

Opportunity Knocks for Home Buyers

Homeownership is an important part of the American way of life, and there may never be a better time to buy than today.



An Unprecedented Window of Opportunity

For those whose homeownership hopes have been dampened or temporarily derailed by the housing downturn and economic recession—the people wondering if this is a good time to buy—the answer is simple: Yes. It’s a very good time to buy.

Today’s market, coupled with a tax credit of up to \$8,000 for first-time home buyers, near-record low mortgage interest rates and ample inventory, provides an unprecedented window of opportunity for qualified prospective home buyers. In fact, there may never be another buyer’s market as good as today’s.

Time is of the Essence

In landmark economic stimulus legislation, Congress has provided an outstanding opportunity for first-time home buyers with enactment of an \$8,000 tax credit for single taxpayers with incomes up to \$75,000 and married couples with incomes up to \$150,000. Partial credits of less than \$8,000 are available for individual taxpayers with incomes up to \$95,000 and for married taxpayers with incomes up to \$170,000.

But time is of the essence to take advantage of this once-in-a-lifetime opportunity. Only homes purchased on or after January 1, 2009 and before December 1, 2009 are eligible for the tax credit.



Great Selection

An outstanding selection of homes is another reason that it’s a good time to buy. Available inventory is probably the best it will ever be, providing buyers with a great choice of homes. Many builders have homes that are “move-in ready,” and they may offer upgrades or other incentives to seal the deal. Likewise, owners of existing homes who are looking to trade up, downsize or relocate are ready to bargain.

Typical Federal Income Tax Savings Through the First Five Years of Homeownership

(Buyers Claiming the First-Time Buyer Tax Credit)

Mortgage Amount				
\$300,000			\$31,363	\$35,057
250,000		\$19,312	\$26,854	\$30,548
200,000		\$16,607	\$22,344	\$26,038
180,000	\$14,413	\$15,524	\$20,541	\$24,234
160,000	\$13,331	\$14,442	\$18,737	\$22,431
140,000	\$12,248	\$13,360	\$16,933	\$20,627
120,000	\$11,166	\$12,277	\$15,129	\$18,823
100,000	\$10,084	\$11,195	\$13,325	\$17,019
80,000	\$9,002	\$10,113	\$11,521	\$15,215
Borrower Income	\$60,000	\$80,000	\$100,000	\$150,000
Average Taxable Income*	\$35,433	\$53,951	\$73,951	\$119,743
Interest Rate	5.86%	5.86%	5.86%	5.86%
Marginal Tax Rate	15%	15%	25%	25%

Filing Status: Married couples filing jointly.

Tax Rates: In effect during calendar year 2009.

Interest Rate: FHLMC Primary Market Survey, 4th Quarter 2008 Average.

*Borrower income minus average personal exemptions and itemized deductions. Data from IRS Statistics of Income.

Source: NAHB estimates using IRS Statistics of Income data.



But rates can, and do, change. No one is predicting that rates will suddenly surge upward. But rates don't have to increase much for monthly mortgage payments to become unaffordable.

Greener and Better

With energy costs near the top of consumer concerns, it's good to know that new homes today are more energy- and resource-efficient than ever before. Through the use of new materials and construction techniques, today's homes are built twice as energy efficient as new homes a generation ago, making them more affordable to own and operate.

Benefits for Buyers

Homeownership also provides important benefits to owners and to the nation.

Tax Benefits: For Home Owners Only

Unique tax benefits that apply only to housing also help lower the cost of homeownership. Both mortgage interest and property taxes are deductible. Moreover, profits of up to \$500,000 on the sale of a principal residence (or \$250,000 for a single owner) are excluded from tax on capital gains.

The Power of Leveraging

Leveraging is another advantage of homeownership. A buyer can purchase a home and receive the full benefit of homeownership with a cash downpayment that is only a fraction—as little as 10 percent or less—of the total purchase price. This is called leveraging, and it makes the rate of return

Attractive Pricing

If there's a silver lining to the housing downturn, it's that homes are more affordable. Prices have moderated significantly in many areas, especially in major markets where they increased the most during the boom that occurred in many parts of the country. In other areas, prices may not have declined as much, but for the most part, they didn't rise as high or as fast as prices in the hottest markets.

Low Interest Rates

Like inventory and pricing, mortgage interest rates are at favorable levels. And even though lenders are looking more closely at borrowers than in recent years, qualified home buyers should not have trouble getting financing.

For several years, mortgage rates have been near record lows.

Typical Federal Income Tax Savings Through the First Five Years of Homeownership

(Buyers Who Do Not Use the First-Time Buyer Tax Credit)

Mortgage Amount				
\$300,000			\$23,363	\$27,057
250,000		\$11,312	\$18,854	\$22,548
200,000		\$8,607	\$14,344	\$18,038
180,000	\$6,413	\$7,524	\$12,541	\$16,234
160,000	\$5,331	\$6,442	\$10,737	\$14,431
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100,000	\$2,084	\$3,195	\$5,325	\$9,019
80,000	\$1,002	\$2,113	\$3,521	\$7,215
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on a home purchase much greater than on another investment with the same value where the buyer must put up the entire purchase price.

For example, if a buyer makes a downpayment of \$15,000 on a \$200,000 home and the home's value increases to \$205,000 over time, then the home owner's equity (the value of the home minus mortgage debt) has increased from \$15,000 to \$20,000. That's about a 33 percent increase.

Building Personal Wealth

For most Americans, homeownership is a primary source of net worth and an important step in accumulating personal wealth and assuring financial security. Today, even though property values have declined in some markets, Americans have a total of \$8.5 trillion in equity in their homes. Home equity represents the largest share of net worth for most families.

There Really is No Place Like Home

Despite the positive financial aspects of homeownership, a home cannot be valued in monetary terms alone because it is so much more than just an investment.

Not only can homeownership be a steppingstone to greater financial security, it provides a permanent place to call home and great personal satisfaction. Academic research shows that homeownership results in a wide range of social benefits. Moreover, benefits aren't limited to individual households. Homeownership strengthens both the nation's people and its communities.

It is truly a cornerstone of the American way of life.

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What About the 'What If's'?

GIVEN THE ONGOING TURMOIL in the housing and financial markets, many people who want to buy homes are sitting on the fence, either waiting for the market to bottom out or fearing that it never will.

So what is the chance that the market will continue to decline, prices will continue to drop and a home purchased today will be worth less a year from now? Of course, no one can know for sure what will happen a month, six months or a year from now. Housing is predictably cyclical, but the current housing slump has already lasted longer than previous downturns. Moreover, timing the market is a strategy that rarely works; by the time it's clear that a market has turned around, it's too late to take best advantage of the conditions at the bottom.

It's also important to remember that home prices have not declined equally in all areas. All housing markets are local, and all perform differently. Yes, some markets have seen significant declines, but for the most part they are the markets that had the largest increases during the recent housing boom. Many markets saw modest increases and have experienced relatively modest declines.

A related issue is replacement value. Home prices are nearing replacement value in many areas and are not likely to go any lower. It's simple arithmetic. If a builder cannot sell a house for as much as it cost to construct it, he won't build any more houses. Ultimately, prices will increase as inventory declines and demand increases due to growth of new households.