

real estate insights

December 2011

Real Intelligence –
Real Advantages

In This Issue

Some good omens. Most of the bad news these days has been coming from Europe and the Eurozone crisis. Here in the U.S., we've seen some good end of year signs that NAR Chief Economist Lawrence Yun says bode well for the new year. **Read more.**

Commercial market outlook. Commercial real estate markets have been relatively flat this year. But there are also some good signs that they may have a better new year in 2012. George Ratiu, NAR's Manager of Quantitative & Commercial Research, gives us an overview of the outlook for commercial real estate which indicates improving fundamentals mean a more positive trend is expected next year. **Read more.**

Using NAR Research. In addition to generating data on the housing market, home buyer and seller behavior and the latest insights into our economy, NAR Research also provides REALTORS® with tools they can use in their business planning, marketing efforts, and promotional materials. The latest presentations by NAR Research staff are available for downloading. **Read more.**

The changing demographics of home sellers. Last month's issue of *Real Estate INSIGHTS* highlighted findings from NAR's latest study on home buyers and sellers that focused on the changes in buyer characteristics. In our *Market Intelligence* feature this month, we look at some of the interesting trends that have developed on the seller side of the transaction. Jessica Lautz, Manager of Member and Consumer Survey Research examines the latest results about seller characteristics. **Read more.**

Research Update. Don't forget to check out the latest information... available in our *Research Update*. This column gives you a brief overview of current studies, statistics, videos and podcasts, and links to web-based analysis and data from NAR Research. **Read more.**

... Happy holidays! The staff of NAR Research, and all those who put together *Real Estate INSIGHTS*, wish all our readers a very happy holiday season, and cheers for the new year.

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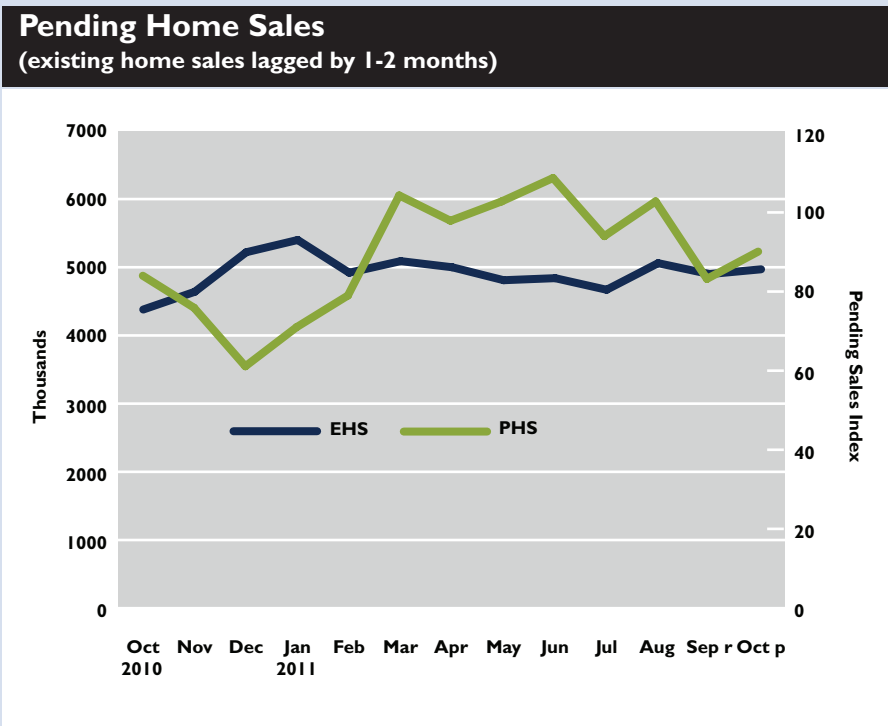
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Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing-home sales rose 1.4% in October, posting a seasonally adjusted annual rate of 4.97 million units. On a year over year basis, resales were up 13.5%. First-time buyers accounted for 34% of home purchases during the month – up from 32% in both September and October 2010. Housing inventory continued to decline – at the end of October 3.33 million existing homes were available for sale, an 8.0 month supply at the current sales pace.</p>	Oct 2011 4,970 Sept 2011 4,900 Oct 2010 4,380		Rising rents and job gains are big pluses to push home sales
<p>New home sales also rose in October, posting a seasonally adjusted annual rate of 307,000 units – 1.3% ahead of new sales in September and 8.9% ahead of the rate in October 2010. The inventory of new homes available for sale at the end of month was 162,000 units – a 6.3 months supply at the current sales rate.</p>	Oct 2011 307 Sept 2011 303 Oct 2010 282		Household formation to rise up to normal after being greatly suppressed
<p>Housing starts declined slightly in October – by 0.3% – to a seasonally adjusted annual rate of 628,000. Starts were up 16.5% from a year ago. Single family units increased 3.9%, and were off a mere 0.9% from their pace in October 2010. Multifamily starts declined 13.8% from the previous month, but on a year over year basis were up 96.8%.</p>	Oct 2011 628 Sept 2011 630 Oct 2010 539		Better than 10 percent gain in 2012
<p>Housing affordability is at a record high level. NAR's Housing Affordability Index for October posted a reading of 197.8 – its highest level since NAR began producing the affordability measure. Continued low mortgage rates, plus declines in most of the other components used to calculate the index, helped drive affordability to new heights.</p>	Oct 2011 197.8 Sept 2011 188.9 Oct 2010 178.6		Staying at highly affordable conditions
<p>Mortgage rates In November, the 30 year fixed mortgage rate fell below 4.0 percent to a new record low. The exceptionally low mortgage rates mean housing is more affordable than ever.</p>	Nov 2011 3.99 Oct 2011 4.07 Nov 2010 4.30		Very modest upticks
<p>Employment The U.S. economy added 120,000 non-farm payroll jobs in November. October and September job creation figures were revised upward. Private sector job gains were 140,000. In fact, the private sector has been driving employment, adding payrolls consistently since March of last year. The unemployment rate declined to 8.6% – its lowest level in 2 ½ years.</p>	Nov 2011 120 Oct 2011 100 12-month total: 1,600		Fewer people have been showing up for unemployment checks
<p>Economic growth Real gross domestic product (GDP) grew at an annual rate of 2.0% in the third quarter of 2011. This is the second estimate of GDP growth, based on more complete data. The figure reflects growth in consumer spending, nonresidential fixed investment, exports, and federal government spending. Consumer spending increased 2.3% during the quarter, with spending on durable goods rising 5.5% (compared to a 5.3% decrease in the second quarter).</p>	2011:III +2.0% 2011:II +1.3% 2010:III +2.5%		Despite the euro question, no U.S. economic recession in 2012

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 December 2, 2011. Compiled by Keunwon Chung, Ken Fears and Lawrence Yun.

