

# THE 2006 NATIONAL ASSOCIATION OF REALTORS® PROFILE OF SECOND-HOME OWNERS



NATIONAL ASSOCIATION OF REALTORS®

*the national real estate®*

## PREFACE

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**T**HE PAST DECADE HAS WITNESSED A ROBUST INCREASE IN OWNERSHIP OF RESIDENTIAL real estate. The U.S. homeownership rate is approaching 70 percent, up from 65 percent a decade ago, while the household wealth attributable to real estate ownership has increased by over 50 percent since mid-2001. An important component of this investment in real estate is ownership of second homes. Second-home owners, throughout this report, refer to people who own one or more residential properties, in addition to a primary residence, and who use these properties either for vacation or investment purposes. Although both types of properties share several attributes, vacation homes are properties owned primarily for recreational use by the owner or their family, while investment properties are owned primarily to rent to others.

Ownership of more than one home is increasingly common. A 2005 NATIONAL ASSOCIATION OF REALTORS® survey of homebuyers found that 15 percent of recent buyers owned two or more homes. In addition, approximately 40 percent of home sales in 2005, equivalent to more than 3.3 million new- and existing-home sales, were second homes.

The increase in ownership of second homes over the past several years is driven by a number of forces. First, baby boomers are in their peak earning years, many of whom have the financial wherewithal to invest in real estate. Second, real estate has provided superior returns in recent years compared with many other financial assets such as stocks and bonds. Between 2000 and 2005, existing-home prices rose by over 50 percent, while the Standard & Poor's 500 Index returned just over 2 percent over the same period. Finally, tax law changes that took effect in 1997 allowed home sellers to exclude up to \$500,000 from capital gains taxation. This change made it appealing for some buyers to purchase a smaller primary residence while using the tax-free gain to purchase a vacation home or other residential investment property.

The NATIONAL ASSOCIATION OF REALTORS® periodically surveys homeowners, as well as recent buyers and sellers, to gather detailed information about their preferences and experiences in the real estate market. These surveys provide information on demographics, housing characteristics and the role of real estate professionals in their recent or anticipated home sales transactions. *The 2006 NATIONAL ASSOCIATION OF REALTORS® Profile of Second-Home Owners* provides a detailed snapshot of households that own one or more second homes.

### **NATIONAL ASSOCIATION OF REALTORS®**

Paul C. Bishop, Ph.D.

Shonda D. Hightower

Harika Bickicioglu

This report provides REALTORS® with insights into the characteristics and needs of future clients and enables them to improve their service. Others benefit from the findings of this research by better understanding the housing market and the unique role of second homes as the housing market evolves.

## NOTES

In January 2006, the NATIONAL ASSOCIATION OF REALTORS® mailed an 8-page questionnaire to a sample of households who owned more than one residential property. Consumer names and addresses were obtained from Experian, a firm that maintains an extensive database of recent household characteristics derived from a number of public sources. NAR received 415 responses of vacation home owners and 619 responses from investment property owners.

This report consists of five chapters that focus on specific areas of second-home ownership.

Chapter 1: Characteristics of Second-Home Owners

Chapter 2: Vacation Homes: Characteristics and Motivation for Ownership

Chapter 3: Investment Properties: Characteristics and Motivation for Ownership

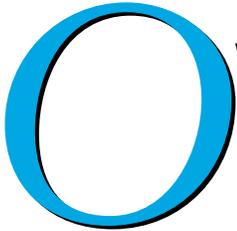
Chapter 4: Acquiring a Second Home

Chapter 5: Looking Ahead: Buying and Selling a Second Home

All information in this report is characteristic of second-home owners as of early 2006, with the exception of income data, which are reported for 2005. Some results are presented for the four U.S. Census regions: Northeast, Midwest, South and West. Data are also shown for second-home owners who purchased their property in 2002 or earlier and since 2003 to highlight recent differences in characteristics or motivation for ownership. The median is the primary statistical measure used throughout this report. Due to rounding and omissions for space, percentage distributions may not add to 100 percent.

## REPORT HIGHLIGHTS

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### **OWNERSHIP OF SECOND HOMES IS DRIVEN BY SEVERAL FACTORS. WHILE THE POTENTIAL**

investment returns from owning residential real estate are one of the motivations for buying and owning a second-home, there are additional factors that vary with the intended use of the home. For vacation-home owners, lifestyle considerations such as proximity to recreation areas or to a favorite vacation spot are often the most important motivations. With the oldest baby boomers just now reaching 60 years of age and the youngest boomers in their early 40's, the lifestyle preferences of boomers will figure prominently into the future demand for vacation homes.

In contrast, ownership of investment properties hinges on the financial gains owners expect from rental income or from appreciation in the value of their property. Thus, mortgage rates, the strength of the local economy and access to rental markets, whether in a downtown location or near major employers, are more important factors for investment property owners than vacation home owners. Also, investment property owners, more so than vacation-home owners, choose properties near their primary residence.

*The 2006 NATIONAL ASSOCIATION OF REALTORS® Profile of Second-Home Owners* describes the characteristic and motivations of second-home owners and in so doing will help real estate professionals and those in related sectors track the changes occurring in this segment of the real estate market.

### **CHARACTERISTICS OF SECOND-HOME OWNERS**

- The typical vacation-home owner is 59 years old, while the median age of investment property owners is 55.
- Vacation-home owners reported a median income of \$120,600 in 2005. The median income of investment property owners was \$98,600.
- Over three-quarters of second-home owners are married.
- For nearly half of all second-home owners, their primary residence is in the suburbs.

### **VACATION-HOME OWNERS**

- While three-quarters of vacation-home owners purchased their home to use for vacations, one-third of owners reported that it was a good investment opportunity as well.
  - Over half of vacation home owners noted that their interest in water sports was one of the motivations for purchasing their home.
  - The typical vacation home is located 220 miles from the owner's primary residence.
  - Nearly half of vacation homes are in resort or recreation areas.
  - Vacation-home owners spend a median of 39 nights in their home each year.
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### **INVESTMENT PROPERTY OWNERS**

- Nearly two-thirds of investment property owners purchased their property for the purpose of generating rental income. Half also viewed their property as a way to diversify their investments.
- Owners reported that their investment property was a median of 10 miles from their primary residence.
- Thirty-five percent of investment properties are located in a suburb, while over one-quarter are in a central city or urban area.
- Half of investment properties are detached single-family homes.
- The typical investment property is 1,520 square feet in size.

### **ACQUIRING A SECOND HOME**

- Among second-home owners who purchased their homes since 2003, nearly two-thirds used a real estate agent to buy their property.
- Sixteen percent of vacation-home owners and 13 percent of investment property buyers who purchased their property since 2003 first learned it was for sale on the Internet.
- The typical vacation-home owner with a mortgage financed 73 percent of the purchase price, while the typical investment property owner financed 77 percent.

### **BUYING AND SELLING A SECOND HOME**

- Thirty-five percent of investment property owners plan to buy one or more investment properties in the next two years.
- One in ten vacation-home owners plan to sell a vacation home in the next two years.
- Among investment property owners planning to sell a property in the next two years, 43 percent expect to sell one property.
- The task with which second-home owners most want a real estate agent's assistance is to determine comparable prices when selling their property.