NATIONAL ASSOCIATION OF REALTORS®
RESEARCH DIVISION

REALTORS® CONFIDENCE INDEX

September 2011

Data gathered September 25– October 5, 2011

NATIONAL ASSOCIATION of REALTORS®

REPORT CONTENTS

REALTORS® Confidence Index Highlights

The REALTORS® Confidence Index measures the strength of the current housing market and expectations about the future. The index is based on information received from a random survey of Realtors®. The questions are designed to capture the effects of existing economic conditions and trends on the real estate business. This index provides Realtors® a snapshot of the experiences, sentiments and expectations of their counterparts.

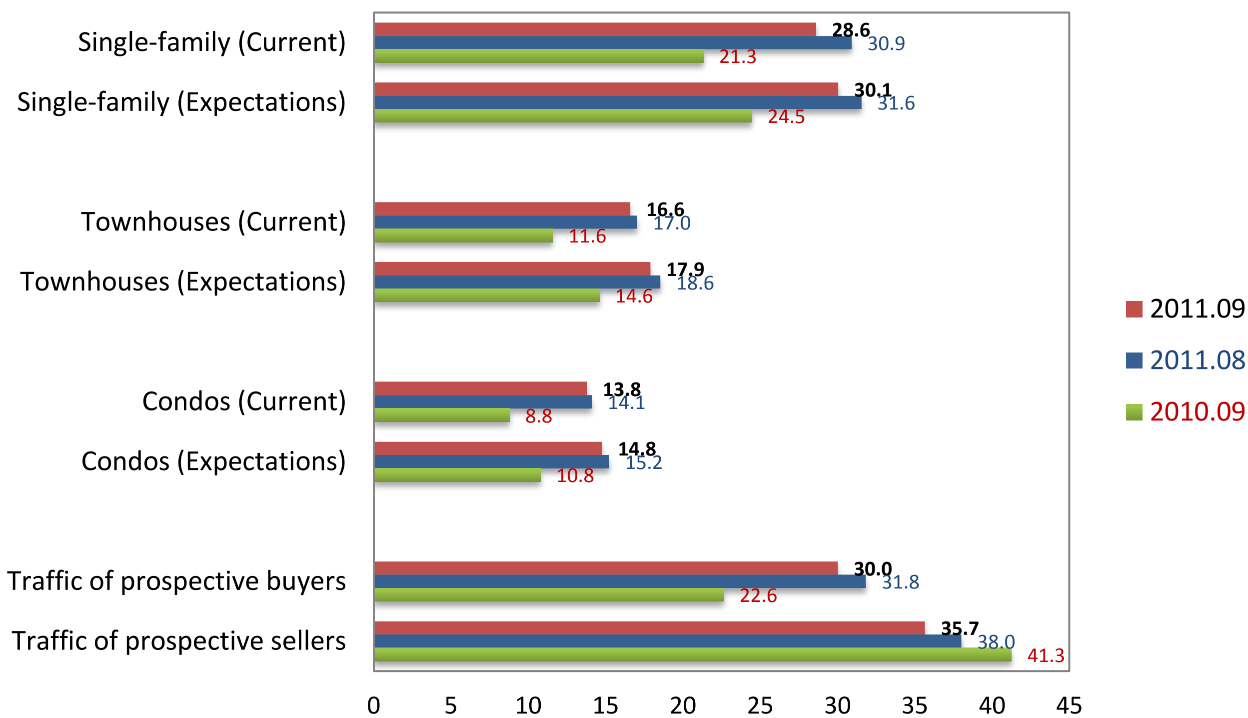
Each month participants respond to questions regarding the current and expected demand for homes, price trends, and economic conditions. The answers are then quantified and used to create the confidence index. Responses are assigned weights of 0, 50 or 100. A response of “strong” gets 100 points, while “moderate” is given 50 points, and “weak” is assigned 0 points. The index provides the average score for each question.

The results below reflect respondents’ confidence level as of **September 2011** and their future expectations, compared with both the previous month and the same month last year. The sample size for the monthly reports varies depending upon the number of responses, but the sample is always well in excess of the number of responses needed for a plus or minus 1 percent precision. The current month’s report is based on **3,637** Realtor® responses.