Pending home sales rose strongly in October. NAR's Pending Home Sales Index posted a reading of 93.3 in October – a 10.4% gain from September and 9.2% ahead of the index in October 2010. All regions of the country showed gains from a year ago, with the Northeast and Midwest registering month to month double-digit increases. The Pending Home Sales Index is a forward-looking indicator 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. The index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales contract activity from 2001 through 2004 paralleled the level of closed existing-home sales in the following two months. Please note there is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons. 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. For the majority of transactions, the lag time between pending contracts to actual closings is one to two months. The improved contract activity is a hopeful sign, and we should be seeing stronger sales activity. But though contract signings are up, not all contracts lead to closings. Indeed, during October a higher rate of contract failures held back sales. Contract failures reported by NAR members jumped to 33 percent in October from 18 percent in September, and were only 8 percent a year ago.



Source: NAR Research

Good signs for the new year

by Lawrence Yun, NAR Chief Economist

Here's a change. Lately most of the dire economic news has been coming out of Europe: talk about the future of the Eurozone, whether or not the EU will hold together as an entity, and even some predictions that the euro may not survive as a currency. Some analysts in the U.S. are suggesting that problems in Europe are contagious and will doom our economy to another recession. But despite those European currency and economic troubles, a possibility of an economic recession in the upcoming year here in the U.S. looks less and less likely.

The key reason is the housing market recovery. After six years of a demoralizing and protracted housing market recession, a light is finally appearing at the end of the tunnel. And it is not a headlight from a freight-train. It is a genuine warm sunny glow. The latest pending home sales index – which reflects contract signings to purchase a home – rose more than 10 percent in October from the previous month and more than 9 percent from one year ago. Because the wide swings in sales related to the homebuyer tax credit are largely over, that year over year increase is a clean jump and not just a rise due to some artificially low comps of the past year. Clearly the data implies something is brewing out there. Yes, there are still cancellation issues related to appraisals, tight underwriting, and other issues. But buyers are evidently recognizing the great opportunity to own real estate and acting accordingly. Let's examine several of factors that suggest the worst is over.

First, existing home inventory has been trending downward consistently. The total number of homes listed for sale at the end of October was 3.3 million, down from 4.5 million in the middle of 2008. Remember, there are seasonal swings in the number of listings – with spring/summer months reflecting more home sellers (more listings) and autumn/winter months reflecting fewer sellers (fewer listings), so we still need to make proper seasonal adjustment comparisons. When we look just at the month of October during the past several years, this October registered the lowest inventory since 2005. The same was true for the month of September; September 2011 registered the lowest September inventory since 2005. Again, similar stories are seen for July and August of this year. In short, inventory has been running at six-year lows for several consecutive months. That is important to note, because lower inventory is a signal that price declines are coming to an end. In fact, the government measurement of home prices – from the Federal Housing Finance Agency (FHFA) – has risen in five out of the past six months, and home prices according to the FHFA are up two percent from their low point in March of this year. Other price data, such as that from Case-Shiller and NAR, have been moving both up and down with no consistent direction since 2009. In other words: prices have been roughly stable for the past three years.

Second, rents are rising and rent increases accelerating. The primary rent component of the Consumer Price Index (CPI) is

After six years of a demoralizing and protracted housing market recession, a light is finally appearing at the end of the tunnel.

up 2.4 percent from 12 months ago, but has been accelerating at 4.8 percent in the most recent monthly reading on an annualized basis. Rising rents will tip some renters into home buying, while real estate investors will have an added reason to own another property. According to *The Economist* magazine, the rent metric in the U.S. is such that home values are eight percent below justifiable levels.

Third, jobs are being added to the economy. Since the low point in early 2009, the economy has added 2.5 million net new jobs. Generally more jobs mean more home sales. So far, the extra jobs have not led to higher home sales. But to view it another way, pent up demand for housing has been growing and it is inevitable that home sales will have to tick higher with more jobs.

Fourth, mortgage rates are too low to pass up. While some financially qualified buyers are strategizing about the perfect time to enter the market in term of rates and home prices, these considerations are like picking up nickels and dimes when viewed from a far-off horizon. Consider what has happened in the past 30 years regarding the prices of consumer goods. On a broad basis, consumer prices have risen 160 percent from 1981 to 2011. Rent – and coincidentally gasoline prices – rose 200 percent. Home values rose 220 percent, even after accounting for the price declines during the recent housing downturn years. Medical care costs increased a whopping 400 percent. But even that increase was bested by the increase in college tuition which rose nearly 700 percent (which raises a number of questions about where the tuition monies go). One consumer item that did not rise in cost was the average monthly mortgage payment for those who took out a 30-year fixed-rate mortgage back in 1981.

What will happen over the next 30 years? If the cost of some of the above consumer items rises at a similar pace as in the past 30 years, then gasoline prices will run around \$9 per gallon while the \$20,000 college tuition of today will reach \$140,000 per year. But one item which the consumer will not

Good signs for the new year (continued)

pay a nickel more is on their monthly mortgage payment. At the current median home price and current mortgage rate, the monthly mortgage payment would be fixed at \$698 per month for the next 30 years. At the same time, home values likely will have tripled.

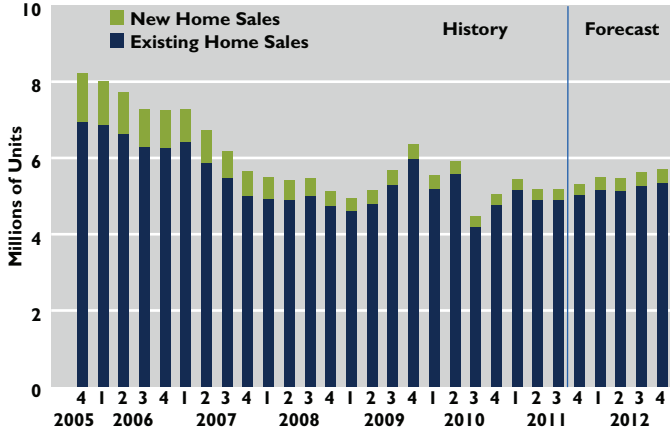
So, as we approach the end of 2011, I am fairly hopeful that our housing recovery is on the right track. Jobs are coming back, people are buying homes, home prices are stabilizing. All in all, not a bad way to end the old year, and start the new. Happy holidays!

