



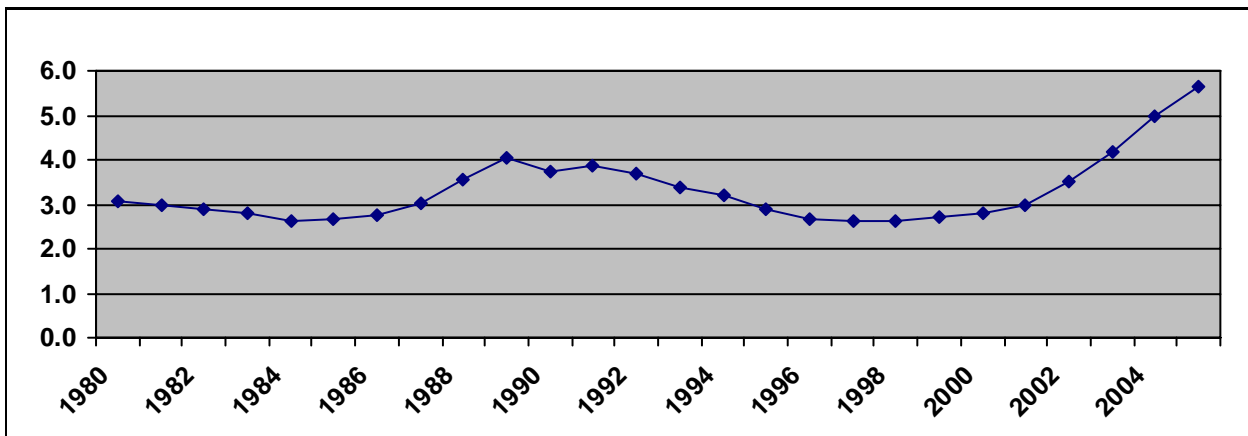




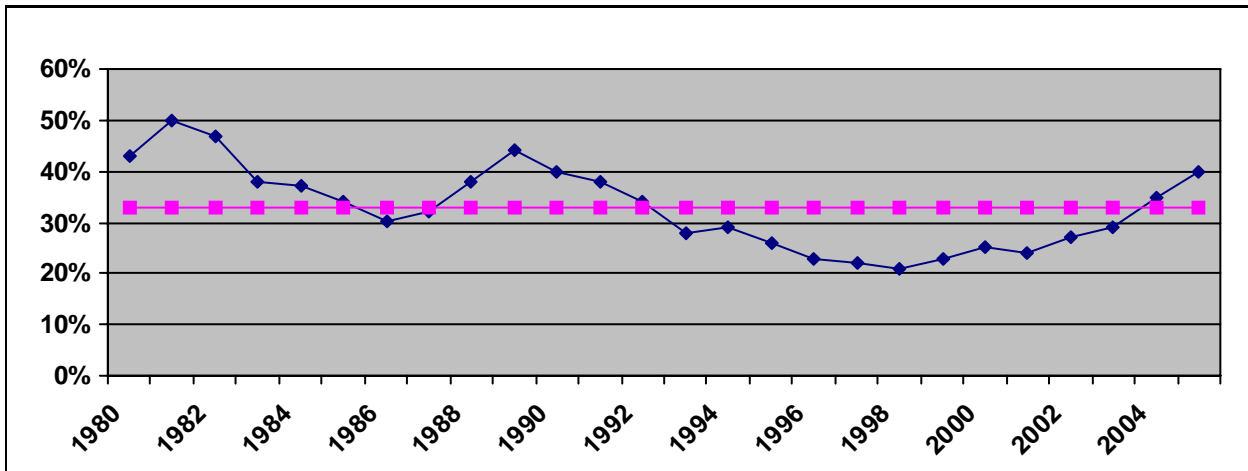
## Affordability

- Because home prices have risen faster than income, the ratio of price-to-income is currently above the historical norm. This measure is frequently cited to imply that there is a housing market bubble.
- A more relevant measure for assessing the risk of a home price bubble is the median mortgage servicing cost relative to the median income. This ratio has also risen despite mortgage rates at near historic lows.
- Nonetheless, the mortgage debt servicing costs is still below the peak levels seen in the early 1980s. Also, as mentioned, jobs are being created in the region, thus alleviating some of this concern.

### Price to Income Ratio



### Mortgage Servicing Cost to Income Ratio (Historical average shown as square boxes)







## 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 \$19,200 in home equity loss. But homebuyers who had purchased in prior years would still retain significant housing equity gains.

