

real estate insights

June 2007

Real Intelligence
– Real
Advantages

In This Issue

REALTORS® – The Consumer’s Choice. Despite ongoing criticisms and attacks about commissions, REALTORS® are still the choice for the majority of households looking to buy or sell a home. In his commentary this month, NAR Senior Economist Lawrence Yun discusses some of the recent criticisms and looks at survey data that show most consumers still rely on the professional expertise, knowledge and high level of service provided by real estate professionals. **Read more.**

Vacation home sales set record. In spite of a general housing slowdown, continued low interest rates and a relatively high inventory of properties on the market have spurred a significant percentage of home buyers to purchase vacation homes. The National Association of REALTORS® recently released results of its 2006 Investment and Vacation Home Buyers Survey. Our Market Intelligence feature this month looks at some of the results from that survey that show that while second-home sales were mixed in 2006, the level of vacation home sales rose. **Read more.**

What a Difference a Deal Makes. One “mega” commercial real estate transaction can have a major impact on both a national and local level. In our *In Focus* column this issue, Scott MacIntosh looks at one such transaction and how it spurred activity in the office sector. **Read more.**

Look Like an Expert. Did you miss any of the NAR Research presentations during the Association’s recent Midyear Meetings? You can download and use these for your next sales meeting or newsletter. Click here to access some of the most requested presentations given by NAR experts and guest speakers.

www.realtor.org/research.nsf/pages/presentations_use

Existing-home sales posted 5.99 million units in April (seasonally adjusted annualized rate) – a 2.6% decline from March and the lowest level since June 2003 when the level was 5.94 million units. Single-family sales fell 2.4% and condo sales fell 3.8%. The national median sales price for an existing home was \$220,900 in April. **Read more.**

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NATIONAL ASSOCIATION
OF REALTORS®



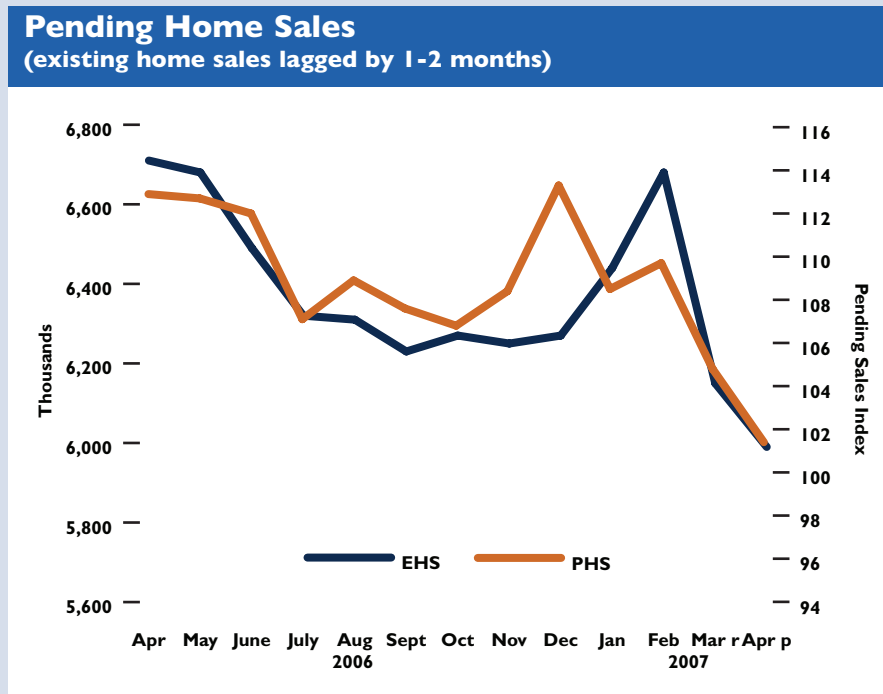
Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing-home sales declined in April, posting a seasonally adjusted annualized rate of 5.99 million units. The resale pace was off 2.6 percent from March, and was 10.7 percent lower than in April 2006. Slower sales were anticipated since many subprime loan products are no longer available and lenders are increasingly scrutinizing risky mortgages. Read more.</p>	April 07 5,990 March 07 6,150 April 06 6,710		Sales in narrow range through fall, before picking up in the fourth quarter
<p>New home sales rose an impressive 16.2% in April to a seasonally adjusted annualized rate of 981,000 units. This dramatic rise is coming off levels posted in February and March that were the two lowest figures in seven years. A slight drop in inventory and the rise in sales are not enough to offset a projected 18% decline in new home sales for all of 2007. Read more.</p>	April 07 981 March 07 844 April 07 1,097		Sales of near one million new homes is not sustainable in the current environment
<p>Housing starts rose for a third straight month in April to a seasonally adjusted annualized rate of 1.528 million units. Despite the three months of positive starts, April's figure is 16% below that of a year ago. Housing permits – generally is a reliable indicator of future starts trends – fell 8.9%: single-family permits declined 6%, and multifamily permits tumbled 16%. Read more.</p>	April 07 1,528 March 07 1,616 April 06 2,058		Cutbacks in builder production should be viewed as positive as they thin out inventory
<p>Housing affordability NAR's Housing Affordability Index (HAI) slipped in April to a reading of 111.9. Both median home prices and qualifying income rose slightly during the month, nudging the index downward from March's revised level of 113.3. The good news is that the current index is well above the 105.4 level posted in April of 2006. Read more.</p>	April 07 111.9 March 07 113.3 April 06 105.4		Index will be lower in the summer due to seasonal factors, but higher compared to a year ago
<p>Mortgage rates rose slightly in May, with the 30-year fixed rate at 6.22% – a four-basis point change from the rate in April. Still, compared to the level in May 2006, mortgage rates are actually more affordable than a year ago. Read more.</p>	May 07 6.22% April 07 6.18% May 06 6.60%		Foreign interest rates have been rising, which point to higher U.S. rates as well
<p>Employment The economy created 157,000 new jobs in May. Between May 2006 and May 2007, 1.9 million jobs have been added to the economy. Average hourly earnings inched up by 6 cents in May to \$17.30. Wages are now 3.8% higher from a year ago. There is some concern that wage growth in light of decelerating productivity growth could result in higher than expected inflation which could lead to modestly higher mortgage rates. Read more.</p>	May 07 157 April 07 80 May 06 100		Monthly job gains of 100,000 to 200,000 will be the norm for the remainder of the year
<p>Gross domestic product grew at a revised 0.6% rate in the first quarter of 2007. The GDP figure was revised downward from the original 1.3% estimate and is based on more complete data. Any growth rate below 3% would be considered sub-par. A major contributing factor was a rise in imports, which grew by 5.8% while exports fell 0.6%. This deteriorating trade situation will correct as the weaker dollar, which makes foreign products more expensive, should help narrow the trade deficit over time. Read more.</p>	2007:1 0.6% 2006:IV 2.5% 2006:I 5.6%		Housing market has been a drag on the economy, but the negative impact will diminish