For daily commentary on economic and housing conditions and trends from Dr. Yun and other NAR Research staff, go to NAR's Research blog at <http://economistsoutlook.blogs.realtor.org/> or visit NAR Research via social media sites Facebook (www.facebook.com/narresearchgroup) and Twitter (http://twitter.com/NAR_Research).

Existing home inventory has been trending downward consistently, and lower inventory is a signal that price declines are coming to an end.

Home Sales

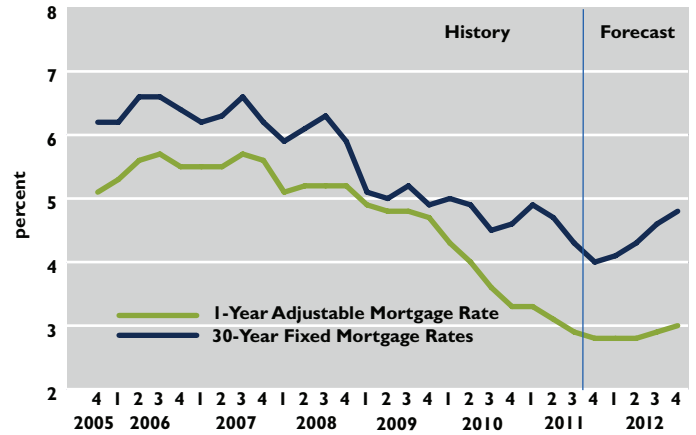
Improving job prospects and consumer confidence lift sales activity



