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Booming home market keeps many locked out

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After a year of searching for their first home, Mark and Rachel Fulkerson are ready to call it quits.

The couple — he's studying civil engineering at the University of Central Florida; she's a schoolteacher in Orange County — have scoured real-estate ads and driven through neighborhoods looking for homes, hoping to take advantage of record-low interest rates.

And though they've seen lots of "For Sale" signs, few are in their \$150,000 price range.

"Everything is just getting out of our league," Mark Fulkerson, 27, said. "It's just been very, very frustrating."

Theirs is a plight shared by thousands of

RED-HOT HOUSING

First in an occasional series on the area's booming real-estate market.

would-be home buyers in Central Florida, where housing costs rocket ever higher with each passing month — the median price rose \$13,500 in April

alone. Hit hardest are the first-time buyers trying to snag a seat on this fast-moving train.

It is a group that represents four out of every 10 buyers, according to the National Association of Realtors.

Unlike those who already own homes, first-time buyers see no benefit from the way prices are being pushed up by tight inventories, low

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interest rates, investor activity and intense demand. They race the clock daily to find something before it's no longer affordable.

Certainly, many buyers are successful in their searches.

Work pays off

Walter and Tiffany Carranza worked for two years, paying down bills and saving money, to prepare to buy a house. Just this past week, they reached an agreement to buy a three-bedroom home off Lake Howell Road near Winter Park for about \$180,000.

"I'm thrilled," said Tiffany Carranza, 22. "We've been working on this for so very long."

But to understand how fast prices have been rising, consider where we were just five years ago, when the median home price — half of homes sold for more, half for less — stood at \$107,000. Today it's \$218,000, according to April statistics, the most recent available, kept by the Orlando Regional Realtor Association.

With prices rising much faster than home buyers' salaries, that's creating problems for buyers such as Mike Cimmino, 25, who has been searching intensely for his first home — in the \$190,000-to-\$225,000 range — for two months.

An assistant director of admissions for the International Academy of Design & Technology, the Orlando man plans to get married in September and wants to move into his first house with his new bride.

But it has been a frustrating search.

"It just seems that the minute you see something you like, there already are contracts on the house," he said. "It's just like, wow."

Soaring prices have some home shoppers feeling as if they're running in place, unable to save money fast enough to keep up, and even finding themselves in bidding wars when they do find something.

"I would hate to be out there as a first-timer," said Robert Lyles, a real-estate consultant with Micki Blackburn Realty in Lake County. "It is very tough. My heart goes out to them."

Tracy Williams, a single mother with four children now renting in Sanford, has spent two years preparing to buy her first home. She has been counseled by Lena Wasserman, president of Community State Mortgage Inc. in Altamonte Springs, a company that specializes in helping first-time buyers.

Booming market stymies first-time buyers

SAME HOME, DIFFERENT PRICE

Here's a look at how the cost of the area's median home has changed during the past 5 years. The chart shows the monthly mortgage payment required to pay for the median existing home in Metro Orlando, assuming it were purchased in April of each year. Payments assume a 20% down payment and do not include insurance or property taxes, which could add several hundred dollars to the monthly payment.

Year	Median price	Average interest rate	Monthly payment
2001	\$123,067	7.63%	\$697
2002	\$130,140	7.13%	\$701
2003	\$142,009	5.95%	\$677
2004	\$163,000	6.04%	\$784
2005	\$218,000	5.29%	\$967

SOURCE: Sentinel research

NOTE: Based on 30-year mortgage.

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'Great position'

"Tracy has done wonderfully well, paying off debt and saving," Wasserman said. "Her recent credit score puts her in a great position."

Wasserman said Williams can afford a house priced from \$160,000 to \$170,000. But Williams, manager of a Lake Mary restaurant, is apprehensive.

"It's discouraging seeing prices go up," she said. "It seems like a house is \$150,000 one week and \$250,000 the next."

Still, Williams has launched her search — one that may take some time, with rising prices leaving fewer homes in her range.

Some young buyers are lucky enough to have parents who can help them cope with difficult times.

