Date: July 17, 2013

To: National Association of REALTORS®

From: Joe Goode

New PULSE Survey Shows Improved Perception of Housing Market

As housing sales increase, public perceptions of the housing market have also improved. The new PULSE survey shows a stronger environment for home sales and home ownership and less concern about jobs and foreclosures than in 2011. In short: ***It's getting better.*** While economic uncertainties remain, it's clear that Americans are more upbeat about real estate sales and home ownership.

Attitudes towards housing have improved in a number of areas. Nearly four-in-ten Americans feel that activity in their local housing market has increased in the past year. There is less concern than in the past about the drop in home values. Indeed, almost half say home prices are more expensive than they were a year ago. Perhaps most importantly, Americans are much more likely to expect real estate sales to increase in the year ahead rather than decrease.

While most of the trends are in the right direction, there remains uncertainty about the economy overall and certain aspects of home ownership. As in 2011, most say the country's general direction is pretty seriously off on the wrong track. There are lingering concerns about the housing market collapse and subsequent drop in home values. Many homeowners would like to move, but do not think they can sell their home in the current market. Just under half do not think they could sell their home for what they paid for it.

Still, Americans overwhelmingly believe that buying a home is a good financial decision. Home ownership remains one of the top life priorities of people who currently rent. Yet the obstacles to home ownership are stubbornly unchanged: low wages and low savings continue to make housing too expensive for many. Class divisions are sharp, as working and lower income Americans have yet to experience much economic improvement and feel more stress and strain over housing costs. These struggling families have also seen less positive movement in the housing market than those on the higher end of the income scale.

Previous PULSE surveys showed the state of the American economy driving opinions on housing issues. The same correlation holds this year but somewhat in reverse: as job concerns decrease, housing concerns have also lessened and positive perceptions improved. Major findings from this year's survey include:

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- Concern over job layoffs and unemployment dropped 13 points since 2011, from 61 percent to 48 percent.

- Concern over home foreclosures showed an even steeper decline from 47 percent characterizing foreclosures as a very or fairly big problem to 29 percent today (-18 points).

- More than one-third (38 percent) feel that activity in their local housing market increased in the past year, compared to just 22 percent who report a slow down in activity. By contrast, in 2011 **51 percent** reported a slow down in activity.

- Americans see continued improvement, as 37 percent expect real estate sales to increase in the year ahead, compared to just 7 percent who foresee a decline.

- Concern that the value of a home will decline after purchase as a major obstacle to buying a home dropped 11 points (from 36 to 25 percent).

- Eight-in-ten Americans believe buying a home is a good financial decision, up 8 points since 2011. More than two-thirds (68 percent) say now is a good time to buy a home.

- While concern about jobs has dropped, confidence in job security remains one of the primary obstacles to home ownership. Having enough money for a down payment and not making enough money to afford a home top the list, along with having too much debt from college and student loans.

- Renters are now thinking more about buying a home than they were in 2011 (up 11 points, from 25 to 36 percent) while those who say they prefer to rent dropped 6 points (from 31 to 25 percent). Half of renters now say that eventually owning a home is one of their highest personal priorities (+9 points from 2011, from 42 to 51 percent).

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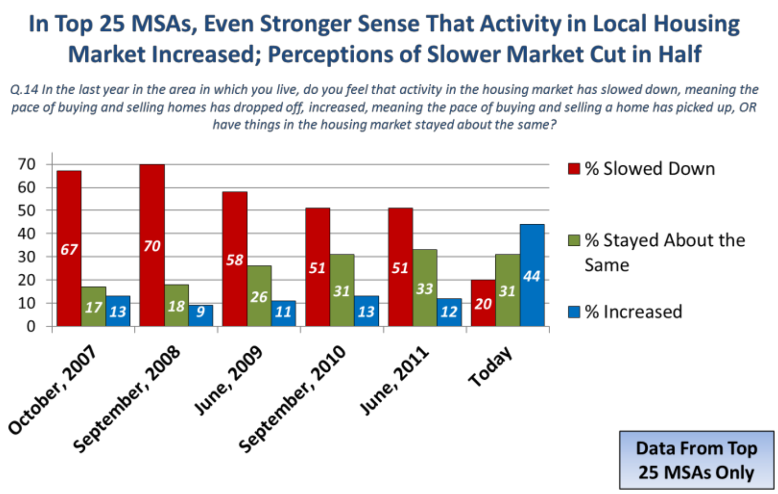
PULSE TRENDS: IT'S GETTING BETTER

Throughout the ups and downs in the housing market in the past six years, Americans have continued to believe that buying a home is a good financial decision. Even at its lowest point in 2011, 61 percent *strongly* believed in the financial benefits of home ownership. Now 80 percent believe buying a home is a good decision (70 percent *strongly, +9* points). Indeed, even as prices rise in some markets, more than two-thirds (68 percent) believe now is a good time to buy a home.

