

2008 NATIONAL
ASSOCIATION OF
REALTORS[®]
INVESTMENT AND
VACATION HOME
BUYERS SURVEY



Produced by the NATIONAL ASSOCIATION OF REALTORS[®] Research Division

2008 NAR Investment And Vacation Home Buyers Survey

**NATIONAL ASSOCIATION OF REALTORS®
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Introduction

While most buyers purchase a home to use as their primary residence, a significant share also purchases vacation or investment properties. Because the purchase of a non-primary residence is often influenced by different factors than the purchase of a primary residence, it is important to understand how changes in the market environment affect each segment. The goal of the *NAR Investment and Vacation Home Buyers Survey* is to estimate the number of home sales that fall into each category and track how sales and prices in each vary over time.

Market Environment

The real estate market was buffeted by many forces in 2007 resulting in a substantial decline in home sales in many areas. In 2007, U.S. existing home sales fell by 12.8% to 5.652 million sales. New home sales fell even more dramatically, with a decline of 26.4% to 774 thousand units.

Several factors weighed on the market in 2007. First, a slowing economy, rising energy prices and a turbulent stock market set back consumer confidence. Second, increases in mortgage delinquencies and a rising tide of foreclosures put downward pressure on prices and sales in some communities. Finally, in areas where home prices declined, many buyers waited on the sidelines hoping to take advantage of lower prices before finalizing a purchase.

The Motivation for Purchasing a Home

Buyers have many motivations for purchasing a home. Roughly two-thirds of buyers purchase a home for use as their primary residence. The most frequently cited reasons for these purchases are job relocation, formation of a new household or changes in family circumstances necessitating a larger or smaller home or a home in a different location.

For the remaining one-third of home buyers, the motivation to purchase an investment property or vacation home is influenced by a variety of factors. Vacation home purchases are largely tied to lifestyle considerations; that is, households seek to own an additional home in a desirable destination. While the potential financial benefits as an investment are considered, the purchase of a vacation home is a discretionary choice more closely tied to the utility that households enjoy from unfettered access to a second home.

For buyers of investment properties, the potential financial gains are far more important; the purchase of a home is a dollars-and-cents decision resting in part on current cash flow from rental income and expectations of future price appreciation. As earlier surveys have documented, the increase in home sales in 2003 and 2004 was driven at least in part by investors seeking to diversify their assets and generate income.

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The Investment and Vacation Home Market in 2007

In 2007, an estimated 67 percent of homes (including both new and previously-owned homes) were purchased for use as the buyer's primary residence. This share increased from an estimated 64 percent share in 2006. The share of residential properties purchased for use as vacation homes fell to 12 percent in 2007 from an estimated 14 percent in 2006. Similarly, the share of residential investment properties fell to 21 percent from 22 percent over the same period.

Overall, the number of new and previously-owned homes fell by 14.7 percent in 2007 compared with 2006. Based on the survey results detailed above, sales of homes purchased as primary residences decreased by 10 percent in 2007 to 4.337 million. Overall, the market for primary residences was somewhat more resilient; many areas of the country posted sales gains while others saw declines. Even in a soft real estate market, households continue to purchase a first home or relocate to another home for a variety of fundamental reasons.

In contrast, both vacation home and investment property purchases declined more steeply than sales of homes for use as primary residences. Vacation home sales decreased by 30.6 percent in 2007 to 740 thousand, dropping to levels consistent with the pace of sales earlier in the decade. Potential vacation home buyers may have chosen to delay a purchase given concerns about a weakening economy and uncertainties in the financial and mortgage markets. Weakness in the market was also reflected in a 2.5 percent decline in the median price to \$195,000.

Investment property sales fell 18.1 percent to 1.349 million units in 2007, the second consecutive annual decline. The drop in investment purchases totaled more than 40 percent since peaking in 2005, no doubt a reflection of the greater difficulty in finding financially attractive investment properties to purchase in an environment of soft or negative price appreciation in some rental markets. The results suggest that the elevated level of speculative home buying between 2003 and 2005 has diminished placing the market on a more sustainable footing going forward. Overall, the median sales price was unchanged at \$150,000 in 2007.

Methodology

In March 2008, a random sample of households that had purchased any type of residential real estate during 2007 was surveyed. The survey sample was drawn from a representative panel of U.S. households monitored and maintained by an established survey research firm. A total of 1,965 qualified households responded to the survey accounting for 2,026 home purchases during 2007. Households were sampled to meet age and income quotas representative of all home buyers drawn from the *2007 NAR Profile of Home Buyers and Sellers*.

