7 Reasons Why Now's a Good Time to Buy a Home

By Carla Fried | Jun 8, 2011 | **6** Comments

The bad news for the housing market sometimes seems like it will never end. In the latest round of housing data, home prices continued to drop as did the number of home sales. Foreclosures remain a major weight dragging down everything, and then there's the massive shadow inventory of distressed homes that will create more supply overflow as they are brought onto the market. Add up all of that, and suggesting now is a good time to buy a home is probably less popular than supporting Anthony Weiner. But along with all the bad news are in fact some compelling reasons for getting serious about buying right now. For example, home prices have come down so far in many markets it now makes the cost of buying a better financial deal than renting.

Crazy or Crazy Smart?

Of course, given what is still unfolding, waiting on the sidelines to make your move after the last of the ugliness is played out seems like a pretty smart strategy. But while you're laser focused on the idea that home prices will be lower in the coming months — which you may well be right about – the question is how much lower they are going, and what other important home-buying factors are going to be as advantageous a month or year from now.

Below are seven reasons why anyone who is pondering a home purchase might want to consider making a move sooner than later. Potential first-timers certainly have far easier logistics than current homeowners who need to sell to make a move. If you're underwater on your loan, trading up might not be feasible. But there are indeed plenty of current homeowners sitting on ample equity. For them, and for potential first timers, here are seven reasons why now just might be a smart time to make your move.

(And here's the rest of CBS MoneyWatch's package on Why the Time to Buy Real Estate Is Now)

1. Renting isn't such a great deal. This is all about Econ 101: Demand for rentals the past few years has increased — a function of foreclosures and fewer existing renters making the decision to buy – and supply hasn't kept up as there has been little new construction since the financial crisis hit. That's pushing up rental prices. Mark Zandi, Moody's Analytics chief economist expects rents to rise an average of about 5 percent over the next year. Real estate firm Reis Inc. forecast 2011 rental hikes of more than 5 percent in markets including Fort Lauderdale, Fl., Fort Worth, TX, Washington, D.C., and Seattle.

That's likely going to exacerbate an already interesting trend playing out in many markets. In a recent analysis by Trulia.com, the ratio of sales prices to rental prices means buying a home today makes more financial sense than renting in about 80 percent of regional markets included in the study. No surprise, Las Vegas and Phoenix, where home prices have cratered, offer the best buy-vs.-rent tradeoff. But even in more stable housing markets such as Dallas, Philadelphia and Atlanta, buying offers strong relative value compared to renting. The needle will likely tilt even more toward home ownership in the coming year given the expectation that rental rates are heading higher in many areas, while home prices aren't.

2. The worst of the price declines is likely over. From the market peak in 2006, the S&P/Case-Shiller index of 20 housing markets is down 32 percent. Ugly indeed. But what's important is what comes next, not what we've just come through. And no one is suggesting we have another 30 percent to go. Zandi recently said that another 5 percent slide in home prices might be on tap. To be clear, no one is suggesting roaring price gains are on the horizon either. The takeaway is that we're potentially at an important pivot point where we're moving from steeply falling home prices to an extended period of stabilizing prices.

3. Mortgage rates are at historic lows. Right now the 4.6 percent interest rate on a 30-year fixed rate mortgage is beyond fire-sale cheap, as is the 3.78 percent interest rate for a 15-year mortgage. Assuming rates will stay where they are at, or even fall some more, seems a risky bet. Fannie Mae expects the 30-year fixed rate will hover around 5.2 percent by the fourth quarter of this year, then rise slightly throughout 2012 to 5.4 percent or so. The 2012 forecast is 5.7 percent, more than a full percentage point above where we're at today.

If you take out a $300,000 30-year fixed rate loan today at 4.6 percent your monthly tab will be $1,537. But let's say you instead decide to wait another year or more on the theory prices are heading lower. If during your wait the 30-year fixed rate rises to 5.7 percent you would need home prices to fall nearly 12 percent to come in at the same monthly mortgage cost as what you can get now. That's more than double the price decline most market watchers are expecting.

4. Mortgages for pricey homes are heading higher. Even if mortgage rates don't budge between now and the fall, mortgages for expensive homes are still going to cost more. Right now lenders can write mortgages for as much as $729,750 in certain high-cost areas and still have that mortgage qualify as a "conforming" Fannie Mae or Freddie Mac loan. That's a big deal to lenders who are typically eager to sell off their loans into the secondary market — and right now Fannie and Freddie *are* the secondary market. But come Oct. 1, the maximum loan amount for a conforming mortgage will fall back to $625,500. If you intend to borrow more than that you will be shut out of the conforming loan market, and will have to opt for a jumbo loan. Jumbos typically carry higher down payments and the mortgage rate can be 0.50 percent higher than the conforming loan rate.

5. Qualifying for a mortgage is likely to get harder, not easier. The goal of Washington in the coming years is to shift more of the mortgage market out of the hands of Fannie Mae and Freddie Mac and into the hands of the private market. It is admittedly too early to know when and what that transition might look like. But whether the government backing is scaled down or disappears all together, that means higher borrowing costs. Moreover, there's already a new regulation being considered that would require banks that want to keep selling 100 percent of their mortgages to Fannie and Freddie to hold borrowers to tougher lending standards.

6. Scary national statistics are especially deceptive right now. RealtyTrac reported that 28 percent of home sales in the first quarter of 2011 were foreclosures, and the average foreclosure sale price was 27 percent less than what a non-distressed home went for. But peel back from that ominous headline statistic and there is a more nuanced story playing out that goes to the heart of the old maxim: All real estate is local.

While foreclosures dominate the hardest hit states of Nevada (53 percent of first quarter sales), Arizona (45 percent) and California (45 percent) at the other end of the seesaw are the likes of New York (7 percent), Texas (12 percent) and Pennsylvania (14 percent). If you live in a state (or neighborhood) teeming with foreclosures, I would be the last to tell you that this is the perfect time to buy. There's likely a long slog ahead as your market works through its backlog in inventory. But if you're in a market that is in fact a lot healthier, don't let the broad national story scare you off right now. Foreclosures in Nevada are irrelevant if you're thinking of buying in Texas.

7. Less competition. There may be plenty of lookey-loos at open houses these days, but the anemic sales pace is proof that there are fewer serious buyers looking to make a deal. That makes it less likely you'll find yourself in a bidding war today. It also means you can negotiate more effectively with eager sellers. Wait to dive in and you could find yourself in a more crowded pool of buyers. It's just common sense that once there are clear signals of recovery, demand will pick up. Being a little early/ahead of the curve gives buyers more elbow room.

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Carla Fried started reporting on retirement way back when the 401(k) was a new-fangled oddity (i.e., the mid '80s). As a senior writer at Money magazine in the 1990s, she wrote extensively on retirement planning and investment and covered a wide range of personal financial topics, from real estate to insurance. She is a dot-com veteran, having served as the managing editor at Quicken.com. Since 2002 she has freelanced for publications and websites including Business 2.0, Kiplinger's, Money, The New York Times, and Real Simple.

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