better to wait a bit longer and make a more informed decision at a later time, than to rush to judgment.

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**If rates continue to increase, higher monthly mortgage payments from the re-pricing of variable rate mortgages could result in higher delinquency and foreclosure rates. That could aggravate already sluggish local housing markets.**

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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 latest incoming stream of housing market and economic data has sent forecasters back to the future. Recent statistics on home sales and building activity suggest that the housing market is transitioning at a faster clip than earlier thought. High oil prices have evidently begun to curtail economic and job growth. The unemployment rate has essentially already hit its bottom and will begin to climb. Single-family housing starts and permits have fallen 8% and 10%, respectively from a year ago. Pending existing home sales are off by 13% from peak levels of last summer. Home price growth of 4.2% in April was the lowest gain since mid-2001.

The forecast is for existing home sales to decline 6.8% in 2006. The more cyclical new home sales are projected to fall 13.4%. Declining sales mean more homes will stay on the market for a longer period. Though difficult to quantify, it appears that many homeowners postponed listing their homes for sale last year in hopes of fully benefiting from the real estate boom; they have now decided to make the move at the first signs of a slowing in their local market. So those postponed homes hitting the market have significantly ratcheted up housing inventory. The 3.38 million total existing homes on the market at the end of April represent a 37% increase from April 2005. The condo/co-op market is experiencing an even sharper adjustment with inventory now up by 62% over last year.

The rise in inventory has and will continue to exert downward pressure on home price growth. Condo prices have essentially already flattened out – condo/co-op prices declined 0.2% nationwide in April. But in the West, the prices declined 6.8% and in the South the decrease was 5.2%.

It is too early to say definitively if the price declines in those sub-segment sectors will continue – or portend what to expect for the broader housing market. Both the West and South are creating

jobs at a good pace. Furthermore, Florida, one of the fastest transitioning markets with sales down 33% from April 2005 to April 2006, is the top state in terms of net migration. Florida attracted slightly over a million net new households who moved from other states in the past five years (far exceeding second place Arizona at 400,000). Therefore, the decline in home values will likely lead to a quick pick-up in homebuying by an army of ready bargain hunters. But, the current Florida problem is not driven by normal market factors of mortgage rates and job/income gains, but more by the lack of affordable property insurance. (See additional information on page 8.)

Meanwhile the problem in the West – more specifically California -- could well also be the lack of better structured mortgages that are available from GSEs and HUD. Though in theory the secondary mortgage facilitation of Fannie Mae and Freddie Mac and FHA availability from HUD are national in scope, California is participating in these programs hardly at all. The goal of GSE and FHA loans are to provide funds so that low- and moderate-income households can better attain the American Dream of homeownership. Based on 2004 data, the GSE market share of mortgage originations was less than 10% in all of the major California markets. Compare that to a 23% share nationally. The FHA market share was 1% in the Los Angeles market, less than half of one percent in San Diego and essentially zero in San Francisco. Nationwide, FHA comprised 5% of all home purchase loans.

The loan availability problem undoubtedly worsened further in 2005 as California home prices rose more than twice as fast as the GSE and FHA

loan limits. There are a significant number of low- and moderate-income households living in California. Yet, they are left out in the cold in the mortgage market – essentially geographic discrimination. California's homeownership rate of 59.7% is a full ten percentage points below the national average. Los Angeles's 52% and San Francisco's 50% ownership rates are, perhaps should be, unacceptable. (Housing supply restriction is another major reason for elevated prices

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## The rise in inventory has and will continue to exert downward pressure on home price growth.

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and a low homeownership rate in California – a topic requiring another discussion.)

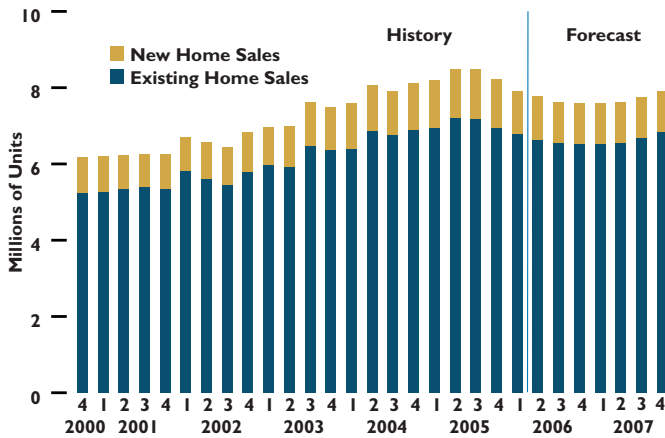
Despite the situations in some of these problematic areas, there are plenty of bright

spots. Sales are rising in 27 states and at double-digit clips in places like New Mexico, North Carolina and Utah. The strong demand in more affordable regions also appears to be pushing up home prices at an accelerating rate.