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Exhibit 1: Vacation and Investment Property Sales and Prices

	Primary Residences	Vacation Properties	Investment Properties
Share of Home Sales by Intended Use			
2003	67%	12%	22%
2004	64	11	25
2005	60	12	28
2006	64	14	22
2007	67	12	21
New and Existing Home Sales (000)			
2003	4,841	849	1,571
2004	5,106	872	2,003
2005	5,023	1,019	2,317
2006	4,816	1,067	1,646
2007	4,336	740	1,349
<i>Pct change 2006-2007</i>	-10.0	-30.6	-18.1
Median Sales Price			
2003	-	-	-
2004	-	\$190,000	\$148,000
2005	-	\$204,100	\$183,500
2006	-	\$200,000	\$150,000
2007	-	\$195,000	\$150,000
<i>Pct change 2006-2007</i>	-	-2.5	0.0

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Exhibit 2: Buyer Characteristics

	Primary Residences	Vacation Properties	Investment Properties
Buyer Age			
Under 35	42%	24%	38%
35 to 45	24	24	20
45 to 55	18	26	20
Over 55	16	26	22
<i>Median (years)</i>	38	46	42
Household Income (2007)			
Less than \$45,000	23%	7%	9%
\$45,000 to \$75,000	31	24	27
\$75,000 to \$100,000	12	19	20
More than \$100,000	35	49	44
<i>Median</i>	\$71,700	\$99,100	\$92,900
Number of Household Income Earners			
None	3%	3%	4%
One	39	25	30
Two	54	67	60
Three or more	3	5	6
Household Composition			
Married couple	68%	81%	76%
Single female	12	4	8
Single male	9	11	8
Unmarried couple	9	3	5
Other	2	1	2
Number of Children Under 18			
None	45%	41%	39%
One	25	24	22
Two	21	22	23
Three or more	10	13	16
Racial/Ethnic Background			
White/Caucasian	84%	81%	74%
Black/African American	8	10	13
Hispanic/Latino	6	5	6
Asian/Pacific Islander	5	6	10
Other	1	1	2

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Exhibit 3: Property Characteristics

	Primary Residences	Vacation Properties	Investment Properties
Location of Property			
Small town	18%	17%	21%
Rural area	18	30	15
Suburb/Subdivision	47	20	39
Urban area/Central City	16	14	20
Resort area	*	20	5
Region of Home Purchase			
Northeast	22%	19%	23%
Midwest	24	16	19
South	34	41	38
West	21	24	21
Type of Property			
Detached single-family	80%	59%	61%
Condo/duplex in building with 2 to 4 units	7	17	11
Condo/apartment in building with 5 or more units	4	12	9
Townhouse or row house	5	7	11
Other	3	5	8
New or Existing Home			
New	-	35%	29%
Existing	-	65	71
Distance from Primary Residence			
5 miles or less	-	4%	16%
6 to 10 miles	-	2	11
11 to 15 miles	-	*	8
16 to 20 miles	-	4	13
21 to 50 miles	-	7	15
51 to 100 miles	-	18	10
101 to 500 miles	-	30	12
501 to 1,000 miles	-	12	6
1,001 miles or more	-	22	10
<i>Median (miles)</i>		287	27

* Less than one percent

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Exhibit 4: Method of Purchase and Financing

	Primary Residences	Vacation Properties	Investment Properties
Purchase Method			
Through a real estate agent or broker	65%	53%	52%
Foreclosure or trustee sale	3	5	12
Directly from owner whom the buyer knew	9	15	15
Directly from owner whom the buyer didn't know	8	13	10
Directly from builder or builder's agent	12	6	4
Auction	*	5	4
1031 Exchange	*	1	1
Other	3	2	2
Mortgage Financing			
Used a mortgage	-	70%	63%
Did not use a mortgage	-	28	35
Don't know	-	2	2

* Less than one percent

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Exhibit 5: Buyer Motivation and Expectations

	Primary Residences	Vacation Properties	Investment Properties
Reasons for Purchasing Home	-		
To use for vacations or as a family retreat	-	84%	21%
To rent to others	-	25	51
To diversify investments/Good investment opportunity	-	26	39
To use as principal residence in the future	-	30	10
For a family member, friend or relative	-	14	16
For the tax benefits	-	16	11
Because the buyer had extra money to spend	-	6	4
Other	-	4	4
Length of Time Buyer Plans to Own Property			
Have already sold this property	-	1%	5%
Less than 1 year	-	2	10
1 to less than 3 years	-	13	18
3 to less than 6 years	-	12	19
6 to less than 11 years	-	13	11
11 or more years	-	38	18
Don't know	-	21	20
<i>Median</i>	-	10	4
Likelihood of Buying Vacation or Investment Property in Next 2 Years			
Very likely	15%	16%	21%
Somewhat likely	29	28	36
Somewhat unlikely	12	16	11
Very unlikely	37	28	20
Don't know	7	12	13
Now is Good Time to Purchase Real Estate			
Good time to purchase	59%	77%	80%
Not a good time to purchase	29	16	13
Don't know	12	8	8