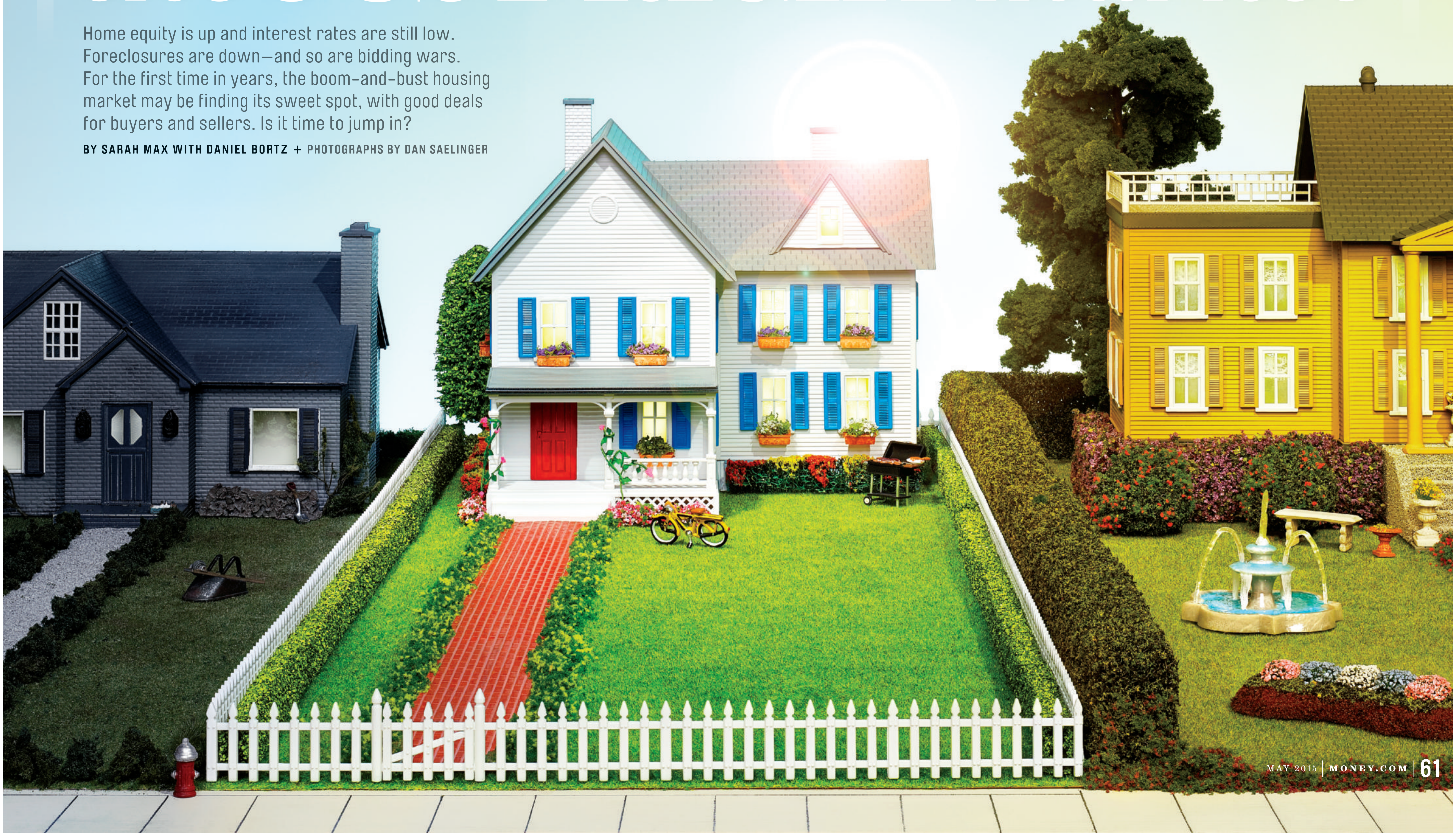
HOW TO PLAY

# *the* JUST RIGHT *market*

Home equity is up and interest rates are still low. Foreclosures are down—and so are bidding wars. For the first time in years, the boom-and-bust housing market may be finding its sweet spot, with good deals for buyers and sellers. Is it time to jump in?

