

Is now a good time to buy?

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Recently I had a conversation with a friend who owns both real estate and has stocks in his 401K. He mentioned that his real estate had not really appreciated in the past year, but he was hoping that would change soon. I asked him about his 401K –

“My (a few 4-letter words here) 401K is down almost 50%! It’s killing me! I can’t believe that almost half of my retirement savings has simply vanished into thin air! Vaporized!”

He is not alone; trillions of dollars have simply vanished from the Stock Market. The stock market is a mess, we are all disgusted with the bailouts and investors and homebuyers seem to be frozen. Well guess what, it is a perfect time to buy real estate! Here are a few trends I see that you need to know about:

- 1) Supply and Demand Currently America is creating *twice as many new households as new housing starts*. This trend cannot and will not continue. The current “overhang” is being depleted and the buyers’ market will soon be a thing of the past. Look around, do you see a lot of houses being built? No. Supply is going down. Right now there is also weak demand so prices are artificially low, but as the supply of homes continues to decline, price will rebound quickly.
- 2) Housing affordability is at record levels. Lower home prices and low mortgage rates have combined to make homes more affordable than in any time in recent history.
- 3) New-home prices as they are now are unsustainable. Prices must rise because replacement cost for home sites are far below today’s prices and home builder profit margins are below those acceptable to bankers and investors over the long term. What all this means is that you can buy a home cheaper than the total cost of land, labor and materials to build one. As a builder I can attest to this! We are selling 2-bedroom townhomes for as low as \$106,900. Our profit margins are too low to be sustainable at this price. Banks will not loan money at these low margin levels so builders are faced with two choices:
 - i) Raise prices
 - ii) Go out of business – which will reduce supply, resulting in higher home prices.
- 4) Banks are nervous. They are not lending money for real estate development or construction. Without financing, many contractors and developers have simply closed up shop. With very few new projects being built, the demand for current home inventory will go up as will the prices.
- 5) Super low interest rates. Rates are at a 40-year low. This is the chance of a generation to get in on the lowest rates in history! When inflation finally kicks in because of the trillions of dollars the government is now printing, you will be glad you locked in a historically low rate. Many people do not understand that when the government increases the money supply – bailouts, stimulus plans, etc. – there is more money chasing the same amount of goods. That is how inflation works. Higher inflation inevitably leads to higher interest rates. Believe me, rates will go up again.
- 6) \$8,000 tax credit. Do you realize the significance of this? If you are a first-time buyer and meet the requirements, you get \$8,000 as a tax credit for buying a home! That is 2 or 3 months of hard work that the government is going to give you in the form of a tax credit – *just for buying a new home*. If you use the tax credit to pay your house payment, you could live many months and sometimes up to one year (depending on the payment amount) rent and house-payment free. This is an enormous one-time opportunity

In summary, decreasing housing supply, low prices, historically low interest rates, and an \$8,000 tax credit make now the perfect time to buy!

One more final note about investing in a new home vs. the stock market – The good thing about a home is that it cannot simply vaporize like a stock. You can always touch it, turn the door knob and know that it’s there and that it has intrinsic, real value. Housing is something people will always need and will always have value.

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