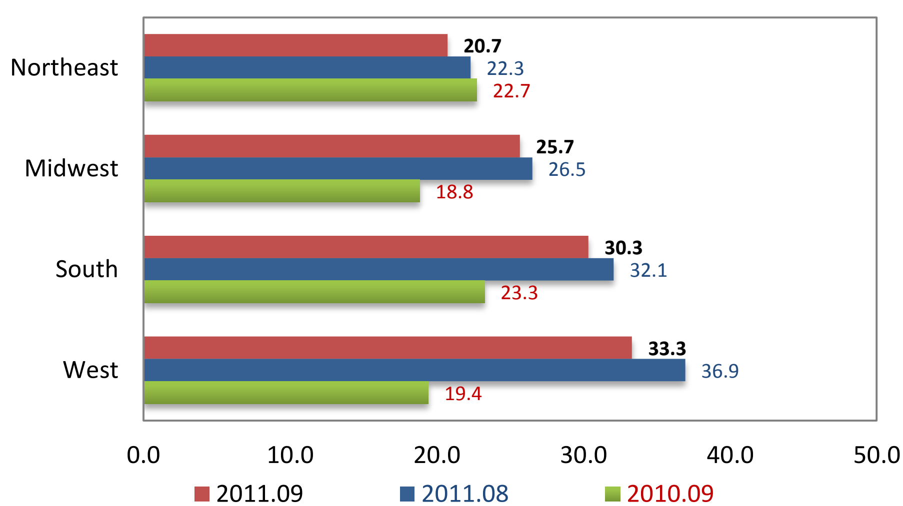
Current Month’s Reading: The REALTORS® Confidence Index for single-family home sales as reported in the September report decreased to 28.6 from last month’s level 30.9. The index was higher compared to last year’s conditions, when it registered at 21.3. The Index for town-houses was 16.6 in September down from last month’s 17.0. The index for condo also slipped to 13.8 from August’s 14.1. Both of Town-house index and condo index registered at higher values compared to last year’s 11.6 and 8.8, respectively.

PART I – Survey Results

Realtor® Confidence Index



REALTORS® Confidence Index by Region



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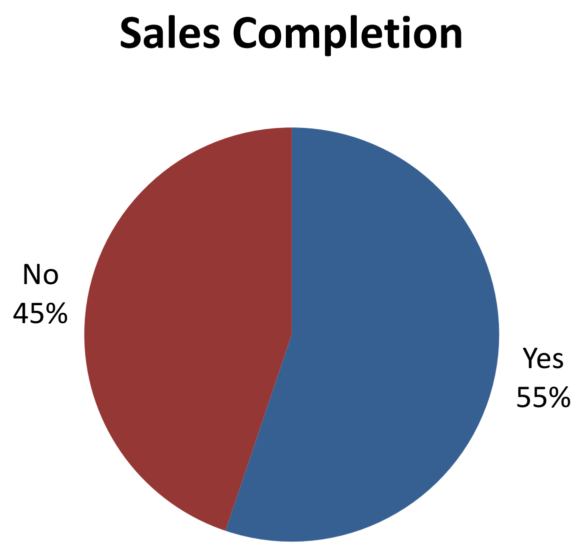
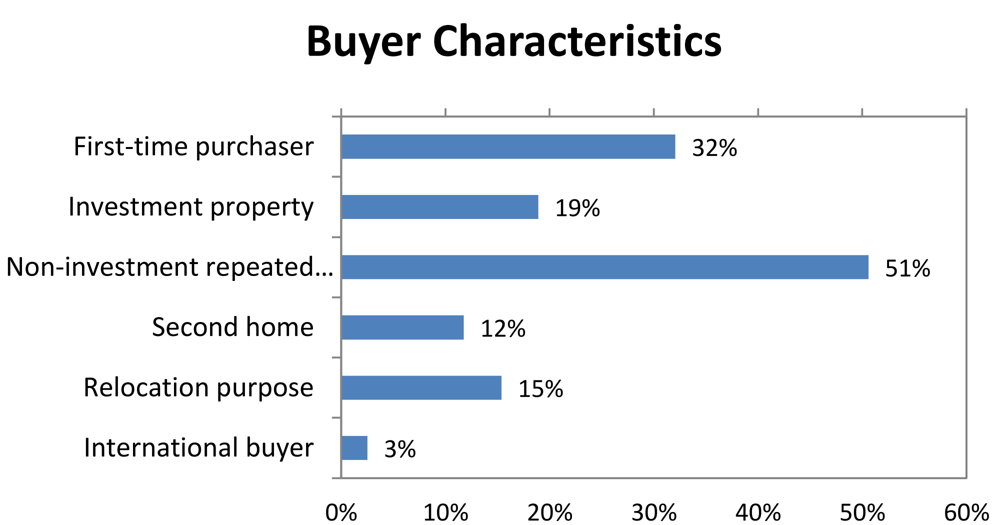
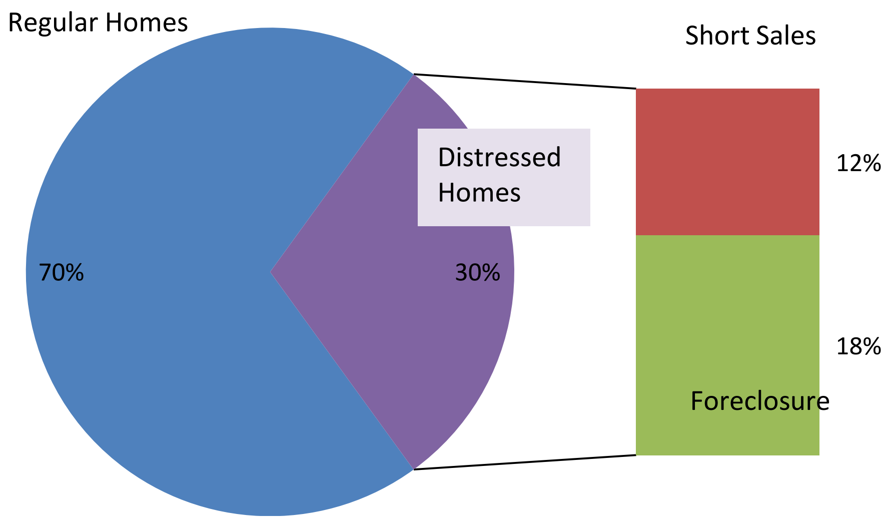


