

Price Scenarios

- Even in the unlikely event of prices declining by 5%, most homeowners will maintain sizable equity build-up in their homes. The table below shows the home equity gains if prices were to fall by 5% in 2006. A homebuyer who purchased in 2005 would suffer \$11,700 in home equity loss. But homebuyers who had purchased in prior years would still retain significant housing equity gains.

Year of Purchase	Housing Equity after 5% Price Decline (Home price appreciation + principal payments on mortgage)
1980	\$274,700
1985	\$254,200
1990	\$203,000
1995	\$182,400
2000	\$112,500
2001	\$89,800
2002	\$83,000
2003	\$72,700
2004	\$33,900
2005	(\$11,700)

- A likely scenario is for home prices to rise, though at a much lower rate than in recent past years. The equity gains under different though conservative price growth assumptions are presented below.

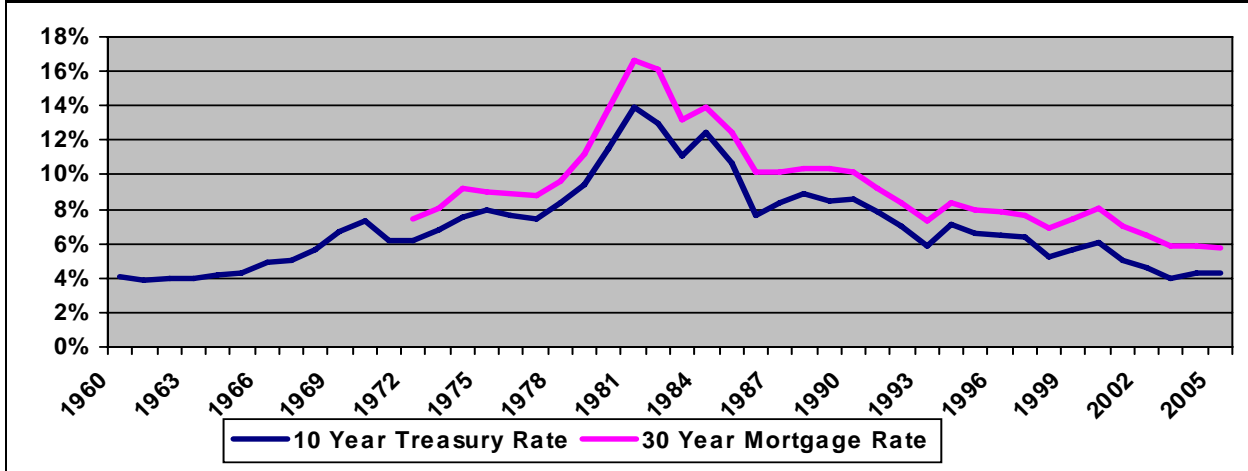
Housing Equity Gain				
Appreciation Rate	1.5%	3.0%	4.5%	7.2%
Conservative Scenarios	Low	Middle	High	<i>25-year average rate</i>
2010	\$47,100	\$72,900	\$100,300	\$153,600
2015	\$101,800	\$159,700	\$225,600	\$367,400
2020	\$169,900	\$266,900	\$385,900	\$669,300
2030	\$359,500	\$562,100	\$849,600	\$1,691,500
2040	\$530,900	\$887,200	\$1,471,600	\$3,583,900

Additional Discussion Points

- Home price declines are very rare. In fact, the national median home price has not declined since the Great Depression of the 1930s. Stock market collapses, OPEC oil crunch, economic recessions, and even wars have not negatively impacted national home prices since the 1930s.
- There have been few times when local prices declined. In nearly all these cases, the price declines were accompanied by sharp prolonged job losses. It is difficult to foresee a price decline in a job creating economy.
- Homes trade far less frequently than financial assets (about one home sale every 7 to 10 years for most homeowners). There are also larger transaction costs associated with selling a home due to the lengthy careful examination demanded by home buyers and sellers. Therefore, home prices are not prone to fluctuations as in the stock market. There are neither panic sells nor margin calls associated with homes.
- Many non-quantifiable factors could be important for this metro market in determining home prices. Access to cultural life, the quality of museums, nearby local and national parks, water views, exclusive neighborhoods, weather, the international airport, city vibrancy, restaurants, and a host of other non-quantifiable factors could have an important influence on the overall pricing.
- There are immense tax benefits to owning a home. These tax considerations were not considered in the analysis. For example, the 1997 law permitting primary owner occupants to trade down without having tax consequences. Also most home sales results in no capital gains tax. In addition, long-term capital gains tax rates were reduced in 2003, thereby providing higher return for home investors. These positive benefits, if accounted for in the analysis, would have shown an even stronger case for housing fundamentals in supporting home prices.

