

- Home
- News ▶
- Technology ▶
- Markets ▶
- Personal Journal ▶
- Opinion ▶
- Weekend & Leisure ▶
- TODAY'S NEWSPAPER
- MY ONLINE JOURNAL
- FREE FEATURES
- MARKET DATA & TOOLS
- FIND A JOB
- FIND A HOME

First-Timers Begin Looking At Houses Again

Lower Prices, Mortgage Rates Lure Buyers Off the Sidelines; Special Offers in Tampa, Fla.

By RUTH SIMON
December 13, 2006; Page D1

High home prices have helped drive many first-time buyers out of the housing market. Now, with prices falling in many areas, there are some signs that buyers are beginning to drift back.

The share of first-time home buyers dropped earlier this year to its lowest level since 1987, according to the National Association of Realtors. First-time home buyers now account for 36% of home purchases, according to a study released last month by the Realtors group, down from 40% in the three previous years.

First-time buyers play a key role in the housing market. They provide a source of new demand for homes, and they also make it possible for owners of entry-level properties to trade up, creating a ripple effect that affects higher-priced sectors of the market. Declining affordability has made it difficult for first-time buyers to buy homes in many parts of the country, an important factor in the recent housing downturn.

Renting Is Cheaper

The difference between the monthly cost of an apartment rent and the cost of a mortgage on a single-family home has widened in much of the nation since 2001. In the chart below, a ratio of 1 means the cost of each is identical. A ratio above 1 means renting is more expensive, while a ratio below 1 means owning is more expensive.

METRO AREA	RENT VS. OWN RATIO	
	2001*	2006**
Atlanta	1.01	0.82
Boston	0.87	0.63
Charlotte, N.C.	0.85	0.66
Chicago	0.84	0.68

But as more sellers begin to cut their asking prices and rates on fixed-rate mortgages have moved lower, some real-estate agents are reporting renewed interest from people shopping for their first home. Sam Schneiderman, broker-owner of the Greater Boston

EMAIL PRINT

New!
MARKETS DATA CENTER

[VISIT NOW ▶](#)

Your personalized view of the markets.

[TAKE A TOUR ▶](#)

Start a **FREE** trial of the **Online Journal**



Subscribe to **The Print Journal**



Free US Quotes:

Symbol
 Name



Get **FREE E-Mail** by topic

Check Out our **Mobile & Wireless Services**

DIGEST OF EARNINGS

Details of the latest corporate earnings reported for **FREE**.

HOME TOOLS

- [Mortgage calculator](#)
 - [Fixed rate or adjustable?](#)
 - [Points or no points?](#)
 - [Should you refinance?](#)
- advertisement

Special Offer
Subscribe to the print Journal today and receive 8 weeks **FREE!**
[Click Here!](#)

Home Team, says he has seen "a real surge in first-time buyer activity" in the last two to three weeks as lower prices draw buyers who think the market may be close to bottoming out. Kevin Freadhoff, an agent with Realty Executives of Southern Arizona in Tucson, says in the past 60 days he is seeing first-time buyers "start to warm back up again. They are seeing that houses have become more affordable."


In Madison, Wis., rising interest rates and home prices knocked many first-time buyers out of the market early in the year, says Phil Sveum, broker-owner of Coldwell Banker Sveum Realtors. But in the past month, Mr. Sveum has seen an increase in tenants looking to buy their first home. The recent drop in interest rates "has created some momentum for first-time buyers, not to write an offer today, but to start looking again and be serious about moving in January or February," he says.

First-time buyers are particularly sensitive to rising housing costs, in part because they don't have equity from an existing home they can tap as prices shoot higher. And lower incomes provide less of a cushion when monthly payments climb. In a sign of just how hard it is for first-time buyers to come up with the cash needed to buy a home, 45% of first-time buyers bought their home with no money down, according to the recent National Association of Realtors survey, up from 43% a year earlier.

But recent data have been encouraging for first-time buyers. The National Association of Realtors reported that the median price of an existing home fell 3.5% in October from a year earlier, the largest decline since the group began collecting these data in the late 1960s. The average rate on a 30-year fixed-rate mortgage now stands at 6.16%, the lowest level since October 2005, according to HSH Associates in Pompton Plains, N.J.

A growing number of first-time buyers in Florida's Tampa Bay area are taking advantage of special deals from builders looking to unload newly constructed homes that are bloating their inventories, says Craig Beggins, president of Century 21 Beggins Enterprises.