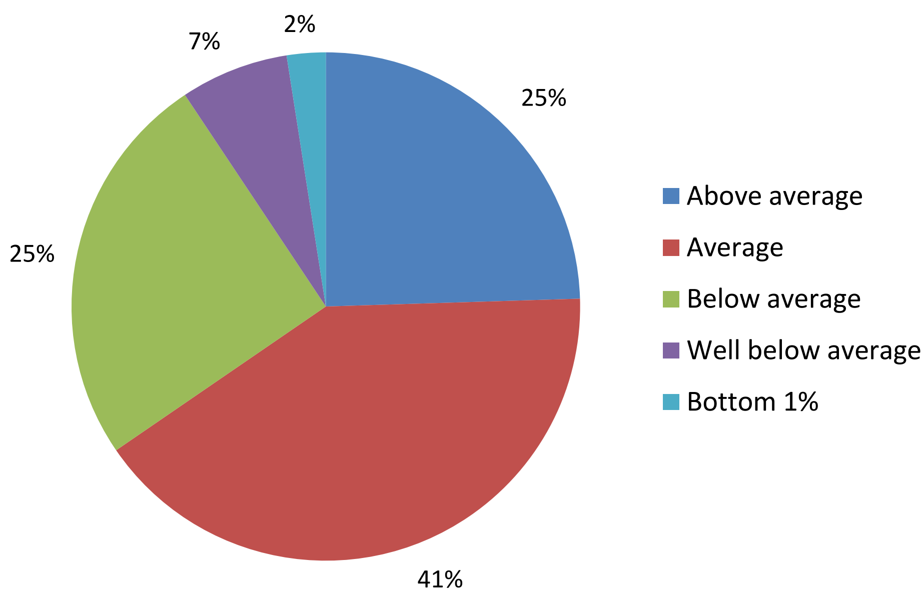


PART I – Survey Results

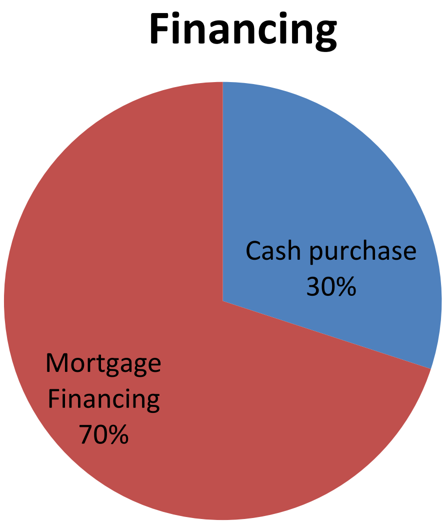
Distressed Home Sales



House Condition of Distressed Sales



PART I – Survey Results

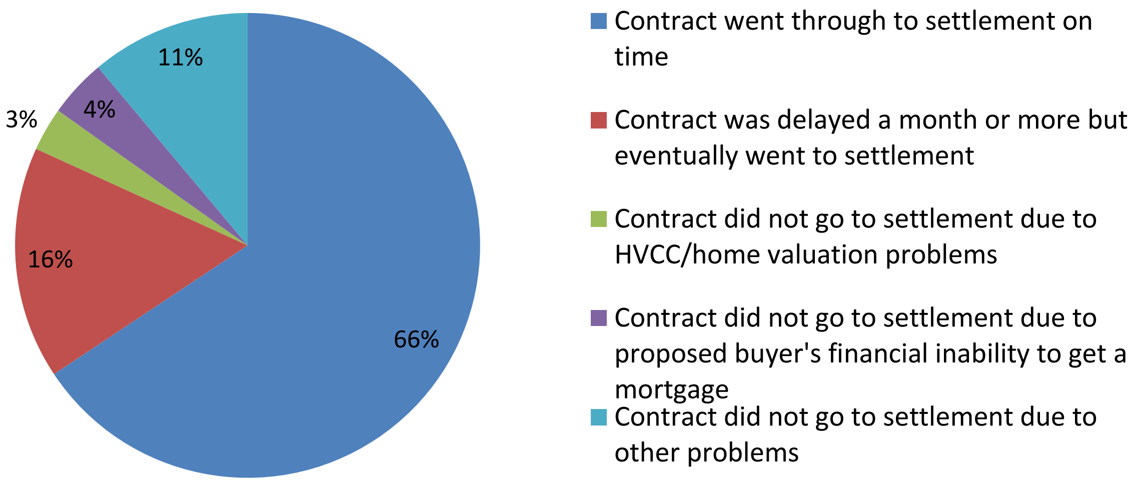


If the buyer obtained a loan, what percent was the down payment?

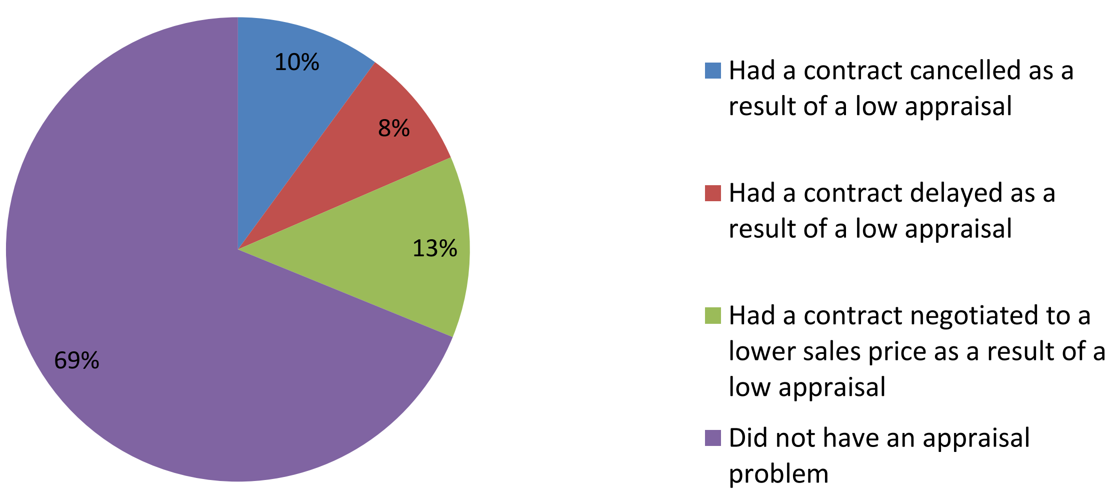
Buyer did not make a downpayment	20%
Buyer made a downpayment of 1% to 2%	3%
Buyer made a downpayment of 3% to 6%	30%
Buyer made a downpayment of 7% to 10%	7%
Buyer made a downpayment of 11% to 19%	5%
Buyer made a downpayment of 20% to 99%	35%

PART I – Survey Results

Did you have any problems in your last sales contract?



Did you have any problems in your pending contracts related to the appraisal?