Positive attitudes about home buying are reflected in Americans' perceptions of the market. Nearly four-in-ten (38 percent) feel that activity in their local market has increased in the past year. This is a remarkable turn around from the last PULSE survey in 2011, when just 11 percent reported an increase in activity and a majority (51 percent) said things had slowed down. The graph below shows the trend since 2007 in the top 25 Metropolitan Statistical Areas. For the first time, perceptions of a slow market dropped by over half to just 20 percent – outnumbered two-to-one by those who say activity has increased.



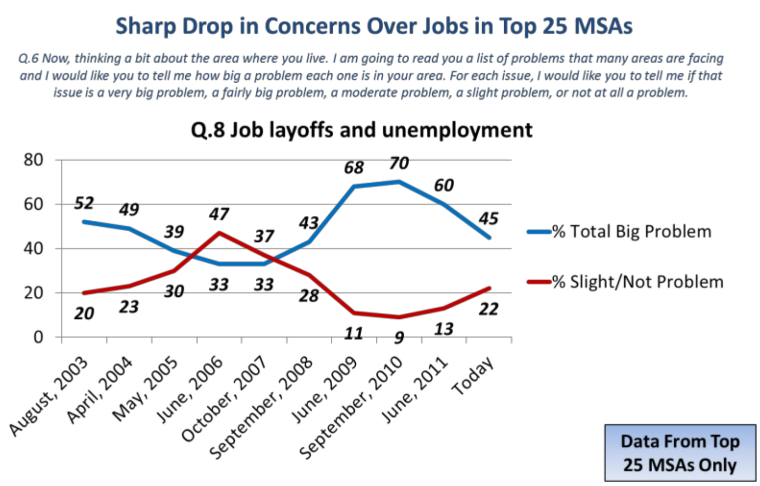
There is some variation in market perceptions. College graduates (50 percent increased) are much more likely to say the market has picked up than non-college grads (30 percent increased). There is also a strong correlation by income: the higher one's income, the more likely a perceived increase in market activity.

Americans are also bullish about the year ahead. Thirty-seven percent expect real estate sales to increase in the year ahead. In 2011, just 23 percent foresaw an increase. Only seven percent expect sales to fall. Again, better-educated and higher income individuals are more likely to predict an increase, but even lower income and non-college grads are more likely to expect sales to increase rather than decrease.

Higher demand has led to an increase in house prices. Almost half (49 percent) believe prices in their neighborhood are more expensive than they were a year ago. Perceptions of higher prices are especially strong in the Pacific West (62 percent more expensive) and the Mountain West (60 percent). Hispanics (60 percent) are more likely to see an increase than non-Hispanics (47 percent) and renters (58 percent) see higher house prices than homeowners (47 percent).

There is regional variance in market performance and outlook, with those in the Mountain West and Pacific Coast states seeing more activity in their markets (48 and 46 percent respectively), and anticipating continued increases ahead (42 percent in the Mountain States and 45 percent on the Pacific Coast). As noted above, these areas are also much more likely to report that house prices are more expensive than they were a month ago. Americans in the Midwest and Southeastern states also see an increase in activity in the past year, but less so than in the West (38 percent in the Midwest and 35 percent in the Southeast). They are also somewhat less optimistic about the year ahead (34 percent believe activity will increase). The Northeast states fall in between, with assessments of the past year similar to the South and Midwest, but with a more optimistic outlook for the year ahead that is closer to the Western states.

Parallel to improved housing market perceptions is a drop in concern over job layoffs and unemployment. While still the top concern tested, just under half (48 percent) say job layoffs and unemployment are a big problem – down from 61 percent in 2011. The graph below shows the steady decline of jobs as a big problem in the top 25 MSAs.



Additional evidence of an improving economy can be seen in the decline of foreclosures as a big problem – down 18 points from 47 percent in 2011 to 29 percent today. Foreclosures, however, remain a larger concern among those who say they are "struggling" economically (41 percent very or fairly big problem) as opposed to those who say they are in the business or professional class (21 percent).

