

# As Home Prices Cool Down, Homeowners Temper Their Optimism

FOR IMMEDIATE RELEASE

Paul Taylor, Executive Vice President  
Cary Funk, Senior Project Director  
Peyton Craighill, Project Director

MEDIA INQUIRIES CONTACT:  
Pew Research Center  
202 419 4332  
<http://pewresearch.org>

**PewResearchCenter**  
A Social Trends Report

## As Home Prices Cool Down, Homeowners Temper Their Optimism

Despite a record drop this past year in the median sales price of existing homes, more than eight-in-ten homeowners expect the value of their homes to go up either “a little” (55%) or “a lot” (26%) in the future.

However, these anticipated levels of future gains are not nearly as great as the gains that homeowners say they’ve experienced in recent years.

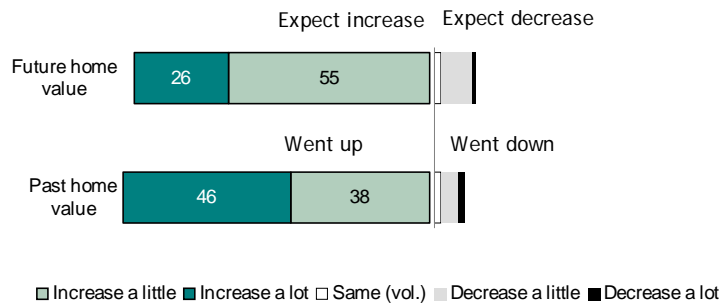
About twice as many homeowners (46%) say their house increased “a lot” in value over the past few years as say they expect similar increases in the future, according to a nationwide Pew Research Center telephone survey of a random sample of 2,000 adults, including 1,500 homeowners, taken from October 18 through November 9, 2006.

Meantime, just 10% say they expect the value of their houses to decline.

This moderated optimism among homeowners comes at a time when there has been a flurry of reports about a housing slump. Last week the National Association of Realtors (NAR) reported that the median price of an existing home sold in October of this year was \$221,000, down a record 3.5% from October of 2005.<sup>1</sup> It was the third straight month that the industry group recorded a year-to-year decline. Prior to this

### Homeowners on the Value of Their House

Looking forward and backward

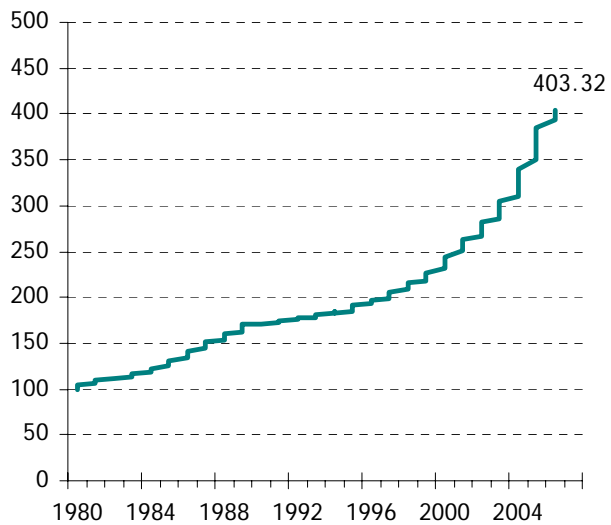


Notes: Based on 1,500 homeowners.

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### Housing Prices Soar in Past Decade

OFHEO's House Price Index



Source: Office of Federal Housing Enterprise Oversight (OFHEO).

Notes: Data ends at 3<sup>rd</sup> Quarter 2006. The House Price Index is a weighted, repeat-sales index. It reflects price movements on a quarterly basis of sales or refinancings of single-family homes whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac. The values of the House Price Index reflect the percentage change over time.

<sup>1</sup> See NAR news release, “Existing Home Sales Rise in October, Market Stabilizing,” November 28, 2006.

August, the NAR had not reported such an annual decline since 1995.<sup>2</sup>

To be sure, these recent declines come on the heels of a record run-up in the value of homes. For example, in the twelve months from October 2004 through October 2005, the NAR reported that housing prices had increased by 16.8%, one of the biggest annual jumps ever.<sup>3</sup> And over a longer period, the Office of Federal Housing Enterprise Oversight (OFHEO) reports that single-family homes have risen four-fold in price since 1980 (on a non-inflation adjusted basis), with the sharpest gains coming in the past decade.<sup>4</sup>

While economists debate whether the recent downturn represents a short-term market correction, a longer-term leveling off or perhaps even the first signs of the bursting of a housing “bubble,” America’s homeowners are not in a panic mode over the softening of the market.