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

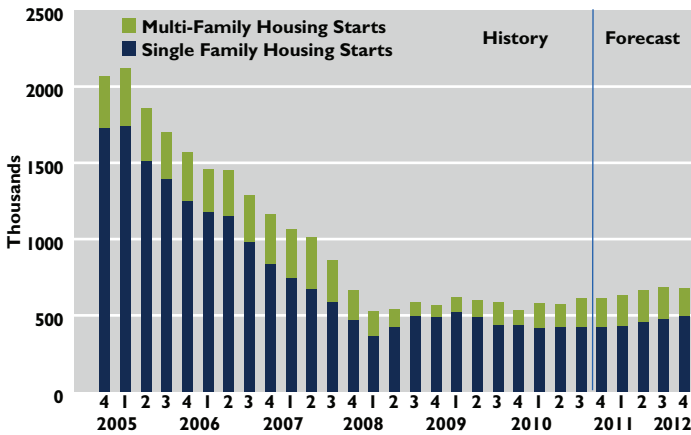
Rising slightly after record low



Sources: Freddie Mac, NAR Forecast

Housing Starts

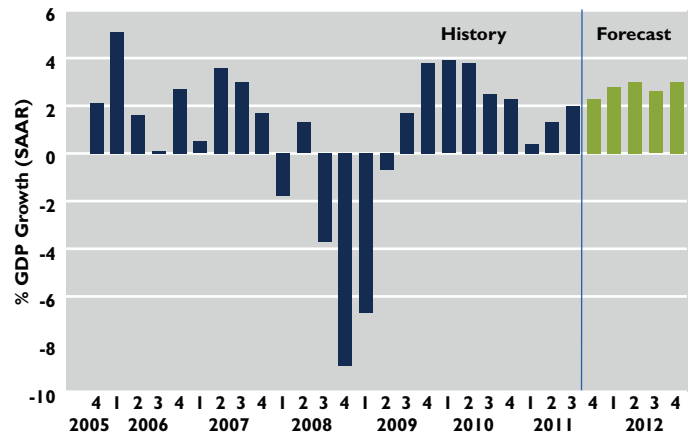
Slow construction recovery



Sources: Bureau of the Census, NAR Forecast

Economic Growth

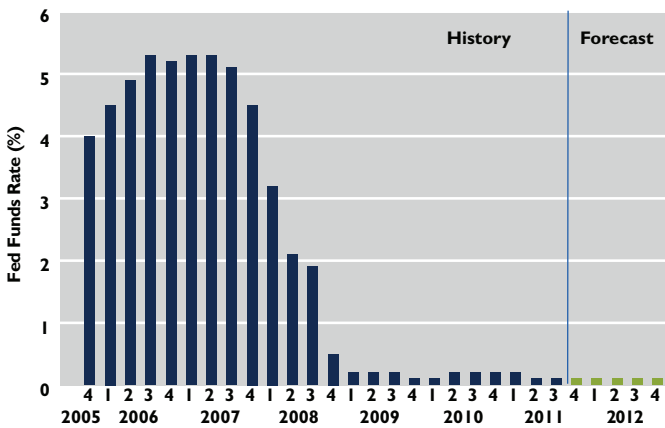
Continued slow expansion



Sources: Bureau of Economic Analysis, NAR Forecast

Federal Funds

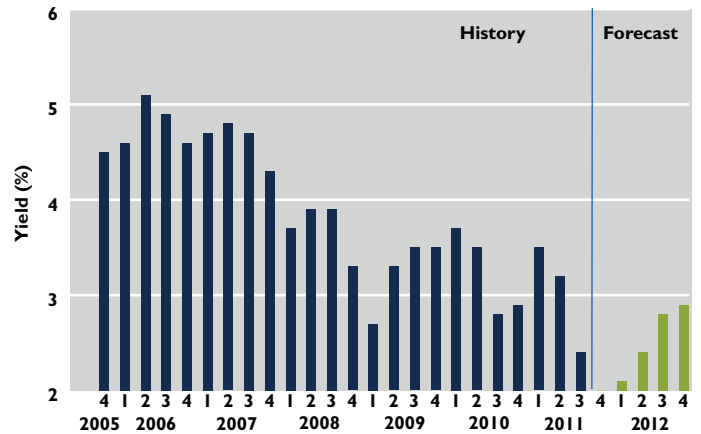
Can't go any lower



Sources: Federal Reserve Board, NAR Forecast

10-Year Treasuries

On the rise again



Sources: Department of the Treasury, NAR Forecast

U.S. Economic Outlook

December 2011

	2010		2011			2012					2009	2010	2011	2012
	III	IV	I	II	III	IV	I	II	III	IV				
U.S. Economy	History					Forecast					History		Forecast	
<i>Annual Growth Rate</i>														
Real GDP	2.5	2.3	0.4	1.3	2.0	2.3	2.8	3.0	2.6	3.0	-3.5	3.0	1.7	2.5
Nonfarm Payroll Employment	-0.2	0.8	1.3	1.4	0.9	1.3	1.3	0.8	0.8	1.3	-4.4	-0.7	1.0	1.1
Consumer Prices	1.4	2.6	5.2	4.1	3.1	0.5	1.5	3.1	2.9	2.5	-0.3	1.6	3.1	2.2
Real Disposable Income	2.3	1.5	1.2	-0.5	-2.1	2.2	1.9	1.6	1.4	2.0	-2.3	1.8	1.0	1.2
Consumer Confidence	51	53	67	62	50	53	55	56	60	62	45	54	58	59
Percent Unemployment	9.6	9.6	8.9	9.1	9.1	9.0	8.9	8.7	8.6	8.4	9.3	9.6	9.0	8.6
<i>Interest Rates, Percent</i>														
Fed Funds Rate	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
3-Month T-Bill Rate	0.2	0.1	0.1	0.0	0.0	0.2	0.3	0.3	0.4	0.5	0.2	0.1	0.1	0.4
Prime Rate	3.3	3.3	3.3	3.3	3.3	2.8	3.0	3.0	3.1	3.5	3.3	3.2	3.1	3.1
Corporate Aaa Bond Yield	4.6	4.9	5.1	5.0	4.5	4.2	4.3	4.5	4.9	5.1	5.3	4.9	4.7	4.7
10-Year Government Bond	2.8	2.9	3.5	3.2	2.4	2.0	2.1	2.4	2.8	2.9	3.3	3.2	2.8	2.5
30-Year Government Bond	3.9	4.2	4.6	4.3	3.7	3.4	3.5	3.7	4.1	4.2	4.1	4.3	4.0	3.9
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	4.5	4.4	4.9	4.7	4.3	4.0	4.1	4.3	4.6	4.8	5.1	4.7	4.5	4.5
1-Year Adjustable	3.6	3.3	3.3	3.1	2.9	2.8	2.8	2.8	2.9	3.0	4.7	3.8	3.0	2.9
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	4,170	4,747	5,137	4,883	4,888	5,013	5,163	5,127	5,259	5,329	5,156	4,907	4,967	5,222
New Single-Family Sales	291	300	299	309	297	306	319	343	363	375	376	322	303	352
Housing Starts	584	539	582	572	610	614	633	667	682	677	554	585	595	665
Single-Family Units	434	436	414	425	423	425	431	458	478	493	442	471	422	465
Multifamily Units	150	102	168	147	187	189	203	209	204	184	112	114	173	200
Residential Construction**	321	323	321	324	326	337	341	347	355	361	359	331	327	351
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	-21.1	-19.7	-0.9	-12.3	17.2	5.6	0.5	5.0	7.6	6.3	4.9	-4.8	1.2	5.1
New Single-Family Sales	-27.4	-19.6	-16.9	-7.8	2.1	2.1	6.6	11.1	22.2	22.3	-22.6	-14.4	-5.9	16.2
Housing Starts	-0.7	-5.1	-5.3	-4.9	4.4	14.0	8.8	16.6	11.8	10.2	-38.7	5.6	1.7	11.8
Single-Family Units	-13.5	-10.2	-20.5	-13.6	-2.6	-2.5	3.9	7.6	12.9	15.9	-28.9	6.6	-10.4	10.1
Multifamily Units	73.8	24.8	79.3	34.0	24.7	84.7	20.7	42.4	9.1	-2.6	-60.3	1.7	51.6	15.8
Residential Construction	-7.8	-6.3	-2.9	-6.8	1.4	4.4	6.3	7.0	9.0	6.9	-20.5	-7.9	-1.1	7.3
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	177.0	169.9	157.9	168.7	169.4	162.6	159.8	170.7	173.0	166.8	172.5	172.9	165.2	168.2
New Home Prices	222.2	221.7	226.9	229.0	220.3	221.7	228.7	234.3	226.9	230.3	216.7	221.0	224.3	230.1
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	-0.6	-0.5	-5.1	-4.5	-4.3	-4.3	1.2	1.2	2.1	2.6	-12.9	0.2	-4.4	1.8
New Home Prices	4.5	1.3	2.4	4.4	-0.9	0.0	0.8	2.3	3.0	3.9	-6.6	2.0	1.5	2.6
Housing Affordability Index	172	183	191	182	184	210	207	185	171	170	169	174	192	183

Quarterly figures are seasonally adjusted annual rates; GDP 2011 Q2 is estimate, not actual.

* Existing-home sales of single-family homes and condo/co-ops; ** billion dollars

The Outlook for Commercial Real Estate

By George Ratiu, Manager, Quantitative & Commercial Research

The economy – not to mention the commercial real estate sector – is looking for some sparkle this holiday season. While the third quarter brought some positive news to commercial real estate, economic concerns continue to hold back a robust commercial real estate recovery. Still, while commercial real estate markets have been relatively flat this year, improving fundamentals mean a more positive trend is expected in 2012.

Let's look at the overall economy first. Based on the Bureau of Economic Analysis's second estimate, gross domestic product (GDP) rose 2.0 percent in the third quarter. Mirroring the second quarter's patterns, all major components advanced, except government spending. The major driver of economic growth – consumer spending – remained steady growing 2.3 percent during the third quarter. Business investments provided a double-digit boost behind the economic advance. Business spending rose 14.8 percent during the quarter. Businesses have accelerated spending with each successive quarter during 2011. Businesses upped their spending on equipment—transportation was up 31.7 percent while spending on industrial equipment rose 31.6 percent. Notably, spending on commercial real estate gained for the second consecutive quarter, advancing 12.6 percent.

International trade, which has proven resilient this year, continued to expand during the third quarter. With exports rising by 4.3 percent and imports growing by 0.5 percent, the balance of trade was positive. However, along with growth in trade, prices of exchanged goods also increased. Import prices, in particular, have been growing at double-digit rates for the better part of 2011, with September's prices 13.4 percent higher year-over-year. Export prices rose at a much slower pace, with September 2011 figures up 9.5 percent from the prior year.

On the employment front, there's still a lot of room for improvement. The number of payroll jobs rose by 368,000 during the quarter. Businesses cite general uncertainty, lack of demand and regulatory concerns as the main reason

for modest hiring. Still, manufacturing, construction and mining maintained a steady pace of growth. Another positive sign: professional and business services posted a net 100,000 new jobs during the quarter. The other contributors to employment growth were the education and health sectors.

Commercial Markets

According to NAR's latest **Commercial Real Estate Outlook**, there was little change in most of the commercial market sectors in the third quarter of this year. Vacancy rates continue flat, leasing soft and concessions continue to make it a tenant's market. But the commercial real estate market is expected to follow the general economy, and NAR foresees continuing, albeit modest, improvement. Vacancy rates are expected to trend lower and rents should rise



modestly next year. In the multifamily market, which already has the tightest vacancy rates of any commercial sector, apartment rents will be rising at faster rates in most of the country next year. If new multifamily construction doesn't ramp up, rent growth could potentially approach 7 percent over the next two years.