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. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics and Freddie Mac. This report reflects data as of June 1, 2007. Compiled by Wannasiri Chompoopet, Ken Fears, Kevin Thorpe and Lawrence Yun.

NAR's Pending Home Sales Index

Pending home sales declined in April. NAR's Pending Home Sales Index, a leading indicator of housing market activity, stood at 101.4 in April – a 3.2 percent decrease from March's upwardly revised reading of 104.8 and 10.2 percent below the level of April 2006. 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. Sales are usually finalized within one to two months of signing. An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales. The current index appears to be a fair representation of overall housing market conditions. Annual changes in the index are more closely related to actual market performance than are month-to-month comparisons. For the past two months the pending home sales index has been similar to year-ago comparisons. That means home sales might ease but should be fairly stable in the months ahead. In addition, the impact of the subprime lending fall-out appears to be diminishing – some borrowers who originally planned to finance with subprime mortgages are finding suitable loans in the conventional market. That will help to stabilize home sales. [Read more.](#)



Source: NAR Research

REALTORS® – The Consumer’s Choice

by Lawrence Yun, NAR Senior Economist

Most consumers like REALTORS®. So says a report from the Consumer Federation of America (CFA). More than two-thirds – 68 percent – of consumers surveyed viewed real estate brokers and agents favorably. The favorable rating is even higher among those consumers who had *recently* used a professional real estate service (79%). To top that, the favorable rating skyrockets to 84 percent when it comes to a consumer’s own personal agent and broker.

Those findings are consistent with data that we have been collecting in-house at NAR through our customer tracker survey – a web-based survey that agents send to their clients immediately following closing. The survey questionnaire includes many questions that remind clients about specific services that were provided to them during their recent real estate transaction such as local market analysis, price negotiation, and explanations of closing costs. On a zero-to-10 (terrible-to-outstanding) scale, these *very recent* clients gave their agent’s service an average score of 9.3. With the memory of purchasing or selling a property fresh in their mind, clients were exceptionally appreciative of the services provided by their REALTORS®.

Despite this evidence, there are still many pundits and those in the media who think they know what is best for consumers. They continue to shout about real estate commissions. Hmm. Services provided by lawyers, accountants, doctors, and hedge fund managers are not cheap either. (After all, real estate commissions are negotiable.) But as with legal, tax, medical or investment advice consumers are making a calculated decision to take advantage of the experience, knowledge and expertise of real estate professionals. It is consumer’s choice!

People always have had the option of not paying any real estate commission – by simply selling their home via a For-Sale-By-Owner (FSBO) transaction. But year after year the majority of sellers have chosen to work with a professional. The FSBO share of home sales has been running at around the 15 percent mark – plus or minus a few points. In other words, 85 percent of consumers want and choose to work with a REALTOR®. This is not surprising considering that FSBO homes generally sell for less than those homes brokered by agents. Yes, there are some cases in which a FSBO seller did come out ahead -- good for them. These people evidently believe that the long hours worked in putting together marketing brochures, signs, answering calls, writing the contracts and a myriad of other steps that go into home selling is worth it. When I got my first car, I changed the oil with my own hands to save few bucks. Now, my time is too important to do that on my own.

Consumers have spoken loud and clear regarding real estate transactions. They want hassle-free professional representation.