BY SARAH MAX WITH DANIEL BORTZ + PHOTOGRAPHS BY DAN SAELINGER



Too hot, too cold, too hot. For more than a decade the housing market has been nowhere near its Goldilocks moment, a just-right rate of growth that offers opportunities for both buyers and sellers. By certain markers, we're finally starting to get there: Home prices nationwide are expected to rise 4.9% on average this year, according to the National Association of Realtors (NAR). That's closer than we've been in a while to the long-term average of 3.3%—and a lot more manageable than either the sharp drops of the bust years or the 12% spike we saw in 2013.

What's more, inventory is expected to loosen up, with 1.9 million units on the market this year—far below the flooded supply of 4 million we saw in 2008. The number of homes that were "flipped" (bought for a quick-sale investment) has dropped for the second year in a row, while the foreclosure rate is less than half what it was two years ago. Those are healthy signs for everyone (except, perhaps, for the small army of TV shows obsessed with renovating and flipping).

Can the center hold? The big question now is whether this manageable growth is sustainable in the long term. Economists such as Moody's Analytics' Mark Zandi note that we certainly need more first-time homebuyers in the mix to make that happen, because they drive a good piece of demand, allowing current homeowners to trade up—or cash in. In 2014 the percentage of rookie homebuyers on the market hit its lowest level in decades, just 33% of sales, vs. 40% historically. That said, a new report from BMO Harris Bank finds that 74% of Americans 18 to 34 plan to buy a new home in the next five years, and they are budgeting $240,000 to make the sale, a 24% increase over just last year.

On the other end of the spectrum, experts warn that prices in some markets have already pushed past the bubbling-over peaks, according to RealtyTrac. In San Francisco the median price for a house in December 2014 was $1 million, up 18% from the peak during the bubble. Prices in New York City (median house: $935,000) are 15% above the peak. It's not just the coasts either. Prices around Austin are 8.6% higher than they were during the mid-2000s. "What we've seen so far," says Zillow's chief economist, Stan Humphries, "is still a long way from normal."

What does it all mean for you? If you're a buyer, you don't have to worry as much today about being priced out in a bidding war or by all-cash offers. Sellers who didn't have enough equity in their homes just a few years ago to justify a move could find themselves in a much better position now. And renovators can still get low rates on home-equity loans and lines of credit. In short: If you've been sitting on the sidelines, this may be the time to act—or at least to do some serious number crunching. While you're doing that, try these tips to help you plot your next move.

