real estate insights

October 2007

Real Intelligence – Real Advantages

In This Issue

The Long View. Housing analysts are often asked "is this a good time to invest in a home?" With housing numbers down and concerns still out there about the credit market and subprime loans, that question is a particularly popular one these days. Many would-be home buyers are being scared off of purchasing properties because of possible home price declines. And the media is fueling that fear. But in his commentary this month, NAR's Vice President of Research, Lawrence Yun, gives us "the long view" of investing in real estate. **Read more.**

Waiting room. Housing inventories are at record levels, but mortgage rates are still historically low. The subprime mess has generated concern in credit markets, but there is money out there for mortgages. Prices have dipped, but most sellers can still recoup the investment on their homes. The economy is growing, albeit not at a breakneck pace. So why hasn't the housing market turned around and why aren't buyers buying? Lawrence Yun provides us with some insights. **Read more.**

The First Wave. Data are finally in on the latest trends in foreclosures and delinquencies. Not surprisingly, default rates are on the rise. What's informative is where delinquencies and foreclosures are increasing and in which mortgage vehicles they are showing up. NAR's Manager of Regional Economics, Ken Fears, discusses the latest figures. **Read more.**

What Home Buyers Want. Home owners trying to sell their homes in the current housing "slump" are looking for help. To successfully attract buyers to even look at a property means making sure those homes have what potential buyers want. NAR's ***2007 Profile of Buyers' Home Features Preferences*** provides some details that can help REALTORS® market those homes with those characteristics. **Read more.**

Existing-home sales fell 4.3 percent in August to a seasonally adjusted annual rate of 5.50 million units. Resales were 12.8 percent below their level in August of 2006. The lower sales contributed to a build-up in unsold inventory: at the end of August there was a 10 month supply of homes available for sale. The good news for buyers: the abundant choice of homes allows them to better negotiate price and terms. The national median existing-home price was $224,500 in August, up 0.2 percent from August 2006. **Read more.**

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Real Estate Monitor

Monthly Indicator	Recent Figures		Likely Direction Over the Next Six Months	Forecast
Existing-home sales fell 4.3% in August to a seasonally adjusted annualized rate of 5.50 million units – the lowest resale pace since August 2002. The inventory of existing homes available for sale rose to a 10 month supply, its highest level since NAR began tracking it in 1999. Home prices rose a slight 0.2% from August of 2006 to a median of $224,500. While the rise in inventory is still a concern, housing market fundamentals remain strong. **Read more.**	Aug 2007 July 2007 Aug 2006	5,500 5,750 6,310	↑	August credit crunch delaying purchases to late this year and early next year
New home sales declined 8.3% in August to a seasonally adjusted annualized rate of 795,000 units. The sales pace of new homes was down 21.2% from year-ago levels. The inventory of new homes available for sale rose 7.9% to a 8.2 month supply. With tighter credit standards - particularly related to the subprime loans and jumbo loans - the demand for new homes will continue to tread on the low side over the next three months. **Read more.**	Aug 2007 July 2007 Aug 2006	795 867 1,009	↓	Fewer new homes being built and fewer to sale
Housing starts fell in August to 1.33 million seasonally adjusted annualized units – a 2.6% decline from July and 19% off the level in August 2006. Starts are down a whopping 36% from the 2005 annual figure. Housing permits posted an even a larger monthly decline of 5.9%. But all this could auger well for the future of the housing market, as the decline in new home construction lessens the inventory glut. **Read more.**	Aug 2007 July 2007 Aug 2006	1,331 1,367 1,646	↓	Already fallen a lot, but more decline is encouraged to hold down inventory
Housing affordability improved in August. NAR's Housing Affordability Index stood at 106.1 for the month – the first increase in the index since January of this year and also above the 103.1 level registered in August of 2006. Monthly decreases in some of the major components of the index – median home price, mortgage rates, and qualifying income – helped contribute to the rise in affordability. **Read more.**	Aug 2007 July 2007 Aug 2006	106.1 103.6 103.1	↑	Mortgage rates remain favorable and income is rising
Mortgage rates Average rates on 30-year fixed-rate mortgages fell in September, decreasing 0.19 basis points to 6.38%. The impact from the Federal Reserve's recent interest-rate cut of 50 basis points is expected to trickle down through the market. The one-year adjustable rate (ARM) remained virtually flat at 5.66%. **Read more.**	Sept 2007 Aug 2007 Sept 2006	6.38% 6.57% 6.41%	↔	Very favorable now and will remain that way for some time
Employment The economy created 110,000 new jobs in September, meeting or besting most analysts predictions. Additional good news: August's negative figure was revised upward to show a *gain* of 89,000 jobs. Education and health services, professional services leisure and hospitality and government sectors added to their payrolls, offsetting losses in construction, manufacturing, retailing and financial services. **Read more.**	Sept 2007 Aug 2007 12-month total	110 89 1,629	↑	Job gains to reach 130,000 per month by early next year
Economic growth posted a 3.8% rate in the second quarter. This is the third and final reading of GDP based on complete data. While any growth rate above 3% is considered solid, the rise follows several quarters of subpar growth; GDP growth measured on a year over year basis is 1.9%. Consumer spending fell, but business spending rebounded strongly. Exports also increased; the narrowing trade deficit was the biggest reason for the improving economic conditions. Read more.	2007:II 2007:I 2006:II	3.8% 0.6% 2.4%	↓	Some deceleration can be expected due to lower new home construction

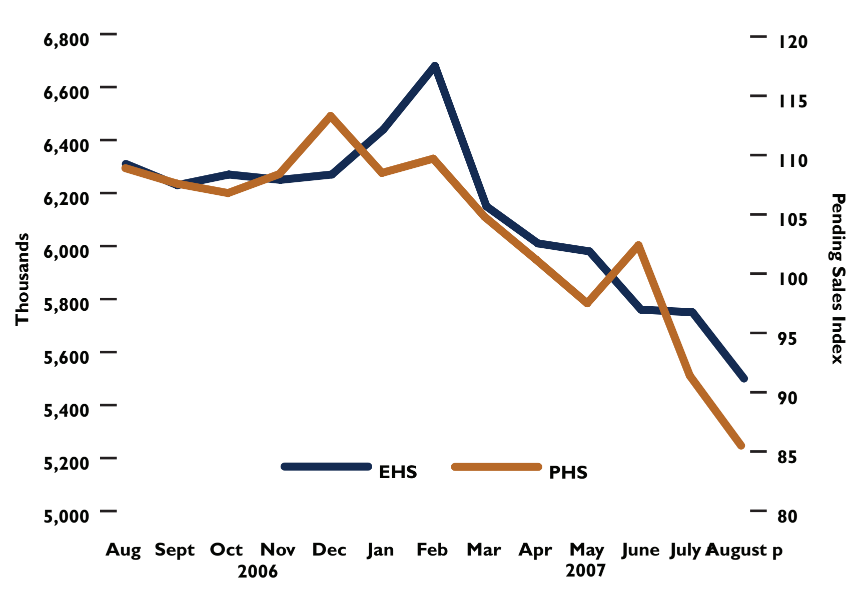
Notes: All rates are seasonally adjusted. Existing home sales, new home sales and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics and Freddie Mac. This report reflects data as of October 5, 2007. Compiled by Wannasiri Chompoopet, Ken Fears, Kevin Thorpe and Lawrence Yun.