Jason Colon, a bank analyst, bought a new three-bedroom, 2½-bath townhouse in Apollo Beach, Fla., last month after looking for his first home for roughly a year. Mr. Colon paid \$163,000 for the property, which was originally priced at \$242,000. The builder also picked up \$5,000 of his closing costs. "It was crazy for me not to jump on it because it was brand-new and I'm buying the model unit, which has all the upgrades," says Mr. Colon. Falling interest rates have made the purchase more affordable, he adds.



H&R BLOCK TaxCut™

With help from my people...

H&R BLOCK
You got people™

TODAY'S MOST POPULAR

1. [Grading Bonds on Inverted Curve](#)
2. [Runway-Bound: A Holiday Flight Becomes Ugly](#)
3. [Boeing's New Plane Gets Gawks, Stares](#)
4. ['Soft Landing' May Cut Returns on Cash](#)
5. [Speculators Helped Fuel Housing Boom](#)

[MORE](#)

RELATED INDUSTRIES

- [Real Estate](#)

[Personalized Home Page Setup](#)

Put headlines on your homepage

Yet affordability remains a problem for many would-be buyers. In the second quarter, buyers had to stretch more than ever before in 25 of the top 50 markets, according to Bank of America analyst Daniel Oppenheim. Even with the recent price declines, he estimates that it would take a further 7% fall in home prices, combined with a 4% annual increase in nominal incomes, to bring affordability back in line with average levels over the past decade by 2008 -- if interest rates remain stable.

about the companies, industries and topics that interest you most.

In recent years, many first-time buyers had been able to stretch their dollars by taking out adjustable-rate mortgages and so-called affordability mortgages, which allowed them to lower their monthly payments or buy a home with little, if any, down payment. But as short-term interest rates have climbed higher, the benefits of adjustables have declined.

At the same time, some first-time buyers have become more cautious. Sheila Doyle, an agent with Baird & Warner in Glenview, Ill., says that more of the first-time buyers she works with are getting their parents to help them with a down payment and fewer are financing 90% or 100% of the purchase price. "I don't see them doing the crazy financing that was so frequent last year," she says.

New guidelines for nontraditional mortgages, recently issued by federal banking regulators, could make it tougher for some first-time buyers to use these products. Some lenders are also beginning to tighten their standards as mortgage delinquencies rise.

Many would-be buyers are taking a wait-and-see approach. When home prices were soaring, many first-time buyers jumped to buy houses they could barely afford, believing they would be shut out of the market if they didn't act quickly. Now, with prices falling in many areas, "there's no immediate need to buy, and so they kick the tires more," says Frank Borges LLos, owner of FranklyRealty.com, a brokerage in Arlington, Va.

Arthur Orkisz, a speechwriter in the Washington, D.C., area, says he expects to hold off until at least next summer before buying his first home, "unless something so dramatic happens that it's absolutely silly to pass it up." Giveaways such as flat-screen TVs are "all nice and dandy, but at the end of the day anyone capable of doing the arithmetic realizes that's a gimmick to get me in the door," he says. "That's not enough of an incentive" to buy.

Scott Steiner, managing broker of Help-U-Sell Lakeview Realty in Lake Elsinore, Calif., says he's getting fewer calls and doing fewer showings for the properties he's listing. But fliers describing the properties are being snapped up faster than ever before -- a sign, he says, that many first-time buyers are taking their time and waiting for the market to stabilize before making a move.

In much of the country, renting remains a bargain compared with owning, according to an analysis prepared for The Wall Street Journal by Torto Wheaton Research, a unit of CB Richard Ellis Group Inc. In markets such as Las Vegas, San Diego and Washington, the monthly cost of renting the average apartment is roughly half what it would cost to own the median-price home in the third quarter. "Renting is only marginally less of a bargain" even with the latest decreases in home prices, says Torto Wheaton senior economist Gleb Nechayev.

Write to Ruth Simon at ruth.simon@wsj.com

 [FORMAT FOR PRINTING](#)

Sponsored by

TOSHIBA
COPY • FAX • PRINT

[Return To Top](#)

[Subscribe](#) [Log In](#) [Take a Tour](#) [Contact Us](#) [Help](#) [Email Setup](#) [Customer Service: Online](#) | [Print](#)

[Privacy Policy](#) [Subscriber Agreement & Terms of Use](#) [Mobile Devices](#) [RSS Feeds](#)

[News Licensing](#) [Advertising](#) [About Dow Jones](#)

Copyright © 2007 Dow Jones & Company, Inc. All Rights Reserved

DOWJONES