

real estate insights

February 2007

Real Intelligence –
Real Advantages

In This Issue

Existing-home sales – including single-family, townhomes, condominiums and co-ops – posted a seasonally adjusted annual rate of 6.22 million units in December. Resales eased 0.8 percent from a level of 6.27 million in November and were 7.9 percent lower than in December 2005. NAR reports that for all of 2006, 6,480,000 existing-homes were sold, an 8.4 percent decrease from 2005, but still the third highest level on record. Buyers are responding to historically low interest rates and competitive pricing by home sellers. Total housing inventory levels fell 7.9 percent at the end of December to a 6.8-month supply at the current sales pace. The national median existing-home price for all housing types was \$222,000 in December, unchanged from December 2005. **Read more.**

They “get it” – and that’s good. Fed Chairman Ben Bernanke celebrates a year on the job. And under his leadership, the Federal Reserve Board of Governors has been treading the “interest-rate” road carefully, and that bodes well for housing in the future. In his commentary this month, NAR Chief Economist David Lereah looks at Chairman Bernanke’s first year at the Fed and how the Fed’s actions on interest rates will affect housing markets. **Read more.**

Keep banks out of real estate. NAR continues its efforts to support the separation of banking and commerce. And those efforts are bearing fruit: both houses of Congress are considering legislation that would prevent a regulatory change that would allow banks to conduct real estate brokerage activity. For an update on some of the consequences that could result from such a change, see the *In Focus* feature this month on page 8. **Read more.**

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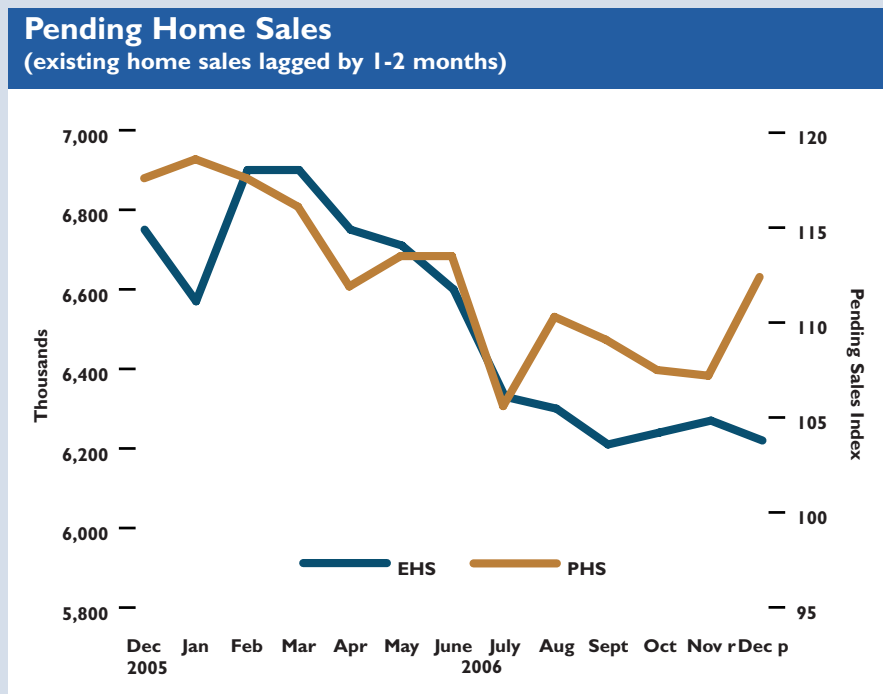
Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing home sales declined 0.8% in December to post 6.22 million units (seasonally adjusted annualized rate). The inventory of homes on the market fell to a 6.8-months supply – the lowest level in six months and very close to what is considered a balanced market. The national median sales price was \$222,000 in December – the same as a year ago. Read more.</p>	Dec 06 6,220 Nov 06 6,270 Dec 05 6,750		Bottom already hit and poised to rise
<p>New home sales posted 1.12 million units in December (seasonally adjusted annualized rate) – a 4.8% increase from November and the fourth monthly increase in the past five months. The inventory of unsold new homes fell for the fifth straight month, and is now at a 5.9 months supply. Read more.</p>	Dec 06 1,120 Nov 06 1,069 Dec 05 1,259		Fewer new homes available for sale and builders providing less “incentives” than before
<p>Housing starts rose for the second straight month after declining for most of 2006. In December, 1.64 million starts were recorded – a 4.5% rise from November. Housing starts are now 18% lower from a year ago. Unusually warm winter weather may have played a role in raising starts. Read more.</p>	Dec 06 1,642 Nov 06 1,572 Dec 05 2,002		Builders are cautious after having just experienced boom-to-slump cycle
<p>Housing affordability NAR’s housing affordability index slipped 1.4% in December to a level of 109.2. The decline was due primarily to an increase in the median home price and a slight rise in the income necessary to qualify for a 30-year fixed-rate mortgage. Read more.</p>	Dec 06 109.6 Nov 06 110.7 Dec 05 107.2		Wages are rising at the fastest pace since early 2001
<p>Mortgage rates inched up 8 basis points in January. The 30-year fixed mortgage rate last month averaged 6.22%. Rates are expected to rise and hover around mid 6% though the year. Read more.</p>	Jan 07 6.22% Dec 06 6.14% Jan 06 6.15%		Nothing alarming but will be about 1/2 percentage point higher by the year end
<p>Purchase applications The Mortgage Bankers Association purchase application index surged to its highest level in 12 months to 438.4. An unusually warm winter and a generally more optimistic real estate outlook for some local markets fueled housing activity, with many buyers sensing that their market has “bottomed out.” Read more.</p>	Jan 07 438.4 Dec 06 424.8 Jan 06 452.7		Modestly higher due to rising existing home sales, which make up 85% of total home sales
<p>Employment Payroll employment rose by 111,000 in January. The latest three-month average gain of 171,000 is a very respectable rate of growth. In the past 12 months, 2.15 million jobs have been added to the economy. The unemployment rate was 4.6% – a level that is considered as being in or even below “full employment.” Read more.</p>	Jan 07 111 Dec 06 206 Jan 06 206		Steady job expansion at about 150,000 per month
<p>Inflation The Consumer Price Index (CPI) increased 0.5 percent in December. The core index – which excludes the food and energy components – rose 0.2 percent. The increase was due primarily to upturns in prices for apparel and tobacco/smoking products. All in all, the December index was 2.5 percent higher than that in December 2005. Read more.</p>	Dec 06 0.5% Nov 06 0.0% Dec 05 -0.1%		Decelerating and moving into the comfort zone of 2% to 2.5% inflation rate