## *If you're in the market to buy …*

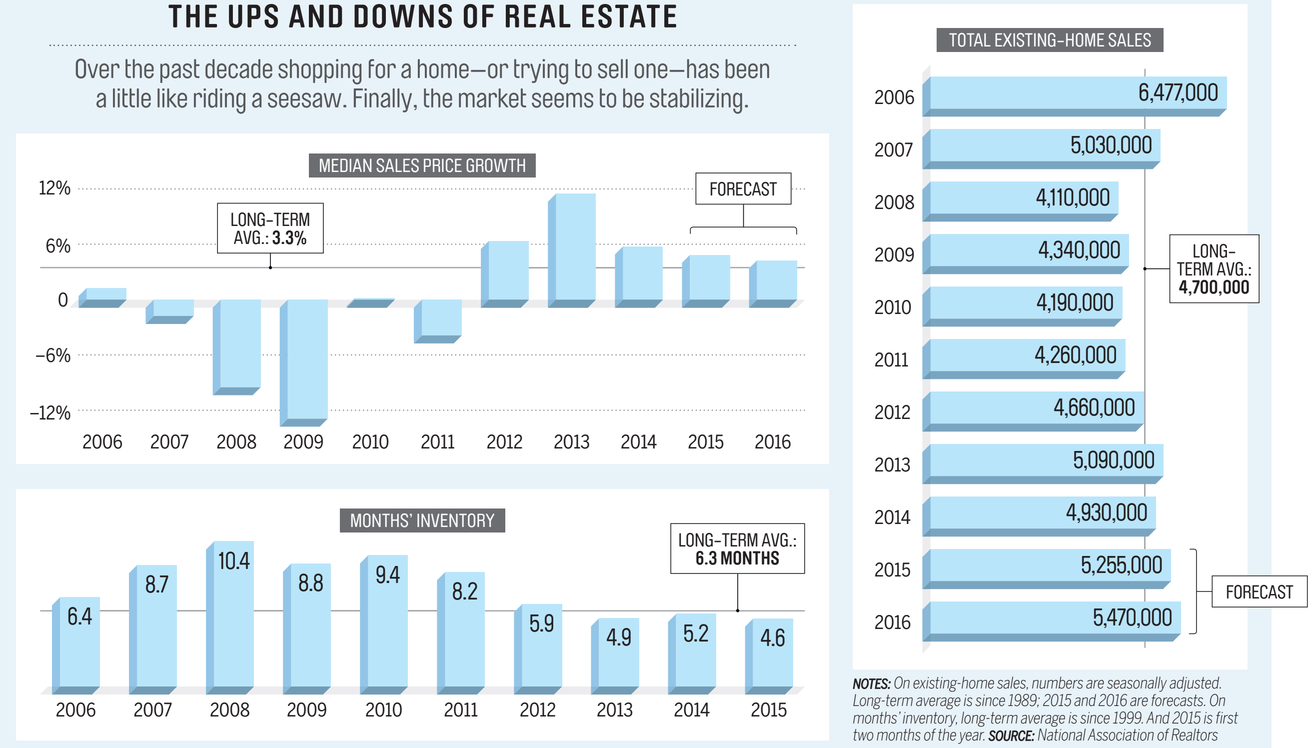
The good news: There are a lot more homes to choose from. In addition to the additional properties already on the market, Zillow's Humphries is forecasting an increase in houses and condos for sale this year as builders pick up the pace and more homeowners cash in on their rising equity. As prices have risen from the depths of the recession—the median sales price hit bottom in 2012, at an average home price of $152,000—the flippers have started to flee, which has helped the overall market stabilize. "Home prices have risen to the point where, in many markets, houses don't make sense for investors," says Daren Blomquist, vice president of RealtyTrac, noting that cash buyers dipped to 30%, the lowest in four years. "That helps level the playing field for regular buyers."

Then there's that other important factor: interest rates. Despite prognostications that they could tick up by summer, the 30-year fixed rate—recently at 3.7%—"is still within shouting distance of 60-year lows," says Keith Gumbinger, vice president of HSH, a mortgage information provider.

PROP STYLING BY DOMINIQUE BAYNES

### THE UPS AND DOWNS OF REAL ESTATE

Over the past decade shopping for a home—or trying to sell one—has been a little like riding a seesaw. Finally, the market seems to be stabilizing.




***NOTES:*** *On existing-home sales, numbers are seasonally adjusted. Long-term average is since 1989; 2015 and 2016 are forecasts. On months' inventory, long-term average is since 1999. And 2015 is first two months of the year.* ***SOURCE:*** *National Association of Realtors*

### YOUR ACTION PLAN

**Start hunting.** Sure, you've been hearing for years that interest rates would shoot up soon. This time you can believe it—Federal Reserve chairman Janet Yellen signaled as much in her most recent Federal Open Market Committee statement. The NAR is forecasting that the 30-year fixed-rate mortgage will average 4.3% in the third quarter of this year, 4.7% in the fourth, and 5.3% over all of 2016. On a $300,000 loan, the difference between 3.7% and 5.3% would be $285 a month (a payment of $1,381 vs. $1,666) and $102,600 over the life of the loan.

