



Real Estate Wrap-Up 2007

Although statistics have only been reported for the first eleven months of 2007, the National Association of Realtors predicts the year will wrap up as the fifth best year on record for resale housing. That's the silver lining on the cloud of a declining residential real estate market. The years leading up to 2007 were so strong that despite the historical strength of last year, sales numbers declined and the market paled in comparison to the preceding record-setting years. Declining prices, growing inventories, and the problems associated with "creative" securitization of mortgages were the added factors making 2007 a less than banner year.

On a positive note, the luxury market outperformed the market in general. The very top of the market remained strong. New U.S. price records were set, broken, and set again in 2007.



State of the National NEW Home Market for October 2007*

Units sold: down **23.5%** ↓

Months of inventory: 8.5 months ↑

Days-on-market for sold properties: 177 days ↑

Housing starts: Lowest level since April of 1991 ↓

*Most recent data available as of this report, January 2008
Source: National Association of Home Builders

State of the National RESALE Market for November 2007*

Units sold: 388,000 units, down **17.8%** ↓

Median price: \$210,000, down **3.3%** ↓

Months inventory at current sales rate: 10.3 months, up **41.1%** ↑

Mortgage rate: 6.21% for 30-year conventional fixed rate

Home Sales by region

Northeast down **15.2%** ↓

Midwest down **15.5%** ↓

South down **17.5%** ↓

West down **22.8%** ↓

Based on actual, unadjusted transaction count as compared to November 2006

*Most recent data available as of this report, January 2008
Source: National Association of Realtors



Standard and Poor's Case-Shiller Home Price Index

(For the 12 months ending October 2007)

The Case-Shiller Index demonstrates that real estate is truly a local business. Over the past 12 months, some major metro market prices are up, others flat and many more are down. While the national trends often make the biggest news, it is important to understand what's happening in any given local market. The examples below illustrate how local markets vary at any point in time.

Up Markets

- Charlotte (NC) prices up **4.3%** ↑
- Seattle (WA) prices up **3.3%** ↑
- Portland (OR) prices up **1.9%** ↑

Flat Markets (less than 1% change)

- Dallas (TX) prices down **0.1%** →
- Atlanta (GA) prices down **0.7%** →

Down Markets

- Las Vegas (NV) prices down **10.7%** ↓↓
- San Diego (CA) prices down **11.1%** ↓↓
- Detroit (MI) prices down **11.2%** ↓↓
- Tampa (FL) prices down **11.8%** ↓↓
- Miami (FL) prices down **12.4%** ↓↓

About the Index: The S&P/Case-Shiller® Home Price Indices measures the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States. These indices use the repeat sales pricing technique to measure housing markets by collecting data on single-family home re-sales and capturing re-sold sale prices to form sale pairs. This index consists of 20 regional indices and two composite indices as aggregates of the regions. The S&P/Case-Shiller Home Price Indices are calculated monthly and published with a two month lag.



The Good News in Real Estate – Luxury Homes!

The U. S. housing market overall may have suffered from the doldrums in 2007, but wealthy home buyers continued to invest in homes at the very top of the market. According to market research firm DataQuick, in the major markets they track, home sales in the \$5 million and above price point jumped a whopping 31% in the first quarter of 2007 compared to the same quarter in 2006. This is especially impressive when one notes that the markets DataQuick tracks are primarily the “bubble markets” which went from boom to bust in 2007.

The Manhattan market is perhaps the best example of the stellar performance of the super luxury market segment. While the average price for an apartment in Manhattan reached \$1.4 million in the last quarter of 2007, up 17.6 percent from the fourth quarter of 2006 (according to data tracked by the brokerage firm Prudential Douglas Elliman), the prices were pushed to record levels because of the increasing number of apartments selling at more than \$10 million. Sales of Manhattan apartments priced at more than \$10 million tripled last year. Favorable mortgage money and substantial Wall Street bonuses helped fuel last year’s purchases. The pace of Manhattan sales may slow in 2008 due to the credit crunch and shrinking Wall Street bonuses.

Further illustrating the strength of the luxury home segment were the record home sales in 2007. In late November, the sale of Trinchera Ranch in Colorado for \$175 million set a new U.S. residential record. This sale broke the previous U.S. record of \$103 million, set earlier in the year in New York’s Hamptons.

Although the Colorado sale set a U.S. record, it fell short of the world record residential purchase -- also set in 2007-- with Sheikh Hamad of Qatar’s acquisition of a penthouse condominium in London for £100 million - equivalent to about \$200 million at the time of the sale.



Although the vast Colorado ranch, the ocean front lot in the Hamptons, and the London penthouse condominium are not apples-to-apples comparisons, they are each indicative of the health of the very top of the world's luxury home market.

According to the World Wealth Report, an annual study prepared by Merrill Lynch and CapGemini, the number of financial millionaires has jumped to 9.5 million worldwide. That's up 8.3% over the previous year's report. Of the total, 3.2 million are in North America. The report defines financial millionaires – also referred to as high net worth individuals (HNWI)—as those with a million dollars or more in investable assets, not including their primary residences. Total wealth of the group reached \$37.2 trillion in US dollars.