NAR's Pending Home Sales Index

Mortgage market disruptions continue to impact the housing market. NAR's pending home sales index for August stood at 85.5 – a 6.5% decrease from July's upwardly revised level of 91.4 and 21.5% below the August 2006 index of 108.9. The Pending Home Sales Index, a leading indicator for the housing sector, 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 is finalized within one or 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. Fewer contracts were being written because of mortgage availability issues. A separate internal survey of NAR members shows more than 10 percent of sales contracts fell through at the last moment in August, primarily the result of canceled loan commitments. The impact was greater in high-cost markets that are more dependent on jumbo mortgages. In some areas, as much as 30% of signed contracts fell through in August when the credit crunch problem peaked. The problem has since become less severe, though jumbo loan rates are still higher than they would be under normal conditions. It is likely that sales activity in late fall will better reflect market fundamentals. **Read more.**

Note: Annual changes in the index are more closely related to actual market performance than are month-to-month comparisons. As the relatively new index matures and seasonal adjustment factors are refined, the month-to-month comparisons will become more meaningful.

Pending Home Sales
(existing home sales lagged by 1-2 months)



Source: NAR Research

The Long View

by Lawrence Yun, *Vice President, NAR Research*

"How much have real estate investors lost due to the housing market bust?"

That was the (highly loaded) question posed to me recently by a producer of one of the major evening news programs. The show wanted to run a story about the "pains" being felt in the market. Hmm. Well, exactly how much real pain are we talking about? Let's look at a couple of examples. An investor who bought a property in Las Vegas five years ago would be ahead by $150,000; up $200,000 in Miami. The average investor nationwide – up $54,000. Only the recent buyers (flippers) who bought last year in few specific markets would have encountered a loss.

As with any investment, look longer term. Those investing in a home and keeping it for a typical holding period of six to ten years will likely see their investment pay off.

I'm not discounting the discomfort of those who lost big, especially lenders and hedge funds who had large exposures to subprime loans. Investors in homebuilder stocks have certainly experienced pains. But nearly all real estate investors who have a reasonable holding period are doing quite fine. Some of these fortunate buyers who got into the market several years ago will still consider a modest give back as a loss without considering the large gains reaped during the housing boom. That's the nature of the human mind. A gain of $190,000 in Miami feels like a $10,000 loss considering that the gain had been $200,000.

Foreclosures are rising and construction workers are being laid off. REALTORS® are feeling the pinch as well. The median income of a typical REALTOR® has been falling due to the correction in sales transactions. However, consumers and homeowners who are in it for the long-term are once again showing to come out well ahead. Because of the power of leveraging, a $10,000 used for a down payment on a typically priced home in the U.S. at a typical home price appreciation of 5 percent will return $110,000 after 10 years. The same $10,000 invested in the stock market appreciating at 10% annual increases will result in $23,600. No wonder the data from the Federal Reserve show consistent results year-after-year of the staggering difference in net worth between homeowners and renters. A typical homeowner had $184,400 in net worth versus only $4,000 for a typical renter.

The lack of buyer confidence to enter the market has been the one principal reason in holding back home sales. Many would-be buyers are spooked of a possible home price decline. And the media is fueling that fear. Some of the most popular market gurus that offer their advice on television and other media say so. Caution is in order however. As a recent *Barron's* article pointed out, stock picks made by one such expert actually underperformed the market.

It's also important to point out that times of crisis often turn out to have been times of opportunity in hindsight. With over four million net new job additions in the past two years– the time frame during which home sales have steadily fallen – a significant pent-up demand has developed. Home sales and home prices will be higher in 2008 compared to 2007. And, as with any investment, look longer term. Those investing in a home and keeping it for a typical holding period of six to ten years will likely see their investment pay off; those homes will have been a good investment.

As for stocks, they are not the enemy of real estate. Many REALTORS® own stocks. (So do many economists!) The latest NAR research on vacation-home buyers reveals that many of them rely on stock market wealth to fund that second-home purchase. Stocks and real estate both promote the importance of private ownership.

Of course, with housing figures down, all eyes at looking to the stock market. Indeed, the stock market is at an all-time high. That's terrific in and of itself and reflects confidence in the U.S. economic outlook. Just be careful about taking specific advice from any hyper-emotional TV personality. Darts should not be thrown at publicity posters of any "mad money" host. You'll likely have just as good luck by reining in your emotions (and money) and throwing them randomly on the financial pages of your newspaper for your next stock pickings.

The Forecast

by Lawrence Yun, *Senior Forecast Economist and Vice President, NAR Research*

Several positive developments in the credit market will pave the way for improving housing market conditions going into 2008. The worst of the credit crunch concerns that we saw in August are clearly over. A bold move by the Federal Reserve in cutting the federal funds rate by 50 basis points helped liquidity. Even more importantly, the Fed's action bolstered the confidence of financial investors that the Fed will not permit a freezing of credit in the marketplace. Consequently, markets have settled down and mortgage rates are now more favorable compared to those in August.

But it's interesting to note that credit in the conforming loan market (those loans under $417,000 and those that meet the GSE guidelines) has been widely available throughout the recent crisis. It was the jumbo loan market that was particularly hard hit, with the spread over conforming loans rising to over 150 basis points, rather than the historic average of 20 to 30 basis points. The spread as of early October (as this is being written) was down to 70 basis points – still not back to normal, but at least it is moving in the right direction. Many home buyers in the high-cost regions who have been frozen out of jumbo loans will now be able to return to the market.

And the subprime market? Well, we certainly don't expect the level of subprime lending to return to where it had been a year ago. That is a good thing. While some subprime loans make sense, the vast majority of subprime borrowers likely did not know what they were getting into. Low-and-moderate income families will (and should) now look to safer FHA loans. These loans carry much more favorable interest rates and they have the infrastructure already setup for counseling and loss mitigation.