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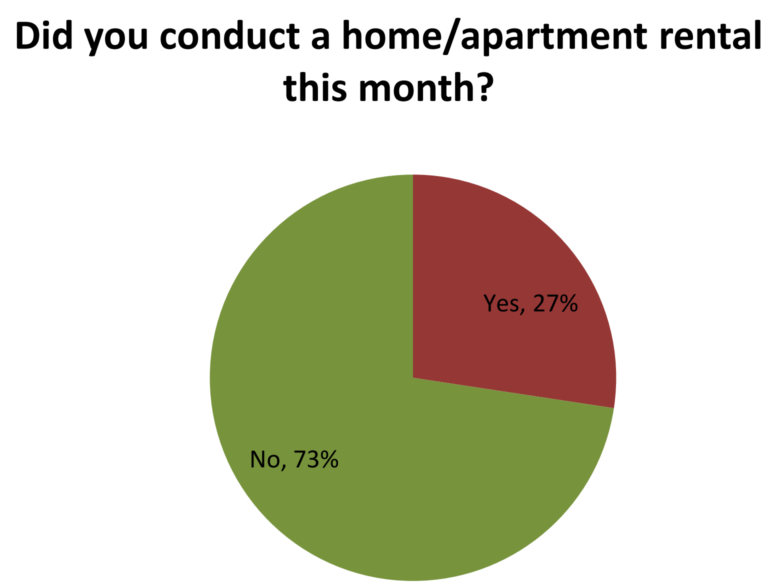
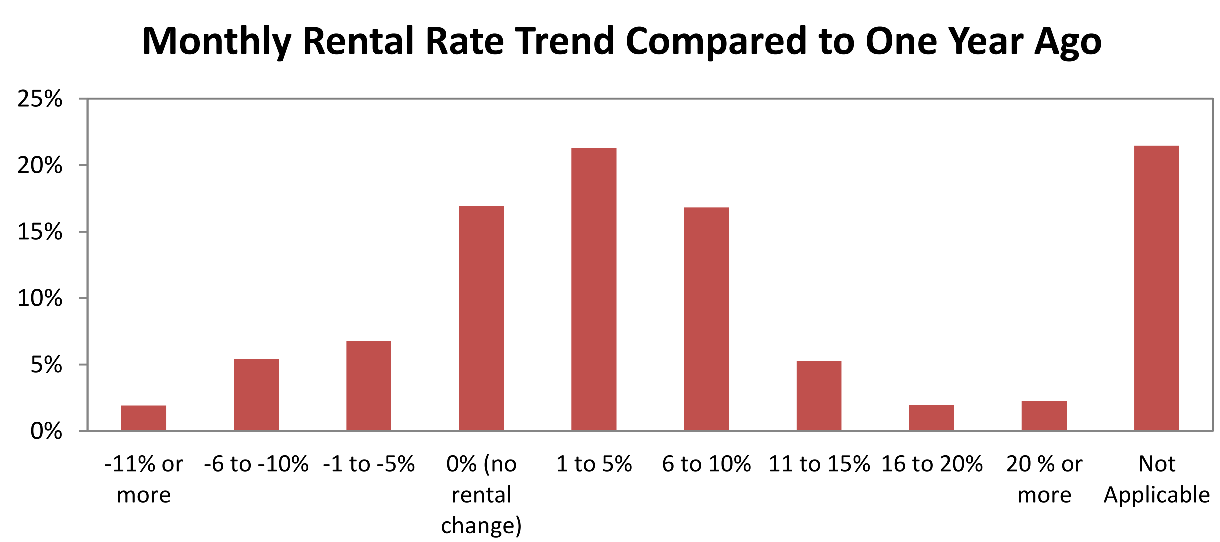
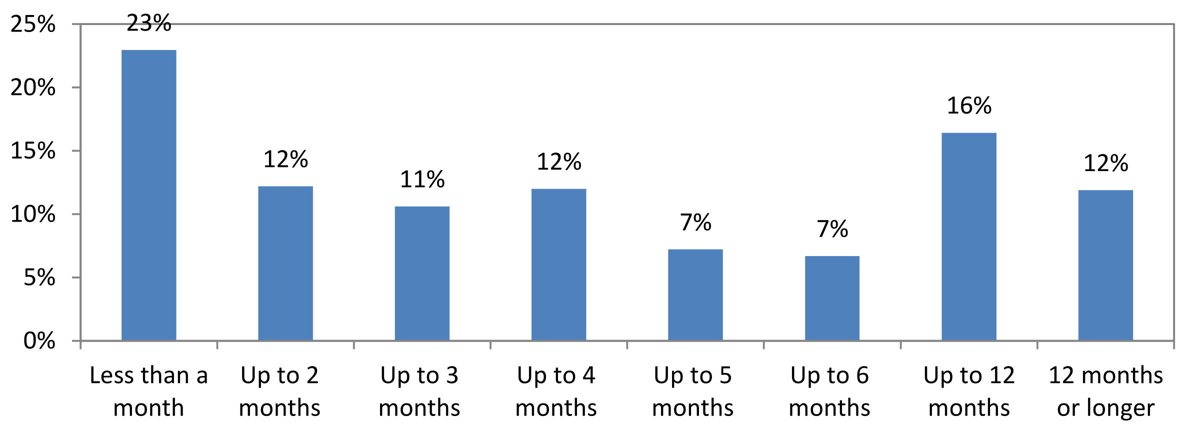