In sum, nearly all parts of the country are either experiencing an improvement or undergoing only a soft moderating trend. The hard hit states of Florida and California are being impacted by non-traditional factors of limited insurance availability and government-sponsored loan programs. If some federal legislation can be worked out to address these issues, then a quick rebound can be expected in these states.

## Home Sales

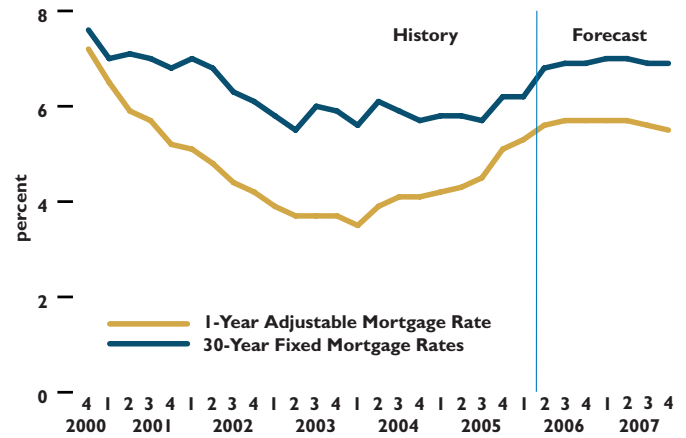
Higher interest rates slow sales



Sources: NAR, Bureau of the Census, NAR Forecast

## Mortgage Rates

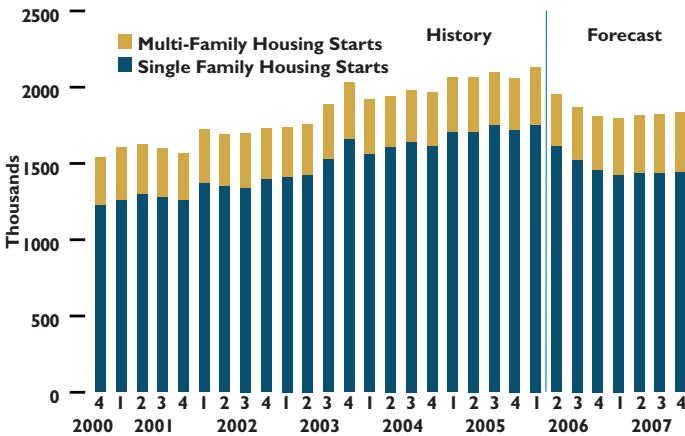
Fixed rates topping out at 7 percent



Sources: Freddie Mac, NAR Forecast

## Housing Starts

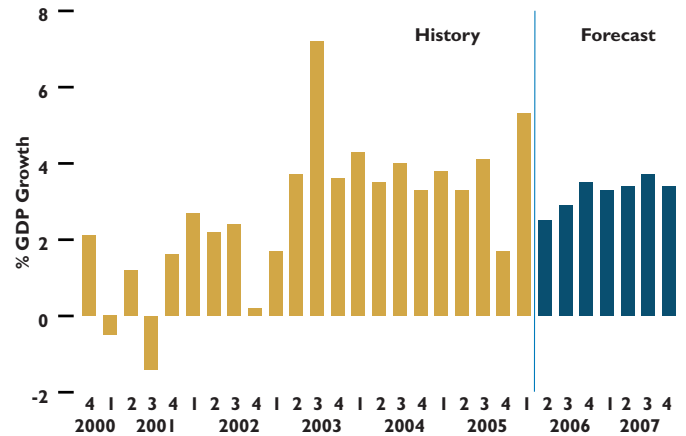
Slowing due to rising inventory of homes