Those rates could go even higher if Europe's economy starts to recover, warns Sam Khater, deputy chief economist for CoreLogic. One reason that American mortgage rates have stayed so low is that in recent years global investors have poured money into the relative safety of U.S. Treasuries, a main factor influencing the price of mortgages. If money starts flowing back out to the rest of the world, domestic rates will inch up.

Home prices have been heading up as well. Not as fast as in the bubble years, of course, but some areas have already seen double-digit growth. "Until recently the fastest-growing markets were those hit hardest," says Khater. "Today the fastest growing are those with healthy economies." With the economy on the upswing, there are a lot more of those now too.

**Go fixed-rate, not flex.** Adjustable-rate loans may look irresistibly low now—around a 3% average for a five-year and as low as 2.5% for borrowers with credit scores of 760 and higher. But you're likely to end up paying significantly more at the reset date with rates heading upward. "It's hard to argue against a fixed-rate loan," Gumbinger says. The exception: Buyers who plan to stay in the home for less than 10 years may benefit from the low ARM rates in the fixed period.

**Right-size your down payment.** If you're looking in a highly competitive market, offer to put down more than the standard 20% if you can afford it. That gives the seller the extra reassurance that if the house appraises for less than the asking price, you'll still be able to secure a mortgage. Signs that market conditions warrant sweetening the down payment: if houses where you're looking are going to contract within a matter of days or if they are routinely selling for more than the asking price.

**Find a savvy broker.** Buyers have so much more information at their fingertips: comparable sales, school district reports, walkability, and more. But don't underestimate the kind of advice you'd get from a broker. A buyer's agent will have on-the-ground knowledge of market trends and be able to identify unseen circumstances that affect a property's price, anything from a cracked foundation or a dead boiler to whether there's been a recent school redistricting or a zoning change in the area. She might also have access to "pocket" listings that don't make it online because the privacy-minded sellers don't want their home flooded with prospective buyers.

**Take a little time.** Sure, you want to keep an eye on the prospect of rising interest rates. But in a balanced market with steadily rising inventory, don't feel pressure to jump at the first house you like, says Craig Reger, a broker in Portland, Ore. Visit a good number of open houses (at least five) to get a sense of what's out there, and go shopping with your agent. You'll start to learn if a property is over- or underpriced and why.

The rules are a little different if you're looking at new construction, because builders don't negotiate on price very often. "They tend to sell at 100% of their list price because that's their comparable for the next house," says Jacquie Sebulsky, a broker with Cascade Sotheby's International in Bend, Ore. That said, if you buy in the early stages of construction (when the developer knows you'll have to live through months of noise, dust, and other hassles), you may be able to ask for help later with closing costs, upgrades, and additional amenities, such as appliances, in lieu of a price cut.

**5.3%**

The average 30-year fixed mortgage in 2016, as forecast by the National Association of Realtors. (Today's rate is 3.7%)

**Remember that money isn't (always) everything.** Even in a market where inventory is tight and sellers aren't negotiating much, you still have some leverage. That starts with minimizing the seller's potential headaches. If you have attractive financing—a preapproved loan from a reliable lender or a large down payment—say so. If you can close on the seller's schedule—whether that means quickly or letting him stay an extra month—do it.

And don't be shy about plucking a few heartstrings. It never hurts to write a letter explaining what the house means to you. "A lot of sellers don't want to sell to investors," says Tim Lenihan, a broker in Seattle. "Hokey as it sounds, it can help you get your foot in the door."

## *If you're thinking about selling...*

If you haven't sold a house in the past decade, brace yourself. Today's buyers are demanding. They're savvier about market dynamics and data and want to see houses on their own schedule, says Redfin's chief economist, Nela Richardson. "We're finding that buyers want access to your house when it works for them," she says. "They don't want to wait for the open house." Baking cookies won't cut it anymore.

Some things in your favor: Low interest rates are your friend too. Buyers know that the rock-bottom mortgages can't last forever. If interest rates start to tick up this summer as predicted, there could well be a rush to buy. On the other hand, if rates go up too far, that will almost certainly dampen prices. "As a buyer's monthly payment goes up with rising rates, something's got to give—and that's likely your home price," says HSH's Gumbinger. In other words, sellers: If you snooze, you may well lose.

