
2009 Profile of Home Buyers and Sellers Minnesota Report

Prepared for:
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Prepared by:
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NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate®

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Introduction

Buying or selling a home is a complex and, at times, daunting process. There are many options as well as constraints that households face when searching for the right home that will meet their needs today as well as in the future. For home sellers, the transition from one home to another often is driven by significant life events such as a job relocation or retirement. Recently, the unsettled economy has added another layer of uncertainty as both would-be buyers and sellers consider when, and even if, they should complete a real estate transaction.

A majority of home buyers and sellers rely on the services and expertise of real estate professionals to assist them with their transaction. In turbulent times, buyers and sellers appreciate the knowledge and expertise of real estate professionals who can guide them through each step of the transaction. One indicator of client satisfaction is that a majority of both buyers and sellers report that they would use the same real estate agent again or recommend that agent to others.

The NATIONAL ASSOCIATION OF REALTORS® surveys home buyers and sellers annually to gather detailed information about the home buying and selling process. These surveys provide information on demographics, housing characteristics and the experience of consumers in the housing market. Buyers and sellers also share information on the role that real estate professionals play in home sales transactions.

This report provides real estate professionals with insights into the needs and expectations of their clients. What do consumers want when choosing a real estate professional? How do home buyers begin the process of searching for a home? Why do some sellers choose to forego the assistance of an agent? The answers to these questions, along with other findings in this report, will help real estate professionals better understand the housing market and also provide the information necessary to address the needs of America's real estate consumers.

THE NATIONAL HOUSING ENVIRONMENT

Although evidence is accumulating that the economy is emerging from the Great Recession, there are a number of headwinds that may make the nascent recovery slower and more tentative than previous business cycle expansions. Significant job loss is one of the most tangible effects of the recession. Most sectors, with the possible exception of healthcare, have recorded significant decreases in employment. Even under the most optimistic expectations, it will take several years to reabsorb the unemployed and reduce the unemployment rate toward a level consistent with full employment.

The second long-lasting characteristic of the recession is the loss of trillions of dollars of household wealth since 2005. Households experienced falling home equity and sharply reduced financial asset values as stock markets worldwide posted some of the steepest declines in memory. For many households, the equity held in their home is the largest component of their wealth. Recently released data from the Federal Reserve shows that homeowners' equity holding relative to the value of their homes is near all-time lows. Downward pressure on home prices as well as extraction of equity through second mortgages and lines of credit has reduced the equity stake that households in the aggregate have in their homes. Unlike job loss, which directly affects a fraction of all households, the loss of wealth is broadly felt.

Evidence is emerging that households are working to strengthen their balance sheets by paying down debt and saving a greater portion of their paycheck. The national savings rate has increased from virtually zero to the high single-digits. Some experts speculate that the long-term impact will be slower growth as cautious consumers spend more carefully and rely less on credit. It is within this environment that tentative signs of stabilization are emerging in the housing market. In most areas of the country, home prices remain well below peak levels recorded in late 2005 and early 2006. However, unit sales have risen in some of the areas that have experienced the steepest decline in prices. Inventories of homes for sale have been pared to manageable levels. Housing affordability is at record levels, which has drawn cautious home buyers and investors into the market. Also contributing to the increase in home sales has been a tax credit available to first-time buyers. In fact, as detailed in this Profile, the share of first-time home buyers, typically around 40 percent of sales, rose to 47 percent during the period from mid-2008 through mid-2009.

Challenges remain, however. Consumers remain understandably cautious about the economy and their personal financial situation. While mortgage rates remain at very favorable levels, some home buyers find that securing a mortgage is both more time consuming and more difficult. In fact, one in ten recent home buyers reported that obtaining a mortgage was more difficult than expected.

Perhaps as important for the long-term resilience of the housing market, home ownership is still a goal that many aspire to achieve. For example, 62 percent of first-time buyers reported that the primary reason that they purchased a home was the desire to be a homeowner. Other benefits of ownership, while important, ranked lower for most first-time buyers. The dream of homeownership remains alive and well.

NOTES

In July 2009, the NATIONAL ASSOCIATION OF REALTORS® mailed an eight-page questionnaire to 120,038 consumers who purchased a home between July 2008 and June 2009. The survey yielded 9,138 usable responses with a response rate, after adjusting for undeliverable addresses, of 7.9 percent. There were 431 unweighted responses from Minnesota, yielding a response rate of 10.1 percent, which form the basis for this report. Consumer names and addresses were obtained from Experian, a firm that maintains an extensive database of recent home buyers derived from county records. Information about sellers comes from those buyers who also sold a home.

All information in this Profile is characteristic of the 12-month period ending June 2009, with the exception of income data, which are reported for 2008. In some sections comparisons are also given for results obtained in previous surveys. Not all results are directly comparable due to changes in questionnaire design and sample size. Some results are presented for the four U.S. Census regions: Northeast, Midwest, South and West. 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.

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Highlights

The real estate market offers a variety of choices, opportunities and challenges for home buyers, sellers, and real estate professionals helping them with their transactions. For home buyers, there are numerous ways to search for and find a home, a variety of mortgage products to finance their home and a growing list of services that their agent can provide to assist them in the process.

Home sellers can choose to sell their home themselves or enlist the professional assistance of an agent who can provide various levels of service to best suit each home seller's needs. Because the real estate market is always evolving, it is important for real estate professionals to have a clear picture of today's home buyers and sellers. The *2009 Profile of Home Buyers and Sellers* describes the characteristics and motivations of recent home buyers and sellers in Minnesota and in so doing helps real estate professionals track the changing demands of consumers in a dynamic market.