Sources: Bureau of the Census, NAR Forecast

## Economic Growth

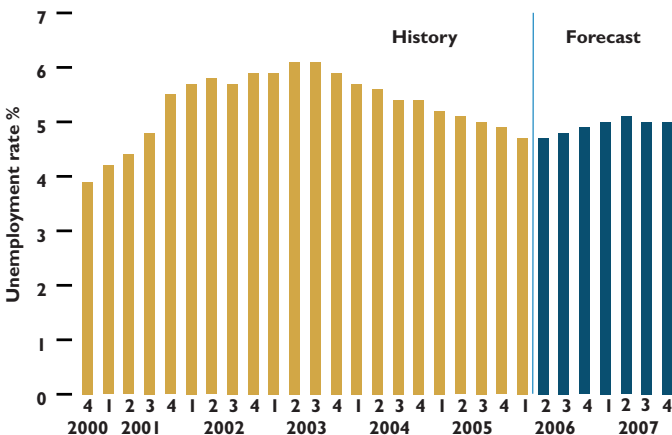
Oil holding back growth



Sources: Bureau of Economic Analysis, NAR Forecast

## Unemployment

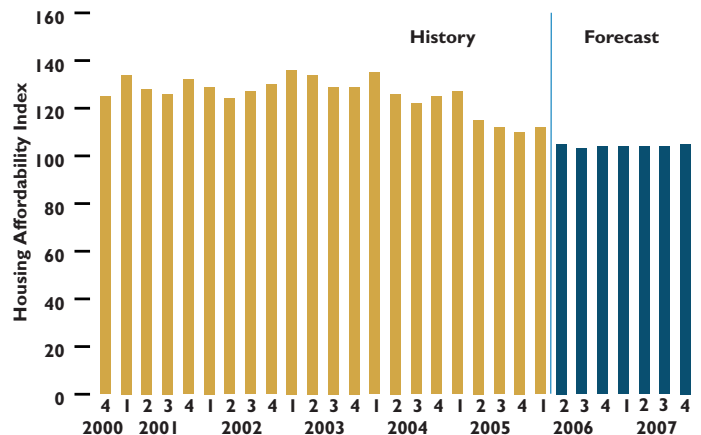
Hovering at or below 5% for the next year or so



Sources: Bureau of Labor Statistics, NAR Forecast

## Housing Affordability

Rising mortgage rates impacting affordability



Sources: NAR, NAR Forecast

# U.S. ECONOMIC OUTLOOK

## June 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	4.1	1.7	5.3	2.5	2.9	3.5	3.3	3.4	3.7	3.4	4.2	3.5	3.4	3.3
Nonfarm Payroll Employment	1.6	1.2	1.7	1.3	1.1	1.0	0.9	1.1	1.5	1.4	1.1	1.5	1.4	1.1
Consumer Prices	5.5	3.2	2.2	3.0	2.6	1.7	1.6	1.8	2.0	2.3	2.7	3.4	3.1	2.0
Real Disposable Income	-1.4	5.1	2.1	5.4	4.1	5.1	5.1	3.7	3.7	3.0	3.4	1.4	3.1	4.4
Consumer Confidence	99	96	106	107	107	106	105	105	106	107	80	100	107	106
Percent Unemployment	5.0	4.9	4.7	4.7	4.8	4.9	5.0	5.1	5.0	5.0	5.5	5.1	4.8	5.0
<i>Interest Rates, Percent</i>														
Fed Funds Rate	3.5	4.0	4.5	4.9	5.0	5.0	5.0	5.0	4.8	4.8	1.3	3.2	4.8	4.9
3-Month T-Bill Rate	3.4	3.8	4.4	4.7	4.8	4.8	4.8	4.8	4.5	4.5	1.4	3.1	4.7	4.6
Prime Rate	6.4	7.0	7.4	7.9	8.0	8.0	8.0	8.0	7.9	7.7	4.3	6.2	7.8	7.9
Corporate Aaa Bond Yield	5.1	5.4	5.4	5.9	6.1	6.1	6.2	6.3	6.2	6.3	5.6	5.2	5.9	6.3
10-Year Government Bond	4.2	4.5	4.6	5.1	5.2	5.2	5.3	5.3	5.2	5.2	4.3	4.3	5.0	5.3
30-Year Government Bond	4.4	4.7	4.6	5.2	5.5	5.5	5.5	5.4	5.5	5.5	5.1	4.6	5.2	5.5
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	5.7	6.2	6.2	6.8	6.9	6.9	7.0	7.0	6.9	6.9	5.8	5.9	6.7	6.9
1-Year Adjustable	4.5	5.1	5.3	5.6	5.7	5.7	5.7	5.7	5.6	5.5	3.9	4.5	5.6	5.6
<b>Housing Indicators</b>														
<i>Thousands</i>														
Existing Home Sales*	7,180	6,943	6,790	6,620	6,534	6,521	6,525	6,553	6,672	6,831	6,779	7,075	6,596	6,643
New Single-Family Sales	1,297	1,280	1,112	1,160	1,097	1,063	1,062	1,067	1,074	1,080	1,203	1,283	1,111	1,071
Housing Starts	2,101	2,060	2,131	1,955	1,870	1,807	1,794	1,818	1,826	1,839	1,956	2,068	1,941	1,819
Single-Family Units	1,748	1,718	1,751	1,612	1,524	1,457	1,425	1,433	1,433	1,440	1,611	1,716	1,586	1,433
Multifamily Units	353	342	380	343	345	350	369	385	393	399	345	352	355	387
Residential Construction**	610	614	619	613	594	576	564	562	565	570	562	602	600	565
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	6.5	0.9	-2.2	-8.0	-9.0	-6.1	-3.9	-1.0	2.1	4.8	9.8	4.4	-6.8	0.7
New Single-Family Sales	11.9	3.1	-11.5	-9.6	-15.4	-16.9	-4.5	-8.0	-2.1	1.6	10.8	6.7	-13.4	-3.6
Housing Starts	6.3	4.8	3.0	-5.3	-11.0	-12.3	-15.8	-7.0	-2.3	1.8	5.2	5.7	-6.2	-6.3
Single-Family Units	6.5	6.7	2.8	-5.6	-12.8	-15.2	-18.6	-11.1	-6.0	-1.1	6.6	6.5	-7.6	-9.7
Multifamily Units	4.9	-3.7	4.1	-3.8	-2.2	2.5	-3.1	12.3	13.9	13.9	-0.9	1.9	0.8	9.0
Residential Construction	7.2	7.6	5.9	2.2	-2.6	-6.3	-8.9	-8.3	-4.9	-1.1	10.3	7.1	-0.3	-5.8
<b>Median Home Prices</b>														
<i>Thousands of Dollars</i>														
Existing Home Prices	227.3	225.3	218.7	231.2	238.0	235.0	227.9	240.5	247.8	244.9	195.4	219.6	231.3	240.8
New Home Prices	236.6	240.1	241.4	235.5	244.4	250.5	252.5	246.1	255.6	262.2	221.0	240.9	242.9	254.0
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	14.2	13.4	9.5	5.1	4.7	4.3	4.2	4.0	4.1	4.2	9.3	12.4	5.3	4.1
New Home Prices	10.5	5.4	5.0	2.3	3.3	4.3	4.6	4.5	4.6	4.7	13.3	9.0	0.8	4.6
Housing Affordability Index	112	110	112	105	103	104	104	104	104	105	134	122	106	104