### YOUR ACTION PLAN

**Sell first, then buy.** The dilemma most sellers face is whether to buy a new place at the same time. In general, it's smarter to sell before you buy—there's nothing worse than having to carry two mortgages at once. You may be able to rent your house from the buyer for a few months, or at least find a short-term rental elsewhere. The one thing you don't want to do is try to buy a new place with the contingency that you have to sell your old place first. Nothing kills a deal faster, especially if you're up against other bidders.

**Don't just list your home—market it.** Gorgeous photographs, video walk-throughs, perfect floor plans—buyers want it all. You need an agent who can develop a full-blown marketing plan, including social media. "People are doing so much more research ahead of time, going through listings online, and weeding out properties before they see them," says Benjamin Beaver, an agent with Coldwell Banker in San Angelo, Texas. That's especially true of millennial first-time buyers, who have grown up with information on demand.

And a top-flight agent can help pay for himself. Redfin found that listings with photos taken by a professional got 61% more views, and homes listed between $200,000 and $1 million sold for $3,400 to $11,200 more than similarly priced homes. A video tour including views of the neighborhood (parks, restaurants, main street) is another great tool. "If your photos capture an interested buyer, the video can help boost their interest," says Rae Wayne, a real estate agent in Los Angeles. Plus, a video can help drive additional traffic to your listing.

**Negotiate with your agent.** Bernice Ross, the CEO of RealEstateCoach.com, has a brilliant method for testing a potential agent's bargaining skills: Ask her for a reduction in her commission—and then think twice about hiring her if she agrees. "If they can't negotiate a full commission on their own behalf, how are they going to negotiate the best price for you?" she says.

**Don't "test" the market.** Pricing right is an art these days. The last thing you want to do is accidentally list too high out of the gate. Not only does it require cutting the price—in many cases to less than the estimated value—but it also means more time on the market. "It's not like the old days where you put in a 10% buffer," says Sebulsky. "People are savvier, and many agents won't even show a house if it's overpriced." According to *Zillow Talk: The New Rules of Real Estate,* a house that is priced right will sell in about half the time of one that is overpriced.

Another reason to price right: traffic. In the first week a listing goes on the market, it gets four times as many visits as a month later, Redfin found. Moreover, if you do end up dropping your price, says Richardson, it sends a signal to buyers that you'll come down more. "One agent described it to me as 'blood in the water,'" she says.

To help you arrive at a price, your agent should show you up to 10 comparable active, pending, and recently sold (in the past three months) listings and sales. The most recently sold and the ones that are pending are the best; six or even four months ago may not reflect today's market, says Brendon DeSimone, a broker in New York City and the author of *Next Generation Real Estate*. Automatic valuation tools, such as from Zillow and Trulia, are definitely great sources of intelligence. They'll show you how quickly houses are selling in your market, how close they are going to asking price, and more. But data can tell buyers only so much. "The computer can't see the inside of the house," says Ross, "and it can't see if your house has a view."

**Go green.** With homes selling at a healthy pace, you probably don't need to make any major pre-sale upgrades. One that does pay off: the front lawn. A 2012 Texas A&M survey found that curb appeal increases sales prices by up to 17%. "Green grass is huge, whether that means new sod or just fertilizer and lots of water," says Wayne. Sustainability and low maintenance are the top trends for residential landscape projects, according to the 2015 Residential Landscape Architecture Trends Survey, so you might add simple native plants. You don't have to spend a lot. See what's on sale at Home Depot. It only has to be green, not gorgeous.

**Fix what's broken.** Paul Reid, a Redfin agent in Southern California, recommends getting a home inspection and fixing any problems before you list the house, despite the out-of-pocket costs. "First-time homebuyers in particular don't want to come in and do a ton of work," he says. "They're making a huge financial commitment and don't want a money pit. I've seen it time and again where a buyer will get in escrow, have the inspection, and back out because the list is overwhelming."