As if to underscore that point, homeowners also report that they’ve largely taken in stride the recent run-up in the value of their home. Only about a quarter say it has had some or a great deal of effect on their personal finances, while about three-quarters say it has had little or no effect.

Other key findings from the Pew survey:

- As homeowners have seen the values of their homes shoot up, many have converted some of this value into cash. According to the Pew survey, some 20 percent of all homeowners currently have a second mortgage or home equity loan. Those most likely to have such loans include homeowners on the younger side (ages 30 to 49) and homeowners with higher incomes and more valuable homes.
- Among homeowners with second mortgages or home equity loans, fewer than half (45%) say they are using the loan money to pay for home improvements or repairs. Another 14 percent volunteer that they are using the money for a second home, a real estate investment or a home purchase. The remaining respondents say the loan is paying for a mixed bag of items: 11% say it is for credit card or other debt; 10 percent say it is for a car; 6 percent say it is for education; 2 percent say it is for business-related expenses and the remainder say it is for other things or that they don’t know.
- About a third of homeowners say that their home accounts for “all or most” of their personal financial worth and another third say it accounts for about half. These figures are unchanged from a similar survey taken in 1992.
- Just under a fifth (18%) of all adults, and just under a quarter (24%) of all homeowners, report owning a second home or other real estate apart from the place where they now live. More than a third (36%) of people with annual incomes of \$100,000 and above report owning such real estate.

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<sup>2</sup> Reported by Chris Isidore, “Home prices: Record drop in October”, CNNMoney.com, November 28, 2006.

<sup>3</sup> Ibid., Isidore.

<sup>4</sup> Office of Federal Housing Enterprise Oversight (OFHEO), House Price Index, <http://www.ofheo.gov/HPL.asp>

### Housing Values – Looking Backward

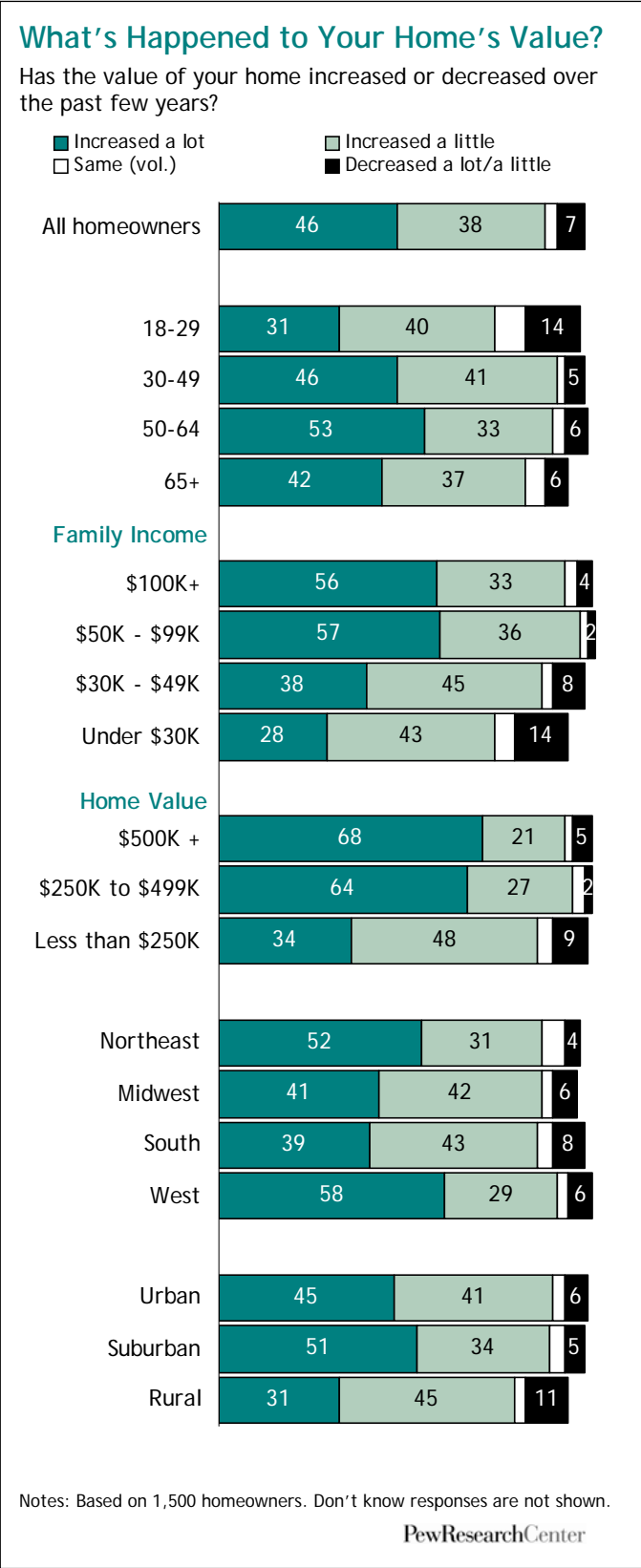
All major demographic groups of homeowners say their houses have gone up in value in recent years, but some say they've had bigger bonanzas than others.