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.

# Hurricane Season

by Lawrence Yun, Senior Forecast Economist

A record 15 hurricanes developed in the Atlantic Ocean in 2005. Katrina, Rita and Wilma wrought a path of devastation across the Gulf and parts of the southeast. Hurricane Wilma, which struck Southern Florida in October, was the most intense hurricane ever recorded. This follows an unusually high number of hurricanes just a year earlier in 2004. Hurricanes leave behind extensive property damage, devastate local economies, and in some cases cause a high number of deaths. The highly unusual number of hurricanes in 2004 and 2005 was both catastrophic and completely outside the historical actuarial norms. As such, insurance companies have come under financial strain and have been forced to sharply raise insurance premiums and/or drastically lower their insurance coverage.

Historically, Florida has accounted for most losses from hurricanes: 38 percent of total U.S. insurable losses according to ISO, an insurance industry research firm. Given that Florida bears the brunt of hurricane damage, the Florida Association of REALTORS® commissioned NAR Research to examine the impact of such disasters on housing and economic activity in its state, and if high-cost or limited coverage of property insurance affects the state's housing market. In this report, we studied the impact of only those hurricanes rated Category 3 or higher that made landfall in Florida in recent history. By using Florida as a case study, this research can provide insight into the impact on other states and regions that suffer natural catastrophes.\*

## Hurricane Andrew

Hurricane Andrew made landfall in the Miami region in late August 1992. The category 4 hurricane destroyed 23,000 homes and seriously damaged an

additional 285,000 homes. It was the first major hurricane to make landfall in over a decade – closely matching a historical norm of about one hurricane of at least category 3 strength per decade making landfall on Florida shores. Florida sales fell 4.1 percent in the third quarter of 1992 when the hurricane hit from the second quarter, even after accounting for normal seasonal sales changes. Nationally, for the comparable period, sales declined by 2.0 percent, only half the decline of Florida's. On a year-over-year basis, sales in Florida fell 4.8 percent in the third quarter while national home sales rose 5.2 percent.

