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## For Some, It's Finally Time to Dive Into Housing Market

By MARY PILON

For years, even as her friends bought huge houses in the expensive Phoenix market, Elizabeth Child remained a renter.

But in January, the airline customer-service agent and her boyfriend closed on their first home. The three-bedroom, two-bath house, complete with granite countertops and a pool, had been listed for \$340,000 in late 2007, but the couple bought it for \$220,500. "Six months ago I didn't think I would own a home," says Ms. Child, 27 years old. "And now I do. It's so perfect."

The housing bust is creating a new group of winners: first-time home buyers. People who sat on the sidelines -- often watching wistfully as their friends became homeowners -- are suddenly in a position to grab some great deals. Indeed, first-time home buyers made up 41% of all buyers at the end of 2008, up from 36% in 2006, according to a recent survey from the National Association of Realtors.

The new buyers are being lured in by home prices that are down about 25% from their peak levels in mid-2006, according to the S&P/Case-Schiller Index. In some markets, prices have dropped even further -- slumping around 40% in Phoenix, Miami and Las Vegas. Lower mortgage rates have also helped make real estate more affordable, and as houses languish on the market longer, more homeowners are willing to negotiate. With Congress considering plans to sweeten a tax credit for first-time home buyers, the picture could get even brighter.

"Buyers are now coming back into those hard-hit markets to take advantage," says Lawrence Yun, chief economist for the Realtors' association. "It's a buyer's market."

Ululani and Scott Larson looked for a house in the Seattle area several years ago, but held off from buying, deterred by the high prices. "I felt like we were missing out, because everyone knows it's the American dream to buy a home and build equity," Mrs. Larson says.

The couple was shocked to discover recently that they could afford a four-bedroom home in Federal Way, Wash. The assessed value of the home in January was \$400,000, Mrs. Larson says. Their offer of \$315,000, with a down payment of \$15,000 was quickly accepted by the relocation company, which had had the property on the market for six months. "Honestly, I didn't think we'd get as nice of a house as we did," Mrs. Larson says.

Of course, would-be buyers need decent credit scores and the money for a decent down payment. Also, finding the right property can be a challenge for first-time buyers, who tend to be seeking less-expensive homes. The typical first-time buyer purchased a home costing \$165,000 last year, according to the National Association of Realtors. Yet some

of the best bargains right now are in luxury condos and sprawling single-family houses.

"The disproportionate McMansion inventory doesn't work," says Shari Olefson, a real-estate lawyer who works in southern Florida. "Even if you qualify for the loan, there are huge overhead costs to buying a larger home."

Still, real-estate agents and mortgage lenders are banking on first-time buyers to help stimulate the otherwise dreary housing market. Many are holding workshops and information sessions designed specifically for first-time buyers, addressing federal and state tax incentives for homeowners, local prices and ways to take advantage of low mortgage interest rates. Tim Epps, a mortgage adviser in Tulsa, Okla., runs rent-vs.-buying simulations for would-be buyers and recommends that other prospective buyers do the same long-term calculations.

Mr. Epps and many mortgage lenders recommend that buyers come up with as big a down payment as possible, even though Federal Housing Administration loans will allow some first-time buyers to enter the market with as little as 3% down. (Hud.gov has more information about FHA loan programs designed for first-time buyers.)

"Even if [a home owner] loses some paper equity, in the long run, there are some tax benefits," says Mr. Epps, referring to the deduction for interest paid on mortgages and the credit for first-time home buyers.

The \$7,500 tax credit for first-time buyers, which Congress passed last year, has had little effect on the market so far. Because the credit has to be repaid, buyers are viewing it as another loan, industry experts say. But the stimulus package that Congress is working on is likely to repeal the provision that requires buyers to pay the credit back and possibly enlarge the tax credit as well.

For many buyers, the biggest question is whether to hold out for even better conditions. Historically, recoveries in the housing market are slow, and most experts expect the prices to stay low for some time. That means people can take their time shopping for the right property, real-estate experts say.

John Stratton, an agricultural engineer in Lisle, Ill., was serious about buying last summer but held off from making a bid. Some of the money he planned to use for a down payment suffered losses from mutual-fund investments. He's also waiting for prices in his area to go down further. "I can do better investing in things other than real estate," he says. "Right now, I'm not diving in."

Patience can pay off. Jen and Drew Rocky spent over a year tracking their prey before the price was right. In the summer of 2006, they saw the four-bedroom, 2½-bathroom home of their dreams in Sherman, Conn. The asking price was \$565,000, "completely out of our price range," Mrs. Rocky says.

But they didn't give up. The Rockys kept driving by the vacant house. They had online alerts to notify them of changes in the property's listings. They went to town hall to research the home's public records. As they suspected, the home was in foreclosure. "There were liens all over the place," Mrs. Rocky says.

They bought the home in December 2007 for \$410,000. "I felt so vindicated," Mrs. Rocky says. "We got a good deal, but I'm sure there are even better deals out there."

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