**Go clean.** Ten years ago it was mostly upper-end sellers (and maybe desperate ones) who went to the trouble to "stage" their home. Now, the idea that you need to clean out your closets, clear off the counters, take down your photos, and pare down the furniture and accessories is Real Estate 101. That said, you don't need to hire anyone (though you may need to find someplace to store all your junk). Two areas not to forget: the entrance (that expression about not getting a second chance to make a good first impression is true) and the bathrooms. "I like to say that big, fluffy, white towels can add $10,000 to the price of a house," says Sebulsky.

**Give yourself a deadline.** It's true that houses tend to sell faster in spring and summer (in large part because families want to be settled before the new school year begins). And if your home is still sitting come Labor Day, think twice about keeping it on the market into the fall. "By then a lot of people have made their choices, and if your house has been on the market for six months, people automatically assume something is wrong," says Sebulsky. Every market is different, of course, but winter may actually be a better option. There's less competition from other sellers, as well as some pent-up demand after the holidays. Bonus: Anyone trudging through open houses during the winter "tends to be pretty serious about finding a house," Sebulsky says.

**70%**

The amount you'll recoup, on average, from a full-scale bathroom remodeling job

## *If you're staying where you are…*

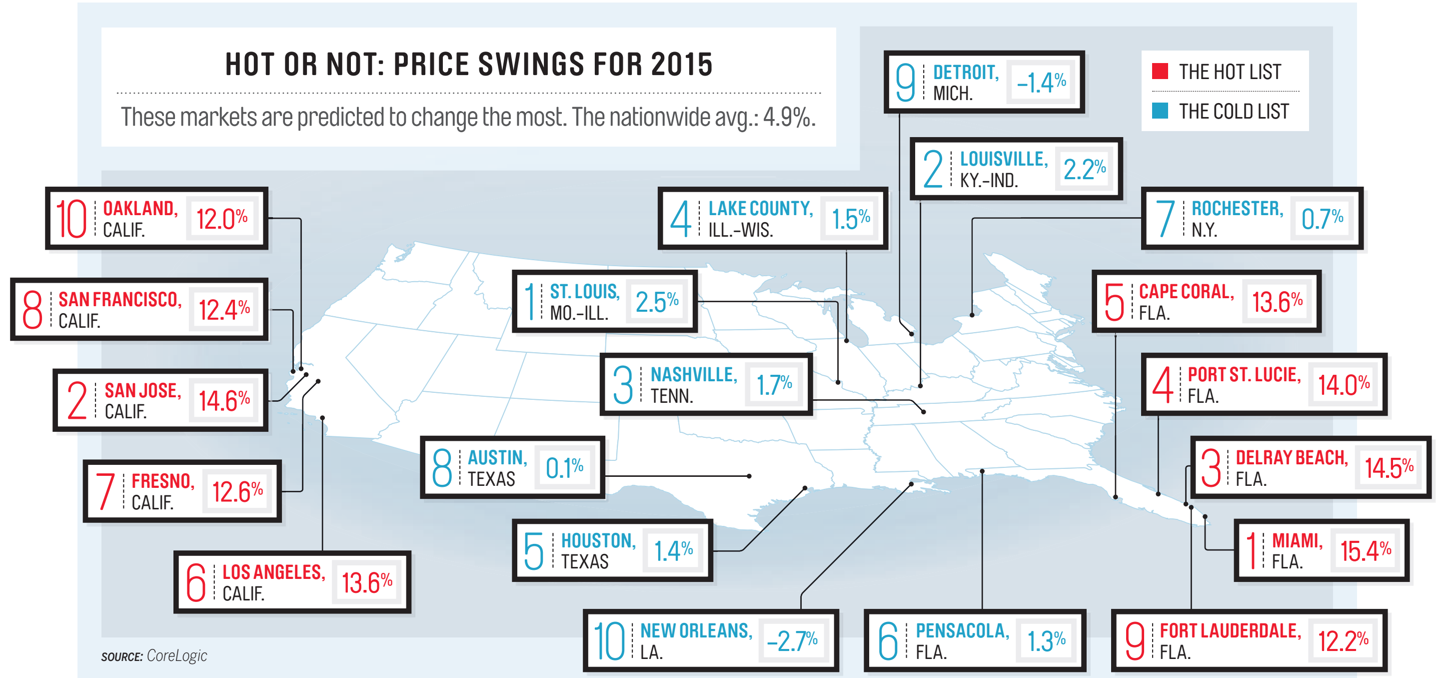
It's always nice to remember that the value of your house should climb while you're enjoying it—and at a great mortgage rate (assuming you take the advice below about refinancing!). If you're at the love-it rather than list-it stage of your life, remodeling may be a good option. Nationwide, 57% of homeowners surveyed recently by SunTrust said they planned to spend money on home-improvement projects this year. But be warned: The competition for contractors in many markets is fierce. You may have to wait your turn in line.