V.J. Maharaj, a native of Trinidad who came here in 1994, is helping his children, son, Kailash, 20, and daughter, Nirmala, 22, buy new homes in Eustis. Both houses sold for \$126,990.

"It's very important to be a homeowner," said Maharaj, who owns Center City Hauling in Apopka.

"These are wonderful young people who have a very good father who is providing help and guidance," said Wasserman, who is arranging financing for both deals.

Most buyers, however, find themselves going it alone. And unfortunately, one of the strongest financial factors working in their favor also works against them.

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Historically low mortgage rates — this past week the national average for a 30-year loan was 5.62 percent — have presented many people with an ideal opportunity to buy a home, said David Scott, an economics professor at the University of Central Florida.

Different strategies

But with prices rising so fast, many people are still stretching to buy, often using interest-only loans and 100 percent financing. Some lenders, so eager to capitalize on the booming market, offer rock-bottom "teaser" interest rates for short periods to get buyers into a home.

And new ways to buy a home keep popping up.

Fannie Mae, the nation's largest buyer of home mortgages, is introducing this month a 40-year home loan, offering lower monthly payments than the traditional 30-year loan.

The downside is that the longer option costs considerably more in interest. For example, a 30-year loan on a \$220,000 house at 6 percent would cost \$254,000 in interest during its life. A 40-year loan, carrying a slightly higher interest rate of 6.25 percent, would cost \$379,000 in interest, said Grant Simon, president of First Florida Home Loans in Orlando.

Still, the savings of perhaps \$70 a month on the mortgage payment will make it attractive to many buyers.

"That's significant for someone on a tight budget," said Susan Adams, a Fannie Mae spokeswoman.

Prices of houses are out of reach for many

There also are a variety of government and consumer programs aimed at helping first-time buyers. But many have seen their effectiveness diluted by rising prices.

Lelia Allen, Orlando's housing director, supervises a program that offers down-payment assistance — generally \$5,000 to \$10,000 — to people buying homes within the city limits.

The trick is finding homes priced low enough for those buyers in the program. To qualify for the maximum \$10,000 assistance, for example, a four-person household can make no more than \$27,550 annually.

"People can't afford to buy even with help," Allen said.

Still, it's not as if Central Florida has pushed itself into the ranks of the least affordable places to live.

Some of the most expensive median prices can be found in places such as Orange County, Calif., at \$656,900; Boston at \$398,300; and Los Angeles at \$474,700, according to the National Association of Realtors.

In fact, Metro Orlando is less expensive than many other regions of the state. Last month, Florida had five metro areas where the median price topped \$300,000, led by Naples at \$477,100.

'Relatively cheap'

"Despite the price increases, Orlando is still relatively cheap compared to many areas of the country," said David Berson, Fannie Mae's chief economist.

For now, Orlando remains competitive in this arena when it comes to recruiting workers and businesses from outside the area.

Ray Gilley, president of the Economic Development Commission of Metro Orlando, said relocating businesses still view the region favorably.

"But it's still a concern, not just price, but availability of all housing stock," Gilley said.

The question that no one can answer for certain is: How high will prices go?

Most economists are confident the housing market will cool off in time — as soon as rising interest rates put the brakes on investments.

"If rates go up, and they eventually will, the market will slow and price escalation will moderate," said Fannie Mae's Berson.

Then investors likely will turn their attention elsewhere, further easing price pressures, he said. Eventually, that will bring annual home-price appreciation down to 4.5 percent to 5 percent.

Leesburg Realtor Jerry Galbreath tells prospective home buyers to be patient.

"Right now, there just aren't enough homes for the demand," Galbreath said. "Obviously, this will all cool down when the interest rates go up and more new homes are built that are affordable."

That's the sort of mind-set that is filtering down to folks such as the Fulkersons, who no longer see those record-low interest rates as an ally.

Their best shot at finding a house came last summer, when they made an offer on a house in Seminole County. That deal fell apart after Hurricane Charley damaged the home.

So now, after months of fruitless searching, they are considering waiting for the market to cool down and for prices to stabilize.

Within a year, he hopes to have a higher-paying job, after completing his graduate degree.

"I'm starting to develop the opinion that now may not be the best time to buy after all," Mark Fulkerson said.