The recovering job market from post-hurricane rebuilding efforts then sparked the housing market to strengthen significantly and returned to normal levels. By the fourth quarter of 1992, existing-

home sales in Florida rose 31 percent from the third quarter. On a year-over-year basis, home sales in the state rose by 14.1 percent. A strong recovering housing demand pushed up home prices as well. Annual price appreciation was 7.3 percent in the fourth quarter for the Miami/Ft. Lauderdale region. Nationally, home prices rose at a much slower, though more stable, 3.2 percent rate in the fourth quarter. The short-term impact of Hurricane Andrew, therefore, was to reduce home sales and home prices in the affected area - far lower than the trends observed for the country as a whole - in the immediate months after the hurricane's landfall. But the market quickly and rather robustly rebounded in the three-to-six months subsequent to the hurricane. There were no major hurricanes prior to and after Andrew for many years,

## Hurricane Damage

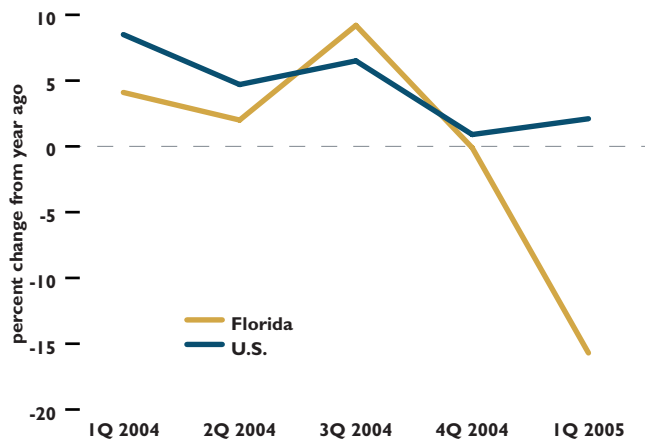
Storm	Time Period	Category	Landfall in Florida	Damage non-adjusted dollars
Andrew	August 24, 1992	4	Miami region	\$27 billion
Opal	October 4, 1995	3	Panhandle region	\$3 billion
Charley	August 13, 2004	4	Punta Gorda region	\$15 billion
Frances	September 4, 2004	4	Port St. Lucie region	\$9 billion
Ivan	September 16, 2004	5	Pensacola region	\$14 billion
Jeanne	September 25, 2004	3	Port St. Lucie region	\$7 billion
Dennis	July 10, 2005	3	Pensacola	\$1.2 billion
Katrina	August 25, 2005	5	South Florida as Category 1 –then on to Louisiana and Mississippi as Category 5)	\$75 billion (total – including damage in Louisiana and Mississippi)
Rita	September 20, 2005	5	South Florida as Category 2 – then on to Texas and Louisiana as Category 5)	\$4 to \$7 billion
Wilma	October 24, 2005	5	Key West and Miami region	\$12 billion

Source: National Hurricane Center, Risk Management Solutions

\*The full report, "The Impact of Hurricanes on Housing and Economic Activity: A Case Study for Florida", is available at [www.realtor.org/research](http://www.realtor.org/research).

## Hurricane Season (continued)

**Single Family Home Sales, U.S. and Florida**  
percent change from year ago



Source: NAR Research

permitting the insurance industry to continue its business in the region.

### 2004 Hurricanes

Hurricanes Charley, Frances, Ivan, and Jeanne – all in 2004 – brought forth more destruction than Hurricane Andrew. Up until July – before the hurricanes – the Florida housing market had been exceptionally robust with year-to-date sales up 23 percent and home prices rising by 16 percent. The home sales trend dramatically changed from July to August. For example, sales in August fell 12 percent (year-over-year) in Ft. Myers-Cape Coral, compared with a 16 percent increase in July.

The Fort Pierce-Port St. Lucie market also experienced major housing declines. Sales were up 9 percent with home prices growth at a whopping 32 percent in July. August figures were just as spectacular: a 13 percent increase in sales and a 26 percent increase in prices. After the storms hit, September sales plummeted by 48 percent. Sales remained weak in October with a 22 percent drop. By November, some normalcy returned with sales rising 7 percent.

The job markets in all the directly hit regions experienced only a minor

temporary setback. The overall Florida job market was exceptionally healthy in comparison to the country before the hurricanes and continued to be so afterwards. As with Andrew, the rebuilding efforts and insurance payouts apparently provided a boost to the local job market in the aftermath of four major hurricanes in 2004. The availability of jobs helped to boost home sales. But the high payout began to put strain on the insurance industry in the region.

### 2005 Hurricanes

After the destructive 2004 season, hurricane-weary Florida residents received an equally fierce pounding in 2005. Pensacola was the first recipient of a major hurricane in 2005. As with other hurricane impacts, home sales slid in the month of the hurricane (July) and then returned to normalcy soon afterwards. Home price appreciation was exceptionally strong, as was the case with the rest of the Florida market, both before and after Hurricane Dennis. The local job market response after the hurricane was very similar to responses after other past hurricanes. The rebuilding efforts improved job market conditions from pre-hurricane conditions. South Florida, from

Miami and Ft. Lauderdale to Naples and Sarasota, then took the brunt of the damage in the next three hurricanes from August 25th to October 24th. Home sales took a turn for the worse as a result. However, unlike previous hurricane impacts, sales have remained depressed. The weak sales were not only in the affected region, but spread to the rest of the state.