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. Inflation is shown as a month-to-month percent change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Mortgage Bankers Association and Freddie Mac. This report reflects data as of February 2, 2007. Compiled by Wannasiri Chompoopet, Ken Fears, Kevin Thorpe and Lawrence Yun.

NAR's Pending Home Sales Index

Pending home sales were higher in December. NAR's pending home sales index -- a leading indicator of the housing market -- rose 4.9 percent to 112.4. November's index was revised upward to 107.2. The monthly gain was the biggest increase since March 2004 when the index rose 6.9 percent. A sale is listed as pending when the contract has been signed and the transaction has not closed, but the sale 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, the first year to be examined and the first of five consecutive record years for existing-home sales. December's index affirms that stabilization is occurring in home sales. In addition, the rise in the index was broad based, with all regions showing an increase. [Read more.](#)



Source: NAR Research

The Fed "Gets It" – and That's Good!

by David Lereah, *Chief Economist*

Federal Reserve Chairman, Ben Bernanke, gets high marks in his first year as the leader of our nation's central bank. In 2006 he faced a retreating housing market, a weakening auto industry and gyrating energy prices – all threatening to short-circuit economic activity. From a housing perspective, Bernanke's Fed made the right decisions at the right times.

Looking back, Bernanke had a hard act to follow. Former Fed Chairman, Alan Greenspan, masterfully captained the Fed for 18 years. Greenspan became a household name around the globe and dominated the decision-making of the Fed's Federal Open Market Committee (FOMC). But from my vantage point, the Federal Reserve today under Bernanke's leadership is more open and less mysterious. Bernanke has encouraged his fellow Governors to participate in the decision-making process on monetary policy which ultimately affects interest-rate direction. The other Fed Governors are also more vocal with their own views in public – in contrast to the public perception of Greenspan being the only voice of the Federal Reserve.

Bernanke's Fed has held the Federal Funds rate steady at 5.25 percent for the past five FOMC meetings. That is good news for the housing markets. Bernanke gets it, and so does the Fed: our nation's housing sector is still vulnerable to a larger downturn if interest rates climb. The housing markets in California, Florida, Las Vegas, Phoenix and other major metropolitan areas across the nation, accounting for about 25 percent of U.S. housing markets, continue to be fragile and extremely interest-rate sensitive. These markets possess a disproportionate share of interest-only and negative amortization mortgage loans. The market calls them "exotic" loans, and by some estimates almost \$1 trillion worth of these loans will be re-pricing within the next twelve months. For some struggling households, their mortgage loan rates will rise by at least two percentage points, raising monthly payments to unaffordable levels. Foreclosures and delinquency rates are beginning to rise in these areas and promise to rise even further as these exotic mortgage loans re-set. A meaningful rise in foreclosures in a local market usually debilitates a local economy, resulting in job losses, which in turn inhibits future home buying.

So it is important that the Fed does not add fuel to feed this fire. Those higher mortgage loan rate re-sets are already on the way. If the Fed raises interest rates further, it would exasperate the already growing foreclosure problem. But Chairman Bernanke has earned high marks in this area. The Fed has held rates steady – the right thing to do at this time given the fragili-

The Fed has held rates steady – the right thing to do at this time given the fragility of some of the nation's major housing markets.

ty of some of the nation's major housing markets.

From a national perspective, the housing market experienced a recession in 2006, evidenced by an 8.2 percent drop in existing-home sales. The good news? According to our most recent data, it is likely that the worst is over for the nation. The National Association of REALTORS® forecasts only a 1.2 percent drop in existing-home sales for 2007. And it's time I said it again: *a national bubble never burst in housing.* In fact, since the Great Depression, the

nation has never experienced a national price decline. Price appreciation registered a positive 1.3 percent last year. We are expecting a 1.4 percent rise in existing-home prices this year.

But from a Federal Reserve perspective, the news that three quarters of our nation's housing markets are recovering this year is not good enough. One quarter of our markets continue to be fragile and vulnerable to higher interest rates. Time promises to heal these wounds. As time goes by, wages and incomes will rise and home prices will either fall or stay flat in these fragile housing markets, improving affordability conditions. In the meantime, a neutral Federal Reserve is just what the doctor ordered. Chairman Bernanke and the other Governors of our central bank get it. And we are glad they do.