Similarly, consumers have spoken loud and clear regarding real estate transactions. They want hassle-free professional representation. That is, again, consumer’s choice. Let consumers vote with their feet and pocketbooks. Let the academics, self-anointed experts, and television network correspondents keep scratching their heads as to why consumers are making the “wrong” choice.

A recent news program featured a story (seemed like more of an info-mercial to me) on an on-line only discount broker-age firm that pays its agents a salary rather than a traditional commission. In addition, the home buyer or seller actually has to do a big chunk of the work! But there was a happy couple smiling about their experience with the firm. They listed their home with the company and reported that the home sold at only a few percent off the listing price. But my sources tell me that the story was in development for about one year. I can only say that the market in which the couple’s home was sold was experiencing a housing market boom in 2006 – with home prices rising at one point close to 20 percent! During such a boom, the listing price should have been merely an opening bid!

Another (and long-lived) attack on REALTORS® is about access to multiple listing (MLS) data. This issue should be a non-starter for anyone who believes in the protection of private property and rights to intellectual property. MLS information is private property. Simple and done.

We in the real estate industry – and especially REALTORS® – have always respected and fought for consumer choice and private property. We value the American way of free enterprise. Yes, there will continue to be attacks on REALTORS® and the professional way in which they serve America’s home buyers and sellers. But most consumers are not swayed – the majority of them value the hard work and level of service they receive from their real estate professional. REALTORS® should take pride in that.

THE FORECAST

by Lawrence Yun, NAR Senior Economist

With homebuilders becoming more aggressive in cutting prices of new homes, those selling existing homes are coming under increasing pressure to do the same. In light of current elevated inventory levels, the national aggregate median home price is forecast to decline 1.3 percent in 2007. Lower home prices have lifted housing affordability compared to year-ago levels. That is good news, since it can bring more buyers to the market. However, declining home prices

can also cut into buyer confidence. Buyers may think twice if they believe further price cuts are over the horizon. Which will it be? Falling prices begetting more sales or less sales?

Let's look at the short term. Buyers could continue to hold back. But the powerful forces of wealth accumulation, income gains, and job additions – plus rising apartment rents – in light of declining home prices will inevitably raise home purchase demand.

New home prices fell by 10.9 percent in April from a year earlier. Falling prices evidently helped to spur new home sales. New home sales rose to a 981,000-unit annualized sales pace (seasonally adjusted) in April from their 844,000 annualized pace in March. (New home sales data produced by the Census is known for very large revisions, so we have to wait as to how much reliance to place on the robust sale increase). Higher sales modestly lowered the number of new homes on the market for sale to 538,000. The new home inventory had peaked at 573,000 nine months earlier. Inventory is further expected to decline because builders have been highly disciplined in lowering production. Single-family housing starts were 33% lower in the first quarter than a year ago.

Single-family housing permits -- a leading indicator for starts – hit their lowest mark in nearly a decade. The thinning-out of inventory will be critical in determining how fast the market returns to healthy supply-demand conditions.

Because new homes in general compete against existing homes, a fall in new home prices will force existing home sellers to concede on prices. Unlike the effect on new homes, falling prices on existing homes, however, have not lifted

demand. April sales were soft at a 5.99 million-unit annualized sales pace (seasonally adjusted), the lowest in nearly four years. NAR's Pending Home Sales Index points to continued soft sales for May and June.

But let's have a reality check. A projected price decline of 1.3 percent for most homeowners does not have that much of an impact considering that home prices had risen better than 50 percent during the boom. So those home buyers who have been in it for the long haul should be all fine. Furthermore, any loss in home value will be quickly erased next year as prices are forecast to rise by close to 2 percent in 2008.

The reversal in home prices from negative territory in 2007 to positive territory in 2008 *will happen* as sales pick up. New job additions of 4.5 million over the next two years will translate into \$1.3 trillion in added personal income for the country. Record corporate profits have yielded a record high stock market and record high household wealth. Yet, home sales have been falling despite fairly stable mortgage rates. That does not make too much sense.

What does make sense is that there shouldn't be any more surprises from the subprime mortgage quarter. All the

negative shocks from the sub-prime industry fallout are already out. Yes, there will be higher delinquencies and foreclosures, but those are expected. We do not foresee further *unexpected* negative news from the sub-prime market. The Wall Street "sugar daddies" of the sub-prime funds are now well aware of the consequences of sloppy underwriting. Lending to people who cannot repay is a money-losing proposition. With all the "bad" news already out, there is not likely to be any further drag to the market from this sector.

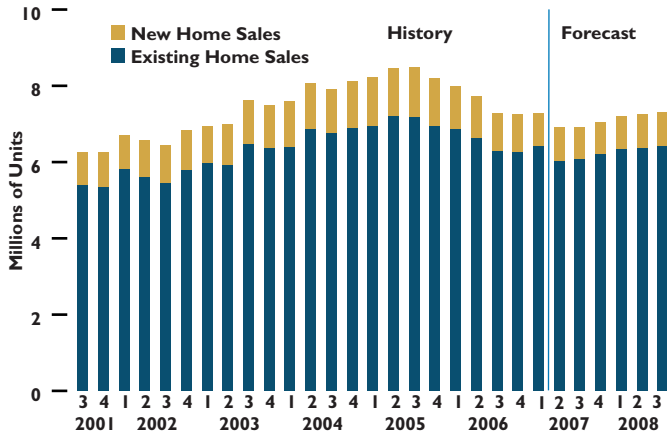
However, rising mortgage rates in late May and early June will hold back the speed of recovery to the fourth quarter rather than the third quarter as we had initially predicted. Even after factoring in the higher mortgage rates still points to overall improved affordability (because lower home prices and higher income effects will dominate). That will mean an inevitable pick up in home sales.