One reason for the continuing soft sales throughout the state could be affordability. Home prices had risen by 17 percent in 2004 and then by 29 percent in 2005. Such a fast home price appreciation tends to tame home-buying demand. Some people just cannot afford to buy a home at such high prices. Furthermore, mortgage rates have been rising since the late summer of 2005, thereby further making it difficult to afford a home.

### Insurance

But another reason for the weak sales figures, even many months after the last hurricane, is due to the availability, or lack thereof, of property insurance. The insurance industry, both private and Florida's state-run program, has come under extreme financial strain in light of the record-breaking number of hurricanes of the past two years. After Hurricane Andrew, there were 700,000 insurance claims valued at \$36 billion (in 2004 dollars). The damage was four times larger than the previous high insurance payouts. The \$45 billion in destruction for the four hurricanes in 2004 well exceeded the damage of Andrew. Two million homeowners filed insurance claims.

Insurance companies have been forced to significantly raise premiums and in some cases have denied coverage in high-risk regions. In fact, the state's insurance of last resort, CITIZENS Property Insurance Corporation, specifically set up to provide insurance in high-risk areas where there are limited private insurance options, has also come under great financial strain and, thereby been forced

## Hurricane Season (continued)

to significantly raise insurance premiums. In early 2006, 800,000 Florida homeowners were covered through CITIZENS and the program was running a deficit of \$1 billion. The figures continue to grow each day.

The current high cost and limited coverage of property insurance appear to be impacting the housing market. Florida's housing market, which had been one of the hottest markets in the country, has undergone a sharp negative turn since the end of the last hurricane season. Home sales fell 15 percent in December from a year before. Sales have come down successively in each of the months with May sales 30 percent below a year ago. The sharp decline in sales, in turn, has resulted in a dramatic rise in the number of unsold homes on the market. Undoubtedly, a measurable amount of the decline is directly due to the much more limited insurance coverage.

If the weakening sales trend continues, then other sectors could also undergo market distress. A slowdown in Florida's economy, in turn, can slow the broader U.S. economic growth. Low growth, with lower accompanying tax revenue and higher federal transfer payments, will raise the federal deficit and further burden the U.S. economy.

### **Preparing for the Next Round**

Such a scenario, however, can be averted if there is a nationwide catastrophic insurance program. The recent powerful and frequent hurricanes could not have been anticipated through normal historical actuarial analysis and, hence, cannot be considered as normal insurance losses. In terms of unanticipated catastrophic property damage, these events resemble that of September 11, 2001. Just as federal terrorism insurance was made available September 11, the availability of federal catastrophic insurance, which by design would cap insurable losses to private companies, would provide better risk management for extensive natural disasters. Private

insurance companies could, therefore, expand coverage while keeping affordable insurance premiums to match only those disaster events of more predictable occurrences. By spreading risk across the country, a federal catastrophic insurance program would not only benefit Floridians, but also residents living near the Mississippi River (flooding), people in Kansas and Oklahoma (tornadoes), West Coast residents from San Diego to Alaska (earthquakes), Texans and Coloradoans (wildfires), and numerous other people in the case of truly unforeseen natural disasters.

Studies show that states after passing medical tort reform - by limiting maximum damage payout - permit private medical insurance to be more affordable and more accessible, and hence, allow greater number of medical insurance providers to practice in the state. Similarly, natural disaster insurance - by also limiting maximum damage payout by private insurers - will permit more affordable and accessible private property insurance. By expanding the availability of property insurance, the next round of devastating hurricanes will have a limited impact on housing activity in damaged areas.

# Buying and Selling Second Homes: The Role of Real Estate Professionals

by Paul Bishop, Shonda Hightower and Harika Bickicioglu, NAR Research

Ownership of more than one home is increasingly common. *NAR's 2005 Profile of Homebuyers and Sellers* notes that 15 percent of recent buyers owned two or more homes. In addition, approximately 40 percent of home sales in 2005 – more than 3.3 million – were second homes.

There are many factors underlying this surge in second-homes. Demographics, historically low mortgage rates, and robust home price appreciation all drive second-home activity. But another major force in the second-home market is the real estate professional. NAR recently released the *2006 Profile of Second-Home Owners*,\* and the report shows that the majority of second homes are brokered through real estate agents.