Office Markets: Vacancy rates in the office sector are expected to fall from 16.7 percent in the current quarter to 16.1 percent in the fourth quarter of 2012. Currently, markets with the lowest office vacancy rates are Washington, D.C. (9.3 percent), New York City (10.3 percent) and New Orleans (12.8 percent). Office rents rose 1.4 percent in 2011, and are expected to increase another 1.7 percent in 2012. Net absorption of office space in the U.S., which includes the leasing of new space coming on the market as well as space in existing properties, is

Commercial Forecast

Property Type	2011	2012
Office		
Vacancy rate (%)	16.6 %	16.3 %
Net absorption	20,178	31,700
Rent growth (%)	1.4	1.7
Industrial		
Vacancy rate	12.4	11.9
Net absorption	61,957	41,249
Rent growth	-0.5	1.8
Retail		
Vacancy rate	12.9	12.2
Net absorption	1,238	13,547
Rent growth	-0.2	0.7
Multifamily		
Vacancy rate	5.4	4.6
Net absorption	238,398	126,621
Rent growth	2.5	3.5

Note: vacancy rate and rent growth expressed in percent; net absorption in thousand square feet
Source: the November 2011 NAR Commercial Real Estate Outlook

The Outlook for Commercial Real Estate (continued)

projected to be 20.2 million square feet this year and 31.7 million in 2012.

Industrial Markets: Industrial vacancy rates are projected to decline from 12.3 percent in the fourth quarter of this year to 11.7 percent in the fourth quarter of 2012. The areas with the lowest industrial vacancy rates currently are Los Angeles, CA with a vacancy rate of 5.2 percent; Orange County, CA at 5.7 percent, and Miami at 8.4 percent. Annual industrial rent is forecast to rise 1.8 percent in 2012. Net absorption of industrial space nationally should be 62.0 million square feet this year and 41.2 million in 2012.

Retail Markets: Retail vacancy rates are likely to decline from 12.6 percent in the current quarter to 11.8 percent in the fourth quarter of 2012. Markets with the lowest retail vacancy rates include San Francisco, CA (3.7 percent), Long Island, NY and Northern New Jersey, each at 5.7 percent, and San Jose, CA at 6.0 percent. Look for average retail rent to decline 0.2 percent through the end of this year, and then rise 0.7 percent in 2012. Net absorption of retail space is

expected to register 1.2 million square feet this year and 13.5 million in 2012.

Multifamily Markets: This sector has been the performer over the past year, and will continue to perform well in 2012. The apartment rental market – multifamily housing – is expected to see vacancy rates drop from 5.0 percent in the fourth quarter to 4.3 percent in the fourth quarter of 2012; multifamily vacancy rates below 5 percent generally are considered a landlord's market with demand justifying higher rents. Areas with the lowest multifamily vacancy rates currently are Minneapolis at 2.4 percent, New York City, 2.7 percent, and Portland, OR at 2.8 percent. Average apartment rent is projected to rise 2.5 percent this year and another 3.5 percent in 2012. Multifamily net absorption

is likely to be 238,400 units this year and 126,600 in 2012.

For more information

NAR Research monitors and analyzes monthly and quarterly economic indicators, including retail sales, industrial production, producer price index, gross domestic product and employment data that clearly impact commercial markets over time. In addition, NAR Research provides several products covering commercial real estate including an annual **Commercial Member Profile**, the **Commercial Real Estate Quarterly Market Survey**, and the **Commercial Real Estate Lending Survey**. These reports, as well as the complete **Commercial Real Estate Outlook**, are available at www.realtor.org.



Using NAR Research

By Thomas J. Doyle, Manager, Research Communications

Nearly 18,000 NAR members attended the recent annual conference in Anaheim, California in November. Many of them heard the latest analyses of both the residential and commercial real estate markets from NAR Chief Economist, Lawrence Yun in his presentations during the conference, as well as insights into foreclosure inventory trends from Selma Hepp, Manager of Public Policy and Homeownership Research.

NAR Research is committed to providing REALTORS® with tools they can use in their business planning, marketing efforts, and promotional materials. As such, we have posted Dr. Yun's and Dr. Hepp's presentations on our web site, and they are available for downloading. REALTORS® may use them in their own presentations, with attribution.

Economic and Housing Market Outlook

In his presentation at the Economic Issues and Residential Real Estate Trends Forum, Dr. Yun told REALTORS® a gradual recovery for housing and the economy is expected in 2012. Although the housing market struggled to maintain an even footing in 2011, gradual improvement is expected in 2012 and beyond. Among the highlights of his presentation:

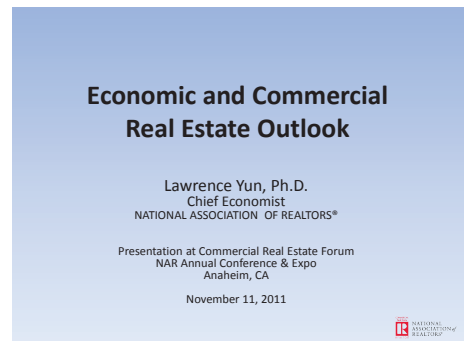
- Tight mortgage credit conditions have held back home buyers during 2011, and consumer confidence was shaky. Still, there is a sizeable pent-up demand based on population growth, employment levels and a doubling-up phenomenon that can't continue indefinitely. This demand could quickly stimulate the market when conditions improve.

- Mortgage interest rates should gradually rise from recent record lows and reach 4.5 percent by the middle of 2012.
- Housing affordability conditions, based on the relationship between median home prices, mortgage interest rates, and median family income, have been at a record high in 2011. Very favorable affordability conditions will dominate next year as well, which will probably be the second best year on record dating back to 1970. Our hope is that credit restrictions will ease and allow more home buyers to take advantage of current opportunities.

