Open House: For those with cash, now's the time to buy

by Jim_Woodard

Housing affordability is rising dramatically. The relationship between home prices, mortgage interest rates, and family income is the most favorable since 1970, says a report by the National Association of Realtors.

A family earning the median annual income of $59,800 can now afford a home costing $283,400, with a 20 percent down payment, the report said. This assumes that the buying family is paying 25 percent of their gross income on mortgage principal and interest payments. A year ago, the typical family could afford a home costing $263,300.

"Housing affordability is at a record high â€” the buying power of a typical family has risen significantly," said NAR president Charles McMillan. "With the drop in interest rates, a median-income family can afford a home costing $20,000 more than a year ago for the same monthly mortgage payment. With the strong stimulus program, we are hopeful that inventory will get trimmed. That will help prices stabilize in many areas by the end of this year."

Real estate consultant John Burns agrees. "Since we began tracking data in 1981, there has never been a better time to buy a home," it says on his website (www.realestateconsulting.com). "The median income household needs only 27 percent of their income to qualify for the median-priced home, and that household is also only paying 3.3 times their income for the house, near the all-time low.

"While we acknowledge that there is a tremendous demand-supply imbalance that will probably drive prices lower, long-term-oriented home buyers now have the opportunity of a lifetime in most markets," the Burns report said. "Do prospective buyers in most markets really want to gamble that prices and mortgage rates will be cheaper next year, or can they take a longer term view that it doesn't get much better than this?"

Pending home sales remain low, primarily due to many buyers who are waiting for clarity and implementation of the housing stimulus provisions.

"Even with many serious potential home buyers on the sidelines waiting for positive results from the stimulus bill, job losses and weak consumer confidence are a natural drag on home sales," said Lawrence Yon, NAR's chief economist. "We expect similarly soft home sales in the near term, but buyers are expected to respond to much improved affordability conditions and from the $8,000 first-time buyer tax credit."

Donald Trump said it (when interviewed by Larry King): "Considering the bargains that are now available, this is the best time in history to buy a home."

Q: Are luxury home sales slumping?

A: The luxury home market has remained relatively stable, despite the recession. The difficulty in obtaining mortgage financing, especially "jumbo" loans, is not a problem for many luxury home buyers. They often buy with cash.

The luxury home market is a narrow niche in the overall real estate marketplace. The number of first-time buyers who purchase a home priced more than $500,000 is only 5 percent of all buyers, according to a survey by the National Association of Realtors. Repeat buyers of $500,000-plus homes comprise 14 percent of the market.

Luxury homes today usually refer to multimillion dollar homes â€” the threshold being between $2 million and $3 million. In that price range, the number of qualified buyers is narrow. But it's still an active market, and many brokers specialize in that niche.

The marketing of a luxury, or high-end, home is quite different from selling lower-priced homes. Brokers must be discreet and selective in showing the property to prospective buyers. They weed out those who are just curious or looking for decorating ideas, along with would-be thieves and people who couldn't possibly afford such a residence. In some cases, the broker asks for an "asset statement" before scheduling an inspection.

When taking the listing on a luxury home, the broker often prepares a comprehensive marketing plan. This includes media exposure that covers a large area, often national or international in scope. And the selected media delivers an audience of affluent people. Prospective buyers will travel long distances to see a home that genuinely interests them.

"Staging" a luxury home for marketing is also specialized. It must appeal to a variety of lifestyle preferences, reflecting the lives of today's rich.

Q: Where does the bank-brokerage controversy now stand?

A: The decade-long battle between banking and real estate brokerage groups has apparently been resolved. Congress recently passed an appropriation bill that permanently bans the Treasury Department and Federal Reserve Board from finalizing a proposal to let banks engage in brokerage and management operations.

Background: A 1999 law authorized the Federal Reserve Bank and the Treasury Department to define permissible activities for financial holding companies. Those agencies proposed allowing banks to engage in real estate brokerage and management activities. The banking industry supported this proposal, while real estate brokerage firms and organizations generally opposed it.

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