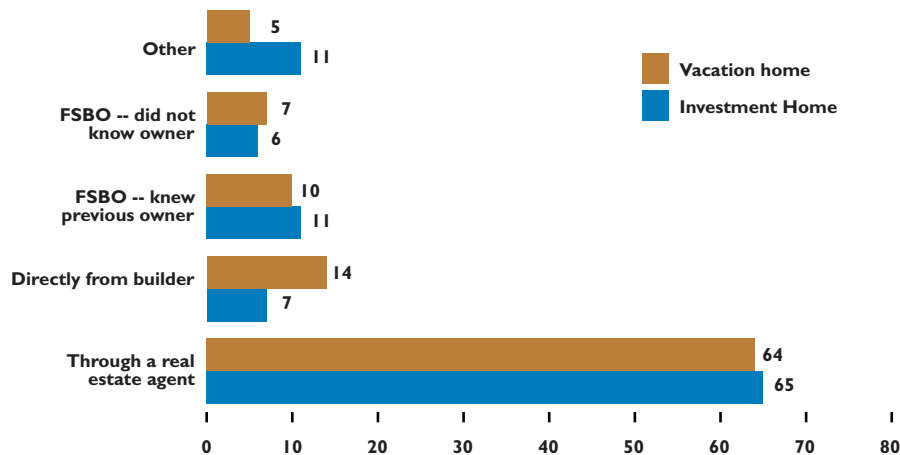
April's *Real Estate INSIGHTS* reported on second-home purchases, the percentage of those second homes that are purchased for vacation or investment purposes, and the characteristics of those homes. In this month's issue, we look at the role of real estate professionals.

## The Increasing Role of Real Estate Professionals

Real estate professionals have become increasingly important in second-home sales transactions. Prior to 2003, less than half of vacation-home buyers purchased their home with the assistance of a real estate agent. By the end of 2005, almost two thirds of vacation-home buyers bought their home through a real estate agent. A similar trend is apparent for investment-homes: 65 percent of investment-home buyers purchased their additional property with the help of a real estate professional – an increase from 53 percent pre-2003.

Seventy-one percent of all vacation homes purchased were previously owned. Almost three quarters (74 per-

## Method of Second-Home Purchase\* (percent distribution)



Source: The 2006 NAR Profile of Second-Home Owners  
\*Second-home purchases in 2003-2005 Note: detail may not add due to rounding

cent) of those sales were through a real estate agent. That is an increase from 53 percent prior to 2003. But the use of a real estate professional varies depending on the location of the home. Those who purchased a vacation home located in a suburb/subdivision (56 percent) or a rural area (57 percent) used a real estate agent somewhat more frequently than did buyers of homes in other locations. Twenty-three percent of urban/central city vacation-home purchases were directly from a builder, and 34 percent of vacation homes in rural areas were bought directly from the previous owner.

Eighty-five percent of investment properties were previously owned, and 62 percent of those transactions involved a real estate professional. As with vacation homes, the use of real estate professionals in investment-home transactions differs by home location. Nearly two thirds of buyers who purchased a property for investment in an urban/central city area or in a suburb/subdivision used a real estate

agent. Thirty-four percent of buyers of investment properties located in rural areas more frequently purchased directly from the previous owner (34 percent), while 17 percent of those who purchased homes in a resort/recreation area bought directly from the builder.

## Searching for that Second Home

Second-home buyers use a variety of methods to search for properties to purchase, including the Internet, yard signs, newspaper ads, and friends and relatives. But real estate agents are most frequently cited as the initial source of information about homes. Twenty-eight percent of vacation-home and 34 percent of investment home purchasers first learned about their properties from a real estate professional. And while use of the Internet to search for homes has increased among all home buyers in recent years, the Internet sites most frequently mentioned by second-home buyers are those for real estate agents or multiple listing service (MLS) web sites.

\*In January 2006, the National Association of REALTORS® mailed an 8-page questionnaire to a sample of households who owned more than one residential property. Consumer names and addresses were obtained from Experian, a firm that maintains an extensive database of household characteristics derived from a number of public sources. All information in the report is characteristic of second-home owners as of early 2006, with the exception of income data, which are reported for 2005.

## Second Homes and Real Estate Professionals (continued)

### Expectations

Second-home owners often plan to buy additional properties. In fact, 35 percent of investment property owners and 11 percent of vacation-home owners plan to buy another home in the next two years. Furthermore, 28 percent of investment-home and 10 percent of vacation-home owners plan to sell a home in the near future. A large share of those second-home owners are likely to use a real estate professional in their next home purchase: 79 percent of vacation-home owners and 73 percent of investment-property owners expressed a strong interest in using a real estate agent.