And let's not forget. All real estate is local. Some of the national predictions will not mean a whole lot at the local level. Markets like Salt Lake City and Charlotte are strong. Boston, Northern Virginia and Sarasota, Florida, which had experienced a deep sales slump, have been showing signs of increased sales of late. Strong job gains in the affordable Houston and Dallas markets will continue to lead to higher home sales there.

A projected price decline of 1.3 percent for most homeowners does not have that much of an impact considering that home prices had risen better than 50 percent during the boom.

Home Sales

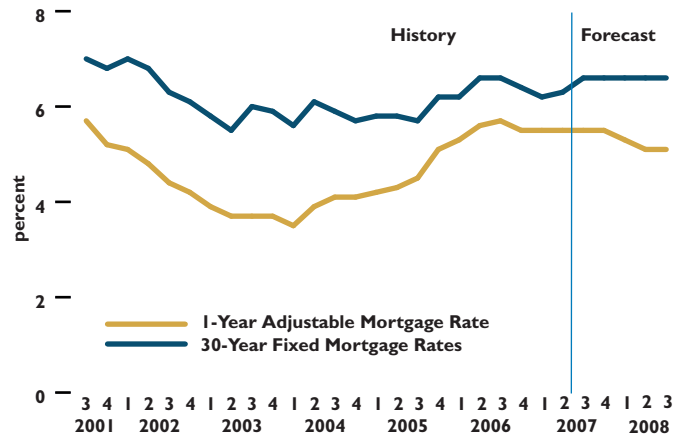
Inventory levels mean a wide choice for buyers



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

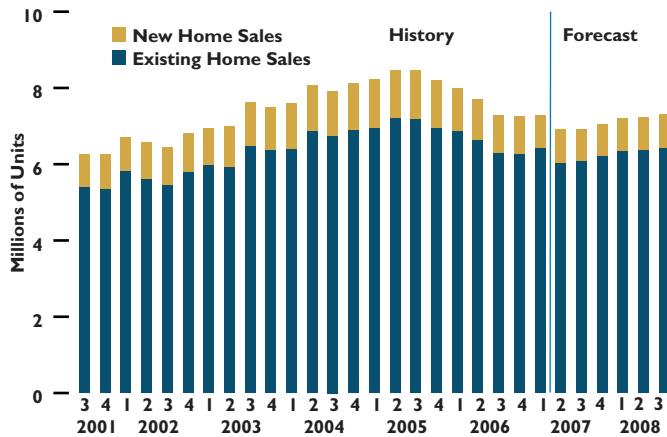
Fixed rates continue below 7 percent



Sources: Freddie Mac, NAR Forecast

Housing Starts

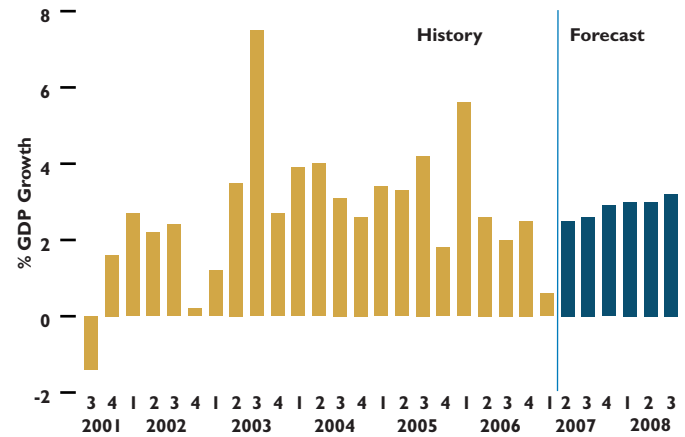
Builders cautious not to "overbuild"



