



Buying a Home Now Is a No-Brainer

You might not make a ton of money, but you're unlikely to ever score a better deal.

IS NOW the right time to invest in a house? Trick question. Actually, it's two questions.

Question No. 1: Is now the time to buy?

Question No. 2: Is buying a house a good investment?

The first answer is easy: With a few exceptions, if you have 20% to put down and good credit, now is a great time to buy. That's been the case all year, and I'd argue that we're probably closer to the end than to the beginning of the really great time. Let me explain.

Back in January home prices had dropped 28% from their peak. More important, interest rates were at historical lows. By locking in a mortgage for 15 or 30 years on a value-priced home, you were getting an incredible deal, even if home prices decreased. (I took my advice and bought a New York City apartment.) At the time, I thought that prices and rates were more likely to rise than fall. I was half right: Home values have been inching up since the spring, but mortgage rates, incredibly, dropped further.

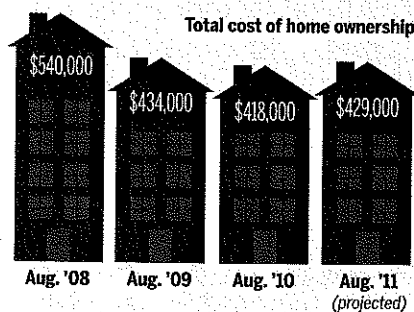
THE TREND IS YOUR FRIEND

By August (the latest numbers available) the median home price

had risen 1% over a year ago, but 30-year rates had dropped a half-point to 4.5%. Assuming 20% down and a 30-year mortgage, the total cost of owning a median-priced home is now down \$16,000 from a year ago (see the graphic). Home values may waffle over the coming year, but because Americans take out such large, long mortgages, rates are what really matter. And I am more likely to grow hair than see 30-year mortgage rates drop below 4%. It's far more likely that rates (and the cost of ownership) will rise.

A BARGAIN, BUT FOR HOW LONG?

Prices and mortgage rates are low, but absolute steals will get harder to come by.



NOTE: Total cost includes a 20% down payment invested at 5% and monthly payments on a 30-year fixed-rate mortgage. SOURCES: National Association of Realtors, Mortgage Bankers Association

Now for question No. 2: Is a house a good investment?

First, it depends on what you mean by investment. If your definition is strictly about dollars returned, a house probably won't be a great use of your capital. If you bought the median-priced house today with 20% down, to recoup your total costs (and I'm not including property taxes and maintenance here) over three decades, the home's value would have to rise about 3% a year. That's likely, but you'll almost certainly (we all hope) do much better than that in the stock market. The fact is, however, that that's the normal case for housing; the booms that began after World War II and in the late 1990s were the exceptions.

THE TREND IS URBAN

Of course, there are places where you might do better: I bought my condo in Manhattan, a small island that, by virtue of the business done on it, has a sustained demand for property. And smaller, energy-efficient housing in cities or inner suburbs around San Francisco or Chicago is likely to be in higher demand than big, outer suburban homes with long commutes to Las Vegas or Atlanta. According to urban and environmental planning professor William Lucy of the University of Virginia, this move toward urbanization in American housing is the reversal of a trend that's been in place since 1945. Keep it in mind when making your buying decisions.

That said, the key point to remember is this: Buying a fairly priced home at today's rates may be the best deal you will ever get. And who knows? It may even turn out to be a good investment. ■

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