

Now May Finally be Time to Buy Your House!

(Special to the 7/6/2011 AZ Republic by Dr. Harold Wong)

On 6/23/11, Fletcher Wilcox, Grand Canyon Title's V.P. of Business Development, gave a talk on the residential housing market. I was also able to meet 15 other experts in various residential specialties. Many of the statistics and examples are courtesy of his detailed research.

Home Price: Median residential home sales price reached its peak (\$265,000) in June 2006 and dropped to \$108,000 in May, 2011, or 40.755 percent of the peak. The statistics include all eight multiple listing association categories (about 84 percent of all sales is single-family home). Median Single-Family Sold Price was \$138,000 in May, 2010 vs. \$116,000 in May, 2011. This is a 15.942 percent drop.

Total Sales Activity: There were 9882 sales in May, 2011 versus 9890 sales in May, 2005. In 2011, there could be a total of 100,000 sales, matching the activity during the frenzied 2005 housing price boom. The reason is a large number of investors, especially from Canada, as well as American first-time homebuyers.

Scarce Inventory: Looking at the data of single family detached sales by price range, the estimated months of supply (active listings on June 13, 2011 divided by monthly sales) is:

Under \$50,000, 2.1 months; \$50,000-99,999, 2.0 months; \$100,000-149,999, 2.0 months; \$150,000-199,999, 2.5 months; \$200,000-249,999, 2.9 months; \$250,000-299,999, 3.8 months; \$300,000-349,999, 3.7 months; \$350,000-399,999, 5.0 months; \$400,000-499,999, 5.7 months; \$500,000-599,999, 6.1 months; \$600,000-699,999, 6.7 months; \$700,000-799,999, 9.5 months; \$800,000-899,999, 11.4 months; and \$900,000-999,999, 18.6 months. **Note:** 6 months inventory is considered a healthy, normal market. At all prices below \$350,000, there are often multiple offers from different buyers who are competing for limited inventory.

Shortage of Rentals: On June 20, 2011, there were 5680 units (whether single-family detached, apartment style/flat, townhouse, or patio) available for rent and in May, 2011, there were 2575 leases signed. In other words, there are only 2.2 estimated months of supply. For single-family detached, there was 3,684 in inventory vs. 1955 leases signed, or only 1.9 months estimated supply. I have heard from many sources that there is a major shortage of houses for rent, particularly in desirable areas. One reason is the large number of homeowners who have lost their homes to foreclosure or short sale. There were 21,875 single-family home rentals in 2010, vs. 4,149 in 2001; 9,463 in 2004; and 14,143 in 2006.

Costs of Buying vs. Renting: In May, 2011, for the city of Phoenix, the mean (arithmetic average) single-family purchase price was \$127,651 vs. a \$1,332 single-family rental rate. If we

assume a buyer qualifies for a 30-year FHA loan: 3.5 percent down, loan at 4.5 percent, plus required FHA mortgage insurance, the monthly payment is \$742. If we add \$150 monthly property tax and \$50 for homeowner's insurance, the total is \$942, or \$390 less than the mean rental rate. When one adds HOA fees and an actuarial sinking fund for repairs, the monthly cost of owning is about the same as renting. **Note:** the true annual cost of owning a home exceeds renting it when one goes to higher price ranges, especially above \$250,000.

What if House Values Go Down 10 percent but Interest Rates Increase 1 percent? If the \$127,651 house price reduced 10 percent to \$114,886, but the FHA interest rate increased to 5.5 percent from 4.5 percent, monthly FHA principal, interest, and mortgage insurance stays at \$742.

Conclusion: We may not have hit the bottom of housing prices, but if we don't have a national collapse (due to U.S. debt default and resulting skyrocketing interest rates), this may be the time to buy your house. Of course, it depends on other factors such as whether you can qualify for a mortgage and believe that your job and marriage are stable for the next 7 years.

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