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A Good Time to Buy? Yes, But No Need to Rush

Today's [look](#) at the high-end housing market reveals how more sellers are beginning to get more realistic about home prices and cut deals on million-dollar homes.

Many housing economists say that for borrowers who can get a mortgage and who have stable incomes, pulling the trigger on a house they like makes a lot of sense right now. (Of course, they also note that the days of buying high-end properties as high-yield investments are history, at least for the time being).

But while there are certainly opportunities at the high end, buyers shouldn't feel a need to rush because the market is still oversupplied. And those who do make purchases need to be realistic about the potential for some future price declines. "There's still going to be more pressure on this market for the next couple of years," says T.J. Culbertson, a real-estate agent in Beverly Hills, Calif.

On the other hand, as mortgage rates are low for those who can get financing. "If you're waiting because you think the price might get better, well, the mortgage rate could go in the wrong direction," says John Burns, a real-estate consultant based in Irvine, Calif. He says it could be a good time to buy generally speaking in markets where values have returned to 2003 levels.

While some borrowers are worried that they'll buy a new house only to see it decline in value, that's a much bigger concern primarily for first-time buyers. Those who already have homes could also see the price of their current home fall in value.

The high end of the housing market didn't see nearly the same spectacular appreciation as the bottom of the market, which has dropped much more sharply and is now showing signs of stabilization. In San Francisco, prices on homes for the bottom third of the market (currently homes under \$325,000) have fallen 57% from the peak, returning to levels last seen 10 years ago, while for the top third of the market (currently more than \$600,000), prices are down 23% to 2004 levels, according to the Standard & Poor's/Case-Shiller home price indexes. But prices rose by 4% over the last three months of 2009 at the bottom end, compared to just 0.5% at the high end.

One big headwind facing the high end: it's harder to qualify for a loan than it used to be, which has reduced the pool of potential buyers. The market for million dollar homes was fueled during the height of the housing bubble by exotic mortgage payments that allowed high leverage. Now that those products are gone, banks are back to requiring much bigger incomes.

But the economic downturn has seen a big drop in the number of high-income earners. The number of households with gross taxable income of more than \$200,000 fell to 2.8 million last year, according to estimates by Moody's [Economy.com](#), down from 4.57 million households in 2007.

Another headwind that faces the market: distressed sales. At the high end, more borrowers who took out exotic mortgages that will adjust to higher payments in the coming year or who have been holding out by living off of reserves begin to capitulate.

One problem is that many homeowners at higher price points aren't realistic about prices and wait too long to pursue a short sale, where a home is sold for less than the amount owed, says Maggie Navarro, a real-estate agent in Pasadena, Calif. "It's very, very difficult for these people to believe they've had such a severe reversal of fortune," she says. "The higher-end people are so much less realistic than sellers on the more modest end of the scale."

Some markets have had relatively few sales, leaving borrowers unsure about how much their property has fallen in value. Many homeowners don't "have a clear opinion of how far their house is underwater," says Mr. Burns.

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