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# Money

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## Hot time in the city for second homes

By Thomas A. Fogarty, USA TODAY

Investors fleeing to the perceived safety of real estate are flipping the second-home market upside down.

A survey by the National Association of Realtors, taken last winter and being released Tuesday, suggests rental houses in the city are hot. Beach vacation condos and getaway cabins in the mountains are not. **(Related story: [Investors buying beach houses may be in for a burn](#))**

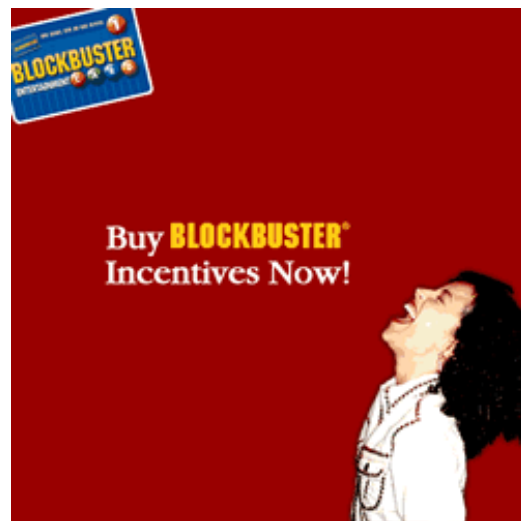
The NAR survey found that 66% of residences purchased as second homes during the January-March quarter were located in cities or suburbs, a market share vastly greater than the 16% of second homes normally found in those locations.

In the same quarter, property purchased in resort or recreational areas accounted for 12% of second home purchases, vs. the 56% of the second-home market normally found there.

Further evidence of a surge in investment-motivated purchasing: The median price for second homes was \$150,000, a relatively low figure suggesting sales were dominated by city rentals rather than high-priced vacation properties.

NAR spokesman Walter Molony says some of the surge in home buying for investments might be seasonal. Not until now has NAR studied the second-home buying patterns during a single quarter. At the same time, Molony says, the finding builds on earlier NAR research charting growing interest in realty investment since the bear market for stocks began in 2000.

An NAR study last year of the second-home market found that 37% of buyers said they were motivated mainly by investment, up from 20% in 1999. Home values have grown consistently in almost every metro market, NAR data show. Nationally, the median sales price grew 7.0% in 2002, while some of the strongest markets — suburban New York City and areas of Southern California, for example — saw price growth of 20% or more. Most broad stock indexes have gained in recent months but remain far below their peaks of 2000.



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William Raddatz, a certified financial planner in Clearwater, Fla., calls the move to investment real estate "an ominous trend." Raddatz says speculation has driven home prices up too far and too fast in many cities.

Michael Sklarz, chief valuation officer at real estate tracker FNIS in Santa Barbara, Calif., says a typical urban condo can be expected to yield about 6% in rental income regardless of future changes in market value. "These days, that's a darn good rate" of return, says Sklarz.

Sklarz says second-home purchases almost always involve an investment element, even when they're purchased for part-time personal use.

"Investors' trauma in the stock market in recent years has made investment more of a factor," he says.

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