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NAR Puts Housing Market in Perspective: 2007 will be the Fifth Best Year on Record

LAS VEGAS, November 13, 2007 - What a difference five years makes. That's the point made by NAR economists and practitioners in today's Economic Issues and Residential Real Estate Business Trends Forum at the National Association of Realtors® 2007 REALTORS® Conference & Expo.

In 2002, home sales set a new record at just over 5.5 million, and three-quarters of metro areas showed price gains over the previous year. At the time, home buyers were confident that the real estate market was strong and healthy. In 2007, existing-home sales are forecast to be about 5.5 million, and two-thirds of metro areas showed price gains last quarter. Both 2002 and 2007 show strong sales, and homes continue to prove a good long-term investment. But this year, public perceptions are different.

"In some ways, the extended real estate boom from 2001 to 2005 created unrealistic expectations that housing is a short-term high-yield investment," said NAR Chief Economist Lawrence Yun. "2007 will be the fifth best year for housing on record. Places like Houston, the Kansas City area, Indianapolis, and the vast middle section of the United States offer affordable prices and continued job growth. On either coast, Seattle and Raleigh, N.C., remain solid. And markets that experienced recent growth declines – like Boston, Denver, and Washington, D.C. – have already shown signs of recovery. In short, all real estate is local – conditions vary greatly from one city to the next."

Yun explained that while the recent rise in foreclosures and delinquencies has dampened consumer confidence in real estate, these problems have been concentrated in the subprime market. "For buyers who qualify for conventional financing, mortgages are available at favorable rates," said Yun. "Major FHA reform will also help first-time home buyers enter the market and will provide safer alternatives for many subprime buyers. FHA market share for home purchases is expected to triple over the next three years, from an estimated 4 percent in 2007 to an estimated 12 percent in 2009."

Responding to recent questions about the current value of homeownership, Yun said, "Buying a home is not a quick-in, quick-out investment, like buying a stock. Homeownership builds wealth over the long-term."

To illustrate his point, Yun explained that over 10 years, a \$10,000 investment in the stock market at a normal 10 percent market rate of return would yield \$23,600. The same investment as a down payment on a \$200,000 home at a normal appreciation rate of 5 percent would return nearly 5 times the stock market return, at \$110,300.

Taking the long-term perspective, John Tuccillo, former NAR chief economist and currently of John Tuccillo and Associates, reflected on recent changes in the current real estate market and outlined what likely lies ahead for the real estate industry.

“The demographics of home buying and selling are shifting significantly, away from baby boomers and toward Generations X and Y,” said Tuccillo. “Baby boomers are still fueling demand for second homes in communities across the country. However, younger generations are emerging as market forces, and their influence will change how real estate practitioners do business.”

Tuccillo explained that members of Generations X and Y focus on the bottom line. Consequently, the four elements of time, stress, convenience and service will influence these younger consumers’ perceptions of value.

“Technological mastery will become even more important, moving forward,” said Tuccillo. “Realtors® must learn to integrate new channels of communication into their businesses. As with other industries, real estate professionals must efficiently meet the needs of their clients while providing the world-class customer service to succeed.”

The National Association of Realtors®, “The Voice for Real Estate,” is America’s largest trade association, representing more than 1.3 million members involved in all aspects of residential and commercial real estate industries.

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