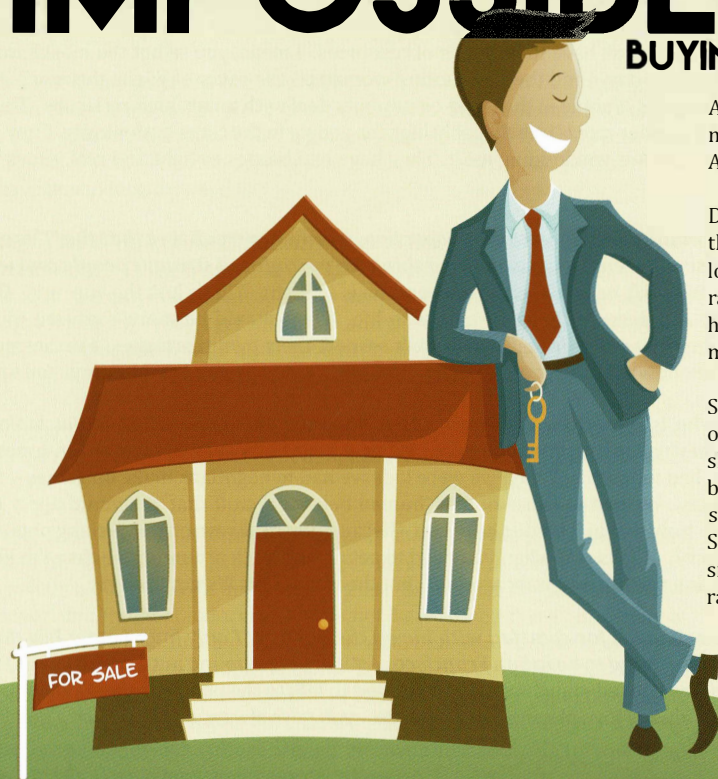


# DREAM THE IMPOSSIBLE DREAM

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## BUYING A HOME ON THE WEST COAST



As West Coast housing prices soar and millennials move back with mom and dad, many folks on the Left Coast are wondering if they'll ever be able to afford the American Dream of home ownership.

During the last real estate boom from 1996-2006, homeownership rates rose to their highest level ever, as mortgage lenders offered easy qualifying terms and low down payments to entice buyers. Although the nationwide homeownership rate has dipped from its all-time high of 69%, it remains near its long-term historical level of 64%. While owning may be a greater challenge in costlier metropolitan areas like San Francisco and Los Angeles, demand remains steady.

San Francisco's compact geography and historic housing stock makes it not only one of the most desired places to live, but the dearest in cost too. Homeownership rates in S.F. are the lowest in the state, at 38%. L.A. ownership rates bottomed out in 2014 and are beginning to climb higher at 50.2%, just below the statewide average of 55%. But don't panic reading these numbers – the Golden State is so popular that it's been on the "most expensive" list for decades – which simply means you are where everyone wants to be! The good news is ownership rates remain stable and you can still forge a path to home ownership.

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Although the news media has painted a bleak picture of the housing market, the truth is homeownership rates peaked in the 1990's thanks to government intervention and irresponsible lending standards, which contributed to the housing crash of 2008. Since that time, credit requirements have tightened considerably, allowing less buyers to qualify while at the same time restricting new home building by small developers. The latter has contributed to the supply shortage.

The main reasons the buyer pool shrank included the country's real wage stagnation, student loan debt levels of recent graduates, and most importantly, the 7.5 million foreclosures/short sales of homes during the crash. This last group was mostly shut out from buying again by new bank rules. Despite these factors, people are still buying homes. The bottom line remains the same; frugal spending and intelligent financial planning are key ingredients that will allow you to join the ranks of homeowners in your community. **Keep your debt balances low and your credit score high to save even more with the lowest interest rate possible.**

Now that the down cycle has ended, an expanding economy should improve your chances to own a home. The outlook for the U.S. economy is good and we are already seeing stronger employment and wage growth. Many buyers who have been sitting on the sidelines may soon feel their time has come to jump into the market. And as home prices stabilize, we may see wages start to play catch up with costs. A possible interest rate rise in the near future may cool the trend slightly, but we don't normally see a big impact on sales until rates rise by at least 2 percentage points. Historically low interest rates are a major reason buyers are eager to get in the game – and make home-buying a smart investment. Current rates make this a great time to buy, especially if you plan to stay in your home long-term.

**PROS AND CONS:** Rents tend to rise but your mortgage will remain stable for up to 30 years. Maintenance costs may fluctuate, but owners can redesign their space and get exactly what they want. Home values tend to rise, increasing your net worth.

**LET'S DO THE MATH:** using the costs of two different homes, we run the numbers to show what it takes to buy in today's market (\$1,000,000 is the average sale price in San Francisco, California's highest- just adjust the numbers proportionally to estimate your own budget, and call a mortgage professional for exact numbers). Although averages matter, don't panic; there are plenty of homes costing far less than \$1 million available in the Golden State.

#### Two Bedroom Condo in San Francisco

|                      |             |
|----------------------|-------------|
| Purchase price:      | \$1,000,000 |
| Down payment:        | \$200,000   |
| Monthly cost:        | \$5,130     |
| Monthly tax savings: | \$1,300*    |
| After tax cost:      | \$3,380     |
| Required income:     | \$150,000   |

#### Two Bedroom Condo in Los Angeles

|                      |           |
|----------------------|-----------|
| Purchase price:      | \$500,000 |
| Down payment:        | \$100,000 |
| Monthly cost:        | \$2,539   |
| Monthly tax savings: | \$631*    |
| After tax cost:      | \$1,908   |
| Required income:     | \$75,000  |

*\* Estimated tax savings*

From a rent vs. own standpoint, the after-tax monthly cost of these examples are equivalent to the price of a two bedroom apartment rental in L.A. and a large one bedroom space in S.F., respectively.

## CREATIVE WAYS TO BUY IN TODAY'S MARKET

- Gift money or loan from parents for your down-payment – a popular option for those baby-boomers with extra cash in their accounts.
- Duplex, Fourplex – living in a multi-unit property gives you rental income which allows for more financing toward the purchase and helps pay the mortgage.
- Co-ownership of a condo, house, duplex or multi-unit building - a great way to split down-payment and carrying costs with one or more partners.
- Fixer-Upper - lower price and the option to update over time as your savings grow.
- Up and coming areas - a tried and true method. After all, gay couples almost single handedly created the gentrification movement.
- Spare Bedroom in home - rather than live alone, many are buying homes with extra space and renting to friends. It's a great way to create a feeling of family life for single folks.

Home buying has never been easy. It's a challenge for most people in one way or another. However, it's still possible with smart financial planning. It's a practical way to build your assets and take control of your home life on the 'Best Coast.'