



500 Sq. Ft. Homes Go On Sale For Half-Million

KNTV-TV

SAN FRANCISCO - Like so many California home hunters struggling to balance affordability with a humane commute, Patricia and Ricardo Cavillo suffer a fundamental disadvantage -- because they don't own now, they're struggling to muster the financial clout to buy at all.

The bank said the Cavillos only qualify for a \$200,000 mortgage, but the median home price far exceeds \$500,000 in Orange County, where Ricardo works a \$38,000-a-year manufacturing job and the couple currently rents. Even a small two-bedroom condominium rarely fetches less than \$300,000.

"When I see the price of these homes, I get depressed," said Patricia Cavillo, 41, a homemaker and mother of three young

children. "I think my dream won't become reality."

So the Cavillos remain in the mix of would-be first-time homebuyers for whom low home-loan interest rates are as much a tease as an invitation to ownership in anywhere but the state's outlying areas. Instead, they'll continue renting a two-bedroom apartment for \$925 per month.

In San Francisco Saturday, about 50 people showed up for a chance to buy one of 20 500 square-foot condos that went on sale for \$500,000, an indication of the demand for affordable housing.

"We're headed into a society where we have housing haves and housing have-nots, where we have a rental class and a homeowner class," according to John Landis, chairman of the Department of City and Regional Planning at the University of California, Berkeley.

Last year, the percentage of all home buyers statewide who were purchasing their first home fell to a 22-year-low, according to the California Association of Realtors. First-time owners accounted for just 31 percent of all the existing homes purchased here last year, the association reported. The national share was 40 percent in the first quarter of 2003, according to the most recent data from the National Association of Realtors.

While the historically low mortgage rates that spurred a nationwide home-buying binge have helped some Californians break into the market, the mortgage math hardly seems to add up for many of those who manage to buy.

As has become a California custom, John Carpenter found himself overbidding by \$20,000 the \$385,000 list price for a three-bedroom town house in the Los Angeles suburb of Thousand Oaks. Prospects looked good until another bidder, one of four others, offered to plunk down 20 percent in cash.

The 40-year-old public school teacher couldn't match that -- not given his \$55,000 annual salary, plus perhaps another \$20,000 from tutoring and giving fencing lessons.

"Most of them are ludicrously expensive," Carpenter said of homes which routinely list above a half-million dollars. "It's crazy. Absolutely crazy."

After weeks of looking, a seller recently accepted Carpenter's \$353,000 bid for a 1,050-square-foot town house -- and he only had to pay \$4,000 over the list price.

Los Angeles isn't even as bad as it gets. In the first half of this year, the metropolitan areas of Orange County, San Francisco and San Diego had the nation's highest median home prices -- prices which have climbed steadily since the mid-1990s. At \$438,000, Los Angeles ranked fifth, behind Honolulu.

It wasn't always so. In the 1970s, the median price for an existing, single-family detached home in California was in line with the national figure.

In June it was well more than double -- \$469,170 compared to \$191,800, according to the Realtors associations -- a price tag fewer than 1 in 5 California households can afford.

Overbidding -- once a syndrome chronic to desirable coastal hubs including San Francisco, Los Angeles and San Diego -- has spread east. Bidding wars have encroached into inland counties such as Riverside and San Bernardino, where buyers priced out of Los Angeles and Orange counties snap up newly developed swaths of desert and drive some the state's highest appreciation rates.

So far this year, Riverside and San Bernardino have seen home prices rise by more than 35 percent over 2003. Prices in Los Angeles County have gone up almost as fast.

Those who look near the coast can be blinded by what they must pay.

Before landing their Santa Monica condominium in April, Mary Becker and her husband lost out on two other condos -- one priced at \$384,000, the other at \$390,000 -- despite offering between \$5,000 to \$10,000 over the asking price. Both ultimately went to buyers who offered between \$30,000 and \$50,000 more.

"It was a big reality check," said Becker, a 26-year-old yoga instructor.

With a combined annual income of around \$140,000, the couple eventually landed a two-bedroom condominium for \$465,000 -- nearly double what they set out to spend. Their total monthly housing bill: \$2,200.

"We did extend to our max, just about," she said. "So we're kind of dealing with how to make that all work."

Even those intent on not overpaying have buckled.

Hollywood attorney Ingrid Auyon swore she wouldn't enter a bidding war, but ended up offering \$35,000 over the \$575,000 asking price for the 1,000-square-foot home she bought in the spring.

"All the things I didn't want to do, I had to do," said Auyon, 29. "I feel a little embittered."

To afford the prices, some first-time buyers opt for interest-only loans, which help lower monthly mortgage payments because buyers initially pay off only interest -- but don't let them build any equity. Unable to meet the standard 20 percent downpayment requirement, many first-time buyers are financing more and more of the total cost, according to Marshall Friedman, branch manager for America One Finance in Agoura Hills.

In the past, lenders typically wouldn't loan to a buyer who would be expected to pay more than 40 percent of income toward the debt, but now some subprime lenders will green-light a buyer at a

crushing debt burden of up to 55 percent, Friedman said.

The question becomes, can buyers afford what they're getting?

Auyon earns around \$80,000 a year after taxes but pays around \$36,000 of that annually to cover the mortgage, insurance and property taxes. Those obligations are squeezing her ability to pay for new windows, landscaping, painting, floor refinishing and some bathroom remodeling.

Like many first-time buyers who opt for interest-only loans with the hope of selling after a couple of years, Auyon is counting on her home appreciating so she can make a profit on the difference.

But now she worries that a fire which destroyed a neighbor's home and scorched part of the surrounding landscape could devalue her property.

"I can't afford this property to decline in value," Auyon said. "I'm banking on appreciation."

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