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Five reasons to buy a home this year

Affordability returns to housing, and buyers have loads of negotiating power

By Amy Hoak, MarketWatch

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CHICAGO (MarketWatch) -- People are afraid to buy a home in times like these, with the economy tanking and home prices continuing to fall. But if you're brave enough to stray from the herd, you might be in for the home-buying opportunity of a lifetime.

Ask for price reductions, improvements, closing costs -- whatever -- and the seller, desperately trying to get a contract, is very likely to work with you, said Jay Papasan, one of the authors of the book "Your First Home." When the market starts improving, your negotiating power starts to diminish, he added.

"People can get a lot of what they need and almost all of what they want today," Papasan said. "Once a few people get off the fence, there's safety in numbers and you lose your leverage."

If you're qualified to buy a home now, the purchase makes sense for your situation and you're prepared to live in that home for at least five years, there are five reasons why you may be headed for a great deal:

1. Affordability is better than ever

According to the National Association of Realtors' housing affordability index, homes were more affordable in December than at any other point since the group started the index in 1970. The affordability index is a measure of the relationship between home prices, mortgage interest rates and family income.

John and Julie Chilman, for example, recently have been able to stretch their dollars in the Las Vegas area. The listing price for the five-bedroom home they're buying was $265,000; they offered $250,000.

"Our Realtor was like 'Yeah, pipe dream. Like they're going to take that,'" John Chilman said. "And all they did was counter $255,000... and they're paying all closing costs." The home had lingered on the market, and was listed for $310,000 just six months ago, he said.

According to data from earlier this month, prices had fallen 50.7% in Las Vegas from their peak and were about where they were in the second quarter of 2002, according to data from Clear Capital, a real estate valuation and data provider for banks and investment firms.

A recent report from Moody's Economy.com predicted that house prices will stabilize by the end of this year, even though the Case-Shiller house price index will fall another 11% from the fourth quarter of 2008. By the end of the real-estate downturn, prices will have fallen by double digits, from peak to trough, in almost 62% of the nation's 381 metro areas, according to the report. In 10% of the areas, declines will be more than 30%.

Not all markets have experienced huge drops, however, so it's wise to take a look at how far prices have fallen in your area. The Office of Federal Housing Enterprise Oversight's Web site has a house price calculator that can help. Visit the calculator.

2. You have a large inventory to choose from

In many places it is taking months to sell a home, creating loads of inventory -- from new homes to existing homes to foreclosures.

There was a 9.6-month supply of unsold existing homes in January given that month's sales pace, according to NAR. For new homes, the inventory hit a 13.3-month supply at the end of January, according to the Commerce Department. See full story.

A large selection gives buyers more choices and drives down prices. And home sellers have gotten the picture.

It's fair to say that home sellers have become "increasingly desperate," Papasan said. "People who have had for-sale signs in the yard for six months are starting to become in tune with the reality of the situation," he said. Buyers can take advantage.

But if you put off a purchase until inventory shrinks substantially, you might not get as good a price, said Eddie Fadel, author of the book "Don't Rent, Buy!" And be forewarned: It's nearly impossible to time the exact bottom of the housing market and even if you do there's no guarantee you'll make a killing.

"You buy for quality of life... don't buy on speculation," said Duane Andrews, CEO of Clear Capital. "I wouldn't buy a home expecting the housing market to rebound quickly in the next 10 years," he said, adding that he expects moderate gains in values when the turnaround does happen.

Historically, real estate appreciates about 5% a year over the long term, said Nancy Flint-Budde, a Salem, N.Y.-based certified financial planner. But as the country crawls out of a recession, many markets probably won't see huge home-price gains any time soon.

3. Builders are offering big discounts

Home builders are getting even more aggressive with their pricing.

In fact, Fadel recommends looking at completed new homes first because builders are offering such steep discounts. Plus, you'd have a warranty not only on the home itself, but also on the home's appliances, he said.

"[Builders] want to save their credit, save their brand, save their reputation and clear out inventory," he said. "They can go buy cheap land today with that cash."

His advice: Walk in with a preapproval for a mortgage, make an offer, then walk away without making a deal if you have to. Chances are, a builder will call back and reconsider that offer rather than let a potential buyer get away. Read more on the outlook for home builders in the spring sales season.

4. Mortgage rates are historically low

It's not just the price of the home that will affect affordability; mortgage terms will also affect your monthly payments. These days, rates are very attractive for conforming loans, those that can be purchased by mortgage agencies Fannie Mae and Freddie Mac. (The current limit is $417,000, although that can rise as high as $729,750 in high-cost markets.)

Earlier this year, rates on the popular 30-year fixed-rate mortgage hit a level not seen in decades, and rates have stayed relatively near that low for weeks. This week, the 30-year fixed-rate mortgage averaged 5.07%, according to Freddie Mac's weekly mortgage survey. See full story.

But low rates don't mean lenders are handing out mortgages easily. You'll need good credit, a substantial down payment and a willingness to document your income in order to qualify for those great rates, if you can qualify at all. See full story.

5. You can get a federal tax credit

There's now a federal credit of up to $8,000 for home buyers who haven't owned a home in at least three years. Unlike the previous credit, this is money that doesn't have to be paid back. See full story.

That extra cash will come in handy: The average first-time home buyer spends about $6,000 in the first six months of owning a home, said Flint-Budde.

Waiting for further federal developments, however, might sap a buyer's negotiating power, as more people get back into the market and competition returns, Fadel said.

"The more Washington gives, demand will increase," he said.

Amy Hoak is a MarketWatch reporter based in Chicago.