THE FORECAST

by Lawrence Yun, Senior Forecast Economist

Despite all the news headlines over the past year about the housing market bubble and housing market slump, the final figures for 2006 actually look quite respectable. Home prices squeaked out a gain of 1.1% for the year. That would mark 39 straight years of positive home price growth out of 39 years of reliable tracking of the data. Existing-home sales in 2006 posted 6.48 million units – an 8.4% decline from 2005, but still the third best year on record. The more cyclical new home sales fell by 17.3% to 1.06 million in 2006 for the fourth best year on record. All in all, not that bad.

With the economy and job market performing nicely, 2007 will likely

bring another respectable housing year. The number of existing-home sales will essentially match that of last year and home prices again will squeeze out a gain. As for the new home construction sector, the jury is still out. There are few additional months of adjustment left we need to wait for the high inventory of new homes to trim down before builders start to increase production.

The latest fourth quarter economic expansion was much stronger than anticipated. GDP grew by 3.5% in the fourth quarter of 2006 – compared to the 2.4% originally forecast. The job market also is stronger. A regular once-a-year benchmark revision by the Labor Department shows that it had undercounted payroll employment by three quarters of a million people for most of 2006. That's almost like saying that all of the jobs in the Super-Bowl celebrating Indianapolis area were left out of the original count and are only now being added to the official figures.

The current unemployment rate of 4.6% and the 2.15 million net new job additions over the past 12 months are both indications that the state of the U.S. economy is all fine and good. Record stock market and record housing market valuations also lifted the aggregate U.S. household net worth to \$54 trillion – the highest ever. That is five times as high as the U.S. annual consumption.

Record stock market and record housing market valuations have lifted the aggregate U.S. household net worth to \$54 trillion – the highest ever and five times as high as U.S. annual consumption.

In another words, we have enough wealth to buy the same amount of things and maintain the same standard of living for the next five years without even bothering to work.

But the U.S. will be working. It is part of the American spirit to

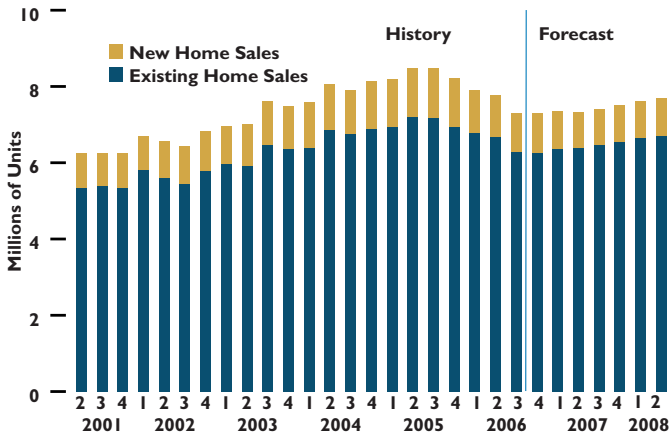
want to accumulate even more wealth. One particular sector that will be busy is companies involved in exports. U.S. exports have increased significantly in the past year and were the prime reason for the robust fourth quarter GDP growth. And while the dollar has been on a steady decline since peaking in 2002, a weaker dollar helps those exports since a weaker dollar means U.S.-made products are cheaper abroad. There is generally a long several-year lag time before exports actually kick-in from the fall in the dollar, but it looks like we have already reached that point. Exports grew by 12.5% in 2006, and will again one of the key drivers of the economy in 2007. From Peoria (Caterpillar earth moving equipment) to Seattle (Boeing aircraft), companies producing exportable products will make significant gains.

Job additions overall should be close to two million in 2007. With mortgage rates projected to remain favorable

throughout 2007 (averaging 6.6%), the two million new jobs would typically lead to 250,000-350,000 more home sales. But we are still in an atypical year with a high housing inventory overhang brought on by the exit of investors/speculators. The inventory needs to thin out before the housing market revs back up to cruising speed. Home sales are, therefore, projected to not increase in 2007. But come 2008 and beyond, a steady 3% to 5% increase in home sales will be the norm. Home prices by then will also begin to outpace CPI inflation growth. Housing will again prove it can provide attractive long-term investment returns.

Home Sales

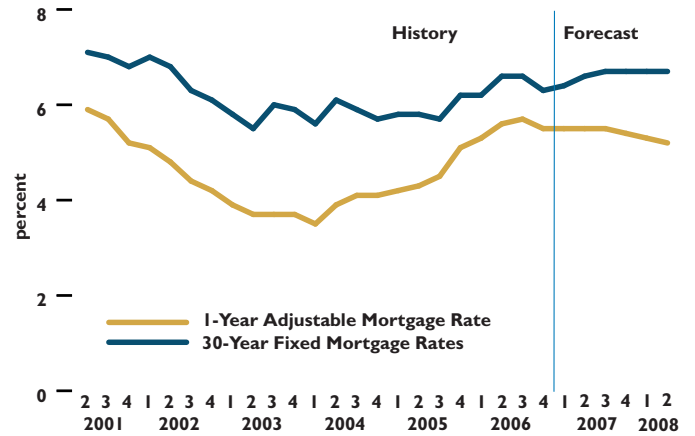
Despite slowdown, 2006 still the third best year ever



