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## **Second-Home Sales Accounted For One-Third of Transactions in 2007**

The combined total of vacation- and investment-home sales declined with the overall market in 2007, but still accounted for 33 percent of all existing- and new-home sales, which is close to historic norms, according to the National Association of REALTORS® (NAR).

The market share of homes purchased for investment last year was 21 percent, down from 22 percent in 2006, while another 12 percent were vacation homes, compared with a 14 percent market share in 2006. The total share of second homes declined from 36 percent of transactions in 2006.

NAR's annual Investment and Vacation Home Buyers Survey shows vacation-home sales dropped 30.6 percent to 740,000 in 2007 from a record 1.07 million in 2006, while investment-home sales fell 18.1 percent to 1.35 million last year from 1.65 million in 2006. At the same time, primary residence sales declined 10.0 percent to 4.34 million in 2007 from 4.82 million in 2006.

Lawrence Yun, NAR chief economist, said the findings suggest different cycles for each of the sectors over the past two years. "Investment-home sales declined sharply in 2006 as speculators disappeared, leaving the market to serious buyers, with the pattern continuing in 2007," he said. "Vacation-home sales rose to a new record in 2006 because there was a pent-up demand from buyers who couldn't find a property as a result of tight supplies in preceding years." The overall sales decline in 2007 resulted from a combination of factors. "Certainly, second homes are discretionary purchases and there is a natural tendency to pull back from big-ticket items in periods of uncertainty," Yun said.

Yun said lifestyle factors and strong demographics remain positive for the vacation home market. "Investment considerations are secondary for vacation-home buyers, so there is some dormant underlying demand," he said. "A peak of population is moving through the prime years for buying recreational property. It is welcoming to see investment sales returning to pre-boom sales activity."

The median price of a vacation home was \$195,000 in 2007, down 2.5 percent from \$200,000 in 2006. The typical investment property cost \$150,000 last year, unchanged from 2006.

Fifty-nine percent of vacation homes purchased in 2007 were detached single-family homes, 29 percent condos, 7 percent townhouses or rowhouses, and 5 percent other. In 2006, single family homes accounted for 67 percent of vacation-home sales, while condos were 21 percent.

There were no significant changes in investment housing types. Sixty-one percent of investment homes purchased in 2007 were detached single-family homes, 20 percent condos, 11 percent townhouses or rowhouses, and 8 percent other. Twenty-eight percent of vacation-home buyers paid cash for their property, as did 35 percent of investment buyers.

Sixty-five percent of vacation-home buyers and 71 percent of investment-home buyers purchased existing homes, while the remainder purchased new homes.

The typical vacation-home buyer in 2007 was 46 years old, had a median household income of \$99,100, and purchased a property that was a median of 287 miles from their primary residence.

In listing the reasons for purchasing a vacation home, 84 percent of buyers wanted to use the home for vacation or as a family retreat; 30 percent to use as a primary residence in the future; 26 percent to diversify investments; 25 percent to rent to others; 16 percent for the tax benefits; 14 percent for use by a family member, friend or relative; and 6 percent because they had extra money to spend.

Last year, 19 percent of vacation homes were purchased in the Northeast, 16 percent in the Midwest, 41 percent in the South and 24 percent in the West. In terms of location, 30 percent of vacation homes were purchased in rural areas, 20 percent in resorts, 20 percent in a suburb and 14 percent in an urban area or central city.

Investment-home buyers last year had a median age of 42, earned an income of \$92,900, and bought a home that was relatively close to their primary residence - a median distance of 27 miles.

When asked about the most important reasons for their purchase of an investment home, 51 percent said to provide rental income; 39 percent to diversify investments; 21 percent to use for vacations or as a family retreat; 16 percent for use by a family member, friend or relative; 11 percent for tax benefits; 10 percent to use as a primary residence in the future; and 4 percent because they had extra money to spend.

Twenty-three percent of investment properties purchased in 2007 were in the Northeast, 19 percent in the Midwest, 38 percent in the South and 21 percent in the West.

Thirty-nine percent of investment homes were purchased in a suburb and another 20 percent in an urban or central city area, 21 percent in a small town, 15 percent in a rural area, and 5 percent in a resort area.

Vacation-home buyers plan to keep their property for a median of 10 years; 38 percent plan to keep their vacation home for 11 years or more. Investment buyers plan to hold their property for a median of four years, with 29 percent planning to keep for six years or more. However, 10 percent of investment buyers plan to sell in one year or less.

Eight in 10 second-home buyers consider it a good time to invest in real estate, compared with 59 percent of primary residence buyers. Forty-four percent of vacation-home buyers and 57 percent of investment buyers said they were likely to purchase another property within two years.

Written by Realty Times Staff