Trends on home values and home ownership show steady improvement in other areas as well. While over half (58 percent) are still very or somewhat concerned about the drop in home values, the overall level of concern is down 12 points from 2011 (70 percent), with almost all of the drop coming from those who are "very" concerned (42 down to 31 percent). Indeed, being concerned that the value of a home will decline after buying it as an obstacle to buying a home dropped 11 points (from 36 percent saying it was a "huge" obstacle in 2011 to 25 percent today).

Improved perceptions about the market and the economy could lead to even stronger gains in the months ahead. The slow gains in the economy appear to finally be influencing consumer behavior. For example, renters are now thinking more about buying a home than they were in 2011 (up 11 points, from 25 to 36 percent) while those who say they prefer to rent dropped 6 points (from 31 to 25 percent). Half of renters now say that eventually owning a home is one of their highest personal priorities (+9 points from 2011, from 42 to 51 percent).

Weak Underbelly

While all of the aforementioned trends are mostly positive, there remain concerns about the economy and housing market. Indeed, without the benefit of hindsight, many of these survey results would be cause for alarm. For example, half the country categorizing job layoffs and unemployment as a very or fairly big problem does not portend a broad recovery. But seen in the context of past polls, the number is a big improvement.

Overall, Americans remained concerned about the country's direction as a strong majority (58 percent) perceive things to be pretty seriously off on the wrong track – virtually unchanged from two years ago (57 percent wrong track). While these numbers are heavily influenced by partisanship (Republicans are much more negative in their assessments – 84 percent wrong track), independents remained troubled (61 percent wrong track) and even 36 percent of Democrats are not satisfied.

Moving from the generalities of the country's direction to the specifics of the economy and home ownership, there is other evidence of lingering uncertainty:

- A majority (58 percent) remains concerned over the drop in home values in their area. This concern is particularly acute among African Americans (44 percent very concerned; 66 percent overall concern) and in households that make between forty to sixty thousand dollars a year (69 percent total concern).

- Nearly two-thirds (64 percent) are very or somewhat concerned about the high prices for homes and rent, mostly unchanged from 2011 (62 percent). Those who live in the Pacific West, non-whites, non-college women, and households that make less than $40,000 a year are particularly stressed.

- There's been no change in the number of Americans whose rent or mortgage causes significant (21 percent) or slight (22 percent) strain to their monthly budget. In the top 25 MSAs, fully 25 percent say housing costs cause a significant strain – up two points from 2011 and the highest stress level since this question was first asked in 2007.

Equally troubling is the lack of significant movement among homeowners on key measures of housing mobility. Despite the rise in home prices noted above, fully 44 percent of homeowners do not think they could sell their house for what they paid for it. Almost one-third (31 percent) *strongly* agree, a sentiment that is especially pronounced among African Americans (44 percent strongly agree), homeowners under the age of 35 and condominium owners (46 percent strongly agree). Midwest and Pacific West states homeowners are more likely to feel under water than in other areas of the country.

There are also a large number of Americans who would like to move but do not think they could sell their house in the current market. One-quarter *strongly* agree with this sentiment and another 12 percent somewhat agree. Regionally, homeowners in the Midwest are most likely to feel stuck. There are expected differences by education and income, with less educated and lower income families feeling more restricted by the market. Among self-described "struggling" homeowners, fully 57 percent say they would like to move but do not think they could sell their house.

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Obstacles to Home Ownership

The improving trends noted earlier in this report are less in evidence when it comes to Americans' assessment of the obstacles to home ownership. As the table below shows, there has been virtually no change to the major obstacles to home ownership, all of which underscore the economic hardship many continue to face in the current economy: job security, wages and saving enough for a down payment.

	% Huge Obstacle 2011	% Huge Obstacle 2013
Having a full time job but still not making enough to afford a home or apartment close to work.	50	49
Having too much debt from college and student loans.	NA	49
Having enough money for a down payment and closing costs.	49	45
Having enough confidence in their job security.	44	39
Banks making it too hard to qualify for a home mortgage loan.	39	37
Having enough confidence that they would be approved for a home mortgage.	33	30
Being able to find a home they like that they can afford.	30	29
Being concerned that the value of the home will decline after buying it.	36	25

College and student loan debt is also a huge obstacle to home ownership (49 percent huge obstacle; 77 percent huge or medium). This is the first time PULSE has tested student loan debt, and it proves to be a real detriment across the board – young and old, college graduates and non-graduates. The latter is likely due to those who may not have completed a four-year degree, but still attended some college or post high school training program.

One bright note is the 11-point drop in being concerned that the value of the home will decline after buying it (from 36 percent to 25 percent). Clearly the increase in sales and prices discussed elsewhere in this report is lessening this particular obstacle to home ownership.