Though the credit problems appear to be over, there is an overhang that looms large that could hamper the recovery of the housing market. Inventory is high – very high. There were a record 4.58 million homes on the market at the end of August. That's a 10 month supply. But the number of total listings appear to be topping out. A significant portion of the existing supply of homes is old inventory that has been sitting for several months due to lower sales activity. If one looks only at the fresh listings, a total of 596,000 existing homes came on to the market in August. That is the lowest number of fresh listings for the month of August in eight years. The typical number of new listings reaching market over each of those eight years had been 720,000. Also keep in mind that many people still live in the homes that are listed for sale. These people are *home sellers as well as home buyers* – except for those probably few who want to move into renting. From a supply and demand point of view, it is a wash.

In spite of high inventory, home price declines have actually been in the modest single-digits for the country as a whole; more than half of the metro areas in the nation posted price gains. One principal reason underlying those price gains or minimal price losses is our fundamentally sound economy.

The bigger concern over inventory is with newly constructed homes because they are vacant. For builders, carrying a vacant home is an expensive proposition and, hence, they will be forced to provide more incentives and price cutting to attract buyers. Interestingly, the inventory of newly constructed homes has been falling for the past five months thanks to major cut backs in construction by homebuilders. Inventory looks to be further shaved based on trends from single-family housing starts (down 43% in August from two years ago) and single-family housing permits (down 46%).

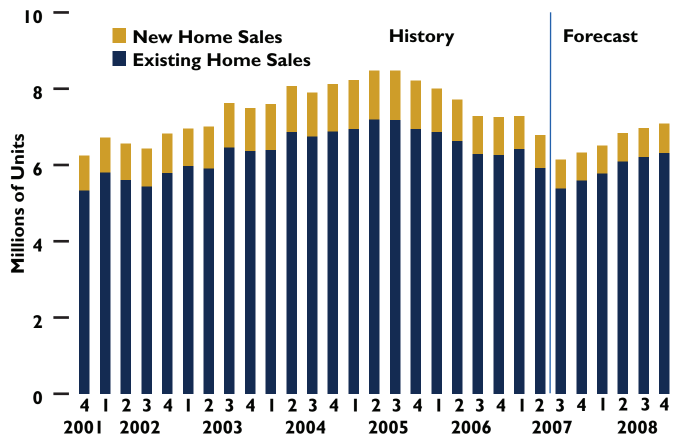
If in fact the inventory has maxed-out, then the downward pressure on home prices may not be as severe. After all, while we currently have high inventory, home price declines have actually been in the modest single-digits for the country as a whole. And some areas report price increases. In the latest NAR survey of metropolitan area home prices (through the second quarter of this year), more than half of the metro areas in the nation posted price gains - despite the high inventory.

One principal reason underlying those price gains or minimal price losses is our fundamentally sound economy. The unemployment rate is low at under 5%. Job gains continue with 110,000 additions in September on top of 89,000 job gain in August. (The initial read of August job creation showed a net loss before being revised to that 89,000 positive figure.) Over four million net new jobs have been created in the past 24 months -- the time period since home sales began to decline. Recall, the last cycle when inventory rose to comparably similar heights was back in the early 1980s and early 1990s, both corresponding to years of job cuts. The current high-inventory condition is unique in that respect and untested in history.

Based on record stock market valuation and strongly rising exports, and the fact that most of the negatives of housing have already occurred, the economy will grow a bit faster next year. More active economic activity will not necessarily mean a higher inflation. In fact, inflation is projected to decelerate – from 2.8% this year to 2.4% in 2008. That is good news because inflation will be the key in holding down rates on 30-year mortgages. The Fed interest rate cut helped with adjustable rates, home equity loans, and in lessening the burden on re-setting rates. But the Fed does not have direct control over 30-year rates. Rather it is the expectations for inflation that truly impact those rates. With inflation coming under better control, mortgage rates will remain low.

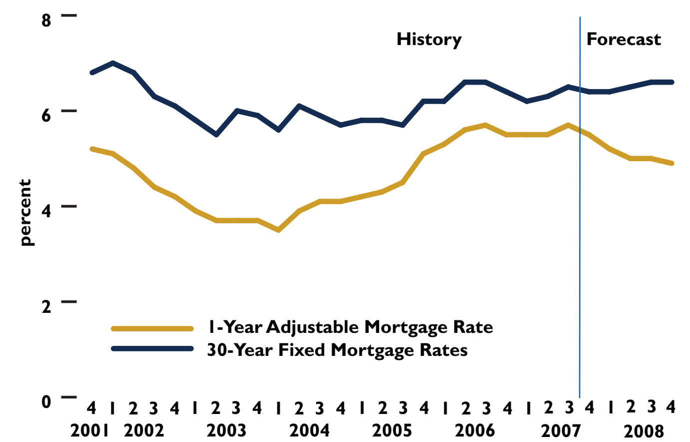
Housing figures for September and October look to be weak (we'll see those numbers well into late November), and they will reflect the lingering impact of the August credit crunch. However, the recovery is underway. 2008 will be better than 2007.

Home Sales
Getting back on track in 2008



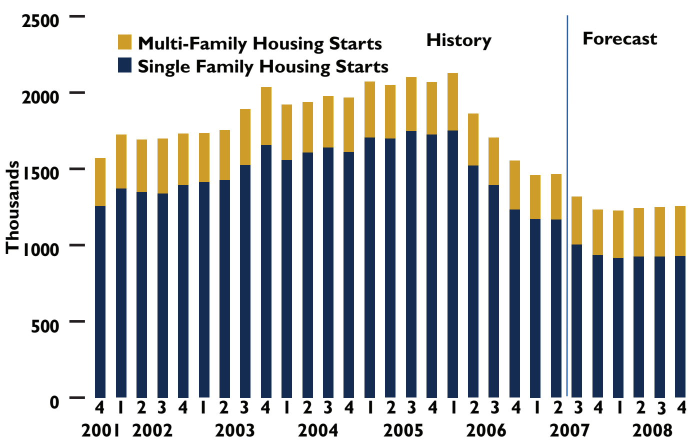
Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates
Remaining favorable for the foreseeable future