Sources: Bureau of the Census, NAR Forecast

Economic Growth

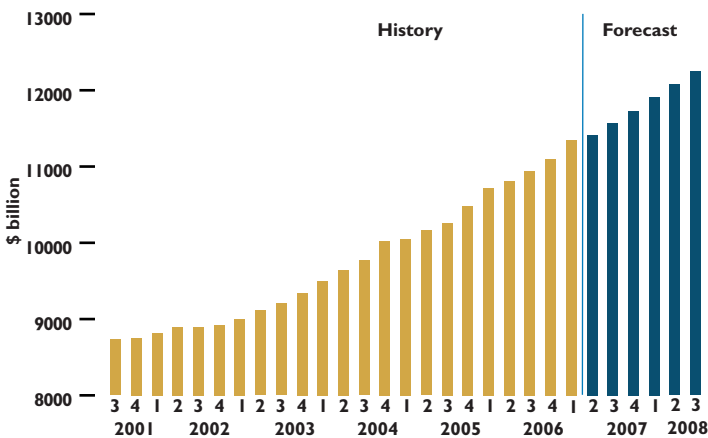
Gaining ground through 2007



Sources: Bureau of Economic Analysis, NAR Forecast

Personal Income

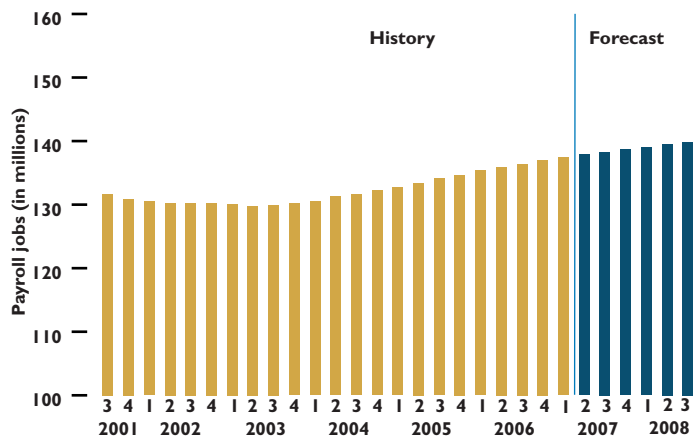
Improving economy lifts personal income levels



Sources: Bureau of Economic Analysis, NAR Forecast

Employment

As economy improves, so will job prospects



Sources: Bureau of Labor Statistics, NAR Forecast

U.S. ECONOMIC OUTLOOK

June 2007

	2006				2007				2008		2005	2006	2007	2008
	II	III	IV	I	II	III	IV	I	II	III				
U.S. Economy														
<i>Annual Growth Rate</i>														
Real GDP	2.6	2.0	2.5	0.6	2.5	2.6	2.9	3.0	3.0	3.2	3.2	3.3	2.0	3.0
Nonfarm Payroll Employment	1.5	1.6	1.5	1.5	1.3	1.2	1.1	1.0	1.3	1.3	1.7	1.9	1.4	1.2
Consumer Prices	5.0	3.1	-2.1	3.8	4.3	2.4	2.2	2.3	2.0	2.4	3.4	3.2	2.5	2.4
Real Disposable Income	-1.5	3.2	6.4	4.7	-1.7	2.2	2.7	3.6	2.7	2.8	1.2	2.6	2.8	2.6
Consumer Confidence	107	104	107	110	107	108	107	109	109	110	100	106	108	110
Percent Unemployment	4.7	4.7	4.5	4.5	4.5	4.7	4.8	4.8	4.8	4.7	5.1	4.6	4.6	4.8
<i>Interest Rates, Percent</i>														
Fed Funds Rate	4.9	5.3	5.2	5.3	5.3	5.3	5.3	5.0	4.8	4.8	3.2	5.0	5.3	4.9
3-Month T-Bill Rate	4.7	4.9	4.9	5.0	5.0	5.0	4.9	4.7	4.5	4.5	3.1	4.7	5.0	4.6
Prime Rate	7.9	8.3	8.3	8.3	8.3	8.3	8.3	8.0	7.8	7.8	6.2	8.0	8.3	7.9
Corporate Aaa Bond Yield	5.9	5.7	5.4	5.4	5.7	5.8	5.8	5.8	5.8	5.9	5.2	5.6	5.7	5.9
10-Year Government Bond	5.1	4.9	4.6	4.7	4.8	5.0	5.0	5.0	5.0	5.0	4.3	4.8	4.9	5.0
30-Year Government Bond	5.1	5.0	4.7	4.8	4.9	5.1	5.1	5.1	5.1	5.1	4.6	4.9	5.0	5.1
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	6.6	6.6	6.4	6.2	6.3	6.6	6.6	6.6	6.6	6.6	5.9	6.5	6.4	6.6
1-Year Adjustable	5.6	5.7	5.5	5.5	5.5	5.5	5.5	5.3	5.1	5.1	4.5	5.6	5.5	5.2
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	6,627	6,287	6,263	6,423	6,031	6,073	6,200	6,346	6,362	6,401	7,076	6,478	6,182	6,408
New Single-Family Sales	1,086	994	986	863	872	854	849	861	885	915	1,283	1,051	860	901
Housing Starts	1,861	1,704	1,555	1,460	1,425	1,422	1,429	1,446	1,476	1,511	2,068	1,801	1,434	1,486
Single-Family Units	1,520	1,393	1,232	1,172	1,123	1,109	1,107	1,113	1,139	1,170	1,716	1,465	1,128	1,147
Multifamily Units	341	311	323	288	302	313	322	333	337	341	352	336	306	339
Residential Construction**	601	570	540	518	500	491	490	493	499	508	608	582	500	504
<i>Percent Change – Year Ago</i>														
Existing Home Sales	-7.2	-12.4	-10.1	-6.4	-9.0	-3.4	-1.0	-1.2	5.5	5.4	4.4	-8.5	-4.6	3.7
New Single-Family Sales	-14.7	-23.3	-21.9	-23.8	-19.7	-14.1	-13.8	-0.2	1.5	7.1	6.7	-18.1	-18.2	4.8
Housing Starts	-9.3	-18.8	-24.8	-31.4	-23.4	-16.6	-8.1	-1.0	3.6	6.3	5.8	-12.9	-20.4	3.6
Single-Family Units	-10.4	-20.2	-28.6	-33.1	-26.1	-20.4	-10.1	-5.0	1.4	5.5	6.5	-14.6	-23.0	1.6
Multifamily Units	-3.8	-11.9	-5.9	-23.3	-11.5	0.6	-0.3	15.5	11.5	9.1	2.1	-4.5	-8.9	10.8
Residential Construction	-1.5	-8.1	-12.8	-16.3	-16.7	-13.9	-9.2	-4.8	-0.2	3.5	8.6	-4.2	-14.2	0.8
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	226.8	225.0	219.3	214.0	221.4	221.0	218.6	215.3	223.6	223.9	219.6	221.9	219.1	222.7
New Home Prices	246.1	236.2	245.1	254.0	236.8	231.0	243.4	254.8	239.6	238.0	240.9	246.5	240.8	247.0
<i>Percent Change – Year Ago</i>														
Existing Home Prices	2.9	-1.1	-2.7	-1.4	-2.4	-1.8	-0.3	0.6	1.0	1.3	12.4	1.0	-1.3	1.7
New Home Prices	6.9	0.0	2.1	2.8	-3.8	-2.2	-0.7	0.3	1.2	3.0	9.0	2.3	-2.3	2.6
Housing Affordability Index	103	103	109	114	109	105	107	110	107	108	113	106	109	109