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

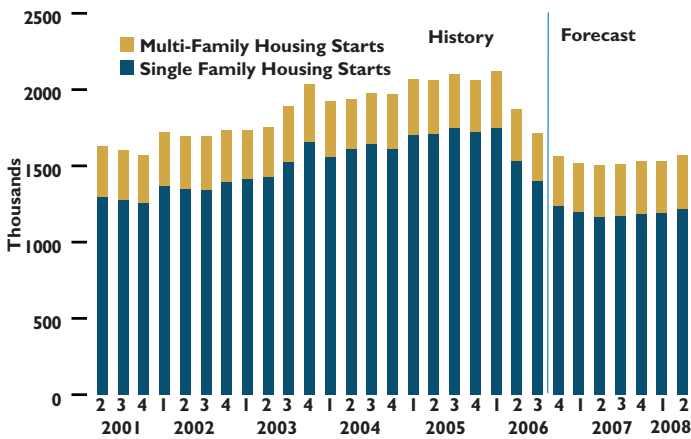
Rising slightly, then flattening out



Sources: Freddie Mac, NAR Forecast

Housing Starts

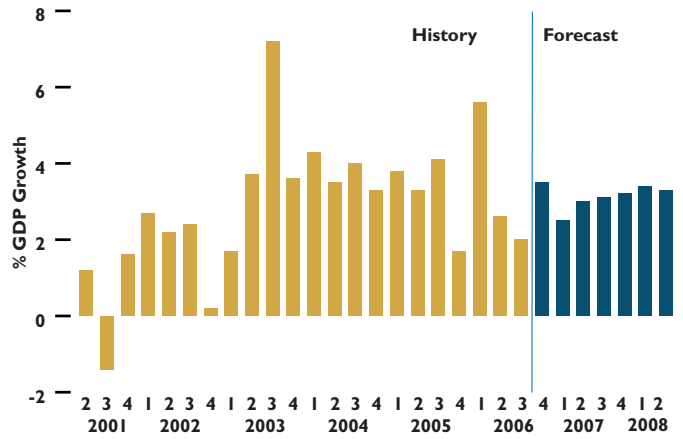
Inventory needs to be "thinned out"



Sources: Bureau of the Census, NAR Forecast

Economic Growth

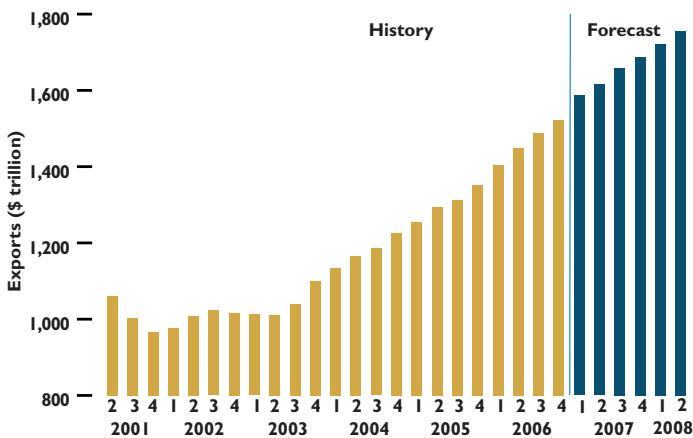
Steady as she goes



Sources: Bureau of Economic Analysis, NAR Forecast

U.S. Exports

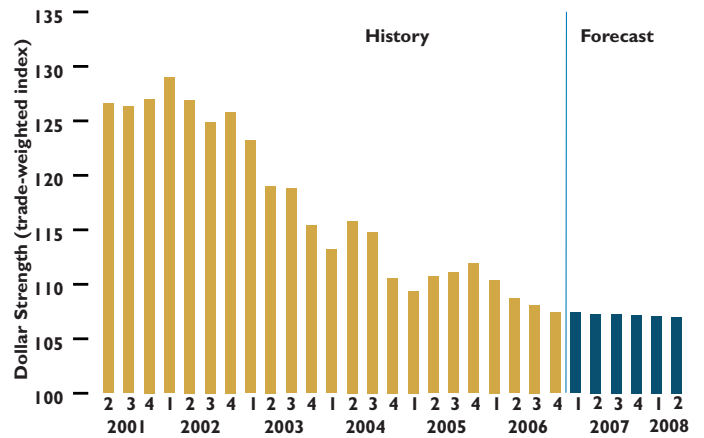
U.S.-made products less expensive for foreign buyers