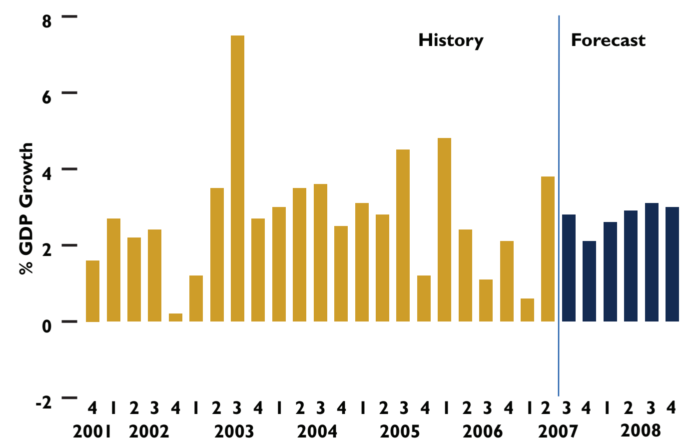
Sources: Freddie Mac, NAR Forecast

Housing Starts
Starts to remain slow until housing inventory is worked down



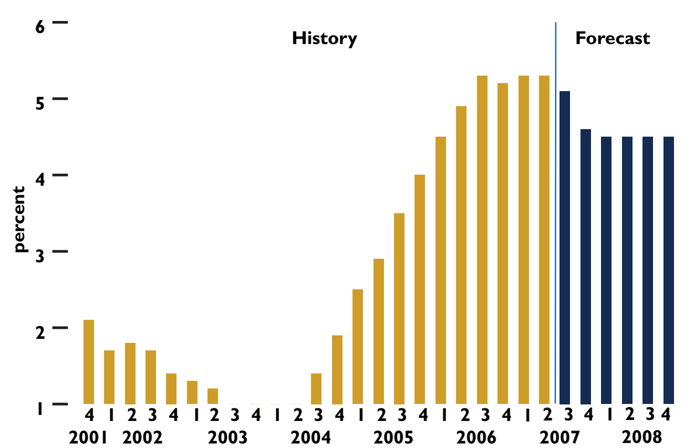
Sources: Bureau of the Census, NAR Forecast

Economic Growth
Slowing in the second half of the year, but rising in 2008



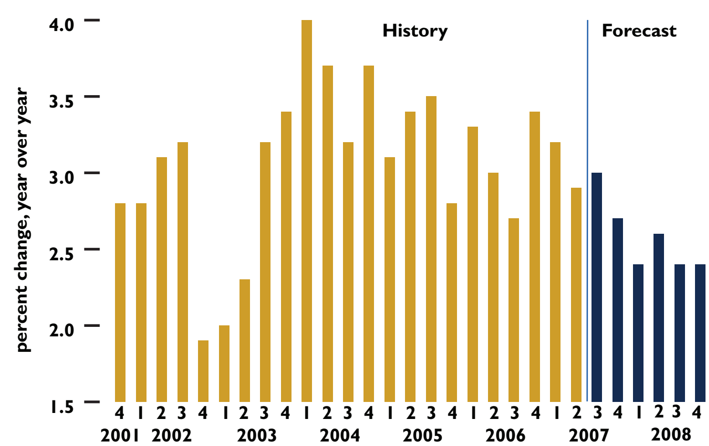
Sources: Bureau of Economic Analysis, NAR Forecast

Federal Funds Rate
Moving below 5 percent by 2008, then staying put



Sources: Federal Reserve, NAR Forecast

Growth of Consumer Spending
Concerns about fuel costs and housing wealth hamper spending



Sources: Bureau of Economic Analysis, NAR Forecast

U.S. Economic Outlook
October 2007

	2006 III	2006 IV	2007 I	2007 II	2007 III	2007 IV	2008 I	2008 II	2008 III	2008 IV	2005	2006	2007	2008
U.S. Economy														
Annual Growth Rate														
Real GDP	1.1	2.1	0.6	3.8	2.8	2.1	2.6	2.9	3.1	3.0	3.1	2.9	2.0	2.7
Nonfarm Payroll Employment	1.6	1.5	1.5	1.2	0.7	0.9	1.1	1.0	1.1	1.5	1.7	1.9	1.3	1.1
Consumer Prices	3.1	-2.1	3.8	6.0	2.2	2.1	2.1	2.2	2.4	2.2	3.4	3.2	2.8	2.4
Real Disposable Income	1.7	6.2	5.4	0.6	4.4	3.0	3.0	2.5	2.6	3.0	1.7	3.1	3.6	2.9
Consumer Confidence	104	107	110	107	106	106	107	108	109	110	100	106	107	109
Percent Unemployment	4.7	4.5	4.5	4.5	4.6	4.7	4.8	4.9	4.9	4.8	5.1	4.6	4.6	4.8
Interest Rates, Percent														
Fed Funds Rate	5.3	5.2	5.3	5.3	5.1	4.6	4.5	4.5	4.5	4.5	3.2	5.0	5.0	4.5
3-Month T-Bill Rate	4.9	4.9	5.0	4.7	4.4	4.0	4.1	4.1	4.2	4.2	3.1	4.7	4.5	4.1
Prime Rate	8.3	8.3	8.3	8.3	8.1	7.6	7.5	7.5	7.5	7.5	6.2	8.0	8.0	7.5
Corporate Aaa Bond Yield	5.7	5.4	5.4	5.6	5.7	5.8	5.9	5.9	6.0	6.1	5.2	5.6	5.6	6.0
10-Year Government Bond	4.9	4.6	4.7	4.8	4.7	4.6	4.7	4.8	4.9	4.9	4.3	4.8	4.7	4.8
30-Year Government Bond	5.0	4.7	4.8	5.0	4.9	4.8	4.9	5.0	5.0	5.1	4.6	4.9	4.9	5.0
Mortgage Rates, percent														
30-Year Fixed Rate	6.6	6.3	6.2	6.3	6.5	6.4	6.4	6.5	6.6	6.6	5.9	6.4	6.4	6.5
1-Year Adjustable	5.7	5.5	5.5	5.5	5.7	5.5	5.2	5.0	5.0	4.9	4.5	5.5	5.6	5.0
Housing Indicators														
Thousands														
Existing Home Sales*	6,287	6,263	6,423	5,917	5,376	5,587	5,781	6,089	6,215	6,318	7,076	6478	5780	6,118
New Single-Family Sales	994	986	853	868	767	737	732	748	758	770	1,283	1051	804	752
Housing Starts	1,704	1,555	1,460	1,464	1,319	1,232	1,224	1,243	1,247	1,256	2,068	1801	1,369	1,243
Single-Family Units	1,393	1,232	1,172	1,166	1,003	933	915	923	925	927	1,716	1465	1,068	922
Multifamily Units	311	323	288	299	316	299	310	320	322	329	352	336	301	320
Residential Construction**	555	529	506	491	470	448	437	435	438	441	597	570	479	438
Percent Change – Year Ago														
Existing Home Sales	-12.4	-10.1	-6.4	-10.7	-14.5	-10.8	-10.0	2.9	15.6	13.1	4.4	-8.5	-10.8	5.8
New Single-Family Sales	-23.3	-21.9	-24.6	-20.1	-22.8	-25.3	-14.2	-13.9	-1.2	4.4	6.7	-18.1	-23.5	-6.4
Housing Starts	-18.8	-24.8	-31.4	-21.3	-22.6	-20.7	-16.2	-15.1	-5.5	1.9	5.8	-12.9	-24.0	-9.2
Single-Family Units	-20.2	-28.6	-33.1	-23.3	-28.0	-24.3	-21.9	-20.8	-7.8	-0.6	6.5	-14.6	-27.1	-13.7
Multifamily Units	-11.9	-5.9	-23.3	-12.4	1.5	-7.3	7.4	7.0	2.1	9.9	2.1	-4.5	-10.6	6.6
Residential Construction	-8.5	-12.8	-16.5	-16.5	-15.4	-15.3	-13.6	-11.3	-6.8	-1.7	8.6	-4.6	-15.9	-8.6
Median Home Prices														
Thousands of Dollars														
Existing Home Prices	225.0	219.3	214.0	223.9	222.1	213.8	212.7	225.7	226.5	219.8	219.6	221.9	219.0	221.8
New Home Prices	236.2	245.1	255.9	240.2	234.1	237.0	252.1	242.9	238.1	243.6	240.9	246.5	241.4	243.9
Percent Change – Year Ago														
Existing Home Prices	-1.1	-2.7	-1.4	-1.3	-1.3	-2.5	-0.6	0.8	2.0	2.8	12.4	1.0	-1.3	1.3
New Home Prices	-0.1	2.1	4.5	-2.6	-0.9	-3.3	-1.5	1.1	1.7	2.8	9.0	2.3	-2.1	1.0
Housing Affordability Index	103	109	114	109	106	113	115	108	107	111	113	106	111	110