Characteristics of Home Buyers

- Forty-nine percent of recent home buyers were first-time buyers, compared to 47 percent nationwide.
- The typical first-time home buyer was 28 years old, while the typical repeat buyer was 44 years old, nationwide first-time buyers were typically 30 and repeat buyers were typically 48 years old.
- The 2008 median household income of buyers was \$73,900 this is about the same as the median income of buyers nationwide which was \$73,100.
- The median income was \$62,400 among first-time buyers and \$92,300 among repeat buyers.
- Twenty-three percent of recent home buyers were single females, and 10 percent were single males. Nationwide, twenty-one percent of recent home buyers were single females, and 10 percent were single males.
- For 37 percent of recent home buyers, the primary reason for the recent home purchase was a desire to own a home.

Characteristics of Homes Purchased

- New home purchases were at the lowest level in eight years nationwide—down to 18 percent of all recent home purchases. This is reflective in Minnesota—13 percent of homes were new.
- The typical home purchased was 1,880 square feet in size and was built in 1984.
- Seventy-four percent of home buyers purchased a detached single-family home.
- The median price of home purchased was \$195,000 compared to \$185,000 nationwide.
- When considering the purchase of a home, commuting costs were considered very or somewhat important by 80 percent of buyers.

The Home Search Process

- For forty-four percent of home buyers, the first step in the home-buying process was looking online for properties.
- Eighty-eight home buyers used the Internet to search for homes.

- Real estate agents were viewed as a very useful information source by 81 percent of buyers who used an agent while searching for a home.
- The typical home buyer searched for 10 weeks and viewed 15 homes. This compares to 12 weeks and 12 homes viewed by the typical buyer nationwide.

Home Buying and Real Estate Professionals

- Seventy-four percent of buyers purchased their home through a real estate agent or broker.
- Twenty percent of buyers purchased a home in foreclosure. Nationally, 10 percent of buyers purchased a home in foreclosure.
- Fifty-one percent of buyers found their agent through a referral from a friend or family member.
- Sixty-eight percent of buyers would definitely use their real estate agent again or recommend the same agent to others.

Financing the Home Purchase

- Ninety-three percent of home buyers financed their recent home purchase. This is similar to all buyers nationwide—92 percent financed their recent home purchase.
- The typical buyer financed 94 percent of their recent home purchase.
- Nearly half (48 percent) of home buyers reported they have made some sacrifices such as reducing spending on luxury items, entertainment or clothing.
- Nearly one-quarter of first-time buyers reported their mortgage application and approval process was somewhat more difficult than they expected, and 7 percent reported it was much more difficult than expected.

Home Sellers and Their Selling Experience

- Eighty-seven percent of sellers were assisted by a real estate agent when selling their home. Nationwide, 85 percent of sellers used a real estate agent when selling their home.
- Recent sellers typically sold their homes for 95 percent of the listing price, and 59 percent reported they reduced the asking price at least once. Among all sellers nationally, sellers typically sold their homes for 95 percent of the listing price, and 60 percent reported they reduced the asking price at least once.
- Thirty-two percent of sellers offered incentives to attract buyers, most often assistance with home warranty policies and closing costs.

Home Selling and Real Estate Professionals

- Forty-two percent of sellers who used a real estate agent found their agents through a referral by friends or family, and 26 percent used the agent they worked with previously to buy or sell a home.
- Ninety-two percent of sellers reported that their home was listed or advertised on the Internet.
- Among recent sellers who used an agent, 76 percent reported they would definitely (55 percent) or probably (20 percent) use that real estate agent again or recommend to others.

For-Sale-by-Owner (FSBO) Sellers

- The share of home sellers who sold their home without the assistance of a real estate agent was 8 percent this is slightly lower than the national share of 11 percent.
- More than half of them knew the buyer prior to home purchase.

- The primary reason that sellers choose to sell their home without the assistance of a real estate agent to a buyer they did not know was that they did not want to pay a fee or commission (50 percent).
- More than one-third of FSBO sellers took no action to market their home, and 68 percent did not offer any incentives to attract buyers.
- Thirty-three percent of FSBO sellers reported understanding and performing paperwork was the hardest part of selling their home.

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Conclusion

Home buying and selling remains an important segment of the national and local economies, especially due to the housing sector's unique power to revitalize the economy during challenging times. With historically low mortgage rates, buyers and sellers continue to have opportunities to trade up, trade down, relocate or purchase a second home. First-time buyers are now 47 percent of the market, are discovering and capturing the benefits of homeownership, which contributes to significant wealth accumulation, among other financial, social, and personal rewards.

Consumers rely on the experience and expertise of real estate professionals to assist when buying and selling a home. Working in an extremely competitive environment, agents and brokers provide high levels of service to meet the varied needs of home buyers and sellers. The value that consumers place on the services offered by real estate professionals is reflected in the large majority of both buyers and sellers who would use their agents again or recommend them to others.

The *2009 Profile of Home Buyers and Sellers* allows real estate professionals to better understand their clients and how their needs are changing over time. For example, survey results show that typical Minnesota buyers were younger than buyers nationwide and purchased foreclosures at a much higher rate than the nationwide share. Information in this report will assist REALTORS® as they strive to meet the varied needs of their clients while offering superior service to America's home buyers and sellers.