Sources: Bureau of Economic Analysis, NAR Forecast

U.S. Dollar

Weaker dollar (vs. foreign currencies) help drive U.S. exports



Sources: Federal Reserve, NAR forecast

U.S. ECONOMIC OUTLOOK

February 2007

	2006				2007				2008		2005	2006	2007	2008
	I	II	III	IV	I	II	III	IV	I	II				
U.S. Economy														
<i>Annual Growth Rate</i>														
Real GDP	5.6	2.6	2.0	3.5	2.5	3.0	3.1	3.2	3.4	3.3	3.2	3.4	2.8	3.2
Nonfarm Payroll Employment	2.2	1.5	1.6	1.5	1.3	1.3	1.6	1.2	1.4	1.5	1.7	1.9	1.4	1.4
Consumer Prices	2.2	5.0	2.9	-2.2	3.1	2.6	2.7	2.4	2.6	2.7	3.4	3.2	2.0	2.6
Real Disposable Income	4.6	-1.5	4.1	5.4	4.7	2.9	3.1	2.9	3.8	3.1	1.2	2.7	3.7	3.2
Consumer Confidence	106	107	104	107	109	107	107	106	108	110	100	106	107	108
Percent Unemployment	4.7	4.7	4.7	4.5	4.6	4.7	4.8	4.8	4.8	4.7	5.1	4.6	4.7	4.8
<i>Interest Rates, Percent</i>														
Fed Funds Rate	4.5	4.9	5.3	5.2	5.3	5.3	5.3	5.3	5.0	4.8	3.2	5.0	5.3	4.8
3-Month T-Bill Rate	4.4	4.7	4.9	4.9	5.0	5.0	5.0	4.9	4.7	4.5	3.1	4.7	5.0	4.6
Prime Rate	7.4	7.9	8.3	8.2	8.3	8.3	8.3	8.3	8.0	7.8	6.2	8.0	8.3	7.8
Corporate Aaa Bond Yield	5.4	5.9	5.7	5.4	5.6	5.8	5.9	6.0	6.0	6.0	5.2	5.6	5.8	6.0
10-Year Government Bond	4.6	5.1	4.9	4.6	4.8	4.9	5.0	5.0	5.0	5.0	4.3	4.8	4.9	5.0
30-Year Government Bond	4.6	5.1	5.0	4.7	5.0	5.1	5.2	5.3	5.3	5.2	4.6	4.9	5.1	5.3
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	6.2	6.6	6.6	6.3	6.4	6.6	6.7	6.7	6.7	6.7	5.9	6.4	6.6	6.7
1-Year Adjustable	5.3	5.6	5.7	5.5	5.5	5.5	5.5	5.4	5.3	5.2	4.5	5.5	5.5	5.2
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	6,790	6,687	6,280	6,243	6,354	6,373	6,466	6,550	6,639	6,706	7,075	6,480	6,436	6,635
New Single-Family Sales	1,111	1,100	1,007	1,061	988	954	944	959	970	976	1,283	1,061	961	971
Housing Starts	2,123	1,873	1,714	1,564	1,518	1,500	1,510	1,530	1,533	1,567	2,068	1,801	1,515	1,562
Single-Family Units	1,747	1,530	1,401	1,233	1,196	1,165	1,168	1,186	1,188	1,219	1,716	1,464	1,179	1,216
Multifamily Units	376	343	313	331	322	335	343	344	345	348	352	337	336	346
Residential Construction**	619	601	570	541	514	503	500	504	509	515	608	583	505	518
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	-2.2	-7.0	-12.5	-10.1	-6.4	-4.7	3.0	4.9	4.5	5.2	9.8	-8.4	-0.7	3.1
New Single-Family Sales	-11.5	-14.3	-22.4	-17.1	-11.0	-13.3	-6.2	-9.6	-1.9	2.3	10.8	-17.3	-9.4	1.0
Housing Starts	2.6	-9.3	-18.4	-24.1	-28.5	-19.9	-11.9	-2.2	1.0	4.4	5.2	-12.9	-15.9	3.1
Single-Family Units	2.6	-10.4	-19.8	-28.2	-31.6	-23.8	-16.6	-3.8	-0.6	4.6	6.6	-14.7	-19.5	3.2
Multifamily Units	2.9	-3.8	-11.3	-3.1	-14.3	-2.2	9.3	4.0	7.2	3.8	-0.9	-4.3	-0.3	2.9
Residential Construction	6.1	-1.5	-8.1	-12.6	-16.8	-16.3	-12.3	-6.8	-1.1	2.4	10.3	-4.2	-13.3	2.6
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	218.7	226.7	225.0	219.3	216.5	229.6	230.4	225.7	223.0	237.2	219.6	222.0	226.2	233.4
New Home Prices	244.8	246.1	236.2	237.3	247.5	249.3	239.7	242.5	253.7	255.5	240.9	245.3	249.8	258.3
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	9.5	3.0	-1.0	-2.7	-1.0	1.3	2.4	2.9	3.0	3.3	12.4	1.1	1.9	3.2
New Home Prices	6.5	6.9	-0.2	-1.2	1.1	1.3	1.5	2.2	2.5	2.5	9.0	1.8	1.8	3.4
Housing Affordability Index	109	103	103	109	113	108	107	110	114	115	113	106	110	114

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. David Lereah and Dr. Lawrence Yun.

Allowing Banks in Real Estate: Consequences for Consumers and Independent Real Estate Companies

By **Lynn King**, Senior Policy Representative, Government Affairs and
Jeff Lischer, Manager, Financial Services, Regulatory and Industry Relations

The U.S. economy depends in large part on the health of the banking and real estate industries. Several proposed regulatory changes, if enacted, would allow banks to engage in real estate brokerage activities. That could put our economy, the well-being of American consumers, and many independent real estate companies at risk. These ill-considered proposals would upend one of our nation's most fundamental economic policies – the separation of banking and commerce. In return, we would likely have bigger banks, higher costs, and less consumer choice and service.

Allowing Banks in Real Estate Hurts Competition and Hurts Consumers

Regulations proposed by the Federal Reserve and Treasury would allow big banking conglomerates into real estate brokerage and property management. If adopted, the regulations will lead to a number of consequences:

- The same large-scale consolidation that has taken place in the banking industry itself would likely occur in the real estate business.
- Fewer entities conducting real estate brokerage would mean less competition. The result: fewer choices and higher costs for consumers.
- An additional effect of the proposed regulations would be pressure on bank-affiliated real estate brokers and agents to market and sell other financial products such as insurance, securities and credit cards.
- Banks could share private consumer data obtained in real estate transactions with their affiliates and other third parties business entities.
- Banking conglomerates would have unfair competitive advantages. These



financial institutions that could operate real estate brokerages under the proposed regulations would benefit from access to capital at lower rates – thanks to federally insured deposits. That benefit is not available to local real estate companies.

- According to a J.D. Power survey, 28 percent of home buyers had problems with their lenders. Those problems included errors in closing documents, miscommunication of loan terms and unavailable or unresponsive loan consultants or mortgage brokers. That means almost one in three home buyers did not get adequate customer service just during the loan process. How will they be better served by banks during the much more complex process of buying or selling a home?