These wealthy households have invested 12% of their total portfolios in homes other than their primary residences. In short, there is more money than ever competing for homes at the very top of the market. As a result, the luxury market is the good news story in real estate, not just in the U.S., but internationally.

Note: As 2008 begins, there are six U.S. homes on the market for \$100 million or more. The most expensive is a Los Angeles estate listed for \$165 million.



2008

Looking Forward: Key Market Trends for Luxury Housing

1. The number of wealthy will grow and the rich will be richer than ever.

There's no end in sight for the luxury housing market thanks to demand driven by demographics. Short of a serious recession or terrible terrorist event, you can expect the very top of the luxury home market to keep humming along in 2008 in most U.S. markets.

There will be continued softening at the entry levels of the upper-tier where many aspirational affluents stretched to buy homes they really couldn't afford. But, activity should remain healthy at the top of the market. Nevertheless, expect some communities (Asheville, Charlotte, Manhattan, Austin) to outperform others (Miami, San Diego, Tampa, Detroit).

Key points: Target the luxury market segment, but recognize that real estate is a local business and you must analyze your market by price range to know where the hottest opportunities are. In many markets the market potential may be best at opposite ends of the spectrum—luxury and foreclosures.

2. Expect more cautious spending by the very rich and more focus on value.

The financial difficulties created by the securitization of mortgage loans (and not just the sub-prime ones) will be felt at all levels. The CDOs (collateralized debt obligations), SIVs (structured investment vehicles) and other "creative" forms of packaged mortgage loans



have been bought by institutional buyers from municipalities to major banks, pension funds, etc. We are starting to see the results of mortgage defaults and the resulting losses surfacing around the world. Financial institutions are in the headlines today with reports of big write offs. Morgan Stanley's \$9.4 billion write-down at the end of December is one example. The news in 2008 will start to focus on the municipalities, pension funds and others who bought the new-fangled mortgage derivatives and are just now discovering the extent of their losses.

These headlines will create a more cautious investor, hit some wealthy directly in their pocketbooks, cause more turmoil in the banking/financial markets, somewhat moderate the luxury buying frenzy we've had over the last several years, and focus activity at the very top of the market. The wealthy will pay more attention to the long term investment potential of property than in the past several years.

We'll still have big spenders—for instance, Russian billionaires will still complete for the longest yacht, most elaborate home, etc.—but, expect a bit more caution in the homebuying marketplace. Lifestyle desires and unique property features will still be the biggest influences on a luxury home purchase; however, buyers will also look more carefully for perceived value and safety of investment.

***Key points:** Recognize that even though a luxury home is an emotional purchase, you may also be called upon to explain why it is a smart long term investment as well as a great lifestyle choice for the buyer. Expect caution on the part of buyers, but remember the unique characteristics of the home and the lifestyle desires of buyers are still the big reasons for them to buy a residence.*



3. “Stealth Wealth” and a desire for privacy will be important motivators.

The have-yachts will want to separate themselves from the have-nots. Yet those who have wealth may choose to not flaunt it. The growing disparity of wealth will cause some wealthy to move more "under the radar." At the same time, the wealthy are reacting to mass affluence by looking for properties and locations that offer greater exclusivity and privacy. Remote locales served by private jet, boat, or helicopter will have new appeal. So will properties which offer unique experiences from olive groves that let you create your own personal brand of olive oil to sporting clubs providing unusual sports.

Key points: Recognize the need for discretion when working with the wealthy. They seldom want you talking about their transaction details. Expect locales that are both exclusive and “protected” to be in demand. Understand that the search is on for properties that offer interesting experiences. Assess your listings and the properties you show with these things in mind.

4. Environmental issues will rise to the forefront.

The desire to have a positive impact on the environment is growing. The wealthy are responding positively to self-sustaining property developments and other “green” property options. This is part of a bigger trend—using wealth for good.

Key points: Encourage your builders to “go green” when possible. Highlight environmentally correct features of the properties you list or show.



5. The wealthy are increasingly citizens of the world—luxury real estate will become even more international.

Wealthy buyers from abroad will continue to view U.S. real estate as a bargain and will look to purchase in U.S. locales which offer attractive lifestyles and good economic fundamentals. The falling dollar will continue to make U.S. residential real estate an attractive purchase. At the same time, more wealthy Americans will look abroad for second homes or retirement properties. The desire for tax havens will drive some purchases at the über level.

Key points: If you are in a major market, there is growing opportunity in the international segment—both in marketing your listings to international buyers and in helping your American clientele buy overseas. Begin to network internationally, get involved in international organizations such as The International Real Estate Federation (FIABCI) consider earning the Certified International Property Specialist designation (CIPS), go on trade missions, network with other agents who work the international market and learn what's working for them, and check out the many resources NAR offers in the international arena.