One key variable is related to the value of one's home. Among those who say their home is currently worth \$500,000 or more, some 68% say their home value has risen "a lot" in the past few years. But just half that share – 34% – of homeowners whose house is worth less than \$250,000 say the same thing. By the same token, homeowners with high annual incomes are more likely than those with smaller annual incomes to say their home values have gone up a lot in recent years.

People who live on the nation's coasts feel more flush about the rise in the value of their home than do those who live in the nation's midsection. Some 58% of westerners and 52% of northeasterners say their homes have risen a lot in value, while just 39% of southerners and 41% of midwesterners say the same thing.

Suburbanites are a bit more likely that city residents, and significantly more likely than rural residents, to say the value of their homes has risen a lot in recent years. Also, homeowners ages 50 to 64 are more likely than those both younger and older to say they've registered big gains in the value of their homes in the past few years.

Overall, the 46% of homeowners who say the value of their homes has increased a lot in recent years is more than double the percentage – 21% – who said the same thing back in May 1992, when a similar nationwide survey was conducted by U.S. News and World Report.

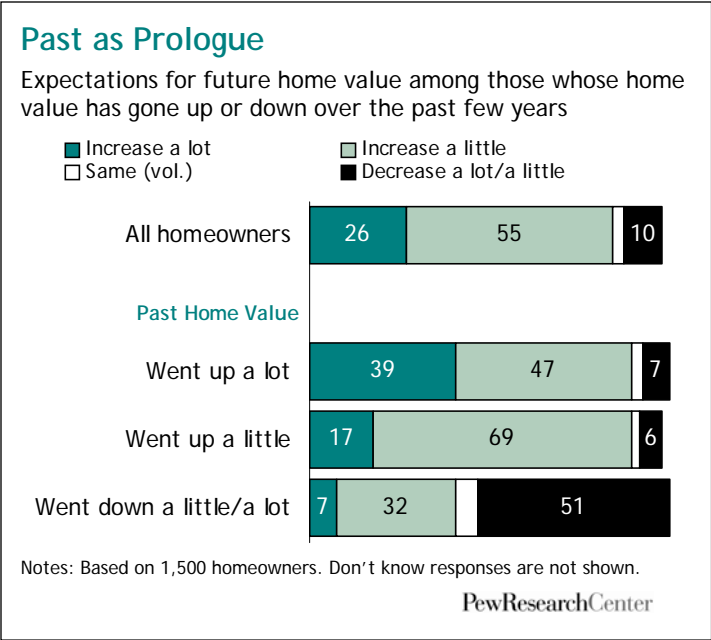


### Housing Values - Looking Ahead

The groups most optimistic about future increases in their home values are those that have experienced the biggest gains in recent years.

Among homeowners who say their homes have increased a lot in value in the past few years, nearly four-in-ten (39%) say they expect strong increases in the future. By contrast, among homeowners who say their homes have increased only a little in value in the past few years, just 17% say they expect strong increases in the future. And among the small group of respondents whose home values went down (just 83 respondents), 7% expect big increases in the future while 51% expect further declines.

Along these same lines, those whose homes are currently valued at \$500,000 and above are nearly twice as likely as those with homes valued at less than \$250,000 to expect strong increases in the coming years.