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.

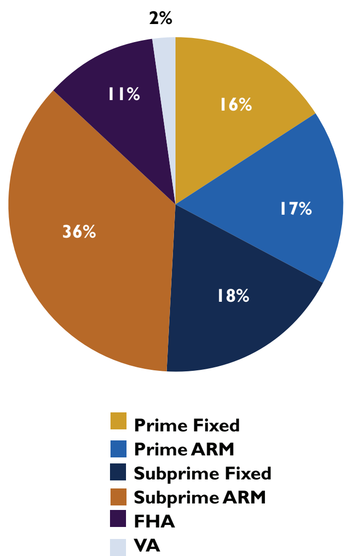
The First Sub-Prime Wave

By Ken Fears, *Manager, Regional Economics*

After months of speculation and inferential examples, quantitative evidence of rising foreclosures rates is finally available. The Mortgage Bankers Association's quarterly National Delinquency Survey provides delinquency and foreclosure rates for the four regions and all 50 states as well as a breakdown of the statistics for each of type of loan (prime, sub-prime, VHA, FHA, and total) and lending structure (adjustable-rate or fixed-rate). Not surprisingly, the latest report from the MBA shows that default rates are on the rise, and it also indicates where delinquencies and foreclosures are on the rise and in which type of mortgage vehicles they are showing up.

According to the MBA's survey for the second quarter of 2007, the national foreclosure rate was 1.40 percent – a 41.4 percent increase from the 0.99 percent reported in the second quarter of 2006. This increase was concentrated in the West where the rate surged by 133.3 percent. Rates rose in the other regions of the country as well: in the Northeast by 38.1 percent, by 31.5 percent in the South, and the Midwest by 27.7 percent. Nine states experienced an increase in their foreclosure rates nearly double those posted in the second quarter of 2006: California, Nevada, Arizona, Hawaii, Florida, Rhode Island, Virginia, New Hampshire, and Massachusetts. Not surprisingly, these states are in the same parts of the country that experienced the strongest price appreciation during the period from 2000 through the middle of 2005. As a result, housing affordability declined the sharpest in these areas and the use of risky products like interest-only, negative amortization, and adjustable rate mortgages increased.

Share of Total Mortgages in Foreclosure in the U.S.
Second Quarter, 2007



Source: Mortgage Bankers Association

The figures for the national totals can be deceiving. The vast majority of loans that are in default are from the sub-prime sector. And within the sub-prime sector, the preponderance of loans in default is adjustable rate mortgages. In fact, roughly 36 percent of all loans in foreclosure as of the second quarter of 2007 were sub-prime, ARM mortgages. As a proportion of all foreclosures *by region*, sub-prime, ARM foreclosures were highest in the West. However, as a share of the national pool of foreclosed loans, the foreclosed, sub-prime, ARM mortgages in the North-Central and the South made up 12 percent and 11 percent, respectively. Foreclosed, sub-prime, ARM loans in the West and Northeast accounted for only 9 percent and 5 percent of the total number of foreclosed mortgages in the United States. The increase in foreclosures on sub-prime ARM loans during the last 12 months was strongest in Arizona, where the foreclosure rate rocketed up 476.5 percent from the second quarter of 2006 to 3.92 percent in the second quarter of 2007. The increase in sub-prime, ARM foreclosures was widespread. Every state experienced an increase in their foreclosure rate and a total of 19 states experienced increases over this same period of roughly 100 percent or more. Because of the shear number of sub-prime, ARM loans, relative to other loans, analysts are focusing their concern on these loans.

The carnage caused by the resetting of interest rates is also evident in the prime mortgage market. In fact, the increase in the foreclosure rate on prime mortgages was higher than that for sub-prime loans in 46 states and all four regions! The increase in the foreclosure rate for all prime loans was 130 percent compared to 55 percent for the all sub-prime loans. What could have caused this strange pattern? ARMs in the prime sector. Prime ARMs account for only 17 percent of all foreclosed mortgages outstanding, but they make up more than 50 percent of all prime loans in foreclosure. Consequently, a substantial jump of foreclosures in the prime, ARM sector will cause a large increase in the figure for all prime loans. Regionally, foreclosed prime, foreclosed ARM loans are concentrated most in the West where they make up 21 percent of all loans. The share of foreclosed prime, ARM loans is under the national average of 12 percent in the Northeast (10%), South (11%), and North Central (11%).

