



## Spring Home Buying Edition: *The Time to Buy is Now*

Just as the housing boom came to an end, the downturn will reverse itself one day, too. While economists and consumers may be uncertain when the bottom will come, there are growing signs that it's already here or extremely close. The best time to buy a home is now — and here's why.

It's hard to tell a market has reached bottom until prices and sales volume start to rise again. So the best time to buy is when market conditions are indicating the approach of a bottom.

To take advantage of near-record low mortgage interest rates and home prices as low as they were a decade ago, home buyers may have to take some risks, such as riding out another short-term dip in property values.

But the rewards may be well worth it. A number of factors point to a small window of opportunity to buy "at the bottom" before the market turns more favorable.

Here are the six greatest reasons to buy a home right now:

### *The economy is growing*

In the first week of March 2011, the Federal Reserve released the Beige Book, a compilation of economic trends across the country, with the comment that the economy is expanding at a "modest to moderate pace." Goldman Sachs economists are predicting a 4% growth in Gross Domestic Product between now and mid-2012.

### *More jobs are available*

A growing economy means more jobs. The Labor Department announced in mid-March that applications for unemployment insurance fell for the third week, to the lowest level since July 2008. At 386,250, the number is well below the 425,000 threshold that

signals modest job growth. For the first time in months, the unemployment rate dropped below 9% to 8.9%, well below the 9.7% rate of a year ago. What's more, employers recently added approximately 192,000 jobs.

More jobs mean higher consumer confidence, and that translates into more spending, more household formation, and more home buyers able to qualify to buy a home.

### *Houses are a hedge against inflation*

The Consumer Price Index rose 0.5% between January 2011 and February 2011, excluding volatile food and fuel. For the year, gas is up 19.2%, fuel oil is up 27.1%, and food is higher by 2.8%.

Inflation rates are based on consumer prices. The urban index is up 2.1% for the year, which means inflation is currently at 2.1%.

Why is that good for home owners? When prices rise, a major asset such as a home, purchased at a fixed cost, becomes more valuable. In an inflationary environment, housing prices typically rise.

### *Mortgage interest rates are near record lows*

Between October 2010 and March 15, 2011, benchmark 30-year, fixed-rate mortgage interest rates rose from a historical bottom of 4.32% to 4.77%.

If you purchased a home with a mortgage of \$300,000 when rates were 4.32%, your payment would be \$1488.14 a month. Over the term of the loan, you'd pay a total of \$535,730.17, with \$235,730 in interest.

The same home purchased in March 2011 would cost you \$1,568.56 per month, for a total of \$564,681.72, and \$264,681.72 in interest. That's an increase of \$80.41 per month, and an extra \$28,951.71 in mortgage interest over the term of the loan.

That's why prices can't compete with interest rates. To beat the low interest rates of 2010, your home's value would have to decline nearly 10%. At the current rate, that would take approximately a year and a half. That's a lifetime in economics. Economists are already predicting higher mortgage interest rates — so the chances that market conditions will be better in the future are poor.

### *Pent-up demand is ready to release*

According to the National Association of Home Builders (NAHB) and the Census Bureau, household formation — a key ingredient for regulating housing supply — has declined significantly since the beginning of the Great Recession. Like many economic indicators, it, too, has overcorrected to approximately 1.0% annually. But considering that the largest generation ever — 81 million Echo Boomers — is well into renting and home buying age, the numbers should be closer to the 2.3% annual growth of the 1970s, when 78 million Baby Boomers reached adulthood. Based on that and other calculations, about 2.1 million would-be households have delayed formation due to the recession, creating pent-up demand for housing.

### *Buy-versus-rent ratios favor home ownership*

As the economy improves, households increase. Mark Zandi, chief economist for Moody's, said he expects buying to beat renting in most markets by mid-year. The NAHB's Multifamily Market Index shows that rental vacancies have been falling steadily since Q2 2009. When more people are renting, higher rents can be charged. Right on cue, rents increased a modest 3% in 2010. Higher maintenance and building costs could mean rents will go even higher in 2011.

Michael Corbett, host of the "Mansions & Millionaires" segment on the syndicated TV

show Extra, recently noted, “I’m pretty comfortable saying that five years from now, people are going to be saying, ‘Damn, if I had just bought in 2011.’” The oracle of Omaha, Warren Buffett, recently said, “Home ownership makes sense for most Americans, particularly at today’s lower prices and bargain interest rates.”

### The California Market

After three months of higher transaction volume, sales softened 9% in February 2011 over January, and were 4% below the pace set in February 2010. Unsold inventory rose from 6.7 months to 7.3 months on hand, tipping the state back into a buyer’s market. Statewide median prices fell 2.8% to \$271,320 from \$279,140 in January. The median price is 2.5% below the level of February 2010 and the lowest since May 2009, when it was \$263,440.

The California Association of REALTORS® chalks the reversal up to several factors. Sales

volume may be down due to the elimination of federal and state tax incentives, continuing consumer uncertainty. There are also fewer foreclosures on the market to lower median prices.