Economic Issues and Commercial Real Estate Business Trends Forum

Dr. Yun told commercial specialists that their sector should also see steady improvement in the year ahead. Still, depressed conditions in the financial and small business sectors continue to negatively affect the commercial real estate industry and hold back a more robust national economic recovery. Among the highlights:

- The U.S. economy remains sluggish and continues to perform well below the desired pace of economic expansion. Still, at the current rate of growth, about 3 to 4 million jobs will be generated over the next 2 years. Job creation is particularly crucial to commercial real estate health.
- While corporate profits have surged in the past year, business spending and hiring remain low. Despite record-low borrowing conditions, many businesses are also not taking out loans. As for why businesses are not spending their profits, Dr. Yun cited concerns about over-expanding during times of low economic activity and uncertainty about future government policies.
- Another area of concern for the U.S. economy is small businesses, a major driver of new jobs. Yun said small businesses are not recovering from the downturn since small businesses

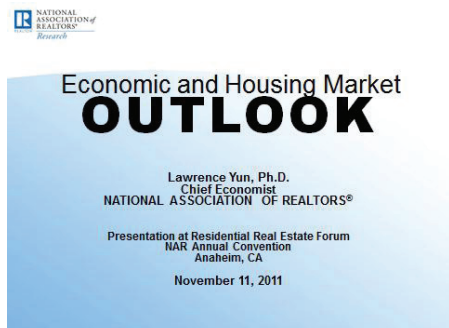


owners don't have access to startup capital since they lack large cash reserves and often use their personal savings and housing equity as a source of funding.

Foreclosure Inventory

Also available is a presentation on foreclosure inventory by Selma Hepp, Manager of Public Policy and Homeownership Research for NAR. In this presentation, Dr. Hepp explains that the inventory of distressed homes is slowly diminishing. Since March, many of the 90+ days-late loans have progressed into foreclosure inventory. But there has been improvement among new delinquencies, and the seriously delinquent inventory has fallen. Still, the size of the shadow inventory has remained largely unchanged, partly due to the robo-signing crisis that began last year.

All of these presentations, as well as other presentations by NAR Research Staff, are available at www.realtor.org/research/research/presentations_use.



Changes in Home Seller Characteristics

By Jessica Lautz, Manager, Member and Consumer Survey Research

Every year the National Association of REALTORS® surveys home buyers and sellers to gather detailed information about the home buying and selling process. These surveys provide information on buyer and seller demographics, housing characteristics and the experience of consumers in the housing market. Buyers and sellers also share information on the role that real estate professionals play in home sales transactions. NAR's Profile of Home Buyers and Sellers reports – based on results of those surveys – provide real estate professionals with insights into needs and expectations of their clients. This year's data provide valuable insight into how buyer and seller demographics have changed based on shifting market conditions. The latest **2011 NAR Profile of Home Buyers and Sellers*** was recently released. Below we highlight some of the findings of that survey report that focus on home sellers.



In the previous article about some of the major findings from the latest **NAR Profile of Home Buyers and Sellers**, I discussed some of the main differences in buyer characteristics compared to those reported in previous Profiles. For instance, there has been an increase in both buyer's ages and household income as well as an increase in the share of married buyers. Sellers, too, show interesting trends having developed on their side of the transaction. Taking a look back at the 2006 NAR Profile to compare, we see some clear changes that have taken place in the selling market that are fueling the motivations of recent home sellers.

Primary Reason for Selling Previous Home Results from the 2006 and the 2011 Profiles of Home Buyers and Sellers

(percentage distribution)

	2006	2011
Job relocation	9 %	17 %
Home is too small	19	17
Want to move closer to friends or family	9	15
Neighborhood has become less desirable	13	9
Change in family situation (e.g., marriage, birth of a child, divorce)	11	8
To avoid possible foreclosure	0	8
Home is too large	7	8
Moving due to retirement	5	7
Want to move closer to current job	10	4
Cannot afford the mortgage and other expenses of owning home	3	4
Upkeep of home is too difficult due to health or financial limitations	3	3
Other	12	0

Sources: The 2006 and 2011 NAR Profiles of Home Buyers and Sellers

The 2011 Profile reveals that sellers tend to be older, with a median age of 53 years. That is up from the median of 46 years observed in 2006. Household income is also higher. In the 2011 Profile, the household income of the most recent sellers was \$101,500, up nearly 20 percent from that reported in the 2006 Profile when the median income was just \$83,300. Family composition among sellers has also changed. The share of married couple sellers rose from 72 percent in 2006 to 77 percent in 2011, while the share of single female sellers dropped from 17 percent to 13 percent over the same time period.

The reasons why sellers are selling have also changed drastically in the last five years. The top two reasons sellers sold their home in the latest profile were cited by similar shares of survey respondents. The motivation to sell the home in order to relocate for a job was of equal importance to the need to trade-up out of a home that was too small — both accounting for 17 percent of home sellers. Looking back five years ago, the number one reason sellers sold a home was because the home was too small, cited by 19 percent of sellers, while job relocation was barely on the radar (cited by just 9 percent of home sellers). Of

* In July 2011, NAR mailed out a questionnaire survey to a random sample of 80,099 recent home buyers who purchased a home between July of 2010 and June of 2011. After accounting for undeliverable questionnaires, the survey had an adjusted response rate of 7.3 percent. Consumer names and addresses were obtained from Experian, a firm that maintains an extensive database of recent home buyers derived from county records. Information about sellers comes from those buyers who also sold a home. All information in the Profile is characteristic of the 12-month period ending June 2011, with the exception of income data, which were reported for 2010. Due to rounding and omissions for space, percentage distributions may not add up to 100 percent.

Highlights from the new 2011 NAR Profile of Home Buyers and Sellers (continued)

Method Used to Sell Home, 2001 - 2011

(percentage distribution)

	2001	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sold home using an agent or broker	79	83	82	85	84	85	84	85	88	87
For-sale-by-owner (FSBO)	13	14	14	13	12	12	13	11	9	10
Sold to home buying company	1	1	1	1	1	1	1	1	1	1
Other	7	3	3	2	3	2	2	3	3	2

Note: Prior to 2003, survey were conducted biennially

Source: The 2011 NAR Profile of Home Buyers and Sellers

course, in 2006, the survey results were not yet reflecting the tremendous job cuts that have plagued our nation for last several years. Currently, job mobility is at the top of the list of reasons why sellers move. Among home sellers aged 45 to 54, job relocation substantially outpaces all other reasons why sellers move, with 29 percent of home sellers in this age group moving for job-related reasons. Additionally, selling a home to avoid possible foreclosure has become a more frequent reason for home owners to sell their home, cited by less than one percent of sellers in 2006 but increasing to 8 percent of sellers in the 2011 Profile.

Another trend that has emerged since the housing market slowed is that home owners are staying in their homes longer than they have in the past. The typical tenure in the home is now nine years, up from six years in 2006. While nine years is the current median tenure in a home, sellers over the age of 45 remain in their homes upwards of 10 years. Sellers aged 65 to 74 typically sell after living in their home 14 years.

The good news for REALTORS® is that in this market, sellers are more wary of trying to sell their home on their own and are more likely to use the assistance

of a real estate agent or broker. This is reflected in the 2011 Profile results, which show that the share of sellers using a real estate agent or broker to sell the home has increased to 87 percent in 2011 from 79 percent in 2001. The percentage of for-sale-by-owner (FSBO) sales has declined to near record lows, with only 10 percent of sellers choosing to go this route in 2011; in 40 percent of FSBO cases, the seller and the buyer previously knew each other.