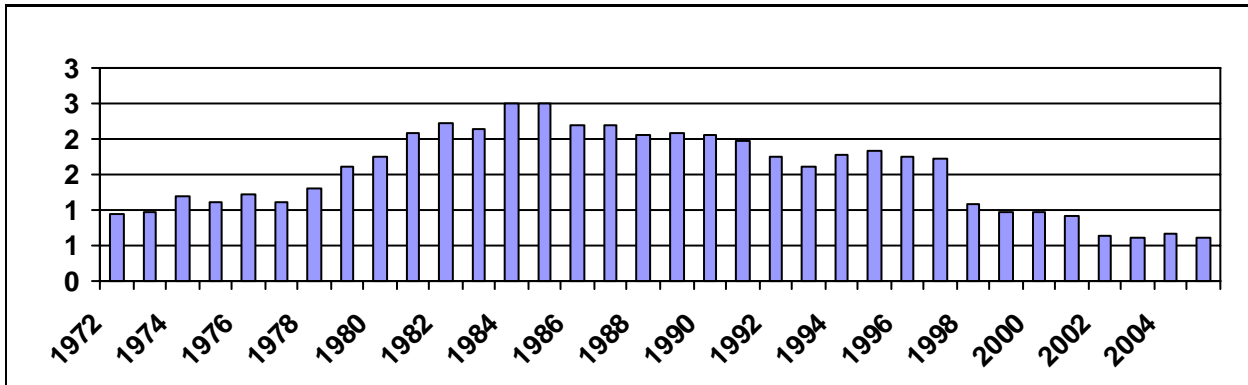
Additional Informative Charts

45-year Low Mortgage Rates



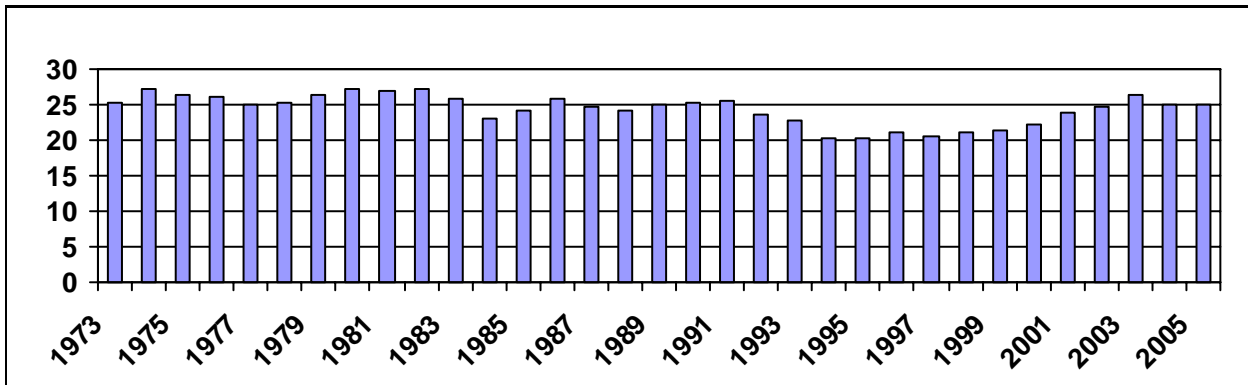
Source: Freddie Mac, Federal Reserve

Historic Low Fees and Points for Mortgage Origination



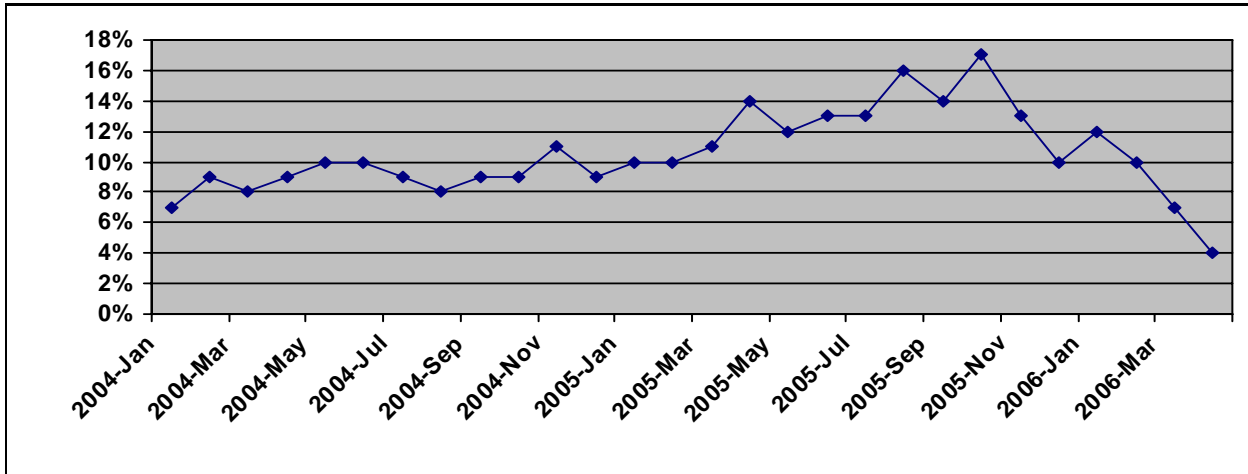
Source: Freddie Mac, Federal Reserve

Typical Down-payment Percentage Returning to Historic Norms



