

# Homing in

## For first-time buyers, a falling market has opened a window of opportunity

By Kimberly Blanton, Globe Staff | April 13, 2008

When Kelly and Justin Crosby first started looking at homes in Boston's western suburbs last year, they quickly eliminated Southborough from their list - they liked the large lots but prices were out of their reach.

What a difference a year made. With home prices falling, the couple broadened their search and are now about to close on a split-level home on 1.7 wooded acres in Southborough for \$84,000 less than its original list price.

"We waited and made the smart decision," Kelly Crosby said. "The neighborhood just makes us feel really good," she said.

Families buying their first home, like the Crosbys, are among the few, happy beneficiaries of a housing slump that has sliced 11 percent off the median price of single-family homes in the Boston area since September 2005. Others finding a silver lining in the gloom are those for whom a house had seemed simply out of reach - often single mothers living off one paycheck - and those once limited to condominiums who now find that houses have dropped back into their price range.

These buyers are able to take advantage of the soft real estate market because another sizable group of prospective buyers - existing homeowners looking to trade up - are stuck on the sidelines, unable to unload their existing properties. That's a reversal of the boom years when first-time buyers competed against homeowners who had hefty profits from the sale of their properties to plow into a new purchase, said Thomas Callahan, executive director of the nonprofit Massachusetts Affordable Housing Alliance.

His agency provides subsidized mortgages with low rates and some down payment assistance to first-time buyers with household incomes between \$30,000 and \$80,000. Last year, his agency and its lending partners made a record 1,143 loans totaling \$229.4 million.

The downturn "has opened up opportunities for many of our buyers who were priced out just a year or two ago," Callahan said.

One of his agency's clients, Ilda and Manuel Mendes of Dorchester, despaired of ever affording a home. Last year, the declining market prompted them to look at two- and three-family properties. With a combined income of \$80,000, the couple reasoned they could more easily afford a house if they collected some rental income.

In late March, they closed on a home in Dorchester for \$380,000 - \$50,000 below its initial asking price. The reduced price, as well as the low 4.99 percent interest rate on their mortgage, made Ilda Mendes's dream of a home and yard for her children, ages 7 and 5, a reality. "We're fixing it up. I'm excited," she said.

While the Boston-area housing market remains among the most expensive in the country, it is now relatively more affordable than it was earlier in the decade. Median home prices in metro Boston fell to \$398,970 in 2007. That's 4.2 times the median family income for the area of \$94,169 - the lowest that this ratio, a common measure of housing affordability, has been since 2001, according to Moody's [Economy.com](http://Economy.com). Housing specialists consider prices affordable at three times income. The current national average is 3.5 times income.

But the window of opportunity may be brief. Gus Faucher, an economist for [Economy.com](http://Economy.com), said fewer people will be able to afford housing if a recession causes people to lose their jobs - and with those jobs any hope of buying a home. The first half of 2008, he said, "is going to be right about the peak time for affordability." The surge of first-time home buyers will not be enough to reverse the current market decline, real estate agents and economists said. Tightened lending standards will continue to limit the number of buyers. And while overall mortgage rates have drifted down over the past year, loans are more difficult - and sometimes impossible - to obtain, even for those with good credit. Lenders often require larger down payments or a higher credit rating to qualify for the lowest rates.

Many prospective buyers are staying on the sidelines on the assumption that home prices will continue to fall. "I don't think it's hit rock bottom," said Rick O'Hare, a divorced, 49-year-old who is waiting for prices on a lake house in the Middleborough area to come down further.

Most economists expect prices to drop more in the coming months as the nationwide credit crunch and possible recession prolong the downturn, with a recovery not coming until 2009.

But those who do venture into the market benefit from another aspect of the housing slump: less competition. During the boom years, buyers had to either act quickly on desirable properties or settle for less than what they wanted. Bidding wars were common, a daunting experience for first-time buyers.

Now, it's the other way around. There are so many properties for sale that sellers "have to beat the competition, which is great for first-time home buyers," said John Szolomayer, a real estate agent with Century 21 Commonwealth in Holliston.

When Heather MacFarlane looked for a condominium in 2005 after getting divorced, she was turned off by high prices and unappealing properties. The few she liked were snapped up by someone else. She decided to rent and furiously saved money.

A larger down payment and lower prices enabled her to purchase a two-family in Roslindale for around \$500,000, with a fireplace, gumwood trim, and 1920s charm. Both units have newly renovated kitchens. The downstairs unit is rented, making her comfortable about taking on a bigger mortgage on her income as public relations manager for Home for Little Wanderers, a Boston agency for neglected children.

"I can't believe I'm doing this," said MacFarlane. In 2005, a two-family "would've been way out of my price range."

Most housing specialists advise prospective buyers worried about when to buy to consider how long they expect to live in a new home. If they plan to own for a short term, it may pay to wait for prices to fall further to protect themselves from anticipated price declines in coming months. Long-term owners who buy now are likely to see their home values increase over time as the market rebounds.

That calculus motivated the Crosbys. Justin Crosby, an engineer for Bose Corp., said he and his wife, both 25, expect the market to have recovered over the five to 10 years they expect to live in

the Southborough house. They also plan to renovate the bathrooms, which will boost the home's value.

"It makes sense for us to buy now," he said, "even if the market hasn't totally bottomed out."

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