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Vacation-home sales down; land values up
By Curtis Seltzer

BLUE GRASS, Va.—Both sales and selling prices of vacation homes fell in 2008, according to member survey data from the National Association of Realtors (NAR) released this week.

Sales of existing and new vacation homes dropped almost 31 percent to 512,000 in 2008, from 740,000 in 2007 and a high of 1.07 million in 2006. Sales of primary residences declined about 13 percent, from 4.34 million in 2007 to 3.77 million last year.

The median price of a vacation home was $150,000 in 2008, down 23 percent from $195,000 in 2007 and from the record $204,100 in 2005. About 75 percent of 2008 vacation-home sales were located in small towns, rural areas and resorts.

Almost 70 percent of vacation housing bought in 2008 were existing homes, and 70 percent were detached single-family structures. Forty-five percent were in the South, and only 15 percent were in the Midwest.

NAR's analysis of U.S. Census Bureau data found 8.1 million vacation homes nationally, 40.5 million investment units and 75.5 million owner-occupied, principal residences last year. NAR classifies both vacation homes and investment properties as second homes.

Trends like these -- vacation-home sales down by about half and median price off by about 25 percent in a few years -- usually bring buyers into the market. That is, except when buyers are scared stiff and "mattressing" their remaining cash.

The typical vacation-home buyer in 2008 was 46, but 27 percent were under 35 and 31 percent were over 55. Some younger folks are buying for investment and family reasons, while older folks are looking for transitions into retirement housing.

Almost 80 percent of vacation-home buyers reported household income of more than $75,000, with the median at $97,200. Sixty-four percent came from two-income households. Some 80 percent of all vacation-home buyers thought it was a good time to buy in 2008.

A vacation property that can be purchased at 30 to 50 percent less than its 2006-2007 asking price is worth serious thought as an investment.

While sales and prices of primary housing and vacation homes were sliding into the pits, values of agricultural lands were going up.

Average U.S. farm real-estate value, which includes buildings and improvements, increased from $2,160 per acre in 2007 to $2,350 in 2008. Crop land rose from $2,690 to $2,970 per acre, driven by demand for corn-based ethanol. Pasture rose from $1,160 to $1,230 per acre.

Agricultural land prices have risen steadily for the last 20 years. The USDA recently posted 2008 land values.

Farm values in 2008 declined only in New Hampshire, Vermont, Connecticut, Rhode Island, Maryland and Delaware.

While USDA is projecting a decline in U.S. net farm income in 2009 from about $89 billion last year to perhaps $66 billion, the Department found "the projected decline in farm income in 2009 is not expected to have much effect on national agricultural land values." (Economic Research Service, USDA, The 2008/2009 World Economic Crisis: What It Means for U.S. Agriculture, WRS-09-02, March, 2009.

Farm values are projected to slip by only two percent in 2009 in USDA's model despite the projected $23 billion loss in agricultural income. Long-term expectations of returns drive farm real-estate values, and these are relatively stable and have trended up.

Farm values rose 12 percent annually for the five-year period, 2004-2008. USDA is projecting a five-year rise of five percent annually.

Cash-flow problems will force some farm properties on the market in the next few years, as much as I dislike saying so. Buyers will have opportunities to make long-term investments that are more profitable, less risky and more tax-friendly than stocks, bonds and Madoffs.

Country property is broader than farm land. It includes small-town housing, undeveloped and recreational land, timberland, hobby farms, second homes, mineral properties and conservation tracts. Trends in sales and prices for these categories are often better understood regionally than nationally.

The value of timberland, for example, has held its own in much of the South but fell in the North and Northeast. Demand for high-quality northern hardwoods used for flooring, furniture and cabinetry has tracked the decline in new home construction. Southern wood products are less-construction dependent.

Buyers should be able to find pretty good timberland tracts (without minerals) for $900 to $1,500 per acre in Pennsylvania and for less than $1,000 in upstate New York. For large-lot second homes, timberland in northern-hardwood areas may be a better value than adjacent farmland.

Most country-property purchases are discretionary. Buyers can postpone them, even forget them completely.

Sales of these properties, however, are often forced by the economic vise that is squeezing everyone today. Knowledgeable buyers look for “motivated” sellers, which is a polite way of saying, sellers in a jam. Knowledgeable sellers in a pinch don’t blow off low offers. They work knowledgeable buyers toward a “reasonable” price and make the deal because their alternatives are worse.

Several hundred billions of dollars were rescued from the stock market’s death spiral during the last year. Buyers who think like investors might use some of this to pursue either marginal small farms and discounted woodlands for second homes or the hammered vacation properties – on the beach, in the mountains, along a lake -- that NAR reports are still in the eye of the storm.

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