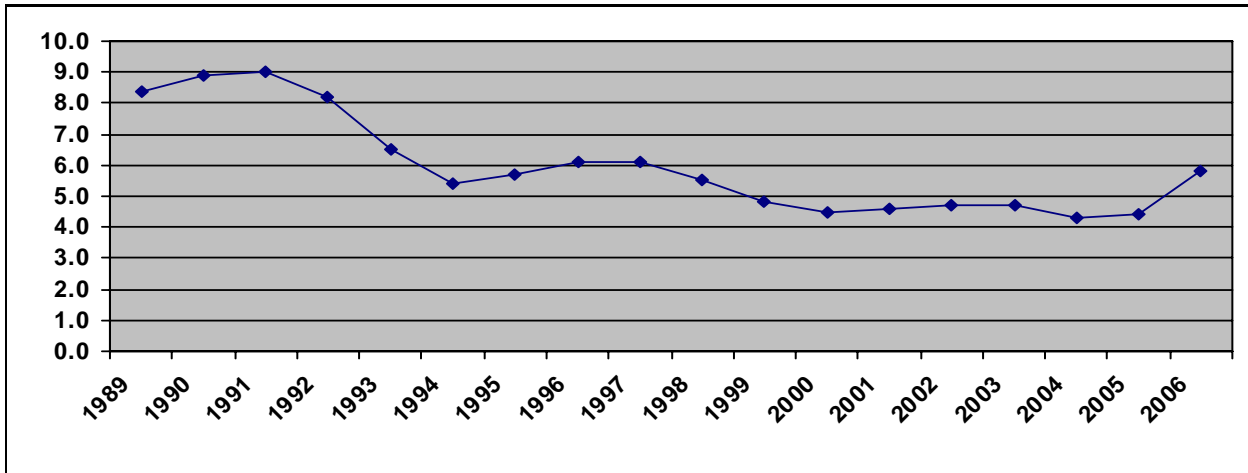
Source: Federal Housing Finance Board

Recent National Price Deceleration



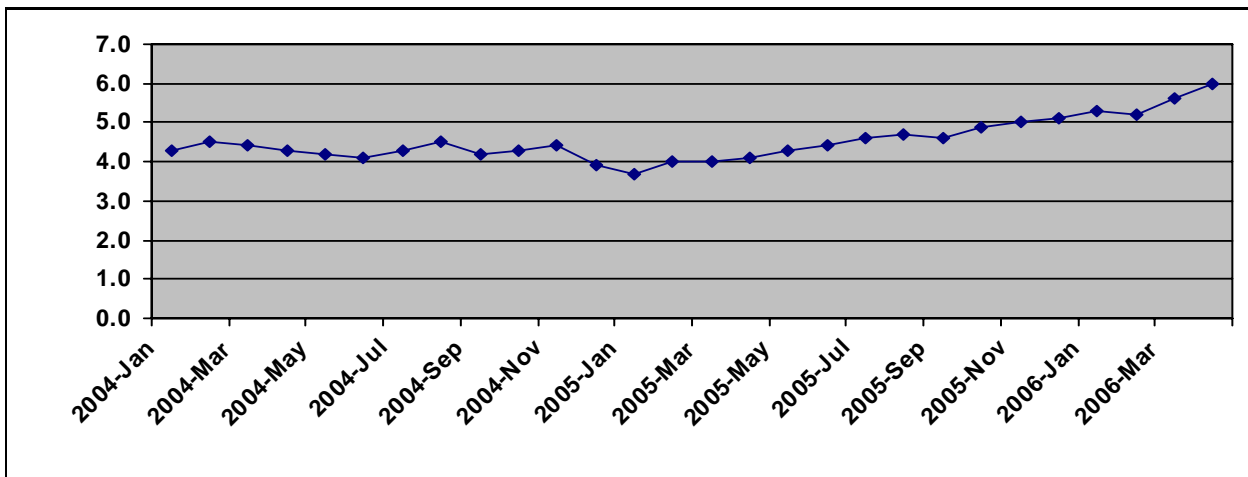
Source: NAR

Historical National Months Supply of Homes on the Market



Source: NAR

Recent National Months Supply of Homes on the Market



Source: NAR

NAR Research

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