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. Lawrence Yun.

What a Difference One Deal Can Make!

by **Scott MacIntosh**, Senior Commercial Economist

In most residential real estate markets, a single home sale usually does not spur any major trend. But the same is not true in commercial real estate markets. Indeed, sometimes a single transaction can have a major impact on a segment of the commercial market.

When rumors hit the street in late 2006 that real estate guru Sam Zell was contemplating selling his flagship Equity Office Properties Real Estate Investment Trust (EOP) there were two reactions by the commercial real estate industry to the news. The first was disbelief and concerns about whether it was a signal that "it's time to sell." Investment bankers and other leading real estate firms took a different view: that EOP would be a good buy. Two firms actively vied for the Equity Office portfolio and the Blackstone Group successfully bid a record real estate transaction at \$39.0 billion. The deal closed in February 2007.

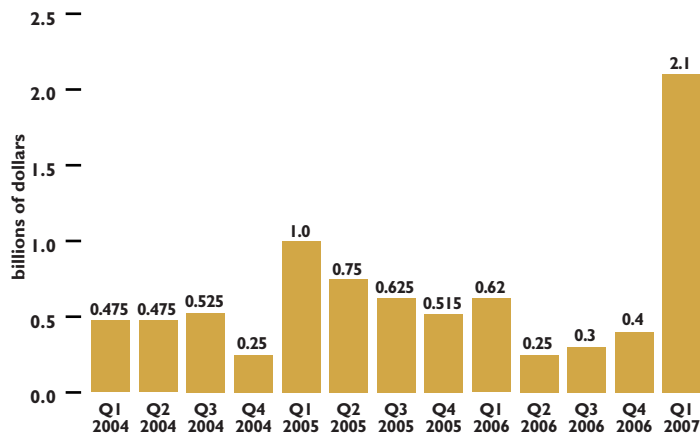
The Impact

While the \$39.0 billion transaction was in itself news, the fact that the Blackstone Group was spinning-off a number of office properties also generated news in many markets. Data from Real Capital Analytics show that over \$95.0 billion worth of office properties traded hands in the first four months of 2007. Compare this with the \$133 billion worth of office buildings sold in all of 2006. In the first four months this year, office properties accounted for 60 percent of all commercial real estate transactions valued at \$5.0 million or more.

While the EOP/Blackstone transaction had an impact at the national level, local markets also felt an impact. For example, in Orange County, California, EOP had several office buildings. After purchasing the EOP portfolio, Blackstone determined that a number of the buildings in Orange County were surplus to requirements and disposed of several of them.

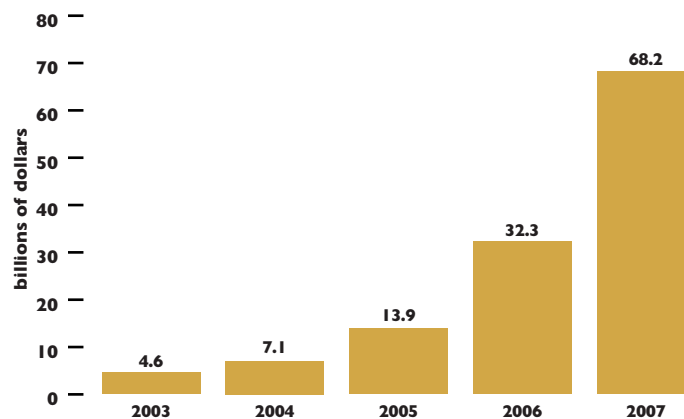
Consider the impact the EOP transaction and the spin-offs have had on just that one office market. Office sales transaction volume in Orange County – which was on the rise until the first quarter of this year – had never been

Office Transaction Volume - Orange County California



Sources: NAR Research, Real Capital Analytics

Equity Fund Transaction Volume Office



Sources: NAR Research, Real Capital Analytics

higher than \$1.0 billion quarterly. As a result of this one mega transaction and the subsequent spin-offs, office building sales transactions in the county doubled to an historic \$2.0 billion.