Foreclosed prime ARM loans are much less worrisome since there are so many fewer of them and their owners are better insulated from default pressures. Furthermore, the increase in foreclosures for prime loans was from a level of just 0.41 percent in the second quarter of 2006 to 0.59 percent in the second quarter of 2007. The 55 percent increase in foreclosures on sub-prime loans was from a level of 3.56 percent in the second quarter of 2006 to 5.52 percent in the second quarter of 2007. So, while the increase of prime loans in foreclosure sounds large, its absolute value is still small.

There is one final trend that is important to consider. In some parts of the country, the foreclosure rate has fallen. Home prices in many parts of the South, including North Carolina, South Carolina, Tennessee, and Arkansas, rose at

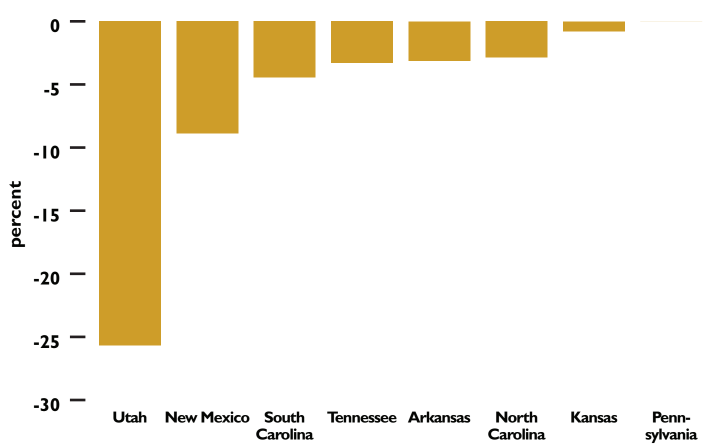
The First Sub-Prime Wave (continued)

or below the national average between 2000 and 2005. In addition, these areas are experiencing economic expansions. As a result, home sales are strong and prices robust, which is helping to prevent people from falling into delinquency. When homeowners do fall into delinquency, stable prices are enabling them to finance their way out and to avoid foreclosure. Similar patterns have been observed in some states in the West such as New Mexico and Utah.

Without a doubt, the majority of defaults are concentrated in the sub-prime ARM sector, but the ARM sector in general is feeling the fallout from rising mortgage rates. Those areas that experienced the strongest price increases from 2000 to 2005, and which were most susceptible to the decline in affordability, are taking the brunt of the declines. But the decline in affordability pushed many would-be buyers to the sidelines to wait for buying conditions to improve. The big worry about foreclosures is that they might end up aggravating the current, large supply of housing. ARM usage has been concentrated in those high priced markets where affordability fell the sharpest around 2005 and where there is pent-up demand waiting in the wings for good opportunities. The softening pace of home sales has forced many sellers to make concessions on improvements, financing, and even prices. In time, affordability will rise to a point that will draw buyers back to these bargains and sop-up excess inventory. Furthermore, many ARM holders will take advantage of new programs to refinance their loans. And, more to the point, the total number of homes in foreclosure *is small* – only 1.4 percent – and sub-prime ARMs in foreclosure only make up 0.52 percent of all loans outstanding. But, to be sure, this increase in foreclosures is only the first wave of what will be several as rates on mortgages reset over the next two years.

Change in Foreclosure Rates, Selected States

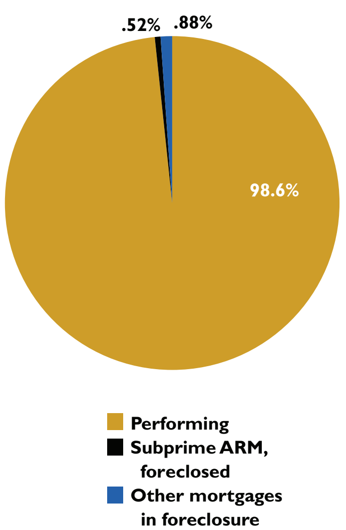
Second quarter 2006 to Second quarter 2007



Source: Mortgage Bankers Association

Performance of All Mortgages

Second quarter 2007



Source: Mortgage Bankers Association

NAR has information about how to avoid foreclosure. Its consumer mortgage education brochure, ***Learn How to Avoid Foreclosure and Keep Your Home*, is available to REALTORS® and consumers. Visit **www.REALTOR.org/subprime**, or see page 14 of this issue of ***Real Estate INSIGHTS*** for details.

What Do Home Buyers Want?

Highlights from the NAR Profile of Buyers' Home Features Preferences

By Paul C. Bishop, Harika "Anna" Barlett and Jessica Lautz, *NAR Survey Research*

Times have changed for home sellers, and the housing market isn't what it was. Sales of both existing and new home sales are down, home price appreciation has fallen from its breakneck, double-digit pace of a year ago, and the supply of homes available for sale – housing inventory – is at record levels. The mortgage market is still recovering from the subprime fallout. While owners trying to sell their homes in the current housing "doldrums" certainly face challenges, home buyers benefit from an ample supply of homes and the opportunity to find homes with features and amenities that most closely match their needs.

So how can sellers "attract" buyers to their homes. One way is to make sure that homes listed for sale offer those potential buyers the features that they really want. NAR's recent ***2007 Profile of Buyers' Home Features Preferences****** looks at those home features considered important during the search process, the presence of those desired features in the homes purchased, and in those cases when the home purchased lacks particular features, home buyers' willingness to pay extra for them. Below we present highlights from the ***Profile*** that address those issues.

Characteristics of the "Typical Home" Purchased
(Late 2005 to early 2007)

Size of home	1,840 square feet
Age of home	12 years
Type of home	Existing (previously owned)
Number of levels	2
Number of bedrooms	3
Number of full bathrooms	2
Number of half bathrooms	0
Number of fireplaces	1
Central air conditioning	Yes
Garage	Yes
Basement	Yes

Source: ***The 2007 NAR Profile of Buyers' Home Features Preferences***

Home Features Desired Most by Potential Buyers

The most desired home feature was central air conditioning, ranked "very important" by nearly three quarters of home buyers. An oversized (two-or-more car) garage, a walk-in closet in the master bedroom, and a backyard or play area were also rated as "very important" by at least half of recent home buyers.

Repeat vs. First-time Buyers. The preference for certain home features can differ based on whether a potential buyer is a repeat buyer or a first-time home purchaser. Repeat buyers placed more importance than first-time buyers on almost all home features examined, with the exception of proximity to work and a backyard or play area. The features repeat buyers were much more likely to desire than first-time buyers included oversized garages, a walk-in-closet in the master bedroom and a separate shower in the master bathroom. Buyers of new homes were also more likely than buyers of previously owned homes to consider most home features, including many luxury items, to be very important.