<b>Year of Purchase</b>	<b>Housing Equity after 5% Price Decline</b> (Home price appreciation + principal payments on mortgage)
1980	\$452,700
1985	\$414,300
1990	\$325,400
1995	\$340,800
2000	\$289,400
2001	\$266,200
2002	\$220,300
2003	\$158,500
2004	\$65,000
2005	(\$19,200)

- 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.

<b>Housing Equity Gain</b>				
<b>Appreciation Rate</b>	<b>1.5%</b>	<b>3.0%</b>	<b>4.5%</b>	<b>7.5%</b>
<b>Conservative Scenarios</b>	<b>Low</b>	<b>Middle</b>	<b>High</b>	<i>25-year average rate</i>
<b>2010</b>	\$77,300	\$119,700	\$164,700	\$261,400
<b>2015</b>	\$167,200	\$262,100	\$370,200	\$629,400
<b>2020</b>	\$278,800	\$438,100	\$633,300	\$1,155,100
<b>2030</b>	\$590,000	\$922,600	\$1,394,400	\$2,967,600
<b>2040</b>	\$871,400	\$1,456,200	\$2,415,400	\$6,425,400

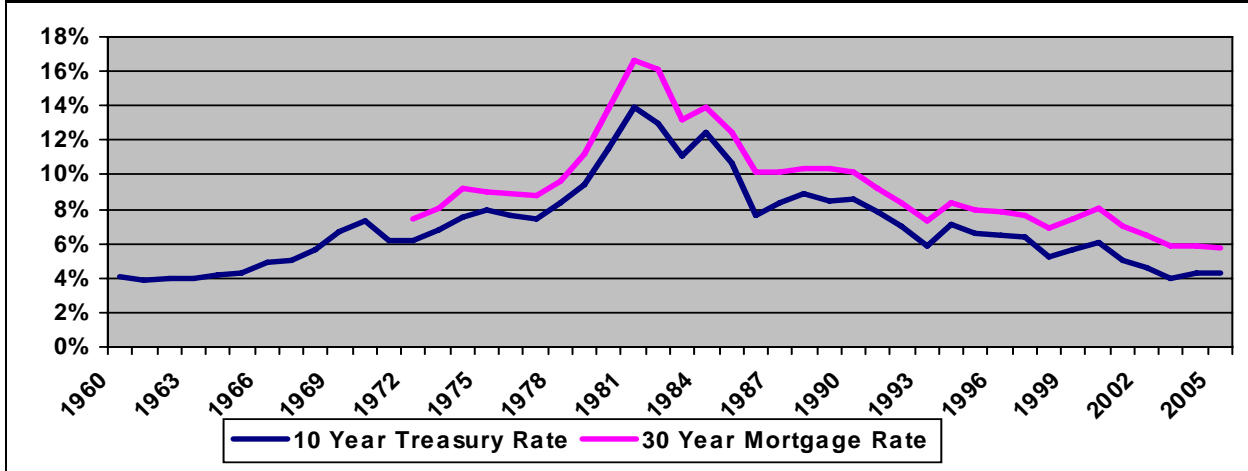
## Additional Discussion Points

- 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.



