

Don't Wait to Build Your Dream Home!

Q: I'm a first-time buyer and still can't afford the type of home that I want. Is it best to wait, keep renting, and hope that prices will get even lower?

A: If you continue to wait, you may never be able to afford to get into the housing market. Even as home prices are currently moderating in your area, depending on where you live, rents are likely continuing to climb. When you buy a home, you are also purchasing price stability, knowing that you will pay the same monthly payment for the life of your 30-year, fixed-rate mortgage.

And don't forget the tax incentives. In most instances, all of the mortgage interest and property taxes you pay in a given year can be fully deducted from your gross income to reduce your taxable income. These deductions can result in thousands of dollars of tax savings, especially in the early years of the mortgage when interest makes up most of the payment. You will also begin to build equity in your property.

Your best strategy may be to scale back expectations for your dream starter-home. After a few years, you can use those equity gains to sell your starter home and move into a bigger house. The sooner you make the jump from renter to home owner, the quicker you begin to create and build up wealth for your family.

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You have the home of your dreams pictured in your mind. You know the reasons that you want to build new, but the question of when to build is one that you have probably struggled with for the past few years if not longer. Here are some commonly asked questions and some answers to help calm your fears about why now is really the best time to build the new home you've been dreaming of!

Q: Shouldn't I wait until home prices go even lower to buy?

A: No. Just as no one can accurately predict the peaks and valleys of the stock market (name one person who sold their tech portfolio in April of 2000), the same holds true for housing. If you wait for what you think is the absolute best deal, you could end up waiting for years. All the market fundamentals show that now is a good time to buy – prices are down, interest rates near historically low levels, and there are lots of homes to choose from.

If you buy now, you will not only be in the driver's seat during the buying process, you will also reap the gains of price appreciation. Remember, those who purchased homes in the early 1990s during the last big economic and housing downturn came out as big winners.

Q: Doesn't it make sense to wait out the market until can I get the same price on my home that my neighbor got when he sold a couple years ago?

A: No. It's always better to trade up in a buyer's market. While the value of your house has fallen, the prices of higher-end homes have also dropped.

Here's an example:

Your neighbor sold for \$300,000. Let's say values in your area have dropped 10 percent, so you could get only \$270,000 for your home today. You have your eye on a move-up home that previously sold for \$500,000, but now is selling for \$450,000. If you sold your home today for \$270,000 and purchased the larger house for \$450,000, the difference in price would be \$180,000.

But if you waited to recoup the 10 percent value on your home and sold it at \$300,000, chances are the move-up home would also increase in price 10 percent to \$500,000. That's a \$200,000 price difference. So by selling today, you would actually save \$20,000.

Q: Interest rates might go down. Shouldn't I wait to see if they'll go lower before I buy a home?

A: Interest rates for 30-year, fixed-rate mortgages are extremely favorable for buyers. In fact, they are currently hovering near 30-year lows. But waiting to time the market is a dangerous game. Even those who follow the market for a living can't figure out when interest rates will bottom out. If they could, they would all be multi-millionaires.

And home prices don't necessarily move in unison with interest rates. So, if you decided to wait to purchase a home and the price dropped \$10,000 from where it is today, you could still end up losing money.

How? If interest rates were to move up by a half-a-point during this period, the savings on the reduced home price would be more than offset by the higher monthly payment you would be making over the life of the loan.

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