Banks Are Special – Let's Keep Them That Way

Banks play a unique role in our financial system. In response to the bank failures of the 1930's, the federal government established federal deposit insurance. As a trade-off, banks accepted comprehensive federal regulation and limitations on their eligible activities. In addition, to avoid giving banks undue competitive advantages over nonbanking firms, Congress established a national policy against mixing banking and commerce. This policy is simple, straightforward, and avoids the entanglements that dilute the clear mission of banks to provide and support a strong payment system and provide banking services that are essential to a healthy economy.

Allowing banks to enter the real estate brokerage industry is inconsistent

For more information and updates about NAR's efforts on this issue, visit www.realtor.org.

Allowing Banks in Real Estate (continued)

with this policy and weakens the regulatory structure necessary to protect the federal deposit insurance fund, the payment system and the U.S. economy. Amid today's rapid technical innovations and fast-moving markets, unintended and unforeseen consequences of expanding bank powers pose very real risks to the security and vitality of our economy. We've experienced this before, and it's been costly. The savings and loan crisis of the 1980's demonstrated the importance of having strong federal rules keeping financial services separate from commercial activities. Loosening restrictions on the activities of federally insured depository institutions led to the S&L crisis. There's no reason to risk a rerun of that \$124 billion debacle.

All Real Estate is Local

Large banking conglomerates are looking to assemble a few nationwide organizations to handle the very local business of buying and selling homes. If this is successful, consumer interests will be on the back burner. Bank-controlled real estate brokerages will most likely become marketing arms for mortgage departments and other proprietary products and services banks sell, whether they are in the consumer's interest or not.

The real estate industry is dominated by tens of thousands of small businesses that serve their local communities. Indeed, REALTORS® provide extensive personal attention to consumers during the lengthy process of buying or selling a home. Banks simply cannot provide that type of personal counsel because of the inherent conflicts with their other business objectives.

Consequences for Independent Real Estate Companies

What would the impact be on independent real estate brokerage firms – those not owned by banks – of banking conglomerates are permitted to broker and manage real estate? The answer to

Potential Regulations to Which Real Estate Could become Subject:

The increased regulatory burden could come potentially from federal regulators, such as the Securities Exchange Commission (SEC), Federal Trade Commission (FTC), and the federal banking regulators, to oversee financial services-related business and commercial activities. As financial institutions, real estate companies could be subject to:

- Consumer financial privacy regulation under Title V of the Gramm-Leach-Bliley (GLB) Act.
- Community Reinvestment Act (CRA) regulation.
- Patriot Act/Bank Secrecy Act regulations implementing the anti-money laundering and related requirements for financial institutions could come into play. The Internal Revenue Service (IRS) would get involved because it regulates entities not subject to banking regulators.
- State and federal privacy laws that now apply only to financial institutions.

that question cannot be answered with any certainty, but it is fair to speculate.

Real estate is a commercial activity. If banks are authorized to broker and manage real estate, it is likely that they will be able to do so because brokerage and real estate management activities are determined to be *financial, not commercial*, activities. The National Association of REALTORS® strongly believes that this would be a significant shift in the policy established by Congress. Such a shift in policy would likely harm both industries – banking and real estate.

But let's look at the worst case scenario – that the Congress does determine that real estate brokerage and management is a financial activity. What happens to the tens of thousands of independent real estate companies already operating successfully and serving home buyers and home sellers throughout their communities? These “non-bank owned” real estate companies would find themselves operating under a significantly different regulatory and legal environment.

Real estate professionals are for the most part, untouched by federal oversight, at least compared to banks,

airlines, and drug companies, for example. Rather, real estate brokers and agents are subject primarily to state law and regulation. (Of course, real estate brokerage companies with lending and other affiliates are subject to additional federal regulations by agencies that implement truth-in-lending, fair credit reporting, equal credit opportunity, and consumer privacy rules.) But if real estate brokerages are treated as financial institutions, additional regulations would likely apply.

In addition, a new federal regulator could even be established to oversee the new financial activities as defined by the Federal Reserve and Treasury under the Gramm-Leach-Bliley (GLB) Act. For example, a new SEC-type regulator created to regulate the real estate industry could impose extensive and burdensome reporting and disclosure requirements on the entire real estate industry. In addition, if real estate brokerage and management activities are treated as a financial activity and a new SEC-type regulator is established, federal preemption of state regulation and laws for all real estate brokerage and management

Allowing Banks in Real Estate (continued)

firms could be expected—for independent firms and those affiliated with a bank. This would not only place real estate *under federal regulation*, it would do so unevenly with bank-affiliated firms being treated more favorably, to the competitive disadvantage of independents.

Finally, no matter what happens, it is safe to say that additional paperwork and technology costs associated with any additional regulation would be inevitable.

NAR and the American People Say Keep Banks Out of Real Estate

According to a recent national survey conducted by Public Opinion Strategies, American consumers believe that bank-owned real estate brokerages would result in worse customer service, trample privacy through unrestricted access to private financial information, force them to pay more and higher fees, and cause serious conflicts of interest. NAR has worked diligently to insure that the separation between banking and commerce is maintained. It has communicated to Congress its long-standing support for keeping banks as impartial providers of credit and not permitting them to control all aspects of real estate transactions. The Association's efforts have, so far been successful. And there is hope for the future as well. In late January, Senators Hillary Rodham Clinton (D-NY) and Wayne Allard (R-CO) introduced key legislation that NAR believes would ensure the nation's real estate industry remains competitive. The Community Choice in Real Estate Act, S.413, is co-sponsored by a number of senators from both parties. Earlier in the month, Congressmen Paul Kanjorski (D-PA.) and Ken Calvert (R-CA) introduced the House version, H.R. 111. The bill is designed to keep real estate brokerage and management clearly defined as commercial activities and not financial matters, ensuring that the separation of

Americans believe consumers are going to be hurt by banks that own real estate brokerages and have access to home buyers' and home sellers' bank account and other financial information.