Regional and Location Differences. The importance buyers place on particular home features also varies by region. For example, while buyers in all regions rated central air conditioning as one of the top two most important features, it was very important to over 90 percent of buyers in the South and over 80 percent in the Midwest, compared to 41 percent in the Northeast, and 59 percent in the West. Buyers in the South also placed higher importance on newly built homes, porches, single-level homes and monitored security systems. Buyers in the West had a higher-than-average preference for lawn sprinkler systems, fencing, patios, and oversized garages. Fully or partially finished basements were more important in the Midwest, and reserved parking in the Northeast.

Buyers' preferences also differ by the location of the home purchased, mostly based on the neighborhood features. Those who purchased a home in an urban area had a higher-than-average preference for being near public transportation, reserved parking, and proximity to work. Suburban home

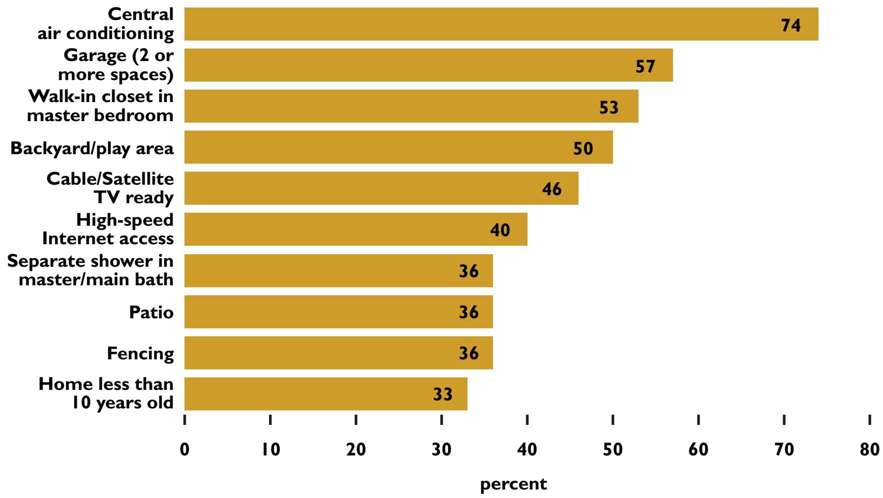
****The 2007 NAR Profile of Buyers' Home Features Preferences*** is based on a survey conducted earlier this year. The 39-question survey questionnaire was mailed to a random national sample of 40,000 home buyers who purchased a home between late 2005 and early 2007. The survey gathered information about those features that buyers considered very important when searching for a home and whether or not those features were present in the home they actually purchased.

What Do Home Buyers Want? (continued)

buyers indicated a higher preference for oversized garages, walk-in closets, and new homes. Buyers in rural areas were more likely than average to prefer wooded lots and a water treatment or filtration system.

Preferences by Age. Home feature preferences also vary by age of the home buyer. For example, among older buyers, features such as a walk-in-closet in the master bedroom and a separate shower enclosure in the master bathroom were more often viewed as very important; and a backyard or play area, and proximity to work and schools were less often considered as important among these buyers. Buyers over 44 years old had a higher preference for single-level homes than the younger buyers. Buyers aged 55 or older were more interested in homes that are cable or satellite TV ready, equipped with a lawn sprinkler system, and on a flat lot. Buyers over 64 years were more likely to prefer sidewalks and an air filtration system, and less likely to prefer fencing and porches.

Home Features ranked as "Very Important"
(percent of survey respondents)



Source: *The 2007 NAR Profile of Buyers' Home Features Preferences*

Features in the Home Actually Purchased

Home buyers consider many features as important when searching for a home, but they sometimes need to make compromises when actually purchasing a property. Among recent home buyers who considered each of the features examined as somewhat or very important, the home purchased most likely included cable-satellite TV readiness, high speed Internet access, central air conditioning, an oversized garage, and neighborhood features, such as proximity to schools, to a park or playground, and to shopping. Among the desired features least likely to be present in the home purchased were an intercom system, a water treatment or filtration system, homes with handicap accessibility features, and extra-wide doorways.

Repeat vs. First-time Buyers. There are differences on what features buyers comprised on depending on whether they are repeat purchasers or those buying their first home. Repeat buyers were more likely to purchase a home with most of their preferred features, including many luxury items. Compared to first-time buyers, they compromised most on neighborhood features, such as proximity to work, a park or playground, and public transportation. Buyers of new homes did not make many compromises on the size or luxury items, but mostly on neighborhood features.

Regional Differences. The likelihood that a preferred feature is present in the home purchased varies by region. Desired features much more likely to be present by region included intercom systems, hardwood floors, bay windows, skylights, proximity to public transportation and reserved parking in the Northeast; a water treatment or filtration system, an intercom system, and homes more than 100 years old in the Midwest; a tennis court, being near or on a golf court, porches, and a monitored security system in the South; and lawn sprinkler systems and fencing in the West. Among the desired features, the ones much less likely to be present in homes purchased in each region compared to the national average were lawn sprinkler systems, fencing, patios, and new homes in the Northeast; lawn sprinkler systems, fencing, and monitored security systems in the Midwest; proximity to public transportation, fully or partially finished basements, and intercom systems in the South; and usable/ accessible attics, wooded lots/ trees, and whirlpool baths in the West.

Age of Buyer. Recent home buyers aged 25 to 44 purchased a home with most of the features they desired. As the age of the buyer increased, the likelihood of compromises increased, particularly among those aged 65 and over, and especially on neighborhood features. For example, less than 50 percent of buyers 65 or older purchased a single level home, despite ranking this feature as important.

"Will Pay for AC"

Home buyers value some features

What Do Home Buyers Want? (continued)

so much that they reported being willing to pay more for a home if that feature was present. The most frequently reported features for which buyers would be willing to pay more included central air conditioning, walk-in closets, hardwood floors, high-end kitchen appliances, oversized garages, and patios. The least frequently mentioned features for which buyers would pay extra included homes that were more than 100 years old, a tennis court, a sloping lot, being on or near golf course, and handicap accessibility. Home buyers who purchased a home without a valued feature were willing to pay the most for a waterfront property, typically an extra $4,760; a home less than 10 years old, typically an extra $3,800; and fully or partially finished basement, typically an extra $2,970.

