

As seen in **USA Today**
Wednesday, April 5, 2006

Where **SOLD** Means More

RECE & NICHOLS



RECE & NICHOLS

Real Estate
Mortgage
Title
Insurance

Second homes 40% of market

Highest level ever helps drive up prices

By Noelle Knox
USA TODAY

Americans snapping up second homes — as investments or vacation properties — accounted for four out of every 10 sales of existing homes last year, a record that helped drive the real estate market to new highs, according to a report being released today by the National Association of Realtors.

Nearly 28% of homes bought last year were for investment purposes, and an additional 12% were vacation homes, the figures show. Most of the buyers were baby boomers in their top earning years, looking toward retirement and hoping to build wealth or find a more desirable place to live.

"Baby boomers are such a powerful economic force," said Dave Jenks, co-author of *The Millionaire Real Estate Investor*. "They're using their wealth to go buy second homes."

The typical investment buyer last year was 49 years old with annual income of \$81,400. He or she paid \$183,500 for the median-priced investment home, up 24% from 2004.

"Real estate, over the past five years, has outperformed virtually every other investment vehicle," said Ron Peltier, president and chief executive of HomeServices of America, the country's second-largest residential brokerage firm. "A lot of people have just speculated in real estate."

The trend really started after 1997, when Congress changed the tax code, allowing most homeowners to duck capital gains taxes when they sold their homes. The exemption is \$500,000 for married couples, \$250,000 for singles, if it was their primary residence for two of the past five years.

Under the old system, the only way to avoid the tax was to "roll" the gains into another home of equal or greater value. Americans bought bigger and costlier homes. But now, they can downsize and use the equity built up in their homes to buy second homes.

"That's what spurred all this on in the beginning," says David Lereah, the NAR's chief economist. "It's like all the stars are aligned. The tax situations helped, but at the same time, baby boomers were entering their peak earning years. That's why we just boomed in second homes."

He thinks the trend crested in 2005. With rising interest rates, tighter lending standards and slower price appreciation, Lereah expects second-home sales to drop this year to 30% of all existing-home sales, and maybe into the 20% range.

"What's going to be leaving the market right now are the speculative investors who came into the market and were trying to flip homes," he said. "They were buying one, two, three or four properties at a time, and that was distorting the numbers."

Sales of vacation homes, though, are expected to stay strong for years, because the youngest baby boomers are only 42 this year.

The typical vacation home buyer last year was 52 years old, earning \$82,800 a year, and purchased a property that was about 200 miles from the primary residence. The median price was \$204,100, up 7.4%.

More than three-fourths of the buyers had no interest in renting their property. About 20% said it would one day be their retirement home.

Joe Klein and his wife bought their first vacation home last year on Lake Wabedo in Minnesota, three hours from their primary residence. He says he might like to retire there but might have to persuade his wife.

"It's something that we could hand down to the kids," says Klein, 42, a program manager for a medical company. "But secondly, I see it as an investment. If we had to, we could sell it to help pay for their college."

Boomers buy for investment, fun

What the properties are used for (in millions):



Source: National Association of Realtors

By Frank Pempa, USA TODAY