- 66 percent of Americans believe it would be a conflict of interest for a bank to offer and approve loans on homes that they were already involved in as a real estate broker
- 64 percent of Americans believe banks will pass on real estate costs to their account holders

Source: Public Opinion Strategies
results have a +/- 3.46% Margin of Error

banking and commerce continues as mandated by the Gramm-Leach-Bliley Act.

NAR encourages the House and Senate to quickly come together to pass final legislation that will protect consumers, provide for a healthy banking environment, encourage competition among real estate companies, and contribute to our nation's economic stability.

Fourth Quarter Home Price and Sales Data Show Housing Downturn Likely to Have Hit Bottom

by NAR Staff

It appears that the fourth quarter of 2006 marked the bottom for the current housing cycle. The latest quarterly data* released by the National Association of REALTORS® shows existing-home sales in most states were down from year-ago levels in the fourth quarter of 2006, while prices in many areas corrected as a result of sellers' willingness to negotiate. Total existing-home sales including single-family and condominiums/co-ops, posted a seasonally adjusted annual rate of 6.24 million units in the fourth quarter, down 10.1 percent from the same quarter of 2005. The national median existing single-family home price was \$219,300 in the fourth quarter; a 2.7 percent decrease from a year earlier. For all of 2006, the median price rose 1.4 percent to \$222,000.

Even with the general decline, six states showed increases in the sales pace from a year ago and one was unchanged.

Complete data for three states were not available. The biggest total sales increase was in Indiana, where existing-home sales rose 13.7 percent from the fourth quarter of 2005. In Arkansas the fourth-quarter resale pace rose 11.1 percent from a year earlier, while Texas experienced the third strongest gain, up 6.2 percent.

Single-family home prices

Metro area single-family home prices, examining changes in 149 metropolitan statistical areas, showed 71 areas had price gains from the fourth quarter of 2005 to the fourth quarter of last year. Fourteen metros recorded double-digit annual increases; 73 areas posted price declines and five were unchanged.

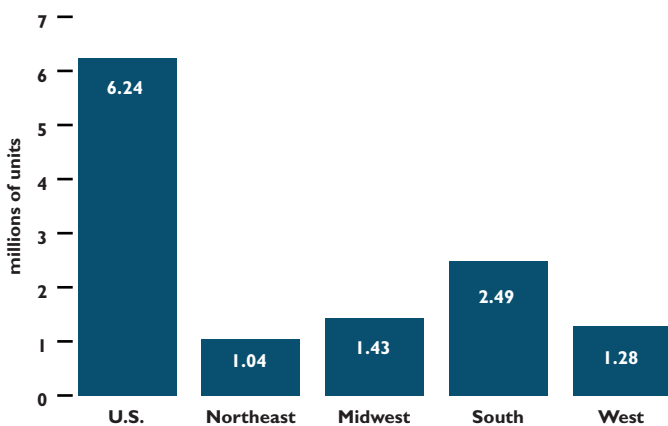
Median fourth-quarter metro area single-family prices ranged from a very affordable \$78,400 in Elmira NY to \$760,000 in the San Jose-Sunnyvale-Santa

Clara area of California. The largest single-family home price increase was in the Atlantic City NJ area, where the median price of \$339,800 was 25.9 percent higher than a year ago. Next was the Salt Lake City area, at \$223,600, up 22.7 percent from the fourth quarter of 2005. The Trenton-Ewing area of New Jersey, with a fourth quarter median price of \$289,000, increased 18.9 percent in the last year.

Condos

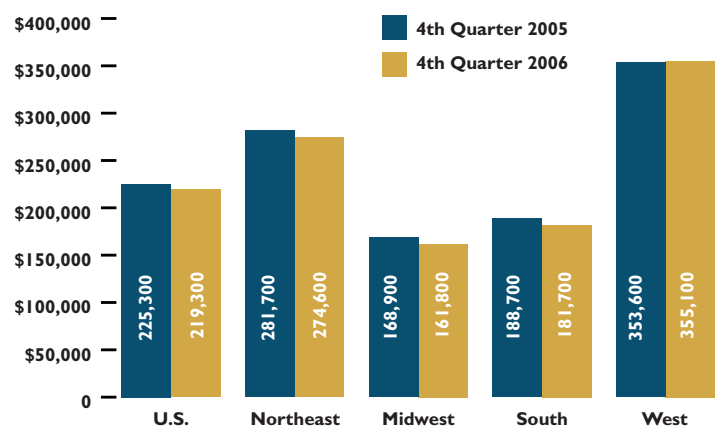
In the condo sector, metro area condominium and cooperative prices – covering changes in 58 markets – showed the national median existing condo price was \$220,900 in the fourth quarter, down 2.1 percent from the same period in 2005.** Thirty-one metros posted annual increases in the median condo price, including seven