Among buyers who purchased homes below and above the median price, the rank ordering of the features for which they were willing to pay extra changed little. However, there were significant differences in the amounts that buyers would typically pay for some of the features. For example, buyers of homes below and above the median price were willing to pay the most for a waterfront property; but among those with homes priced below the median, the typical extra amount was $3,360 and $8,240 among those homes priced above the median. For a cul-de-sac lot, and proximity to shopping or public transportation, those buyers with above median priced homes were willing to pay almost twice as much as those with homes below the median price. For features including central vacuum, high-speed Internet access, and intercom system, there was not much difference in the extra amount these two groups of buyers were willing to pay.

Selected Features for which Home Buyers Are Willing to Pay More

	Percent willing to pay more	Median amount buyers are willing to pay for the feature
Central air conditioning	65	$1,880
Walk-in closet in master bedroom	60	870
Hardwood floors	57	1,900
High-end kitchen appliances	56	1,660
Garage for 2 or more cars	56	2,120
Patio	54	1,340
One or more fireplaces	46	1,220
Fully or partially finished basement	38	2,970
Professional landscaping	38	1,530
Close to work	35	1,970
Single-level home	21	2,510

Source: ***The 2007 NAR Profile of Buyers' Home Features Preferences***

More detailed information about other home features for which buyers are willing to pay more are available in the full report.

What Does It Mean to REALTORS® and Their Clients

The information provided in ***the Profile*** provides insights into the priorities of home buyers. For instance, sellers considering putting their home on the market may want to consider what "buyer preferred" features might be added to the home before it is listed. By so doing, the home could attract more buyer traffic, and likely increase the sales price. REALTORS® who are working with clients to sell homes can more accurately determine the "value" of each home feature and thus determine a proper listing price. The data and analysis in the ***2007 Profile of Buyers' Home Features Preferences***** is another tool for real estate professionals to use as they market their clients' homes to potential buyers.

For more highlights from the Profile, visit www.realtor.org/research and then click on "Reports by Topic" in the left-hand navigation. The full report is available for purchase by calling 1-800-874-6500; ask for item #186-75-07, or click on **www.realtor.org/prodser.nsf/OpenProd?OpenForm&IN=186-75-07.

Links to Statistical Data Series

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

Existing Home Sales – Monthly series

- **August existing home sales and median sales prices** – single-family and condominiums/co-ops
- **Single-family home sales and median sales prices**
- **Condominium/co-op sales and median sales prices**
- The latest EHS statistics in spreadsheet format available **here**

Existing Home Sales and Metropolitan Area Median Home Sales Prices – 2nd Quarter 2007

- 2nd Quarter 2007 **existing home sales by state**
- Existing home sales by state in **spreadsheet format**
- 2nd Quarter 2007 **Median Home Prices by Metropolitan Area**
  - **2nd Quarter Single-family median home prices**
  - 2nd Quarter Single-family median home prices in spreadsheet format **here**
  - **2nd Quarter Condominium/Co-op median sales price**
  - 2nd Quarter Condominium/Co-op median sales price in spreadsheet format **here**

NAR's Pending Home Sales Index

- **August pending home sales index**
- The latest pending home sales index in spreadsheet format available **here**

NAR's Housing Affordability Index

- **August HAI Index**
- August Housing Affordability Index in spreadsheet format available **here**
- Quarterly Housing Affordability Series
  - **2nd Quarter 2007 Affordability Index**
  - 2nd Quarter 2007 Affordability Index in spreadsheet format available **here**
  - **First-time homebuyer Affordability Index,** 2nd Quarter 2007
  - First-time homebuyer Affordability Index in spreadsheet format available **here**

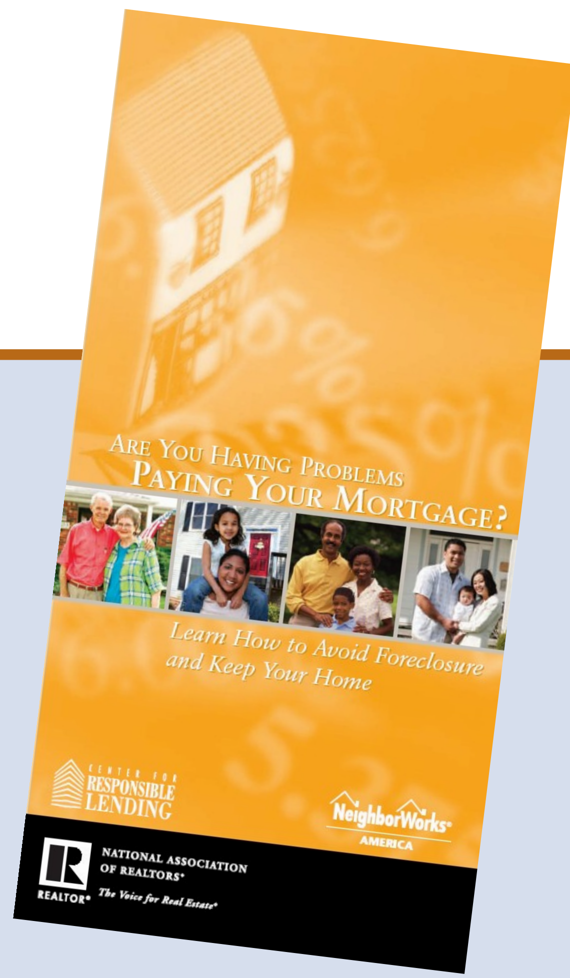
Click **here** for more details about NAR's existing home sales, pending home sales, and housing affordability index series, including methodology, links to the latest news releases, statistical release schedule, and how to access historical information.

Struggling Consumers Can Reach for a Helping Hand

It should come as no surprise that the share of subprime adjustable rate mortgages in delinquency surged in every region of the country during the second quarter of 2007. These troubling numbers mean struggling consumers who, in many cases, are trying to keep their homes from going into foreclosure.

NAR can help. Its consumer mortgage education brochure, ***Learn How to Avoid Foreclosure and Keep Your Home,*** was produced jointly by NAR, the Center for Responsible Lending, and NeighborWorks, and explains the types of mortgages that are placing families at risk, provides suggestions for getting help by talking to a REALTOR® and a reputable counseling organization, and urges borrowers to work with experts and their lender as soon as possible. The brochure lists some of the ways lenders may be willing to help borrowers avoid foreclosure, and even provides a nationwide, toll-free assistance number that consumers can call to speak with a counselor, day or night, to help them get back on track financially. The brochure is a great tool for REALTORS® as well, as they counsel new home buyers about the home buying process.

The brochure is available in packages of 50, or you can download a copy of the brochure for free.
Visit **www.REALTOR.org/Subprime**



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