

Why it's time to invest in real estate

It's scary to jump into the housing market when prices have been plunging. But waiting could end up costing you.

By [James B. Stewart, SmartMoney](#)

Passing through the Fort Myers, Fla., airport a few weeks ago, I noticed people eagerly signing up for a free [bus tour of foreclosed real estate](#) -- with all properties offering water views. During the ride to my hotel, the young driver volunteered that he'd just bought his first house, paying \$65,000 for a foreclosed property in nearby Cape Coral that had last sold for more than \$250,000. He said he'd never expected to be able to buy anything on a driver's salary, let alone something that nice.

Late last month, Standard & Poor's reported that its S&P/Case-Shiller U.S. National Home Price index of real-estate values *increased* this past quarter over the first quarter of 2009, the first quarter-on-quarter increase in three years. Its index of 20 major cities also rose for the three months ended June 30 over the three months ended May 31, with only hard-hit Detroit and Las Vegas experiencing declines. The week before that, the National Association of Realtors reported that sales volume of existing homes was up 7.2% in July from June.

In short, the data suggest that real-estate prices hit a bottom some time during the second quarter and have now begun to rise. There's no way to be certain that this marks the end of the long, painful correction that followed the real-estate bubble, but clearly prices are no longer in free fall.

That means if you've been sitting on the fence, it's time to act.

Trying to buy at a bottom

Ordinarily I'd never try to time the real-estate market, but I can understand why buyers have been cautious. Few want to buy in down markets, just as stock buyers avoid bear markets. And for most people, of course, buying a house is a much bigger decision than buying a stock. But with real-estate prices nationally now down about 30% from their 2006 peak and showing signs of turning up, the prices aren't likely to go much lower. Every real-estate market is local, and so there may be a few exceptions. Overall, though, I can't imagine a better time to buy than right now.

In addition to bargain prices, buyers should find plenty of homes to choose from. The inventory of unsold homes was 4.09 million units in July, up 7.3% from June, according to the National Association of Realtors. And [mortgage rates this week](#) were at a two-month low of close to 5%.

Even the stricter appraisal process is working to the advantage of buyers. Appraisals are coming in far lower than most sellers have been expecting, forcing them to face the new reality of sharply lower prices. And with stricter

standards, lenders aren't going to let buyers borrow more than they can afford, which protects buyers and helps to keep prices down.

The flipping days are over

Unless you're really prepared to accept the demands (and headaches) of being a landlord, I don't recommend direct ownership of real estate as an investment. The days of buyers lining up to buy and flip Miami Beach and Las Vegas condos are mercifully gone. There are much easier ways to make money in real estate, such as buying into [real-estate investment trusts](#) or buying shares in homebuilders and other housing-related businesses, such as **Home Depot** ([HD](#), [news](#), [msgs](#)).

Historically, the mean rate of return on real estate has been around 3%, according to research from Yale economist Robert Shiller, who co-developed the Case-Shiller index. Shares in REITs and other stocks have often done much better. But there's a good reason homeownership has been such a central part of the American dream. It delivers security, pride of ownership, a sense of community and decent investment returns as a bonus.

I felt glad for my driver in Florida. He represents the other side of the foreclosure crisis. For every hardship story, and no doubt there are many, others are realizing their dreams of homeownership and getting what may well turn out to be the deals of their lives.

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