Existing-home Sales Fourth Quarter 2006



Source: NAR Research

Existing home prices - Single-family only

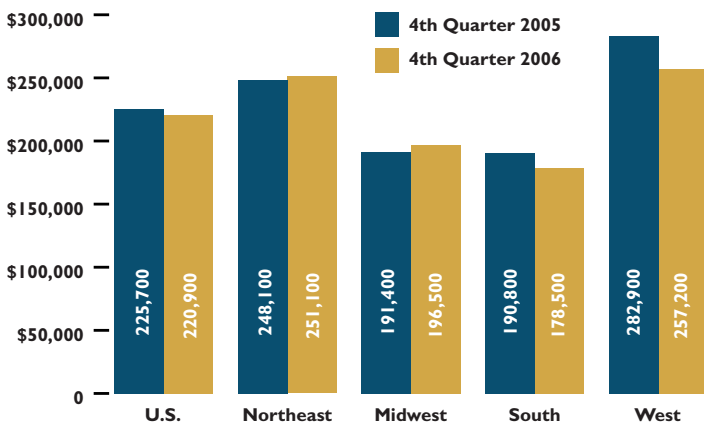


Source: NAR Research

*The fourth quarter report is available at www.realtor.org/research. Click on "housing statistics" in the left-hand navigation. Total home sales include single family, townhomes, condominiums and co-operative housing. Metropolitan areas are generally metropolitan statistical areas as defined by the U.S. Office of Management and Budget. A list of counties included in MSA definitions is available at www.census.gov/population/estimates/metro-city/0312msa.txt. NAR began tracking the state sales series in 1981; publication of metropolitan area median single-family home prices began in 1982; the metro area condo price series was launched at the beginning of 2006, with several years of historic data.

Fourth Quarter Home Price and Sales Data (continued)

Existing home prices – Condominium/Co-ops



Source: NAR Research

areas with double-digit gains; 28 metros had price declines.

Metro area median existing condo prices in the fourth quarter ranged from \$102,600 in Wichita KS to \$580,300 in the San Francisco-Oakland-Fremont area. The second most expensive condo market was Los Angeles-Long Beach-Santa Ana, at \$402,000, followed by the San Diego-Carlsbad-San Marcos area of California at \$358,200.

The strongest condo price gains were in the Austin-Round Rock area of Texas, where the fourth quarter price of \$160,000 rose 16.5 percent from a year ago. Next was the Newark-Union area of New Jersey and Pennsylvania, where the median condo price of \$352,600 was a 16.4 percent increase from the fourth quarter of 2005.

Behind the Numbers

This information confirms 2006 was a year of contraction. Still, home sales are leveling off at historically high levels. Closer examination of the fourth quarter data shows home prices stabilizing toward the end of the period.

In addition, a new comparison of annual single-family home prices in metropolitan areas shows that typical sellers experienced healthy gains on the value of their home over the last five years in almost all of the 131 areas where data was available, even in areas with recent price declines. This broader view of home prices is necessary because for most households, housing is a long-term investment. The typical owner stays in a home for six years, so it is more useful to look at the five-year comparison for metro area home prices.

The median five-year price gain was 41.8 percent. Over the last five years, metro areas with the largest single-family price gains include the California areas of Riverside-San Bernardino-Ontario, up 155.3 percent, and Los Angeles-Long Beach-Santa Ana, up 142.3 percent, followed by the Miami-Fort Lauderdale-Miami Beach area of Florida, up 135.4 percent.

Regional Differences

Regionally, the Northeast posted an existing-home sales pace of 1.04 million units in the fourth quarter of 2006,

which was 6.6 percent below a year ago. The median Northeastern resale single-family home price was \$274,600 in the fourth quarter, which is 2.5 percent below that of the same period in 2005.

Total existing-home sales in the South were at an annual rate of 2.49 million units in the fourth quarter, down 8.5 percent from the fourth quarter of 2005. The median existing single-family home price in the South was \$181,700 in the fourth quarter, which is 3.7 percent below a year earlier.

In the Midwest, total existing-home sales declined 8.6 percent to a 1.43 million-unit annual level in the fourth quarter compared with a year earlier. The median existing single-family home price in the Midwest was \$161,800, down 4.2 percent from the fourth quarter of 2005.

In the West, the existing-home sales pace of 1.28 million units was 17.8 percent lower than in the fourth quarter of 2005. The median existing single-family home price in the West slipped 0.4 percent to \$355,100 during the fourth quarter.

What's Ahead

It is important to note that there is lag in measuring market conditions. The fourth quarter data shows recent history, but currently, buyers are responding to seller pricing and incentives, and there's a bit of a pent-up demand as a result of buyer hesitation during the second half of 2006. Going forward, big changes are not expected, but a gradual rise in sales and home prices is projected. When spring data is analyzed, NAR forecasts a discernible improvement in both sales and prices – a positive sign for the overall housing market and related industries.

**Because there is a concentration of condos in high-cost metro areas, the national median condo price sometimes is higher than the median single-family price. In a given market area, condos typically cost less than single-family homes. As the reporting sample expands in the future, additional areas will be included in the condo price report.

Links to Statistical Data Series

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

Existing Home Sales – Monthly series

- [December 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 – 4th Quarter 2006

- 4th Quarter 2006 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 4th Quarter 2006 [Median Home Prices by Metropolitan Area](#)
 - [4th Quarter Single-family median home prices](#)
 - 4th Quarter Single-family median home prices in [spreadsheet format](#)
 - [4th Quarter Condominium/Co-op median sales price](#)
 - 4th Quarter Condominium/Co-op median sales price in [spreadsheet format](#)

NAR's Pending Home Sales Index

- [December pending home sales index](#)
- The latest pending home sales index in spreadsheet format available [here](#)

NAR's Housing Affordability Index

- [December HAI Index](#)
- December Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
 - [4th Quarter 2006 Affordability Index](#)
 - 4th Quarter 2006 Affordability Index in spreadsheet format available [here](#)
 - [First-time homebuyer Affordability Index, 4th Quarter 2006](#)
 - 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.

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