

The 2nd Home Market

A Review

& Outlook



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2nd Home Markets

2nd Home Markets for Washington, DC, New York & Boston Residents Include:

Trends in Lifestyle, Demographics & Properties

1. **Winter Sun** – Florida and West (Arizona and Las Vegas)
2. **Summer Beach**
Boston: The Cape, Martha's Vineyard, Nantucket
New York: The Hamptons, The Jersey Shore
Washington: Virginia Beach, The Outer Banks
1. **Mountain/Ski Homes** – East: Vermont West: Colorado, Wyoming, Utah
2. **Urban Sophistication/Culture** – Boston, Beacon Hill, Back Bay
New York: East Side, Lincoln Center, Soho/Tribeca
Washington: Georgetown

The Golden Triangle: NYC, Hamptons, Florida



2nd Home Market Factors

Primary and 2nd Home Market Shift: Rural to village living.

Change from 1970's to 1990's: In the affluent segment of the housing markets, a fundamental shift from rural estates to gentile village living. Quality of life in major city centers began to improve. Neighborhoods are social centers for adults and kids.

Today: Two demographics driving suburban repositioning: Baby boomers & young affluent families. The first wave of baby boomers looking for seasonal, recreational, village style living. Beach communities, mountain communities.

Transitional Differences:

- Typical downsizing from 7,000 to 2,500 square feet.
- More diverse living dynamic.
- Localized appeal of services, culture, dining, friends.
- Lifestyle improvements/amenities.
- Property management services.



Current 2nd Home Market Ownership

THE MARKET:

- It's discretionary buying – The fundamentals of supply and demand change more rapidly than primary home market.
- 3.4 million 2nd homes were sold in 2005, up 16% from 2004.
- 2nd home purchases now make up 40% of all home sales nationwide. Compared to 14% in 2004 and 8.4% in 2001.
- Speculation investor/ownership comprises over 55% of 2nd home purchases.
- 65% of speculation buyers consider second homes better investments than stocks.

THE BOOMERS:

- Ownership in the 2nd home market is driven by the leading edge of the 75 million baby boomers. 80% of them own a primary residence, compared to the 69% national average.
- Of the 6.8 million vacation/seasonal/second homes, boomers own 57% of them.
- Economic Demographic: Boomers have not yet peaked in terms of income, investing and spending. In addition, they lead a significantly more active lifestyle than previous generations, contributing to the growing 'recreational' 2nd home market.

THE BENEFITS:

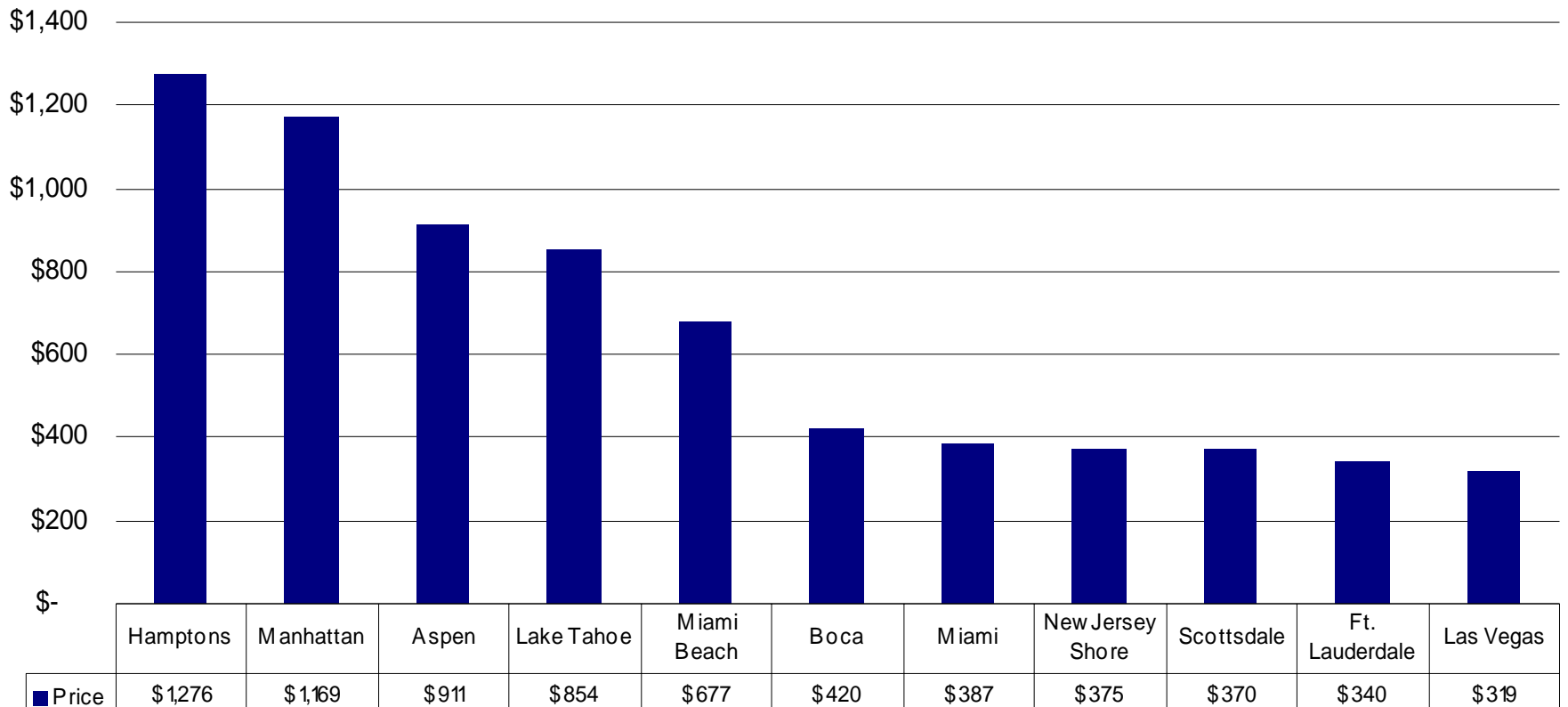
- Interest and property taxes may be deductible up to \$1 million (total loan amount)
- Tax free gains up to \$500,000 (must live in for at least 2 out of 5 years)



Comparative Values

Sample of Average 2nd Home Sale Prices 2nd Quarter 2006

Average Sale Price - 2nd Q 2006 (x\$1,000)



Source: National Association of Realtors, MMJ, The Corcoran Group



Seasonal Market Area Summary

Winter Sun Samples:

Florida: Price declines seen in high concentration 2nd home markets. Median prices in June fell 8 percent from a year earlier in Naples and nearby Marco Island on west coast, and 10% in Panama City in the Panhandle. By comparison, prices rose 3 percent statewide, 4 percent in Miami and 10 percent in Orlando.

Scottsdale: Home sales down 16% in the July. Prices still rose 6% from a year ago. Sales and prices are expected to be on the lower horizon in the upcoming months, but will begin to stabilize in the latter months of this year. By 2007, local sales should show only 1% decline. Home prices will have risen 4% to 6%.

Las Vegas: Inventory at the beginning of January was 9,935, with an additional 2,815 under contract. With an increase of 200-230 available homes a week, inventory is now 16,514 with a mere 3,016 under contract. A similar increase has occurred in the Condo and Town House market as well. Average asking prices down 3-4%



South Florida's Mid-2006 real estate market, was mixed. So far this year, condos and townhouses are up a solid 18% for Palm Beach with an average selling price of \$992k and \$3.2m respectively. However, the high-end in the Estate Section was down 22% with an average selling price of \$7.7 m.

Townhouses were expensive on average in all markets. West Palm Beach had a notable increase of 30% with an average selling price of \$400k. The median price for properties in the Center of Town was more expensive than the average sale price, indicating that the average is being skewed by deals with lower end.

In Delray, The luxury market was robustly and as a result, condos and townhouse are up a solid 16% and 19% respectively. Single family homes there underwent a modest drop of 2%.