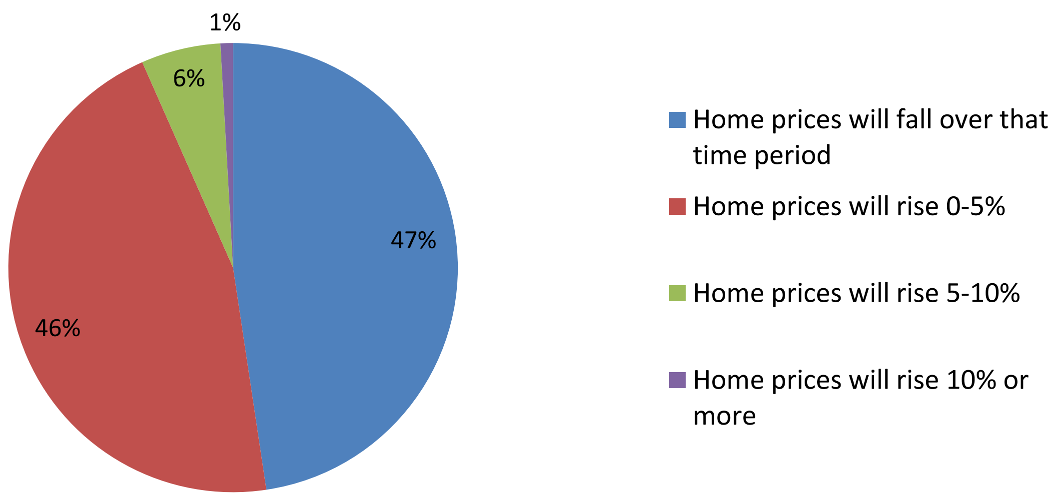


PART I – Survey Results

Day on the market for the last sold property



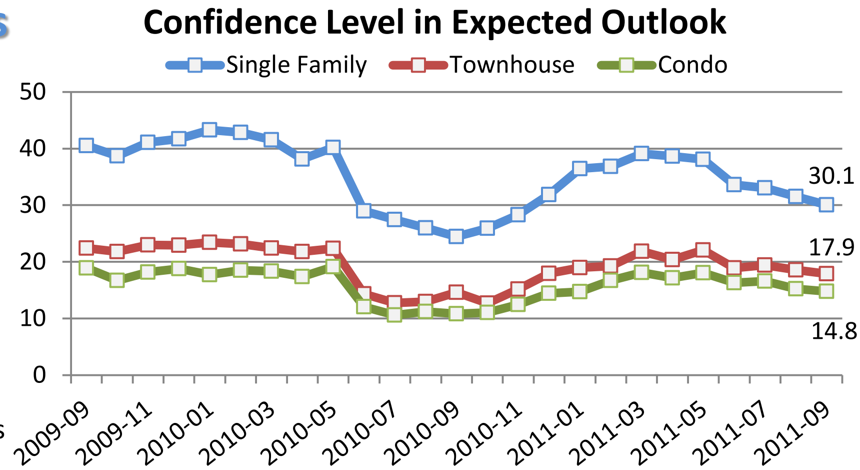
Expectations of home prices over the next year



PART II – Market Trends

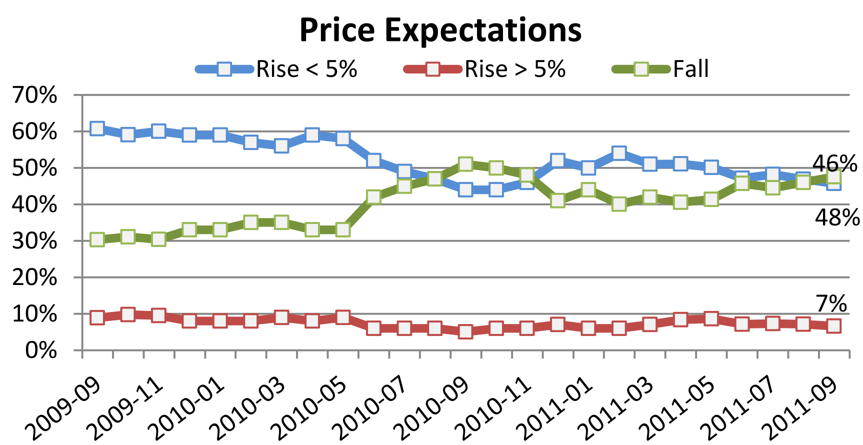
Expected Market Outlook for Single Family, Townhouse, and Condo Sales