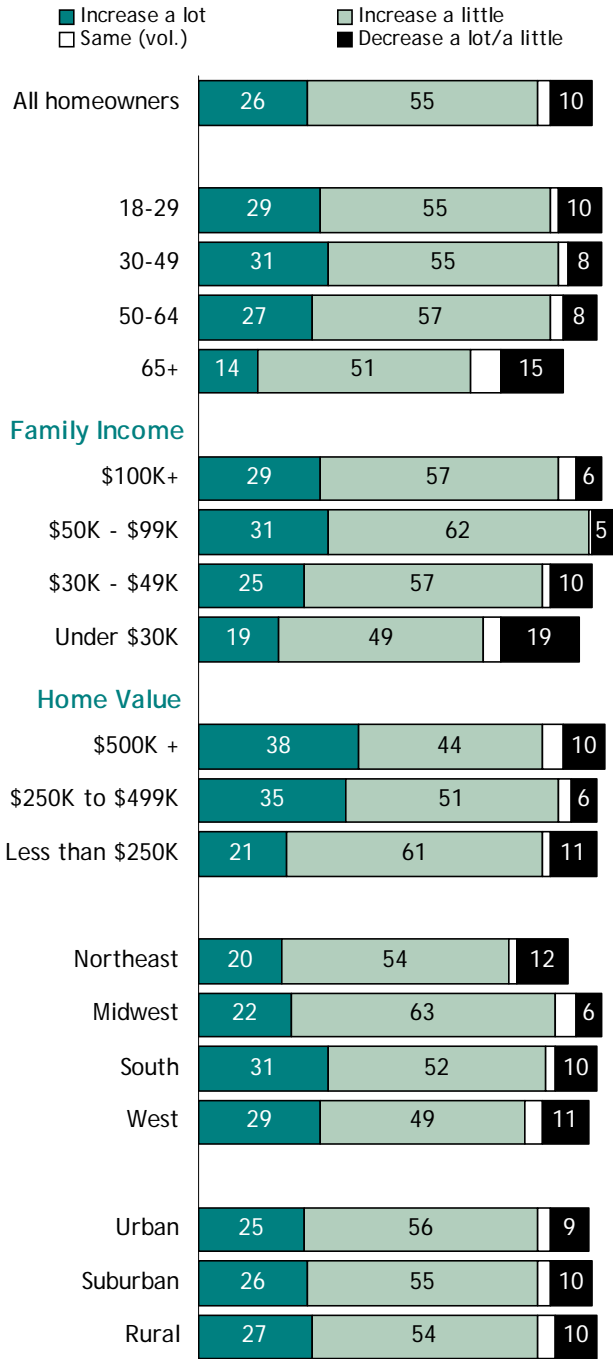


Younger homeowners (ages 18 to 64) are about twice as likely as older homeowners to see big gains in the future value of their homes. Also, southerners (31%) and westerners (29%) are more prone than midwesterners (22%) or northeasterners (20%) to see big gains.

Overall, homeowners today are more optimistic than they were a decade and a half ago about future increases in the value of their homes. Today, some 26% say they expect the value to rise “a lot”; back in May 1992, just 16% felt this way, according to the U.S. News and World Report survey.

### What’s Next for Your Home’s Value?

In the future, do you think the value of your home will increase or decrease?



Notes: Based on 1,500 homeowners. Don't know responses are not shown.

## Home Values and Personal Finances

Among homeowners who say their home has changed in value in recent years, a majority (52%) say this change has had no effect at all on their financial situation, and another fifth (22%) say it hasn't had much of an effect. Just a quarter of homeowners say it has had "a great deal" (8%) or "some" (17%) effect.

The January 1992 survey by the U.S. News and World Reports found a somewhat larger percentage (33%) of homeowners saying their home changed in value also saying that changing home values had had an effect on their family finances. Back then, however, 21% of all homeowners said their home values had decreased in recent years; today just 7% say the same thing.

For the vast majority of American homeowners, their home is their most important financial asset. Some 34 percent of homeowners say their home accounts for "all or most" of their personal financial worth and another 34% say it represents about half of their worth.

These percentages are virtually identical to those recorded in the 1992 survey— suggesting that, at least in the eye's of the nation's homeowners, the long boom in housing values has not made housing a more significant slice of their overall financial wealth.

Not surprisingly, the more income people have, the less likely they are to report that their home represents a significant share of their personal assets. Also, those homeowners who own and trade stocks are just half as likely as those who don't to report that their home accounts for most or all of their assets.

### Effect of Changing Home Values on Personal Finances

Among homeowners who report an increase or decrease in home value over the past few years

	1992	2006
	%	%
Great deal of effect	10	8
Some effect	23	17
Not too much effect	26	22
No effect at all	39	52
Don't know	<u>2</u>	<u>1</u>
	100	100
Number of respondents	839	1,353

Notes: Based on homeowners whose house increased or decreased in value.