Palm Beach

	Single Family Homes		Condos		Townhouses	
	Avg	Median	Avg	Median	Avg	Median
2006	4.807M	3.495M	992K	750K	3.190M	3.400M
2005	4.411M	3.800M	813K	595K	2.615M	2.850M
% Change	8%	-9%	18%	21%	18%	16%

Delray Beach*

	Single Family Homes		Condos		Townhouses	
	Avg	Median	Avg	Median	Avg	Median
2006**	2.290M	1.785M	641K	600K	1.296M	1.200M
2005	2.331M	1.800M	538K	448K	1.049M	885K
% Change	-2%	-1%	16%	25%	19%	26%

West Palm Beach*

	Single Family Homes		Condos		Townhouses	
	Avg	Median	Avg	Median	Avg	Median
2006	448K	336K	437K	340K	400K	373K
2005	537K	342K	415K	320K	279K	240K
% Change	-20%	-2%	5%	6%	30%	36%



Seasonal Market Area Summary, Continued

Summer Market Sample:

The Hamptons: Mid 2006, Median Sale Price up 4% while sales volume down was 16%. Inventory levels rose 23%.

Jersey Shore: Average Sales Price of a condo in Ocean City in mid-2006 decreased 9.5 % from mid- 2005. Inventory of Condos in Ocean City has increased 93% from 2005. The Number of Sales has decreased 55 % from the same period in 2005. Ocean City has the highest concentration of 2nd homes in all metropolitan areas at 73%.

Mountain Ski Area Sample:

Lake Tahoe: Volume fell 35% in the first 6 months of 2006 as the average sale price rose 2%.

Aspen: Average sale price up 14%, sales volume down 26%. Less expensive home sales have slowed considerably while there have been 3 transactions above \$20 million.



The 2nd Home Million Dollar Question

What Does \$1,500,000
Buy You Today..



\$1,500,000 In Manhattan

East Side, Midtown Condominium 27th Floor

- Year Built: 1988
- 4 Rooms
- 2 Bedrooms
- 2.5 Baths
- Fitness Center
- 1,200 SF



Source: corcoran.com

\$1,500,000

In The Hamptons

East Hampton Single Family on .25 Acre

- **Year Built: 1965**
- **Renovated**
- **3 Bedrooms**
- **2 Baths**
- **Pool**
- **1,800 SF**



Source: corcoran.com



\$1,500,000

In Las Vegas Nevada

Henderson Single Family 0.24 Acre

- Year Built: 2004
- 5 bedrooms
- 4.5 baths
- Swimming Pool
- Approximately 4,921 SF



Source: realtor.com



\$1,500,000

In Palm Beach Florida

Condo On South Ocean Boulevard

- **Year Built: 1982**
- **6th Floor**
- **2 Bedrooms**
- **2.5 Baths**
- **All New Interior**
- **Ocean Views**
- **Full Service**
- **Approximately 2,497 SF**



Source: corcoran.com



\$1,500,000

In Vail Colorado

Off the Slopes – Meadow Drive Condominium

- Year Built: 1989
- 2 Bedrooms
- 2 Baths
- Hot tub
- 1,137 SF



Source: realtor.com



\$1,500,000

In Scottsdale Arizona

Candlewood Estates Single Family on .50 Acre

- **Year Built: 1996**
- **3 Bedrooms**
- **3 Baths**
- **4,033 Square Feet**



Source: AZgolf-prop.com



Market Watch & Outlook

Going Forward:

Most likely a 12-24 month shake out period for supply to reach greater parity with demand.

Right now: More choice and longer decision times for Buyers

- Buy for value (consumption), not for growth (speculation).
- Growth in personal income/jobs critical to supporting 2nd home purchases.
- Bubble scenario unlikely if economic fundamentals remain strong.
- Quality properties in limited development areas will be the best investment.
- Increasing opportunities for entry level buying of lesser expensive properties.

What to Watch:

- Localized areas of high percentage investor owned oversupply triggering a selling frenzy.
- A showdown between the FED and inflation pushing the prime above 5.5% effectively slowing the economy. (5.25 as of August)
- 30 Year fixed mortgage rates above 7-7.5% (Averaging 6.5% as of August)

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