In Summary

Home selling trends have changed as we continue to deal with the ramifications of the Great Recession. Sellers are older and have higher incomes than they did previously. They have lived in their home longer and are taking their time before deciding to move. However, when they do move, their motivations for selling have changed. Sellers are increasingly likely to move because of a job relocation or because they are truly bursting at the seams in their current home. The best news for real estate professionals

is that most home sellers are relying on real estate agents to help them sell their home.

For more information

More information about the results from the latest **NAR Profile of Home Buyers and Sellers** is available on line. Visit www.realtor.org/research.

Third Quarter Local Market Reports

By Ken Fears, Manager, Regional Economics

REALTORS® know that all real estate is local and every market unique. To help REALTORS® and other housing market analysts get the most out of the plethora of data that is available, NAR Research produces a series of Local Market Reports (LMRs) which provide insights into the fundamentals and direction of the nation's largest metropolitan housing markets. Each report evaluates a number of factors affecting home prices, including:

- The health of the local job market
- Foreclosure rates
- Housing inventory
- Debt-to-income and mortgage-servicing-costs-to-income ratios

About the source data

NAR Research uses a variety of data sources in preparing the LMRs. They include:

- The Federal Reserve Bank of Philadelphia: state economic index
- The Mortgage Bankers Association of America (MBAA): foreclosure and mortgage delinquency data
- The National Association of REALTORS®: home prices and home sales statistics
- U.S. Bureau of Labor Statistics (BLS): labor statistics (establishment and household surveys)
- U.S. Census Bureau: housing permits

Every attempt is made to include the best data possible. If one data source is not available for a particular metro area, a second-best solution is substituted. For instance, the Bureau of Labor Statistics (BLS) Establishment survey does not include employment figures for all metro areas. Where this data is not available, we have substituted figures from the BLS's Household Survey.

About the reports

Each LMR has four sections.

(1) Summary of home prices and sales activity.

This section looks at home sales activity in the state where the metropolitan area is located, as well as price data. Median price change data is shown both as a level or dollar amount and as a rate of change over various time periods. (Comparing on a year-over-year basis eliminates seasonal fluctuations.) Since housing is a long-term asset, it is important to show the long-term benefits to owning housing. Hence, we have included the equity gains from housing over the long-term.



(2) Local fundamentals such as economic trends and housing demand (including employment trends if available):

The section on market fundamentals gives context to local market conditions. New employment is

a factor that creates demand for housing. Potential home buyers need a steady income stream and equity to make a purchase so this correlation is strong. However, the newly employed need time to develop the confidence and equity to make a purchase and employment can experience broad short-term swings, so we include a 3-year view.

This section also includes information from the Federal Reserve Bank of Philadelphia's economic activity index. This measure incorporates a number of state economic indicators, such as employment and gross state product into one index, which is used as a gauge of the health of a state's economy. Again, comparing the short-term with the long-term changes gives perspective on whether short-term changes are dramatic or small relative to recent trends.

(3) Trends in affordability: This section focuses on the long-term and

Chattanooga, TN

	Chattanooga	U.S.	Local Trend
Price Activity			
Current Median Home Price (2011 Q3)	\$128,700	\$169,267	Prices continue to grow relative to last year
1-year (4-quarter) Appreciation (2011 Q3)	7.2%	-4.3%	
3-year (12-quarter) Appreciation (2011 Q3)	-3.0%	-16.0%	
3-year (12-quarter) Housing Equity Gain*	-\$4,000	-\$32,233	Real estate remains a long-term investment: those who have owned for more than 3 years have seen the equity in their home grow
7-year (28 quarters) Housing Equity Gain*	\$2,900	-\$29,733	
9-year (36 quarters) Housing Equity Gain*	\$15,200	\$2,267	
*Note: Equity gain reflects price appreciation only			
Conforming Loan Limit**	\$417,000	\$729,250	Most buyers in this market have access to government-backed financing
FHA Loan Limit	\$271,050	\$417,000	
Local Median to Conforming Limit Ratio	31%	not comparable	

**Note: the 2009 loan limits for FHA and the GSEs were extended through 2010.

Seattle, WA

Local Economic Outlook	Seattle	U.S.	
12-month Job Change (Sep)	26,700	Not Comparable	Employment growth has eased, but remains positive
12-month Job Change (Aug)	35,400	Not Comparable	
36-month Job Change (Sep)	-100,400	Not Comparable	Unemployment in Seattle is better than the national average and improving
Current Unemployment Rate (Sep)	8.5%	9.1%	
Year-ago Unemployment Rate	9.1%	9.6%	Local employment growth is strong compared to other markets
1-year (12 month) Job Growth Rate	1.6%	0.8%	

Third Quarter Local Market Reports (continued)

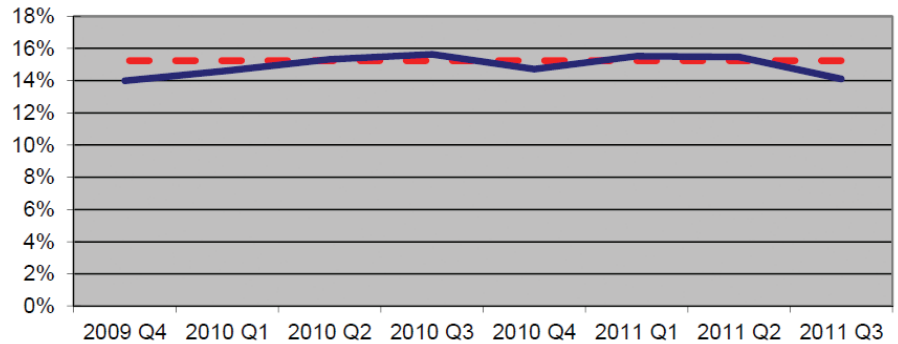
short-term changes in the monthly service cost of a mortgage (monthly payment) using the current 30-year fixed rate and the median price over a 30-year period. This calculation does not include taxes, insurance, or other expense. A measure below the historical average can suggest that a local market is in an affordable situation. In short, neither prices nor mortgage rates provide adequate justification for coloring a market as affordable or not. A buyer will run the numbers specific to his or her situation before buying.

Also included are data on the monthly mortgage servicing cost both for the long-term as well as for the most recent 6 quarters. The latter pattern shows recent dynamics whereas the former puts the recent changes into a historical context for balance. The ratio of median home price relative to median household income is also presented because it is widely cited in the media. However, this measure does not factor in the financing options available to buyers, which makes it a second-best measure of affordability.

