



HOME BUILDERS ASSOCIATION
of Dayton

An Unprecedented Window of Opportunity – Part Two

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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.

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

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.

What about the What ifs?

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. Where housing is concerned, all 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. The Dayton markets saw modest increases and have experienced relatively modest declines.

Another 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 build it, he won't build any more houses. Ultimately, prices will increase as inventory declines and demand increases due to growth of new households.