What do these property owners want/expect from their real estate professional? Expectations differ among those who plan to purchase another home and those planning to sell a property. Fifty-five percent of potential vacation-home buyers and 49 percent of investment-home buyers want their real estate agent to help them find the right home to purchase. Perhaps not surprisingly, among sellers the number one task they most want their agent to help them with is determining what comparable homes are selling for.

### Future Business

The majority of second-home owners rely on the professionalism and expertise of real estate agents. And they are likely to call on a real estate professional for their next home purchase or sales transaction. Thirty-five percent of vacation-home owners and 38 percent of investment-property owners definitely plan on using a real estate agent to assist them in finding and purchasing additional properties. An additional 44 percent of vacation-home owners and 34 percent of investment-home owners report they are likely to use an agent in future purchase transactions.

A similar trend is reported for those second-home owners planning on selling their properties. 38 percent of vacation-home owners and 32 percent of investment property owners say they will definitely use a real estate professional to

### What Second-Home Owners Planning to Buy an Additional Property Want Most from Real Estate Professionals (percent distribution)

	Vacation-home Owners	Investment Property Owners
Help finding the right property to purchase	55	49
Determine what comparable homes are selling for	34	31
Help with paperwork	7	7
Help with price negotiations	1	8
Help find renter for buyer's property	*	1
Help find and arrange financing	*	2
Help determining how much buyer can afford to spend on a home	1	*
Other	3	3

Source: The 2006 NAR Profile of Second-Home Owners  
\*less than one percent

### What Second-Home Owners Planning to Sell a Home Want Most from Real Estate Professionals (percent distribution)

	Vacation-home Owners	Investment Property Owners
Determine what comparable homes are selling for	59	41
Help with paperwork	15	15
Help with price negotiations	6	13
Help find and arrange financing	3	4
Help determining how much buyer can afford to spend on a home	*	*
Help finding renters for buyer's property	*	*
Help finding the right property to purchase	*	6
Other	14	21

Source: The 2006 NAR Profile of Second-Home Owners  
\*less than one percent

assist them in selling a home. An additional 27 percent of vacation-home owners and 32 percent of investment property owners also say they will likely use an agent when selling a home.

### Helping Households Achieve More of the American Dream

For the majority of American households, the American Dream of owning a home has been realized. The U.S. homeownership rate is nearly 70 percent. But for many of those households, that dream includes owning an additional property for use as a vacation home or

purely as an investment. Whether it is finding that second home is a log cabin in the mountains, a time-share condo at the beach, or a rental home in the suburbs to generate income, real estate professionals play a vital role in assisting second-home buyers and sellers.

### For More Information

The **National Association of REALTORS® Profile of Second-Home Owners** is available for purchase by calling 1-800-874-6500, or by visiting [www.realtor.org/research](http://www.realtor.org/research).

# Links to Statistical Data Series

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

## Existing Home Sales – Monthly series

- [April 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 – 1st Quarter 2006

- 1st Quarter 2006 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 1st Quarter 2006 [Median Home Prices by Metropolitan Area](#)
  - [1st Quarter Single-family median home prices](#)
    - 1st Quarter Single-family median home prices in [spreadsheet format](#)
  - [1st Quarter Condominium/Co-op median sales price](#)
    - 1st Quarter Condominium/Co-op median sales price in [spreadsheet format](#)

## NAR's Pending Home Sales Index

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

## NAR's Housing Affordability Index

- [April HAI Index](#)
- April Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
  - [1st Quarter 2006 Affordability Index](#)
    - 1st Quarter 2006 Affordability Index in spreadsheet format available [here](#)
  - [First-time homebuyer Affordability Index](#), 1st 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.

## Coming Soon – from NAR Research

Baby boomers have been a driving force in many areas of the economy, culture and consumer attitudes for several decades. As the oldest boomers approach retirement in the next few years they will begin contemplating not just whether to retire, but also where they want to live in the next stage of their life. One big component of this decision is the housing choices that boomers will make as they decide whether to sell a home, relocate or invest in real estate. Get the scoop on more valuable market information in ***Baby Boomers and Real Estate: Today and Tomorrow***.

This brand new profile provides information in a user-friendly format, and looks at:

- The characteristics of boomers and their current housing choices
- Reasons some boomers prefer renting over owning a home
- What baby boomers expect from real estate professionals when buying or selling real estate
- Boomers' plans for buying real estate including vacation homes and investment property
- The amenities that boomers find most appealing
- Where baby boomers would like to retire

***Baby Boomers and Real Estate: Today and Tomorrow*** will give you the insights you need to serve this important segment of your business.

**AVAILABLE LATE JUNE 2006.**

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