**Advice for buyers:** A housing recovery doesn’t proceed in a straight line. The question is, how deep are the dips? Buyers could wait for even better conditions, but the current alignment of falling mortgage interest rates, lower home prices, and wider selection is unlikely to happen again. Prices may go lower, but mortgage interest rates may go higher. If this isn’t the bottom, it’s very close. Act now.

**Advice for sellers:** Suddenly, buyers are back in control, and they’re demanding perfection. Your home’s price, presentation and condition are crucial to selling quickly. Now is not the time to test the market’s tolerance for higher prices or skip necessary repairs and updates.

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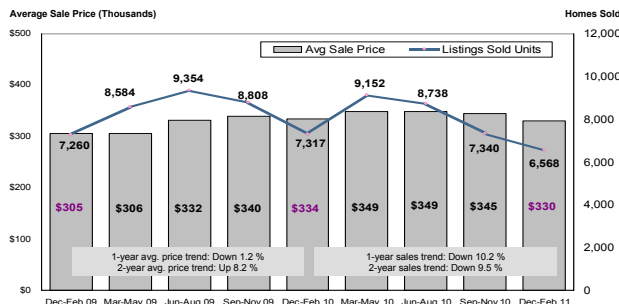
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## SAN DIEGO COUNTY

San Diego is enjoying a blistering seller’s market in homes under \$1 million.

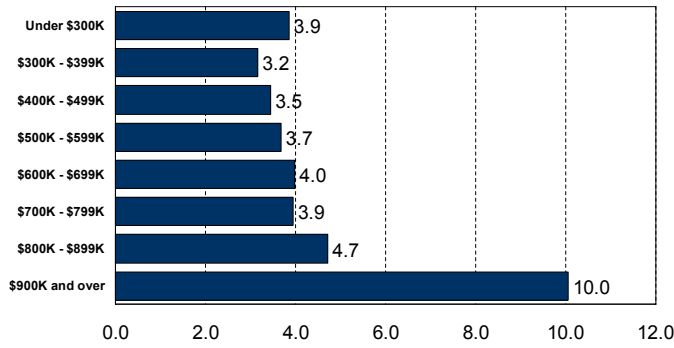
*\*A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer’s market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller’s market has low inventories of homes for sale, escalating prices, and keen competition between buyers, including multiple offers. Detached homes stand alone and share no common walls with any other neighboring home. Attached homes share at least one common wall with another home. The type of home ownership is determined by whether it is a condominium, townhome, duplex, co-operative or other.*

**All Properties - Listings Sold by Calendar Quarter  
9 Quarters through February 28, 2011**



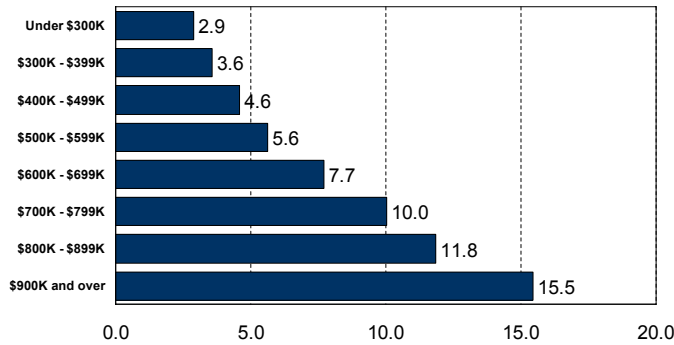
Despite the current seller’s market, prices and transaction volume were down for the year ending February 28, 2011.

### Detached Properties - Inventory in Months



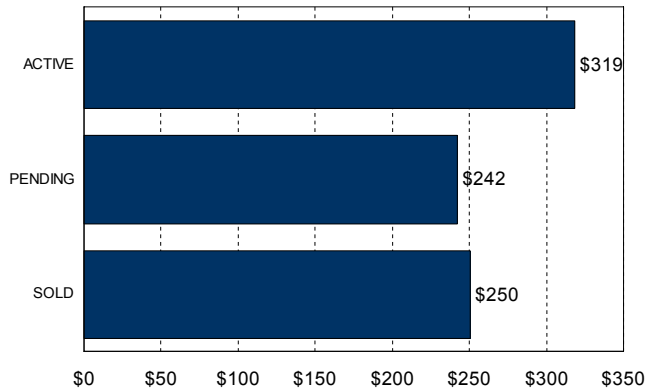
Detached homes are selling nearly as fast as they can close. Only homes above jumbo conforming loan ranges are tilting toward a buyer's market.