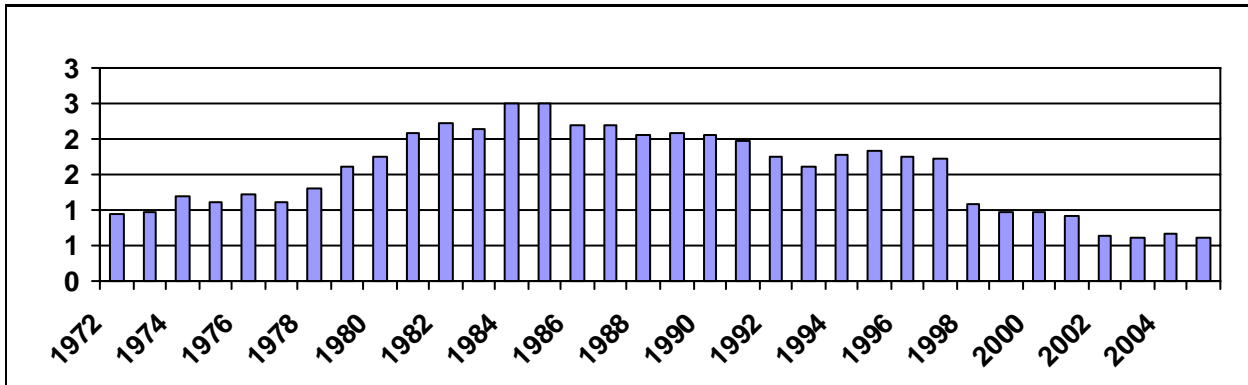
Additional Informative Charts

45-year Low Mortgage Rates



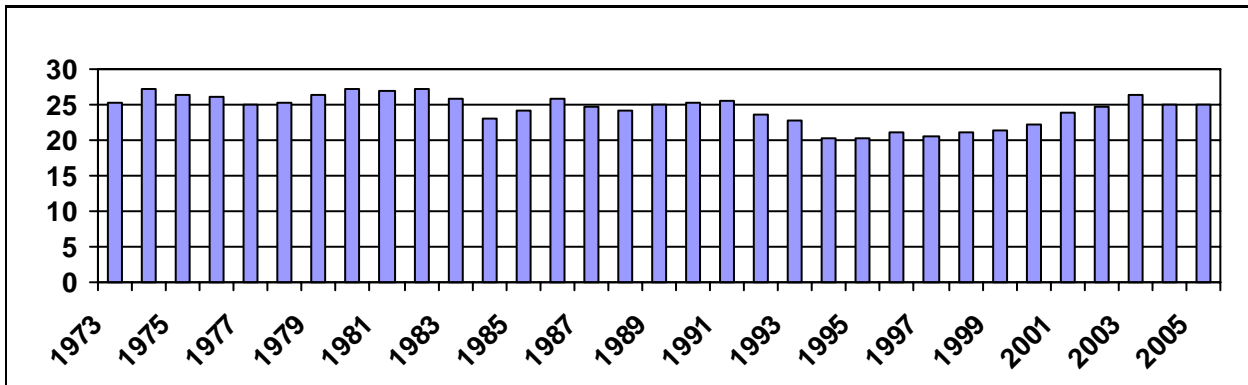
Source: Freddie Mac, Federal Reserve

Historic Low Fees and Points for Mortgage Origination



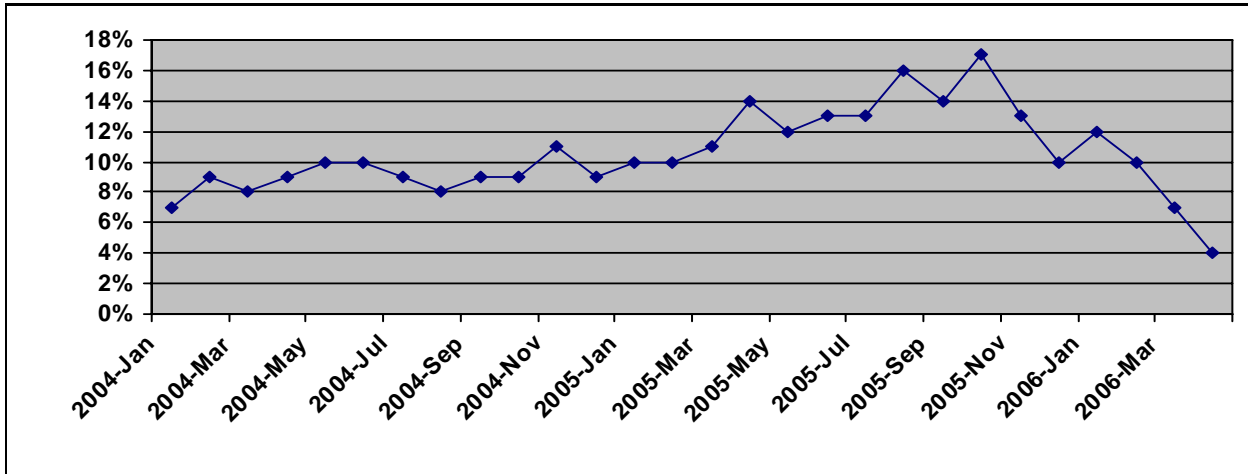
Source: Freddie Mac, Federal Reserve

Typical Down-payment Percentage Returning to Historic Norms



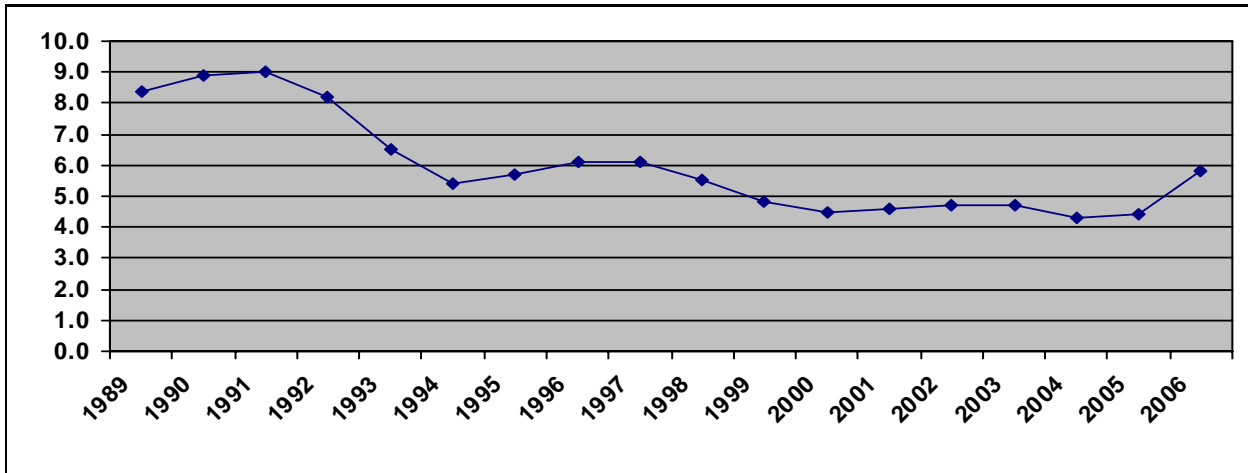
Source: Federal Housing Finance Board

**Recent National Price Deceleration**



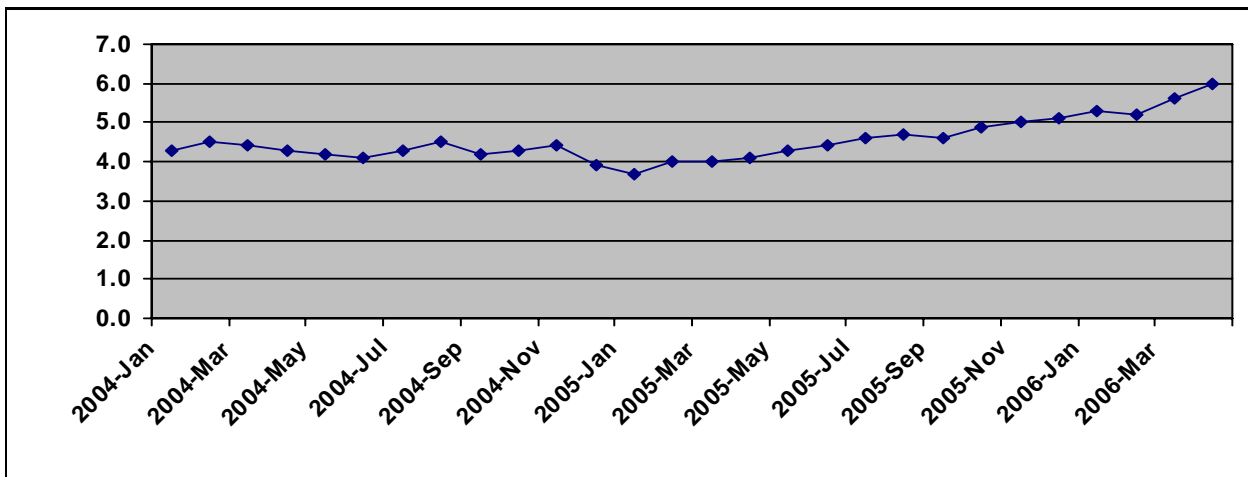
Source: NAR

**Historical National Months Supply of Homes on the Market**



Source: NAR

**Recent National Months Supply of Homes on the Market**



Source: NAR

## **NAR Research**

NAR Research produces the premier measurement of residential real estate activity – the existing-home sales series – and analyzes how changes in the U.S. and international economies can impact the real estate business. It also examines trends in real estate practices, and how NAR members are adapting technology in their business operations. NAR Research looks at regulatory and legislative policy proposals and how those policies could affect REALTORS® and their clients, America’s property owners.

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National Association of REALTORS®  
Research Division  
500 New Jersey Avenue, NW  
Washington, DC 20001  
[www.REALTOR.org/research](http://www.REALTOR.org/research)  
Tel: 202-383-7518