Source: US News & World Report, January 1992.

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### Home Values and Financial Assets

How much of your personal financial worth does the value of your home represent?

	1992	2006
	%	%
All or most of financial worth	33	34
About half	35	34
Less than half	25	25
Don't know	<u>7</u>	<u>7</u>
	100	100
Number of respondents	995	1,500

Notes: Based on homeowners.

Question wording: Thinking about your financial assets, would you say that the value of your home represents all or most of your personal financial worth, about half of your financial worth, or less than half of your financial worth?

Source: US News & World Report, January 1992.

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Some Americans are living in homes with considerably higher values than others, of course. Those more likely to report living in homes valued at \$500,000 and above include westerners, and those with incomes of at least \$100,000. On the other side of the housing scale, those more likely to report living in homes valued at less than \$100,000 include rural residents, and homeowners on either end of the age spectrum (ages 18 to 29 as well as those ages 65 and older).

<b>Whose Nest is Most Feathered?</b>						
	-----Reported home value-----					
	Less than \$100K	\$100K- \$250K	\$250K- \$500K	\$500K or more	DK/ Refused	N
	%	%	%	%	%	
All homeowners	22	35	25	11	7=100	1,500
<b>Age</b>						
18-29	29	32	20	9	10=100	92
30-49	17	38	30	11	4=100	489
50-64	23	33	24	15	5=100	492
65+	27	31	22	8	12=100	386
<b>Family Income</b>						
\$100K+	2	23	37	34	4=100	287
\$50K-\$99K	13	47	31	9	*=100	420
\$30K-\$49K	32	45	19	2	2=100	252
Less than \$30K	55	26	13	2	4=100	262
<b>Region</b>						
Northeast	17	28	31	13	11=100	265
Midwest	25	39	25	4	7=100	409
South	29	39	19	6	7=100	588
West	9	25	32	29	5=100	238
<b>Locality</b>						
Urban	20	38	21	13	8=100	365
Suburban	15	32	32	14	7=100	791
Rural	43	35	11	3	8=100	344
Notes: Based on homeowners.						
PewResearchCenter						



## Mortgages, Second Mortgages and Home Equity Loans

Two-thirds of all homeowners say they are currently paying off a mortgage on their homes.

The only sizable group of homeowners who for the most part don't have mortgages are those ages 65 and older; about one in four of them are paying off a mortgage. By contrast, fully 88% of homeowners ages 30 to 49 have a monthly mortgage.

One in five homeowners has either a second mortgage or a home equity loan, and this percentage rises to 28% among homeowners in the 30 to 49 age bracket.

Homeowners with higher annual incomes are more likely than those with smaller annual incomes to have a second mortgage or home equity loan; the same holds true for homeowners with more valuable homes – they too are more likely to have second mortgages or home equity loans. Also, those who have seen the value of their homes rise a lot in recent years are slightly more likely to have a second mortgage or home equity loan than are those who have seen their values rise just a little or not at all.

### Home Loans: Who's Got What?

	Mortgage + 2nd mortgage	Mortgage, No 2nd mortgage	No Mortgage	Other/ DK/ Refused	N
All homeowners	20	47	32	1=100	1,500
<b>Age</b>					
18-29	20	49	28	3=100	92
30-49	28	60	12	*=100	489
50-64	19	49	31	1=100	492
65+	7	17	72	4=100	386
<b>Family Income</b>					
\$100K+	26	55	18	1=100	287
\$50K-\$99K	26	53	20	1=100	420
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Northeast	22	46	30	2=100	265
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<b>Locality</b>					
Urban	23	46	29	2=100	365
Suburban	21	49	28	2=100	791
Rural	12	44	43	1=100	344
<b>Home Value</b>					
\$500K and up	28	51	20	1=100	155
\$250K - \$499K	25	51	23	1=100	371
Less than \$250K	18	45	36	1=100	860
<b>Home Values in Past Few Years</b>					
Increased a lot	23	50	26	1=100	696
Increased a little	19	47	33	1=100	574
Decreased a lot/a little	11	42	44	3=100	83

