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## Is Now A Good Time To Buy a Home?

**The answer is YES!!!!**

**The information in this article was developed and inspired by an article by Jack Hough of Smart Money written for the Wall Street Journal. The link to that article is given below. Forbes also wrote a similar article. I am quoting what those outside the Real Estate profession are saying to the people who look to them for financial advice.**



### **The Wall Street Journal says:**

Two key measures now suggest it's an excellent time to buy a house as a long-term residence or an income property.

1. First, the nation's ratio of house prices to yearly rents is nearly restored to its pre-bubble average, suggesting the financial advantages of homeownership once again await buyers.
2. Second, when ultra-low mortgage rates are taken into consideration, houses are the most affordable they've been in four decades of data.

Whether buying is a better financial deal than renting isn't a stagnant fact but a changing condition that depends on the relationship between prices and rents and the cost of financing, among other factors. But the math is shifting in favor of buyers.

### **The Wall Street Journal goes on to say:**

*"It's an excellent time to buy a house, either to live in for the long term or for investment income...Houses aren't the magic wealth creators they were made out to be during the bubble. But when prices are low, loans are cheap and plump investment yields are scarce, buyers should jump."*

In an article from MarketWatch.com (the on-line blog for WSJ) told their readers:

*"Now could be the best time in history to buy a home."*

### **Forbes.com**

In a report to their subscribers, *Capital Economics* reported that:

*"The previous declines in house prices and the more recent drop in mortgage rates to record lows have created an unusual situation in which the median monthly mortgage payment is more or less the same as the median rental payment."*

Why is this important? Last week, *Forbes* explained to their readers:

*"If rents simply kept up with inflation at a 3.2% annual increase, a \$1,500 rent payment would cost that renter nearly \$900,000 over the next 30 years. The same \$1,500 payment made to their mortgage would be only \$540,000 (because the payments don't increase with inflation)."*

They went on to explain the advantages of homeownership during retirement:

*"Even with a dismal 1% growth rate over 30 years, a \$300,000 property would appreciate well over \$100,000 giving the homeowner an additional nest egg for retirement..."*

*At a time when retirement is becoming much more challenging, an extra \$400,000 (or likely more) can make a major difference not to mention the impact of NOT having to pay a mortgage. How much less would you have to save for retirement if you didn't pay the mortgage?"*

### **Interest Rates at the lowest since 1971**

But for most home buyers, mortgage rates are a key determinant of their total costs. Rates are so low now that houses in many markets look like bargains, even if price/rent ratios aren't hitting new lows. The 30-year mortgage rate rose to 4.12% this week from a record low of 3.94% last week, Freddie Mac said Thursday. (The rates assume 0.8% in prepaid interest, or "points.") The latest rate is still less than half the average since 1971.

long-term data on down payments and credit scores suggest conditions are more normal than many buyers think, according to Stan Humphries, chief economist at Zillow. "If you have good credit, a job and a down payment, you can get a mortgage," Mr. Humphries says. "There's more

paperwork and scrutiny than five years ago, but things are pretty much like they were in the '80s and '90s."

## **Even Warren Buffett says Its Time to Buy Real Estate**

Warren Buffett appeared live on CNBC's Squawk Box in Feb of 2012. During the interview, he was asked about the current real estate market and whether he felt now was the time to buy. His response was rather emphatic and has been used as a headline in hundreds of articles since the interview:

***"If I had a way of buying a couple hundred thousand single-family homes I would load up on them."***

However, throughout the interview, he addressed the market from a few angles. Here is what he said:

### **Why invest in real estate now?**

*"It's a way, in effect, to short the dollar because you can take a 30-year mortgage and if it turns out your interest rate's too high, next week you refinance lower. And if it turns out it's too low, the other guy's stuck with it for 30 years. So it's a very attractive asset class now."*

### **Is buying your own home better than investing in stocks right now?**

*"If I knew where I was going to want to live the next five or 10 years I would buy a home and I'd finance it with a 30-year mortgage... It's a terrific deal."*

### **Should we buy multiple houses?**

*"If I was an investor that was a handy type and I could buy a couple of them at distressed prices and find renters, I think it's a leveraged way of owning a very cheap asset now and I think that's probably as an attractive an investment as you can make now."*

Over the last couple of months, there have been more and more financial analysts coming to the same conclusion: It's time to buy real estate.

## **The #1 argument against moving now to act at the bottom of the market is**

### **Prices could fall further!**

#### **Here is the reason why buying now still works, based on the numbers.....**

Let's assume prices continue to drop. If you bought a \$200,000 dollar home (and for the purpose of illustration obtained a \$200,000 loan), and that house drops 10% in the next year.

the math is easy, you just lost \$20,000 BUT - and this is a big BUT - if you obtained a loan today for that house at 4.25%, (current rate is actually 4.00% as of 3/12/2012) and if that same loan in one year costs 6% then the difference in payment is a lot LESS if you buy the house now. (\$200k @ 4.00% = \$955 versus \$180k @ 6.0% = \$1,079) for a difference of \$215 every month

Over 30 years that difference is a whopping \$44,700! The numbers simply verify the facts and the fact of the matter is now is the best time to buy a new home

One thing we have been assured of is that interest rates have to and eventually will be going up as the economy improves. The Fed is predicting they will.

As real estate history has shown over the last 100 years **home prices will go up, and have always gone up, especially after a correction.** We can all agree The Tri-State real estate market has definitely had a correction in value. But now, we are seeing the turn around..

## Bottom Line:

You know that is it the right time to buy a home when both iconic financial newspaper and magazine companies both profess that now is truly the best time to buy a home.

Zillow says:

Even with current economic conditions, there are enough positive factors in housing to make buying a good prospect. Interest rates and affordable prices drive the conclusion:

*"...there are growing indications that it is a good time to buy. Mortgage rates, which fell to 3.875% for the week ending March 2, according to Freddie Mac, are near 50-year lows. Homes have become more affordable than they have been in years: According to Moody's Analytics, the ratio of home prices to income is now 20.9% lower than the 15-year average through 2010, and 12.5% lower than the 1989-2004 average. A historic glut of homes, meanwhile, has created a buyer's market: There were about 15 million vacant homes in the U.S. last year, according to John Burns Real Estate Consulting Inc.-some 3.1 million more than normal.*

*Such conditions might not last long. Moody's Analytics predicts that the number of distressed sales will begin to fall in 2013, and that prices will begin to edge upward then. Home building is at a virtual standstill, so the supply overhang isn't likely to get much worse. Meanwhile, demographic indicators such as "household formation"-the number of new households each year-are on the rise, and promise to take a bite out of the glut in coming years.*

*The upshot: "While we might not see rapid growth in the next couple of years, there are a tremendous number of positive signs that could lead to a rebound," says Anthony Sanders, a real-estate finance professor at George Mason University."*

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