### Attached Properties - Inventory in Months



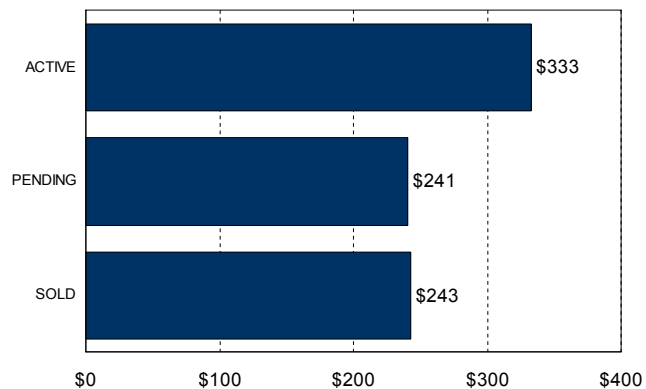
Attached homes are also selling briskly under \$699K, but supplies start to build once prices go higher.

### Detached Properties - Pricing Reality for Sellers, per square foot



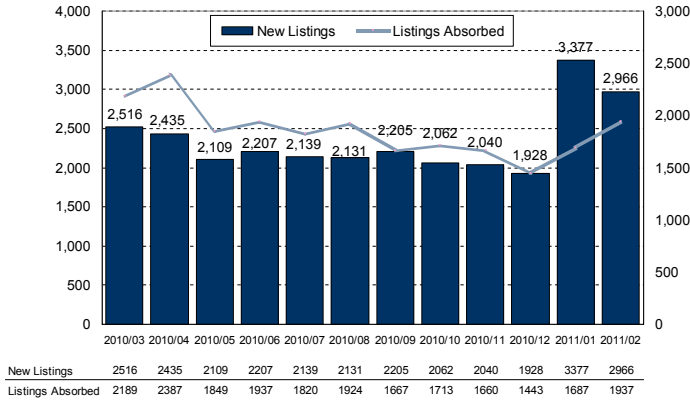
The gap between active detached home listings' price per square foot and that of solds further underscores the heated seller's market in the affordable ranges.

### Attached Properties - Pricing Reality for Sellers, per square foot



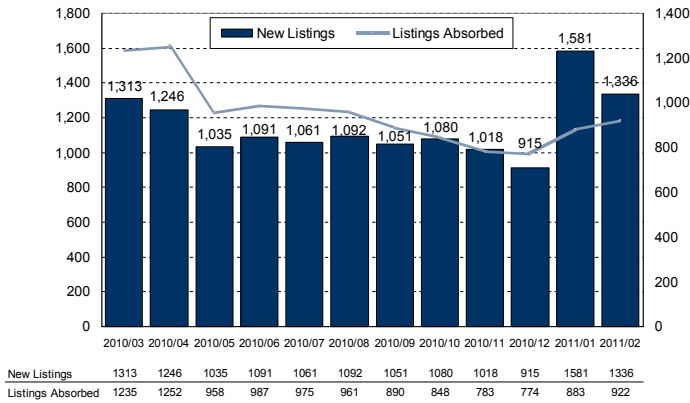
The gap between attached home listings' price per square foot and that of solds is broader, possibly due to the buyer's market in the higher price ranges.

### Detached Properties - Monthly Listings Taken and Absorbed 12 Months through February 2011



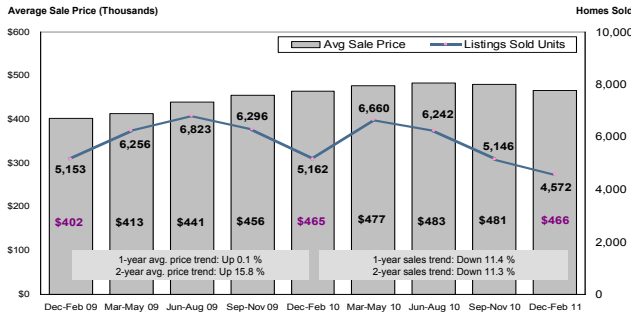
Sellers flooded detached home supplies in January and they remained high in February. Fortunately for sellers, buyers stepped up.

### Attached Properties - Monthly Listings Taken and Absorbed 12 Months through February 2011



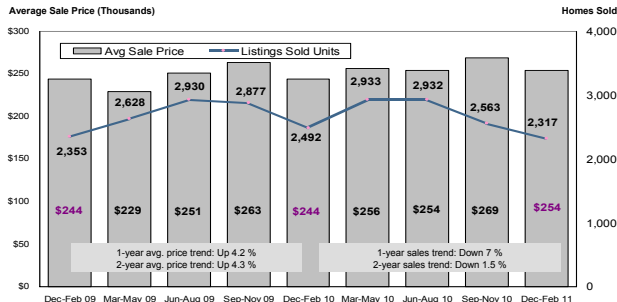
New supplies of attached homes spiked in January with a corresponding rise in absorption rates, but sellers should be cognizant of supplies when pricing their home for sale.

### Detached Properties - Listings Sold by Calendar Quarter 9 Quarters through February 28, 2011



Detached home prices held firmly on lower transaction volume for the year ending February 28, 2011.

### Attached Properties - Listings Sold by Calendar Quarter 9 Quarters through February 28, 2011



Sales prices for attached homes rose 4.2%, but only caused transaction volume to lightly tap the brakes.