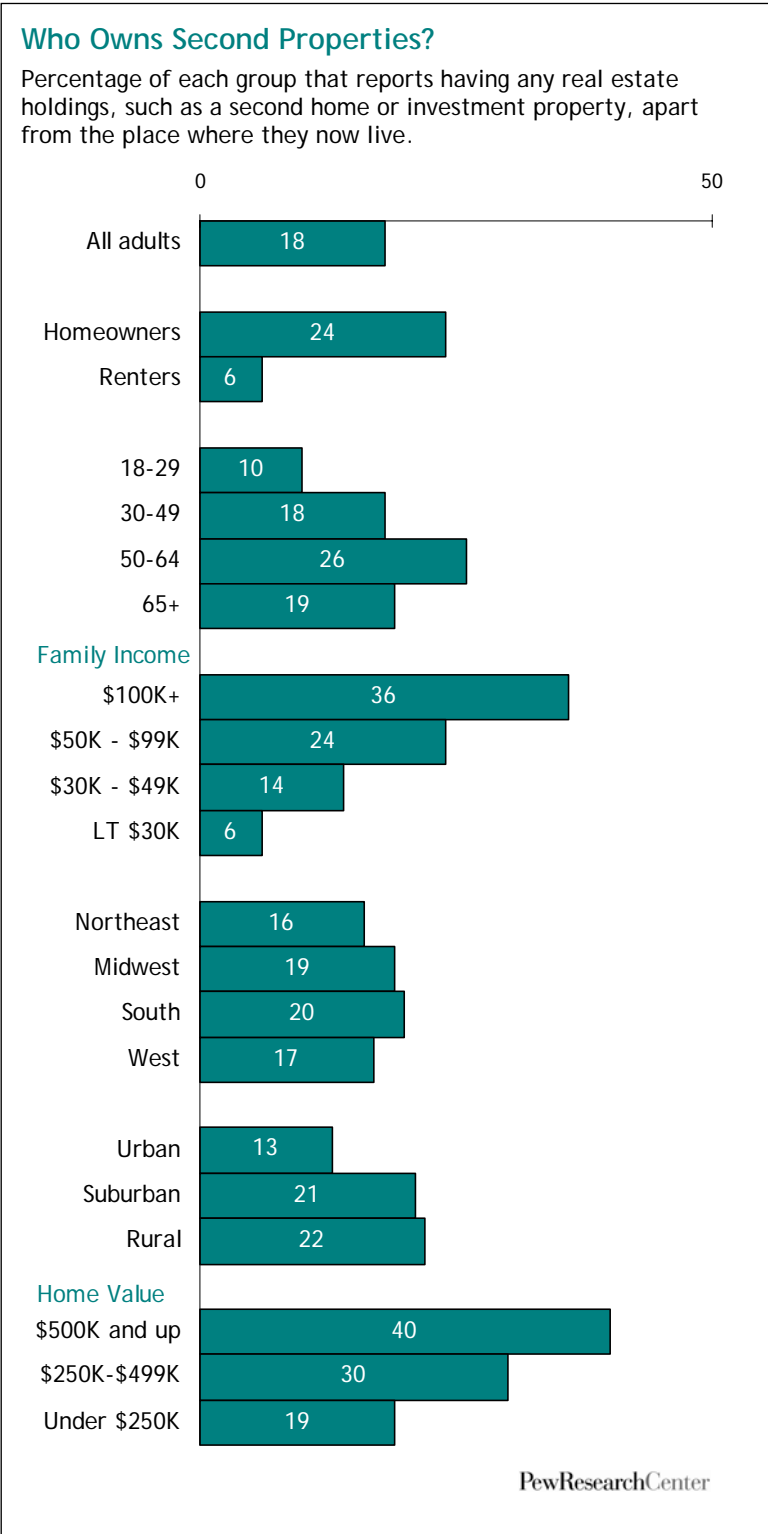
Note: Based on homeowners.

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### Second Homes

According to the Pew survey, just under one in five of all adults (18%) and 24% of all homeowners have a real estate holding apart from the place where they now live – such as a second home or an investment property.

Not surprisingly, those with higher family incomes and homeowners with higher property values are more likely than others to own investment property or second homes.



## About the Pew Social Trends Reports

The Pew social trends reports explore the behaviors and attitudes of Americans in key realms of their lives – family, community, health, finance, work and leisure. Reports analyze changes over time in social behaviors and probe for differences and similarities between key sub-groups in the population.

The surveys are conducted by the Pew Research Center, a nonpartisan “fact tank” that provides information on the issues, attitudes and trends shaping America and the world.

Survey reports are the result of the collaborative effort of the social trends staff, which consists of:

Paul Taylor, Executive Vice President  
Cary Funk, Senior Project Director  
Peyton Craighill, Project Director

### About the Survey

Results for this survey are based on telephone interviews conducted with a nationally representative sample of adults, ages 18 years and older, living in continental U.S. telephone households.