In the September survey, Realtor® market expectation for single-family homes declined to 30.1 from 31.6 at the last month's level. In addition, both indices for townhomes and condos registered lower at 17.9 and 14.8 respectively. All three sectors were higher than last year's levels. A level of 50 represents "moderate confidence" in the outlook. Confidence is still under the 50 midpoint level in all cases.



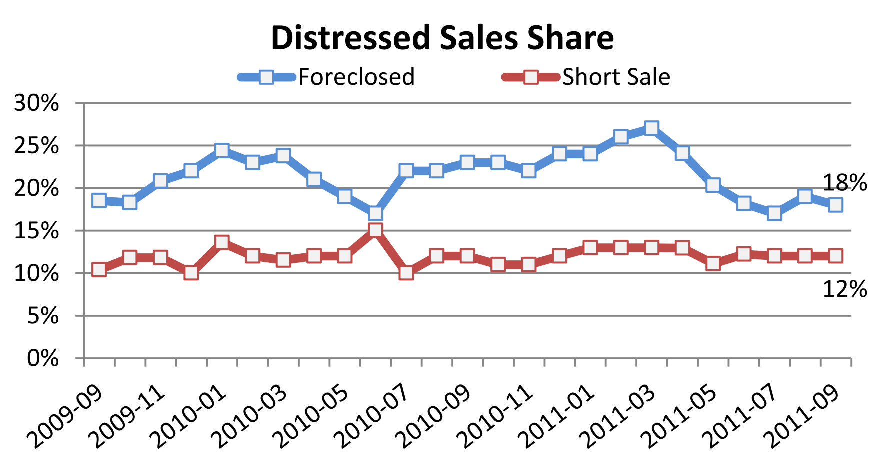
Price Expectations —Next Twelve Months

In the September survey, 46 percent of Realtors® expected that home prices will rise in the next 12 months, dropping from 47% in August. 7 percent of Realtors® expected prices will rise 5 percent of more for the forthcoming year. Finally, 48 percent expected the price will fall, which is higher than 46% in August.



Distressed Properties : Foreclosures and Short Sales

The current Survey reports that total distressed property sales (foreclosures plus short sales) trended downward to 30 percent of total sales from 31 percent in August 2011.



PART III – Economic Commentary

Riding the Investor Wave

By Lawrence Yun, Chief Economist, NAR Research

Interest rates continue at historic lows. Home prices in many markets are more affordable than ever. Indeed, housing affordability conditions are among the best they have ever been. So why aren't more people buying homes? One reason is exceptionally tight lending criteria have made it difficult for many buyers to take advantage of such attractive affordability.

For investors with cash, though, the situation is providing them with a golden opportunity. The investor share of home purchases has been creeping up. Investors accounted for 18 percent of home purchase activity in July; the share reached 22 percent in August. (The first-time homebuyer share fell after the homebuyer tax credit expired last year, and investors stepped in to fill much of the gap). Obtaining a mortgage for a non-primary, non-owner-occupied home is even more difficult than obtaining other types of loans. Consequently, a significant share of investors is purchasing properties via all-cash transactions. All-cash purchases represented 30 percent of all home sales transactions across the country and accounted for over half of the sales in hard-hit regions like Las Vegas and Miami.

At the same time, higher rents are also attracting investors to the market. Property management has its own challenges and isn't for everyone. But for those investors who have the capacity to either hire a property manager or manage a property themselves, the attractive rates of return from rising rental income is a strong lure. Rents rose at a better than 3 percent annualized rate in the third quarter of 2011, according to government data, and private data sources suggest even faster rent growth. Nor is there any reason to believe this rent growth will cool given the favorable demographics of a rising number of young adults over the next 20 years, a high number of "foreclosed" homeowners who cannot buy in the near term, and the very low construction rate of apartment buildings. If annual rent gains remain near 3.5 percent, rents will double in 20 years. If the rents rise 5 percent a year, rents will have doubled in 14 years.

