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It's Not An Illusion: Home Sales Soar Faster Than Population Growth

In the next few weeks the word will go forth that 2002 was a banner year for real estate, a year when some 5.5 million existing homes were sold. It's the same story we've heard since 1999, the first year we reached at least 5 million sales annually and a level of real estate activity which raises a question: Why so many sales?

At first the answer might seem related to population. As our numbers grow it follows there will be more real estate transactions. Between 1991 and 2001, for example, we [added 32 million people](#) to our population, people who no doubt want to live indoors.

But the population answer doesn't quite resolve the question. Yes there are more people, but if we bought homes at the same rate as we did 30 years ago we would have far fewer transactions.

- In 1971, we had 206,827,026 people and 2.018 million transactions -- that works out to 9,757 home sales per million people.
- In 2001, we had a population of 284,796,887 and 5.296 million home sales, a rate of 18,596 sales per million people -- almost double the rate from 30 years ago.
- If we bought homes in 2001 at the same rate as 1971 there would only have been 2.8 million transactions.

Year	Existing Home Sales	Estimated Population	Sales Per Million People
1971	2,018,000	206,827,026	9,757
1981	2,419,000	229,465,714	10,542
1991	3,186,000	252,153,092	12,635
2001	5,296,000	284,796,887	18,596

Population: [United States and Texas Populations, 1850-2001](#)
 Existing Home Sales: [National Association of Realtors](#)

Certainly the increased transaction rate is great news for the economy as well as brokers, lenders, title companies, and state treasuries. But what has happened to cause so many additional sales?

Population Profile

One reason, perhaps, is that there's a youth movement in this country, one that's good for real estate.

With each passing year the population seems to be getting younger and younger. According to [The New York Times](#), 50 percent of us were born after 1964 and 80 percent were born after 1948. (See: [A Sanitized Past Comes Back to Haunt Trent Lott -- and America](#), December 15, 2002)

It's probable that a majority of the population has never "dialed" a phone, used a "shift" key, or pulled the "choke".

The minority aged 54-and-over are statistical senior citizens today, golden-agers teetering near the abyss of estate planning and mortuary arrangements, individuals for whom Social Security is no longer an abstract idea.

As the population skews both younger and larger there is a growing pool of first-time buyers -- about 42 percent of all purchasers are first-timers, says NAR -- or more than 2 million first-time buyers each year. These folks are the key to the marketplace because without 'em you can't have move-up owners, folks selling that first or second home for something better. And if you don't have a move-up market, then you don't have people selling their big homes for retirement properties....

Financing

Homes, of course, are attractive for all the reasons housing has always been popular: A home represents an investment, an alternative to renting, certain tax benefits, a lifestyle option and a series of psychological values.

The attractions of ownership seem unchanged over time. What's different is that the mortgage process has become more certain, lenders and private mortgage insurers now have a better idea of what's risky and what isn't. The result is a wider availability of loans with less down and also bigger loans relative to income, mortgages that would not have been made 10 and 20 years ago.

Dollars

One very good reason to own real estate is that the financial odds are with you.

Since 1968, according to NAR figures, median sale prices nationwide have increased every year. The average price increase has been 6.3 percent yearly, with a high of 14.4 percent in 1979 and a low of 0.2 percent in 1989.

Such results, of course, are enormously attractive. You've got to live somewhere, so why not own and enjoy such appreciation as may occur?

Risk

Real estate is not a sure bet. Appreciation is not guaranteed, prices in given locations can and do fall, what happens nationally may not reflect local pricing trends, and past results do not assure similar payoffs in the future.

There is risk in the real estate marketplace, but is any commodity without risk? Surely the daily news has been filled with stories regarding risk on Wall Street for the past several years, stories that cannot be ignored.

Future Negatives

Could the current dynamics change in such a way that real estate demand will decline?

On the mortgage side, increased unemployment, rising bankruptcy rates, and bigger foreclosure numbers could trigger more conservative loan qualification requirements and thus fewer mortgage approvals.

As to population, a successful anti-immigration movement would reduce growth and thus demand and prices, but such thinking has not attracted much support. Zero-population growth is arguably a more-accepted notion, but a replacement birthrate coupled with immigration will still produce a larger populace.

Cultural changes could also impact the housing market. Less attractive tax rules would deter some prospective owners and multi-generational households could become more common, a trend that would also reduce housing demand.

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