

Buying a Home in Today's Market

Why Homeownership Is Still a Smart Long-term Decision

by David Bach

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Is buying a house a good idea? Why, after the turmoil of the last few years in the housing market, should anyone buy property? These are great questions, and you may be inclined to think that this just isn't a good time to buy real estate.

But the power of real estate hasn't changed. In fact, you need to own property if you're serious about finishing rich. And today is an unprecedented time to get into real estate. Before you write another rent check, or write off the opportunity to buy another property, consider the following seven things you need to know when it comes to homeownership.

1 HOMEOWNERSHIP IS A SOLID LONG-TERM INVESTMENT. In fact, it is still one of the best long-term investments you can make. That's because homeownership has proven to be a critical contributor of financial well-being for American families for decades. While residential real-estate did especially well between 1998 and 2005, I'm not thinking of just that period. Instead, housing has been making consistently solid gains since at least the 1950s. It's simple – long-term homeownership generates wealth, paying rent does not.

2 THE IRS GIVES BIG ADVANTAGES TO HOMEOWNERS. The federal government provides tax breaks for homeowners – from allowing you to deduct your mortgage interest, mortgage insurance and property taxes to exempting capital gains taxes on your primary residence, within limits (be sure to check with a tax professional to see how these may apply to you). In some cases, you may find that your after-tax mortgage payment is comparable to, and perhaps lower than, your current rent payment!

And for a limited time, Uncle Sam is willing to help out even more, offering a tax credit of up to \$8,000 for qualified first-time homebuyers and up to \$6,500 for qualified repeat homebuyers. Buyers must have a signed purchase contract by April 30, 2010, and a

closing by June 30, 2010. Military families with overseas service have through April 2011 to sign a purchase contract. If the home is not sold and remains the primary residence for at least three years, the tax credit will not have to be repaid. You should check with your tax adviser about how the program's restrictions may apply to you.

3 HISTORICALLY, HOME PRICES RISE. Prices on homes sold during the past year fell 3.8%, according to government statistics. While that marks the eighth consecutive quarter of decline, the reduction wasn't as sharp as it was by the end of 2008, when home prices dropped by 8.2%. We'll probably see more declines over the next few quarters as we work our way through a high foreclosure rate and high unemployment in 2010.

But this downturn shouldn't obscure the terrific record residential real estate has built up over the years. Beginning in 1991, when this particular data series began, we had sixteen years of consecutive quarters of year-over-year growth before the string was broken at the end of 2007. All told, from 1991 to September 2009, through recessions and expansions, the average annual appreciation rate for the typical home was 3.9%. If you plan to remain in your home for a least a few years, history is on your side.

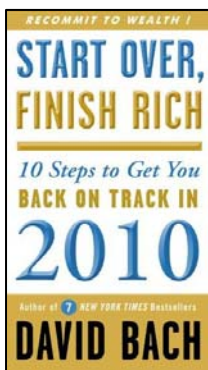
4 WHAT THE MARKET IS DOING NATIONALLY IS IRRELEVANT TO YOU. The media likes to refer to a “nationwide housing slump.” But don’t be misled. Real estate isn’t national, it’s local! The only market you need to be concerned about is your local market. About 2 out of every 3 of the nation’s 384 metropolitan markets did better than the national average (with home prices increasing in 115 of those markets). Of the 26 metro areas with the greatest price declines over the past year, all but two were in California, Florida, Nevada or Arizona.

The bottom line for you: Don’t draw conclusions from the national numbers or figures from outside your area. The housing market in neither El Centro, CA, (prices down 25.5% in the past year) nor Wichita Falls, TX, (prices up 6.1%) gives you the story on your local market. Instead, contact a local Realtor® and get the facts on your local neighborhoods.

5 BUYING OPPORTUNITIES HAVE IMPROVED. In most of the country, the number of homes on the market has risen steadily, making this largely a buyers’ market. Sellers may be more willing to make concessions on price or even pay part of the closing costs. With the decline in home prices noted above and the historically low mortgage rates, homeownership has become the most affordable it’s been in years.

Again, the main point is: Homeownership is an important way American families move ahead financially, and waiting for the current concerns to fade away can cost you. Don’t simply assume that this is a bad time to buy real estate. Go beyond the headlines, and make yours a well-informed decision.

Source: Federal Housing Finance Agency, House Price Index, November 24, 2009. Data through the Third Quarter, 2009.



David Bach is one of America's most successful, well-known and widely read financial coaches and television personalities. He's authored ten consecutive national best-sellers, with over 7 million books in print worldwide in more than 15 languages. David's most recent book, **Start Over Finish Rich**, illustrates ten crucial moves readers must make in 2010 to get back on track financially and recapture their dreams of a richer future. You can learn more about David at <http://www.finishrich.com> and www.facebook.com/davidbach.

6 DON'T TRY TO TIME THE MARKET. The ability to buy a home cheaply when the market is at its bottom is much more about luck than skill for most homebuyers. Unless you're a seasoned real estate investor, I think you'll waste a lot of time on the sidelines waiting for the "perfect time" to buy. Instead of trying to "time the market," a better plan is "time in the market." Knowing you can afford your mortgage and that you'll be in the home for at least five years will help you ride out difficult markets, like the one we're currently in.

7 SMART HOME FINANCING OPTIONS ARE STILL AVAILABLE. There's a wide array of mortgage products out there, filling various needs for borrowers in certain situations. Be sure you understand what you're getting. Will the rate change? If so, how soon? How high could it go? Can you handle bigger monthly mortgage payments? Are you paying down the loan's outstanding balance?

These are just some of the questions you need to consider. The mortgage that's right for you depends on your situation and your preferences, and some financing options available to you may harm, not help, your financial security. That's why it's critical to work with a lender who takes the time to understand your financial circumstances and preferences, and helps you understand your choices.

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