In addition to strong returns on rental property, investors can anticipate solid home price appreciation over the long haul. Using 2000 as a "normal" year in which the market saw neither a bubble nor a bust, the metrics on home prices in relation to consumer prices imply a 14 percent undervaluation. The metrics on home prices in relation to rental rates imply a 20 percent undervaluation. The metrics on home prices in relation to income imply neither an overvaluation nor an undervaluation.

Given that the housing bubble has virtually deflated, the future path for home prices path should follow the future path for rent growth. That means home prices could also double in 14 to 20 years, though it is unclear as to when home prices will begin to catch up with rents. But long-term investors are sure to catch some if not most of the upward ride.

PART IV – Selected Comments

Residential Real Estate Markets

Current Challenges as Reported in the Realtors Confidence Index

By Jed Smith, Managing Director, Quantitative Research

The September Realtors® Confidence Index, based on a monthly survey with information from over 3,600 Realtors®, provides insights on current residential real estate market conditions. Realtors® reported in many cases that the bottom end of the market was relatively strong—possibly due to investor interest in bargain hunting. However, in terms of overall market conditions, many respondents noted that that current market is disappointing, largely due to economic concerns by potential buyers and limited credit availability due to unrealistic risk aversion by major financial institutions..

Many respondents indicated that potential buyers have lost confidence in the economic outlook. Some potential buyers have decided to defer purchases until the high level of economic uncertainty diminishes. The lack of jobs is seen as the major issue: Realtors® reported that many potential buyers with jobs were afraid to buy a home due to fears of a future job loss, salary cut, layoff, or general economic uncertainty. In addition, the media are viewed as creating unrealistic buyer concerns through unrealistically negative portrayals of economic and market conditions. A steady drumbeat of negative news is reported as having an unfavorable impact on the housing markets.

Exceptional risk aversion by lending institutions was also reported as a major problem facing the housing markets, with short-sale and appraisal problems also providing major negative impacts. As a result of concerns over shadow inventories, expectations of continually declining prices, and general economic malaise, buyers are reported as demanding major and unrealistic discounts from listed home prices. At the same time, potential sellers are reported as expecting unrealistically higher prices. The result in many cases is a standoff.

Once a contract is signed, in the current market there seem to be a number of problems that cause additional delays or cancellations:

• Short sale approvals by financial institutions are reported as a major problem. Typically the primary lien holder hopes to get a better price and frequently winds up with the property going to foreclosure, eventually getting less than was possible from a short sale. Delays and frustrated buyers are typical. In a number of cases the second mortgage holder refuses to cooperate, indicating that they want additional compensation.

• Realtor® comments noted problems with changing mortgage documentation and rating requirements, lost paperwork, last-minute turndowns, and an apparent lack of organization on the part of many lenders. Contract cancellations on the scheduled closing date were reported as financial institutions decided not to make the loan.

PART IV – Selected Comments (continued)

• Other reasons for contract cancellations and delays mentioned included job losses by potential buyers during the time period between loan application and scheduled settlement, problems with competence of the appraisers, failure of the house to pass inspection, and "cold feet" by the potential buyer.

• In the case of condos, all of the units in some projects ceased to qualify for financing in some cases due to an excessive number of rental units in the building or a homeowner association with major financial problems. Once these types of situations develop it is difficult for the properties to become again eligible for financing—resulting in perpetuating the problem.

In reviewing the hundreds of written responses to the survey it became clear that many of the mentioned problems—e.g., jobs, risk aversion, "cold feet"--would vanish quickly with a few quarters of significant economic growth. Regardless of the symptoms, the underlying cause of market problems appeared to be a lack of buyer confidence—in the banking system, the market place, and current economic policy. Accordingly, it would appear that a stronger economic recovery could have a major and relatively quick impact on the housing markets.

The Research Division of the NATIONAL ASSOCIATION of REALTORS® provides research products covering residential and commercial real estate. Please visit us at www.realtors.org/research.

NAR Research also provides analysis of monthly and quarterly economic indicators, such as GDP, Existing Home Sales, Pending Home Sales Index, Housing Affordability Index, and employment data that impact real estate markets over time. Additionally, NAR Research evaluates regulatory and legislative policy proposals for their impact on REALTORS®, their clients and America's property owners.

If you have questions or comments regarding this report, please contact Jed Smith, Managing Director, Quantitative Research at jsmith@realtors.org.

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