Americans making big compromises to buy homes

Many are willing to reduce their savings, go smaller

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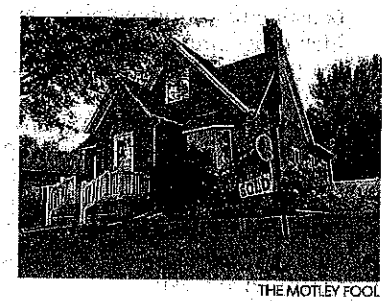
Limited housing supplies are forcing prospective homeowners to make significant compromises, such as devoting less money to saving for emergencies and retirement, a new survey says.

According to a study commissioned by Owners.com, an online brokerage, about 60% of consumers said saving for a home takes priority over saving for an emergency or retirement, and 72% said it would limit their contributions to other investment funds.

Although most consumers prioritize home ownership, the lack of affordability is a cause for concern. According to the survey, 69% of consumers fear not having enough cash for the down payment.

Besides cutting back on other savings, the survey respondents are willing to downsize their dream homes: 51% would consider buying a fixer-upper, while 36% are willing to purchase a smaller home than what they prefer.

"Constrained inventory in many areas and climbing rents, home prices and mortgage rates means it's not getting any easier to be a first-time buyer," said Lawrence Yun, chief economist of the National Association of Realtors. "It'll take more entry-level supply, continued job gains and even stronger wage growth for first-timers to make up a greater share of the market."



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Home buyers are getting squeezed by several forces. Total housing inventory in December was 6.3% lower than a year ago and has fallen for 19 consecutive months, the realtors group says. The supply crunch is pushing up prices. The median price of an existing home was up 4% from a year earlier.

And 30-year mortgage rates have risen to 4.19% recently from 3.47% in late October, increasing monthly payments. Also, despite the growing housing demand and strengthening economy, home construction is still stuck modestly above recessionary levels.

Although buyers face challenges, experts say home ownership is still a better deal than renting.