- Interviews conducted Oct. 18 - Nov. 9, 2006
- 2,000 interviews, including 1,500 homeowners
- Margin of sampling error is plus or minus 2.5 percentage points for results based on the total sample at the 95% confidence level. The margin of sampling error is higher for results based on subgroups of respondents.

Survey interviews conducted under the direction of Princeton Survey Research Associates International. Interviews were conducted in English and Spanish.

Bear in mind that question wording and practical difficulties in conducting surveys can introduce error or bias in the findings of opinion polls.

PEW SOCIAL TRENDS  
 FINAL TOPLINE  
 OCTOBER 18 - NOVEMBER 9, 2006  
 N=2000

QUESTIONS 1 THROUGH 17 HELD FOR FUTURE RELEASE

ASK ALL:

OWNRENT Do you own or rent your home?

		<u>June 2006</u>	<u>Feb 2006</u>	<u>Oct 2005</u>
68	Own	68	68	68
27	Rent	27	27	26
5	Other arrangement (VOL.)	4	4	6
*	Don't know/Refused (VOL.)	<u>1</u>	<u>1</u>	*
100		100	100	100

Q.18 For this survey we'd like to know what people regularly spend money on. As I read each item, tell me if this is one of your household's regular expenses, or not. First, **[INSERT ITEM; DO NOT RANDOMIZE]**  
**READ IF NECESSARY:** Is this one of your household's regular expenses, or not?  
**(FOR Q18F: IF R SAYS "PAY IN FULL" PROBE TO CLARIFY)**

	Yes	No	Does not apply (VOL.)	DK/Ref
<b>ASK IF OWNRENT=1</b>				
<b>BASED ON HOMEOWNERS [N=1500]:</b>				
a. Mortgage	67	32	1	*=100
<b>ASK IF Q18A=1</b>				
<b>BASED ON THOSE WHO REGULARLY PAY A MORTGAGE [N=948]:</b>				
b1. Do you also pay for a second mortgage or for a home equity loan, or not?	30	70	0	*=100
<b>ASK IF OWNRENT=1</b>				
<b>BASED ON HOMEOWNERS [N=1500]:</b>				
b2. Maintenance fees for a condo or homeowner's association	20	79	*	1=100
<b>ASK IF OWNRENT=2</b>				
<b>BASED ON RENTERS [N=423]:</b>				
c. Rent	97	3	0	0=100

QUESTIONS 18D THROUGH 29 HELD FOR FUTURE RELEASE  
 QUESTIONS 30 THROUGH 32 IN PREVIOUS RELEASE  
 QUESTIONS 33 THROUGH 39 HELD FOR FUTURE RELEASE

Q.40 Apart from the place where you now live, do you (IF MARITAL=1: or your spouse) have any real estate holdings, such as a second home or investment property, or don't you?

	<i>LA Times/Bloomberg</i> <sup>5</sup>
	<u>March 2006</u>
18 Yes	23
81 No	76
<u>1</u> Don't know/Refused (VOL.)	<u>1</u>
100	100

**ASK IF (Q18B1=1) 2<sup>ND</sup> MORTGAGE IS A REGULAR EXPENSE:**

Q.41 You mentioned earlier that you regularly pay for a second mortgage or home equity loan. What did you use the money for? Was it... (READ)

**BASED ON THOSE WHO HAVE A 2<sup>ND</sup> MORTGAGE OR HOME EQUITY LOAN AS A REGULAR EXPENSE [N=276]:**

45	Spending on home improvements or repairs
11	Paying credit card or other debts
10	Spending on a car or other motor vehicle
6	Paying for education expenses
*	Paying for medical expenses
7	Or something else? (SPECIFY)
14	Real estate investment/Second home/Home purchase (VOL.)
2	Business related (VOL.)
<u>5</u>	Don't know/Refused (VOL.)
100	

**ASK IF OWNRENT=1**

Q.42 [READ IF OWNRENT=1 & Q40=1: Thinking about your primary residence...]  
Has the value of your home increased or decreased over the past few years? Would you say it (READ)

**BASED ON HOMEOWNERS [N=1500]:**

	<i>US News &amp; World Report</i>	
	<u>May 1992</u>	<u>Jan 1992</u>
46	Increased a lot	21
38	Increased a little	20
5	Decreased a little	45
2	Decreased a lot	13
3	Stayed the same (VOL.)	14
<u>6</u>	Don't know/Refused (VOL.)	10
100		7
		8
		<u>3</u>
		<u>8</u>
		100
		100

<sup>5</sup> The March 2006 LA Times Bloomberg question was worded, "Do you or your spouse have any real estate holdings, such as a second home or investment property, other than the place where you live?"