(4) "A Closer Look": The final section of the LMRs focuses on trends that are driving the current state of the housing market. It includes data that is timely and often not reported at the local level. In some cases, local market statistics are compared with national ones as well as with historical data. The topics covered in this section change each quarter and look at statistics and trends that are shaping that particular market. Recent topics have included the local homeownership rate, shadow inventory, and renter occupancy rates. For the third quarter reports, NAR looked at trends in local vacancy rates.

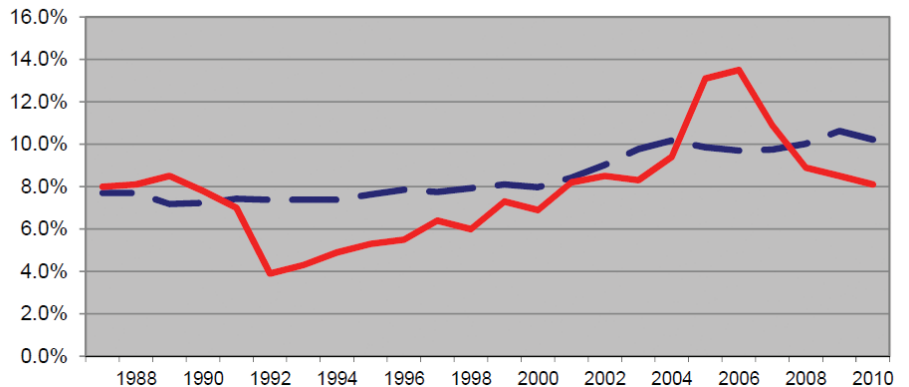
Burlington, VT

Recent Trend - Local Mortgage Servicing Cost to Income
(Historical Average Shown in Red Dashed Line)



Des Moines, IA

U.S. (blue) and Local (red) Rental Vacancy Rates



For more information

The reports are prepared every quarter for metropolitan statistical areas for which data are available. The LMRs are available in PDF format for easy downloading and reading. To access the reports, visit www.realtor.org/research/subscription_data/localmarketreports.

What's New from NAR Research: December 2011

by Meredith Dunn, Research Communications Representative

Here's a brief overview of the latest reports from NAR Research, as well as information on how you can access additional data and "insights" on the web.

Distressed Inventory Slowly Diminishing

In sizing up the inventory of distressed loans, we can see that there has been some positive change particularly among the new delinquencies. Along with the improvement among new delinquencies, the seriously delinquent inventory has fallen. Still, the size of the shadow inventory has remained largely unchanged, partly due to the robo-signing crisis that began last year.

- [Read the entire article](#)

Some Good News for North Dakota?

Home prices have risen by 60 percent in the past decade in North Dakota. That is significant wealth creation, particularly in light of the housing bust in many other parts of the country.

- [Read the entire article](#)

Latest REALTORS® Confidence Index: the Major Issues

Each month REALTORS® provide data and comments in responding to the REALTORS® Confidence Index Survey. The latest edition summarizes a number of major issues mentioned by REALTORS®, mainly focused on mortgage availability and lending standards, appraisals, and foreclosures. Of particular interest was the REALTOR® experience in the closing process: 47 percent of REALTORS® reported on-time settlements, down from the 65 to 70 percent range reported in previous months.

- [See the feature article](#)
- [Read the full survey](#)

New: Research Real Estate Review Video Series

Economist George Ratiu and Marketing and Communications Manager T.J. Doyle discusses the latest economic indicators and what they mean for REALTORS® and their businesses, including a few bright spots in home prices, retail sales, and the producer price index. However, we still have a ways to go as those bits of good news are balanced by continuing economic malaise.

- [Watch the video](#)

NAR Research and Social Media

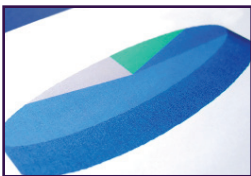
The National Association of REALTORS® has been surveying its members to find out about their use of technology such as websites and blogs for several years. NAR Research, too, has its very own Facebook group, a presence on Twitter, as well as its own blog. NAR Research's social media pages are not only places where you can gather insights into the latest surveys, commentaries and reports, but these sites are also avenues through which you can make your thoughts known to us as well as your fellow REALTORS®. There may be certain special trends in the marketplace that Research may be unaware of – such as a significant rise in foot traffic at open houses or continuing long delays in getting short sales to close. We'd like this to be an open forum for discussion rather than a one-sided monologue.

- [Find Research on Facebook](#)
- [Find Research on Twitter](#)
- [Read the Economists' Outlook Blog](#)



Residential Housing Market Data: Monthly Series

- Pending Home Sales
- Existing Home Sales
- Median Sales Prices
- Housing Affordability Index
- REALTORS® Confidence Index



Residential Housing Market Data: Quarterly Series

- Existing Home Sales by State
- Metropolitan Area Median Sales Prices
- Housing Affordability Index (quarterly and first-time homebuyer)



Commercial Market Data and Reports

- Commercial Real Estate Forecast (quarterly)
- Commercial Real Estate Outlook (quarterly)
- 2011 NAR Commercial Member Profile
- Commercial Real Estate Market Survey



Web Exclusives

- Economists' Outlook Blog
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Now available! The new 2011 NAR Profile of Home Buyers and Sellers

The newest version of our most popular Profile report is now available! **The 2011 NAR Profile of Home Buyers and Sellers** presents the latest research on characteristics of home buyers, characteristics of homes purchased, the home search process, home-buying and real estate professionals, financing the home purchase, home sellers and their selling experience, home-selling and real estate professionals, and for sale by owner sellers (FSBOs). Some of the findings:

- The typical home buyer in 2011 was older than the typical buyer in 2010 – 45 vs. 39.
- Sixty-four percent of recent home buyers were married couples—the highest share since 2001.
- The most frequently cited reason for having purchased a home was the desire to own.
- The typical home purchased was 1,900 square feet, built in 1993, and had three bedrooms and two bathrooms.
- For slightly more than a third of home buyers, the first step in the home buying process was looking online for properties.
- Buyers' use of real estate professionals has increased steadily since 2001. Nearly nine in ten buyers would use their agent again or recommend their agent to others.
- Eighty-seven percent of sellers were assisted by a real estate agent when selling their home.
- The typical FSBO home sold for considerably less than the typical agent-assisted sold home.

To obtain a hard copy or PDF version of the new **2011 NAR Profile of Home Buyers and Sellers**, visit the REALTOR.org Store at www.realtor.org/prodser.nsf/Research.