Why Homeownership Matters

Homeownership affords Americans the opportunity to realize core needs such as financial security, safety and living in area of their choosing. But as the table below shows, there are a variety of reasons as to why home ownership is important, with high scores for virtually every reason tested. Homeownership underscores basic American values and freedoms, including free enterprise and personal choice.

Reasons Why Homeownership is Important

Q.47 Now I am going to read you a list of reasons that some people have given for why it is important to own a home. Please rate each reason on a scale of 1 to 10, where 1 means it is not at all an important reason to own a home, and 10 means it is a very important reason to own a home. You can use any number from 1 to 10.

WHY HOMEOWNERSHIP MATTERS			
	Mean on 1-10 Scale	% Rank 10	% Rank 8-10
Home ownership means the money you spend on housing goes towards building equity, rather than to a landlord.	8.5	49	73
Home ownership provides a stable and safe environment for children and other family members.	8.4	49	75
Home ownership creates the opportunity to live in a neighborhood that you enjoy.	8.3	45	73
Home ownership creates the opportunity to pay off a mortgage and own your home by the time you retire.	8.1	43	68
Home ownership allows you the right to decorate, modify and renovate your home as you see fit.	8.0	45	67
Home ownership is an investment opportunity that builds long term wealth and increases net-worth.	7.9	37	65
Home ownership improves your credit which creates more borrowing power.	7.8	38	64
Home ownership means a stable and predictable monthly mortgage payment.	7.8	35	62
Home ownership allows you to deduct the mortgage interest and property taxes you pay on your federal income tax return.	7.7	38	60
Home ownership ensures your children can stay in the public schools in your neighborhood.	7.6	38	62

While there are only small variations in the top tier reasons, building equity, a safe environment and choosing where to live rise to the top. Second tier values echo the importance of equity, with the end game of owning a home for retirement in sight and the simple joys of creating your own environment as you see fit. The various financial benefits of home ownership make up most of the third tier, somewhat less important than the top scoring reasons, but still high in importance for nearly two-thirds of Americans.

These scores and rank order are nearly identical to the 2011 PULSE survey. Creating more borrowing power showed a slight uptick, especially in terms of intensity (+5 points "ten" rating, from 33 to 38 percent).

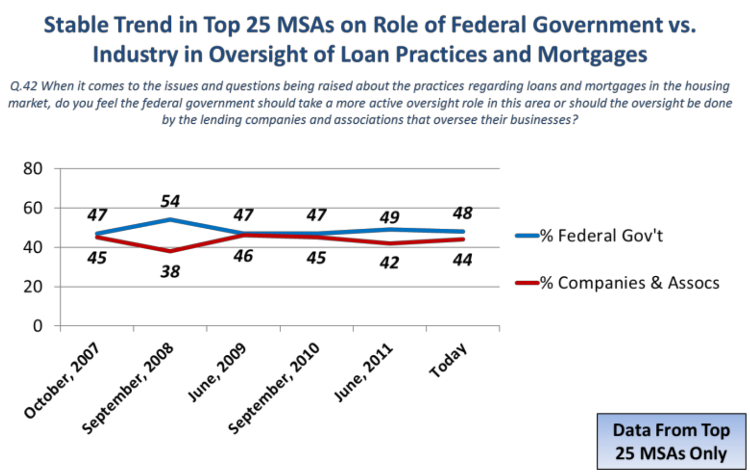
Demographically, certain groups place more emphasis on the importance of individual reasons for home ownership than other groups. The top scoring reason for African Americans and Hispanics is the stability and safe environment that home ownership provides (60 percent of African Americans rate a "10" score, compared to 46 percent among whites). Women also place more emphasis on environmental factors than men (54 to 44 percent on safety and 50 to 39 percent on living in a neighborhood you enjoy).

Non-college graduates also differ in intensity from college graduates. The two groups are closer on the financial benefits of home ownership (such as building equity, the tax deduction and investment opportunity) but non-college graduates place stronger emphasis on public schools (44 percent "10" rating, compared to 30 percent for college grads), owning a home by retirement (49 to 36 percent) and living in a safe and stable environment (53 to 43 percent).

Government Oversight and Down Payment Level

Americans are divided on the oversight role of the federal government when it comes to home loans and mortgages, but tilt towards self-evaluation by lending companies and banks. A near majority (49 percent) want oversight to be done by the lending companies and associations that oversee their business while 43 percent prefer that the Federal government take a more active role.

In the top 25 MSAs, these results are reversed, as shown in the graph below. Larger metropolitan areas slightly prefer more government oversight, although not by as much as they did in 2008 after the market collapse.