**ASK IF OWNRENT=1 and Q42=1-4:**

Q.43 How much of an effect has this had on your financial situation? Has it had a great deal of effect, some effect, not too much effect, or no effect at all on your financial situation?

<i>Based on those whose home value...</i>			<i>US News &amp; World Report Jan 1992</i>	
<u>Increased</u>	<u>Decreased</u>		<u>Increased</u>	<u>Decreased</u>
7	11	Great deal of effect	9	15
18	14	Some effect	23	22
22	22	Not too much effect	27	25
52	51	No effect at all	39	36
<u>1</u>	<u>2</u>	Don't know/Refused (VOL.)	<u>2</u>	<u>2</u>
100	100		100	100
(N=1270)	(N=83)		(N=622)	(N=217)

**ASK IF OWNRENT=1:**

Q.44 In the future, do you think the value of your home will (READ)

**BASED ON HOMEOWNERS [N=1500]:**

		<i>US News &amp; World Report</i>	
		<u>May 1992</u>	<u>Jan 1992</u>
26	Increase a lot	16	14
55	Increase a little	55	52
9	Decrease a little	17	14
1	Decrease a lot	4	3
3	Stay the same (VOL.)	4	7
<u>6</u>	Don't know/Refused (VOL.)	<u>4</u>	<u>10</u>
100		100	100

Q.45 Thinking about your financial assets, would you say that the value of your home represents (READ)

**BASED ON HOMEOWNERS [N=1500]:**

		<i>US News &amp; World Report</i>	
		<u>Jan 1992</u>	
34	All or most of your personal financial worth	33	
34	About half of your financial worth	35	
25	Less than half of your financial worth	25	
<u>7</u>	Don't know/Refused (VOL.)	<u>7</u>	
100		100	

Q.46 What would you say is the current value of your home? Is it... (READ)

**BASED ON HOMEOWNERS [N=1500]:**

22	Less than \$100,000
35	\$100,000 to under \$250,000
25	\$250,000 to under \$500,000
8	\$500,000 to under 1 Million
3	\$1 million or more
<u>7</u>	Don't know/Refused (VOL.)
100	

**ASK ALL:**

Q.47 Is your primary residence a single family detached home or some other kind of dwelling?

**IF SOME OTHER KIND OF DWELLING:** Is it a townhouse, a duplex or two-family home, a condominium, an apartment, or some other kind of home?

	<u>Own</u>	<u>Rent</u>
78 Single family detached home	90	48
3 Townhouse	2	4
3 Duplex or two-family home	2	8
2 Condominium (INCLUDES co-op, cooperative)	2	2
10 Apartment	*	35
1 Some other kind of home ( <b>SPECIFY</b> )	1	*
2 Trailer or mobile home ( <b>VOL.</b> )	3	1
<u>1</u> Don't know/Refused ( <b>VOL.</b> )	<u>*</u>	<u>2</u>
100	100	100
	(N=1500)	(N=423)

**QUESTIONS 48 THROUGH END HELD FOR FUTURE RELEASE**

## Home as a Proportion of Financial Assets

How much of your personal financial worth does the value of your home represent?

	-----Home represents -----				
	All or most of assets	About half	Less than half	DK/ Refused	N
All homeowners	34	34	25	7=100	1,500
<b>Family Income</b>					
\$100K+	28	32	36	4=100	287
\$50K-\$99K	30	41	27	2=100	420
\$30K-\$49K	44	38	15	3=100	252
Less than \$30K	44	33	17	6=100	262
<b>Market investment</b>					
Investor	30	37	29	4=100	1,012
Not investor	43	29	17	11=100	488

Notes: Based on homeowners. Market investor classified from respondents who report one or more of the following: a retirement plan in the stock market; currently own shares in a mutual fund that includes stock; or currently own stock in any individual companies, other than companies that respondent or other in household works for.

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## What Kind of Home Do You Live In?

	All Adults	Home Owners	Home Renters
	%	%	%
Single family home	78	90	48
Apartment	10	*	35
Other	11	10	15
Don't know/Refused	<u>1</u>	<u>*</u>	<u>2</u>
	100	100	100
Number of respondents	2,000	1,500	423

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