### YOUR ACTION PLAN

**Hit the refi table.** According to CoreLogic, roughly 30% of all primary mortgages still carry an interest rate of 5% or higher—even though the average fixed rate today is 1.3 points lower. If you took out a $300,000 loan in mid-2009, say, and refinanced the roughly $270,000 balance at today's rates, you'd cut your payments by about $370 a month.

You might consider making a few other changes. First, don't assume that your current lender will offer you the best deal this time around—different lenders are marketing different kinds of loans.

You might also want to switch to a 15-year fixed-rate mortgage, especially if you are a decade or so from retirement and looking ahead to reducing your debt. You'll pay more each month: about $170 more than the current payment on the $300,000 30-year mortgage at 5% cited previously. But you'd retire the loan nearly a decade sooner and save tens of thousands in interest.




There's a good reason some homeowners haven't refinanced at all: They couldn't. In 2012 about a quarter of homeowners owed more on their homes than the houses were worth. Thanks to rising property values, that's changing. Today only 11% of owners have negative equity, according to CoreLogic.

If you're one of them, you may still be able to refinance, perhaps without having to bring cash to the table. Borrowers with FHA and Veterans Administration loans are eligible for "streamlined" refinancing, which looks at payment history rather than equity. For borrowers with conventional mortgages, the Home Affordable Refinance Program (HARP) is still available and has undergone some improvements since it was introduced in 2009. If you were turned down before, it's worth another shot, says Gumbinger.

**Get the right renovation financing.** For a project that requires a one-time loan and at a fairly predictable cost—say, a bathroom—you may want to consider a home-equity loan, says HSH's Gumbinger. The 5.9% rate isn't all that favorable, but you have the security of its being fixed. For a larger project in which you'll need ongoing access to funds, a home-equity line of credit can be a better option since it operates like a credit card. HELOCs are now ringing in at 4.8%. The downside is that the rate is variable, so if you won't be able to pay the debt off in two years, it might not be your smartest choice.

**Think about the next owner.** According to a 2014 survey by Houzz, 53% of homeowners who are remodeling say they are hoping to increase their home's value. Yet most upgrades won't help your resale. The most common remodeling projects are kitchens and bathrooms—9.5% and 7.7% of all upgrades, according to Harvard's Joint Center for Housing Studies. But according to *Remodeling* magazine's 2015 Cost vs. Value report, you'll recoup only 70% of costs on a bathroom remodel, 59% on a bathroom addition, 68% on a major kitchen remodel, and 79% on a minor kitchen. (The only project that recoups more than its cost: installing a steel front door, which runs from $500 to $750.) That doesn't mean you shouldn't renovate; just know that you're not going to get back all of what you put in.

No matter what project you choose, consider adding improvements to appeal to aging baby boomers. According to the Joint Center for Housing Studies, just over half of existing homes have more than one of five key features for aging in place. Notably, only 8% have wide doorways and hallways or levered door and faucet handles. (For more on this, see "Make Your House a Home to Last" on page 38.) Those could become huge selling points. Just think: Those renovated doors could provide the perfect entrée to your next great home. M



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