Not surprisingly, the differences on this question are driven primarily by partisanship and ideology. Liberals would like to see more government oversight by a two to one margin, while conservatives prefer oversight to be done by lending institutions by the same margin. Democrats and Republicans have equally lopsided results, while independents lean towards business review (48 percent prefer lending institutions to 40 percent who would rather see a more active government role).

When buying a home, Americans have differing views on what constitutes a reasonable down payment. A plurality (39 percent) believes a down payment of five percent or less is reasonable. Just over one-third (34 percent) call for a 10 percent down payment, while 22 percent say a down payment of 15 percent or more is reasonable.

What constitutes a reasonable down payment varies widely by race, with over half of African Americans (58 percent) saying a down payment of five percent or less is reasonable, compared to 45 percent of Hispanics and 34 percent of whites. Whites are more likely to call for a 10 percent (38 percent) or higher (23 percent) down payment.

Not surprisingly, reasonable down payments also differ by income. Just under half of those who make $60,000 a year or less believe a five percent down payment is reasonable, while only 26 percent of those who make over $100,000 a year agree. Strong majorities of upper income individuals believe a down payment of ten percent or more is justified.

SURVEY METHODOLOGY

American Strategies and Myers Research | Strategic Services, LLC designed and administered this national telephone survey conducted by professional interviewers. The survey reached 2,000 adults, 18 years or older. The survey was conducted May 28-June 5, 2013.

The PULSE surveys conducted before 2011 included only respondents living in the country's Top 25 Metropolitan Statistical Areas. When current data is compared to these older surveys, the newer data was restricted only to the top 25 MSAs for a true comparison.

Telephone numbers were generated by a random selection of adults. The sample was stratified by state. Quotas were assigned to reflect the population distribution of these areas. The data were weighted by age and race to ensure an accurate reflection of the population. The sample size with these weights applied is 2,000.

In interpreting survey results, all sample surveys are subject to possible sampling error: that is, the results of a survey may differ from those which would be obtained if the entire population were interviewed. The size of the sampling error depends upon both the total number of respondents in the survey and the percentage distribution of responses to a particular question. For example, if a response to a given question to which all respondents answered was 50%, we could be 95% confident that the true percentage would fall within plus or minus 2.2% of this percentage or between 47.8% and 52.2%. The table below represents the estimated sampling error for different percentage distributions of responses.

Sampling Error By Percentage
(at 95 in 100 confidence level)

PERCENTAGES NEAR

	10	20	30	40	50	60	70	80	90
SAMPLE SIZE									
2000	1.3	1.8	2.0	2.2	2.2	2.2	2.0	1.8	1.3
1900	1.4	1.8	2.1	2.2	2.3	2.2	2.1	1.8	1.4
1800	1.4	1.9	2.2	2.3	2.4	2.3	2.2	1.9	1.4
1700	1.5	1.9	2.2	2.4	2.4	2.4	2.2	1.9	1.5
1600	1.5	2.0	2.3	2.4	2.5	2.4	2.3	2.0	1.5
1500	1.5	2.1	2.4	2.5	2.6	2.5	2.4	2.1	1.5
1400	1.6	2.1	2.4	2.6	2.7	2.6	2.4	2.1	1.6
1300	1.7	2.2	2.5	2.7	2.8	2.7	2.5	2.2	1.7
1200	1.7	2.3	2.6	2.8	2.9	2.8	2.6	2.3	1.7
1100	1.8	2.4	2.8	3.0	3.0	3.0	2.8	2.4	1.8
1000	1.9	2.5	2.8	3.0	3.1	3.0	2.8	2.5	1.9
900	2.0	2.6	3.0	3.2	3.3	3.2	3.0	2.6	2.0
800	2.1	2.8	3.2	3.4	3.5	3.4	3.2	2.8	2.1
700	2.2	3.0	3.4	3.6	3.7	3.6	3.4	3.0	2.2
600	2.4	3.2	3.7	3.9	4.0	3.9	3.7	3.2	2.4
500	2.6	3.5	4.0	4.3	4.4	4.3	4.0	3.5	2.6
400	2.9	3.9	4.5	4.8	4.9	4.8	4.5	3.9	2.9
350	3.1	4.2	4.8	5.1	5.2	5.1	4.8	4.2	3.1
300	3.4	4.5	5.2	5.5	5.7	5.5	5.2	4.5	3.4
200	4.2	5.5	6.4	6.8	6.9	6.8	6.4	5.5	4.2