

Opportunity Knocks for Home Buyers

Homeownership is an important part of the American way of life, and for most people, the question isn't if they will buy a home, it's when that purchase will occur.



An Unprecedented Window of Opportunity

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

Today's market, coupled with a temporary tax credit for first-time home buyers and near-record low mortgage interest rates, provides an unprecedented window of opportunity for prospective home buyers. In fact, there may never be another buyer's market as good as today's.

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Ample Inventory

An outstanding selection 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.

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. 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 buyers than in recent years, qualified buyers should not have trouble getting financing.

Greener and Better

With high 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 \$25,000 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 benefits of homeownership with a cash down payment that is only a fraction - as little as 10 percent or less - of the total purchase price. However, the buyer's return is based on the property's total value. This is called leveraging, and it makes the rate of return on a home purchased much greater than on another investment with the same value where the buyer must put up the entire purchase price.

If a buyer makes a down payment of \$15,000 on a \$200,000 home and the home's value increases to \$205,000 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% increase.

Building Personal Wealth

For most Americans, homeownership is 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 \$9 trillion in equity in their homes, and for most Americans, home equity represents the largest share of their net worth.

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

Mortgage Amount				
\$300,000			\$26,532	\$28,234
250,000		\$13,096	21,826	23,528
200,000		10,272	17,121	18,822
180,000	\$8,154	9,143	15,239	16,940
160,000	7,024	8,014	13,356	15,058
140,000	5,895	6,884	11,474	13,176
120,000	4,766	5,755	9,592	11,293
100,000	3,636	4,626	7,710	9,411
80,000	2,507	3,496	5,827	7,529
Borrower Income	\$60,000	\$80,000	\$100,000	\$150,000
Avg. Taxable Income*	\$35,514	\$54,195	\$74,195	\$119,706
Interest Rate	6.52%	6.52%	6.52%	6.52%
Marginal Tax Rate	15%	15%	25%	25%

Filing Status: Married couples filing jointly.

Tax Rates: In effect during calendar year 2008.

Interest Rate: FHLMC Primary Market Survey, 30-Year Fixed Rate Mortgage, August 8, 2008.

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

Source: NAHB estimates using IRS Statistics of Income data.