The Blackstone acquisition of Equity Office Properties is part of a heightened interest by equity funds in commercial real estate. While Blackstone was the most significant buyer and seller of office properties over the last twelve months (Blackstone bought 859 office buildings and sold 165), it is by no means the only equity fund buying office buildings. The surge in equity fund interest in office properties has increased over the years. Improving fundamentals within this

sector and solid return on investment have made office properties highly prized by equity funds.

One mega transaction can have a major impact on both a national and local level. But one thing is clear: there is an appetite for income-producing office properties in almost every market in the U.S.

For More Information on Commercial Real Estate Market Trends

NAR Research tracks trends in commercial real estate, and analyzes issues affecting commercial real estate practitioners. For more information, visit www.realtor.org/research.

Vacation-Home Sales Set Record

by NAR Staff

The housing market in 2006 slowed from its five-year record-setting pace. In some markets home price appreciation dipped into negative territory. The slowdown impacted the purchase of second homes as well. But continued low interest rates and a relatively high inventory of properties on the market inspired a significant percentage of home buyers to purchase vacation homes.

The National Association of REALTORS® recently released results of its 2006 Investment and Vacation Home Buyers Survey.* The results show that while second-home sales were mixed in 2006, the level of vacation home sales rose. The combined total of vacation- and investment-home sales accounted for 36 percent of all existing and new residential transactions – down from 40 percent of sales in 2005. But vacation-home sales increased 4.7 percent to a record 1.07 million. Fourteen percent of second-home purchases were vacation homes, up from a 12 percent share in 2005. Investment home sales fell sharply.

Who's Buying

As has been the case since NAR began tracking the second-home market, the typical vacation-home buyer in 2006 was a baby-boomer – 44 years old – who had a median household income of \$102,200. And the rise in vacation-home sales is based on strong demographic and lifestyle factors. The demographics favor vacation-home sales because large numbers of consumers are in the prime buying ages, and buyers want recreational property for personal use – investment is a secondary consideration.

But the age of the typical vacation-home buyer is decreasing. Last year, in the 2005 second home buyer survey, NAR noted that there were 36.0 million people aged 50 to 59 in the United

States, and the median age of vacation-home buyers was 52. However, the “younger half” of the baby-boom generation who are aged 40 to 49 are now in a position to drive the market in the coming decade. There are 44.7 million people in the U.S. in their 40s, and the median age of vacation buyers is reflecting that shift.

Most vacation-home buyers are married couples (78 percent). Single men purchased 11 percent of vacation homes. Caucasians accounted for 78 percent of all second homes purchased in 2006, both for vacation homes and investment properties. African Americans purchased 8 percent of vacation-homes, Asians accounted for 6 percent and Hispanics bought 9 percent of vacation properties.

What, Where and How They Bought

One-quarter of vacation homes were purchased in the Northeast, 13 percent in the Midwest, 38 percent in the South and 25 percent in the West. Just under a

fourth of vacation homes purchased were in resort locations, while 29 percent were located in rural areas. Twenty-two percent of vacation homes were in a suburb and 10 percent in an urban area or central city.

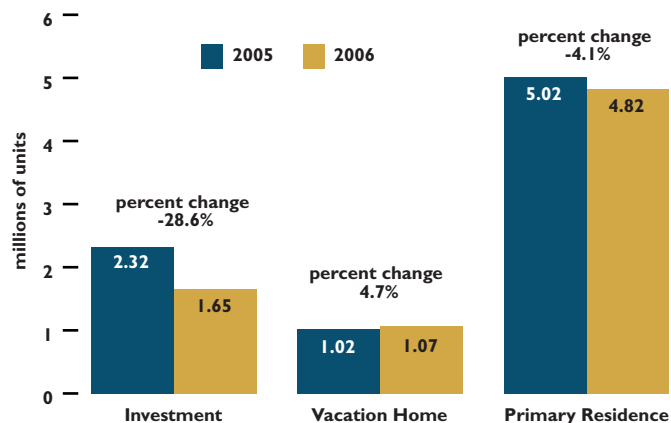
As is the case with primary residences, the majority of vacation homes purchased were detached-single-family homes – 67 percent. But condominiums were also popular with 21 percent of vacation-home buyers purchasing a condo. An unusually high number of respondents – 44 percent – purchased a new home.

The median price of a vacation home in 2006 was \$200,000, down 2.0 percent from \$204,100 in 2005. (See box.) Twenty-five percent of vacation-home buyers paid cash for their property.

