

Second-Home Owner Survey Shows Solid Market And An Appetite For More

By J. Lennox Scott

A recent survey of second-home owners conducted by the National Association of Realtors® reported that there are 6.8 million vacation homes in the United States and 37.4 million investment units in addition to 74.6 million owner-occupied homes. Baby boomers continue to dominate this market which is attributed to this segment's belief in diversifying their assets.

The NAR survey also indicated that there is a growing number of minorities who own second homes. In fact, minorities accounted for 11 percent of vacation home purchases between 2003 and 2005 in contrast with six percent of purchases in 2002 or earlier. In the investment property segment, minorities accounted for 17 percent of transactions between 2003 and 2005 compared with 11 percent in 2002 or earlier.

NAR immediate past president Tom Stevens said the term "second home" appears to be something of a misnomer. "The fact that so many owners of vacation homes and investment property have additional properties is a bit of a revelation," said Mr. Stevens. "We've always known that a certain segment has invested heavily in the rental market, and some people earn their living simply by holding and managing investment property. What we see now is a crossover between largely vacation- and investment-home owners, with people recognizing the value of those investments and pouring more assets into real estate," Mr. Stevens said.

The NAR survey showed that the typical vacation-home owner is 59 years old, married, earned \$120,600 last year, and purchased a property that is 220 miles from their primary residence. Three-fourths of vacation-home owners purchased for personal use, although one-third also wanted to diversify investments, and 18 percent intended that the home would become a primary residence in retirement. Buy comparison, the median age of an investment property owner is 55, married, with an income of \$98,600. Two-thirds of investment-home owners purchased their property to generate rental income, and half viewed the property as a way to diversify investments.

"With older baby boomers just now reaching 60 years of age, and younger boomers in their early 40s, the lifestyle preference of boomers will figure prominently into future demand for vacation homes," said David Lereah, chief economist for the National Association of Realtors.

On the other hand, ownership of investment property hinges on financial gains that can be expected from rental income and appreciation. "Mortgage interest rates, local economic conditions and the local rental market are more important factors in investment decisions. Cooling appreciation rates and greater loan oversight are expected to discourage the speculative element in the investment market, although that is likely to be a relatively small portion of the overall market," Mr. Lereah said.

Even so, 35 percent of all investment-home owners said they were planning to buy another home within two years. For those who currently own four or more investment units, 64 percent said they planned to buy another property within two years, and 17 percent said they planned to purchase five or more additional properties.

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REALTOR® J. Lennox Scott is the Chairman and CEO of John L. Scott Real Estate. Visit his Web site at www.johnlscott.com

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Contact:
Shelley Rossi
Director of Public Relations
John L. Scott Real Estate
(206) 230-7627
shelleyro@johnlscott.com