

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.

Opportunity of a Lifetime for First-Time Buyers

Even Congress thinks it’s a good time to buy a home as it demonstrated with enactment of a \$7,500 federal tax credit for first-time home buyers. Single taxpayers with incomes up to \$75,000 and married couples with incomes up to \$150,000 qualify for the full tax credit. Partial credits of less than \$7,500 are available for individual taxpayers with incomes up to \$95,000 and for married taxpayers with incomes up to \$170,000.

But like so many of the good things in life, time is of the essence. Only homes purchased on or after April 9, 2008 and before July 1, 2009 are eligible for the tax credit, which works like an interest-free loan and must be repaid over a 15-year period. Detailed information about how the tax credit works is available at FederalHousingTaxCredit.com.



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. Many builders have inventory that is “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 or relocate are ready to bargain.

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

(Buyers Claiming the Tax Credit and Repaying It Beginning in the Third Year of the Mortgage)

Mortgage Amount				
\$300,000			\$ 32,526	\$ 34,228
250,000		\$19,090	27,820	29,522
200,000		16,266	23,115	24,816
180,000	\$14,148	15,137	21,233	22,934
160,000	13,018	14,008	19,350	21,052
140,000	11,889	12,878	17,468	19,170
120,000	10,760	11,749	15,586	17,287
100,000	9,630	10,620	13,704	15,405
80,000	8,501	9,490	11,821	13,523
Borrower Income	\$60,000	\$80,000	\$100,000	\$150,000
Average 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.



No one is predicting that rates will suddenly surge upward, but they don't have to increase much for monthly mortgage payments to rise from affordable to prohibitive.

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 \$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 downpayment 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

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 the high-flying major markets where they increased the most during the boom that recently 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 buyers than in recent years, qualified buyers should not have trouble getting financing. For several years, mortgage rates have been near record lows. But rates can, and do, change.

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			\$ 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
Average 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.

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 downpayment 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.

While NAHB has used its best efforts to provide accurate information, NAHB makes no representations or warranties with respect to the accuracy or comprehensiveness of this brochure's contents. NAHB specifically disclaims any implied warranties. The information provided in this document may not be suitable or applicable to your unique circumstances. You should consult with a qualified professional when applying this information to your own situation. NAHB will not be liable for any loss of profits or damages, including incidental, consequential, special or other damages.



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. 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. Many 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.