Why They Bought

Households purchase vacation homes for a variety of reasons. The majority of vacation-home purchasers – 79 percent – wanted to use the home for vacations or

Second-Home vs. Primary Residence

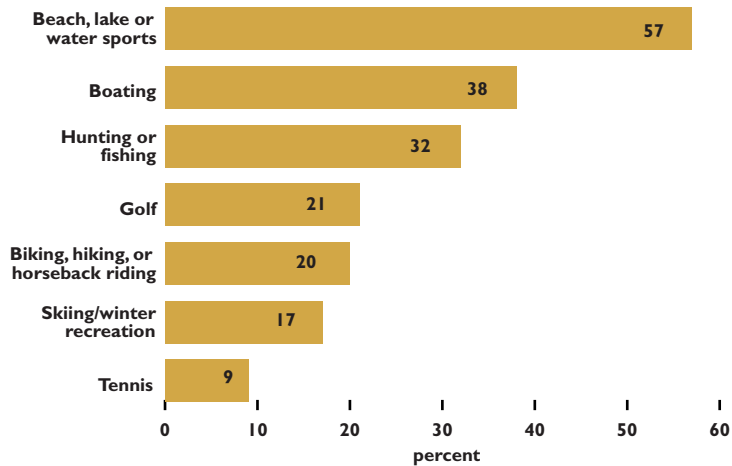


Source: NAR Research

*The survey, conducted in April 2007, includes answers from 1,412 respondents, reflecting 1,729 homes purchased in 2006. Of these, 1,106 were primary residences and the remainder were vacation and investment purchases. The survey controlled for age and income, based on information from the larger **2006 National Association of REALTORS® Profile of Home Buyers and Sellers**, to limit any biases in the characteristics of respondents.

Vacation-Home Sales (continued)

Leisure Activity of Interest to Vacation-Home Owners



Source: NAR Research

as a family retreat. But there were other reasons. More than a third purchased a vacation home to diversify investments. Twenty-eight percent planned to use their vacation home as a primary residence in the future. One quarter purchased a vacation home for the tax benefits, 22 percent for use by a family member, friend or relative, 21 percent because they had extra money to spend and 18 percent to rent to others.

An earlier survey described what current owners most desired in a vacation home. Two-thirds want to be close to an ocean, river or lake; 39 percent close to recreational or sporting activities; 38 percent close to vacation or resort areas; and 31 percent close to mountains or other natural attractions.

The Use of Real Estate Professionals

As is the case with home buyers in general, the majority of vacation-home purchasers rely on the experience, knowledge and high level of service of real estate professionals. Sixty percent of vacation-home buyers purchased their property through a real estate agent or broker. But the share of vacation-homes purchased directly from an owner whom the buyer knew was greater than that

for home buyers generally. Twenty percent of vacation buyers purchased directly from an owner they knew. (Compare that figure with the five percent of all homes sold directly – FSBO – to a buyer whom the seller knew.) Those latter transactions may have contributed to the somewhat lower median price of a vacation home because open-market transactions historically obtain higher prices than do closed sales.

The Future

Vacation-home buyers are in it for the long term. Vacation-home buyers plan to keep their property for a median of 10 years. Thirty-eight percent – the largest share of respondents – plan to keep their vacation home for 11 years or more. And recent vacation-home buyers expect to continue to support the second-home market: a surprising 55 percent of vacation-home buyers said they were likely to purchase another property within two years.

“Speculating” – Impact on Home Prices

Home price appreciation softened in many markets during 2006. That softening was felt in the second-home market as well. Indeed, the median price of a vacation home slipped two percent.

But investment homes felt the sting even more. The typical investment property cost \$150,000 last year, down 18.3 percent from 2005. The drop in investment prices comes as no surprise as speculators left the market, pushing home price appreciation down from its record levels. But vacation-home prices edging down in a record market is a bit puzzling. It too may be the result of a surge in housing inventory dumped on the market by speculators, especially in the condo sector, with long-term, second-home buyers taking advantage of the glut and buying at negotiated discounts. This underscores that housing should always be viewed as a long-term investment, providing solid returns over time.

Still, eight in 10 second home buyers considered it a good time to invest in real estate, compared with 57 percent of primary residence buyers. And almost two thirds of investment buyers said they were likely to purchase another property within two years.

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 2007

- 1st Quarter 2007 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 1st Quarter 2007 [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 2007 Affordability Index](#)
 - 1st Quarter 2007 Affordability Index in spreadsheet format available [here](#)
 - [First-time homebuyer Affordability Index](#), 1st Quarter 2007
 - 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.

2007 NAR Member Profile

Item #186-12-07

To better understand today REALTORS® and their important role in the real estate industry, NAR regularly surveys its members about their business activities, use of technology, demographic characteristics and their relationship to their firms. This information is summarized in the **2007 NATIONAL ASSOCIATION OF REALTORS® Member Profile**. This unique publication provides the answers in a user-friendly format, designed to allow easy comparisons with previous studies, using a mix of charts, graphs and tables.

Chapters Include:

- Business Characteristics of REALTORS®
- Business Activity of REALTORS®
- Income and Expenses of REALTORS®
- Office and Firm Affiliation of REALTORS®
- Demographic Characteristics of REALTORS®

If you're a working REALTOR®, see how you compare to your colleagues. If you're a firm owner or manager, learn how your brokers and sales agents stack up against the others in the industry. The **2007 NATIONAL ASSOCIATION OF REALTORS® Member Profile** can be a useful tool in your business and recruitment planning.

For more information contact Thomas J. Doyle, Research Marketing Manager at 202-383-7535 or email: tdoyle@realtors.org

