- NOVEMBER 17, 2009

Ten Questions on the Volatile Housing Market

Lower Prices Have Spurred Home Sales, but Looming Foreclosures and High Unemployment Are Clouding the Outlook

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The U.S. housing market has been in a slump for the past four years. When will it ever end?

In recent years, real estate has proven as jittery and unreliable as any other market. The average U.S. home price nearly doubled between January 2000 and April 2006, according to the First American

LoanPerformance index. Since then, the average has fallen about 30%. The drop has been 53% in the Las Vegas metropolitan area and 39% in Miami, where about a quarter of all households with mortgages are behind on their payments or in foreclosure. The value of your home might be determined more by whether the neighbors keep their jobs than whether the house has ample light and closet space.

Here is a guide to navigating a fractured and volatile market:

1. Is the housing market getting better?

It has shown some signs of healing this year, but the much-touted recovery is tentative and fragile.

Home sales have increased from the severely depressed levels of 2008. The inventory of unsold homes listed for sale also is down. Bidding wars are breaking out for foreclosed homes in the sorts of neighborhoods (near jobs and decent schools) that attract both first-time buyers and investors seeking rental properties.

But more than 6.7 million U.S. households with mortgages, or about 13%, are behind on their payments or are in the foreclosure process, according to the Mortgage Bankers Association. Eventually, many of them will lose those homes, sending more supply onto the market. Unemployment has continued to rise, and the housing market is unlikely to show a sustained recovery until job growth resumes.

While the supply of middle-class homes on the market has declined somewhat, it remains ample in most places. And there is a huge glut of high-end houses for sale in many areas. That means prices of high-end homes might still have a long way to fall.

2. When will housing bottom out?

There probably won't be any clear turning point. Monthly indicators, such as home sales and prices, tend to bounce erratically from month to month, making it hard to discern the underlying trend. And the housing bust will end at different times in different places.

House prices already might have bottomed out in the coveted Virginia suburbs with short commutes into Washington, D.C., for instance. But it probably will be years before all of the unsold condos find buyers in parts of Florida.

Generalizations about states or metropolitan areas don't say much about what is happening in your neighborhood. In Summit, N.J., known for good schools and an easy, 45-minute train commute to Manhattan, the median home price in September was up 1.2% from a year earlier, according to Otteau Valuation Group, an appraisal company. In Atlantic City, N.J., which suffers from too much speculative building of condominiums and weak demand for vacation homes, the median price is down about 12% from a year ago.

3. What signals should I watch to determine whether my local market is improving?
One way to get a sense of supply is to ask a good local real estate agent for stats on how many homes are listed for sale in your town and how many months it would take at the current sales rate to absorb that supply. Anything over about six months generally is considered high, meaning that sellers might have to cut prices. Another way to get a sense of a neighborhood's health is to count the number of for-sale signs and vacant houses. If there are more than a couple vacant homes in a block, that might be a bad sign, particularly if no one is taking care of them.

The supply of homes listed for sale has fallen very sharply in some areas. But the supply is likely to balloon again in many areas with a renewed surge in foreclosures. Many local newspapers provide information on foreclosure filings.

Demand depends heavily on the job market. The U.S. Bureau of Labor Statistics provides unemployment rates by metropolitan area. In September, they ranged from 2.9% in Bismarck, N.D., to 30% in El Centro, Calif. State and local agencies provide job-market data, too. Celia Chen, a housing economist at Moody's Economy.com, says help-wanted signs can be a useful local indicator; if you start seeing more of them around your neighborhood, that is a sign that business in your area could be starting to recover.

4. How can I figure out the value of my home?
You never know for sure what a home will fetch until you put it on the market, and then it is partly a matter of luck. Will the eager buyer who shares your taste in home style and neighborhood show up on day one or day 200?

Some Web sites -- including Zillow.com, HomeGain.com and Cyberhomes.com -- provide estimates of individual home values. These estimates are largely based on recent sales of nearby homes, and in some cases they are wildly off the mark. But they often provide a ballpark idea of a home's value.
You might come closer to the real value by talking to a local agent and looking at recent prices for homes that you know are very similar to yours. If you want to be more scientific and don't mind paying a few hundred dollars, hire a professional appraiser.

5. Does it matter whether I'm "under water"?

At least you have plenty of company. About 20% of owners of single-family homes with mortgages owe more than the current estimated value of their homes, according to Zillow.com.

If you can afford your monthly payment and don't need to move soon, that might not be a big problem. But it is hard, and sometimes impossible, to refinance a mortgage if you are under water, and you will take a bath if you have to sell the home now. Some people who can afford to make their monthly mortgage payments are deciding it doesn't make sense to do so because they don't expect their home values ever to recover to past peaks, and they could rent similar houses for much lower monthly costs.

6. If I lose my home to foreclosure, how long will it take to repair my credit record?
It probably will be three to five years before you can qualify for a home mortgage insured by the government, depending on your circumstances, and that assumes you have re-established a record for paying your bills on time. The foreclosure will remain a blot on your credit record for seven years, likely raising your interest costs even if you do get another loan. If you pay bills on time, keep your credit-card balances low and don't apply for too many cards, you can make a "slow, gradual improvement" in your credit score, says Tom Quinn, a vice president at Fair Isaac Corp., which provides tools for analyzing credit records.

7. If I'm renting, is now a good time to buy a house?
It may well be. Prices in most areas are well below their peaks, even if they haven't hit bottom. Don't kid yourself that you can time the bottom of the market perfectly. But don't feel any pressure to buy in a hurry, because the supply of housing is likely to remain ample for years in many areas.

Generally, it doesn't make sense to buy unless you expect to remain in the house for at least four or five years, because the transaction costs -- including commissions for real estate agents and mortgage fees -- are heavy.

But now is clearly a good time to rent. Many landlords need tenants badly. The national apartment-vacancy rate in the third quarter was 7.8%, the highest in 23 years, according to Reis Inc., a New York research firm. So landlords are cutting rents and offering such sweeteners as free flat-screen televisions or several months of free rent to retain or attract tenants. Some owners of condos will "cut their throats to get some kind of rental income to cover part of their expenses," says Jack McCabe, a real estate consultant in Deerfield Beach, Fla.

8. Can I get a tax credit if I buy a home now?
Under an expanded and extended program approved by Congress earlier this month, tax credits are available to many people who buy or sign a contract to buy a principal residence by April 30 and complete the purchase by June 30. The tax credit is up to $8,000 for first-time home buyers and $6,500 for people who already have owned a home for at least five consecutive years during the previous eight years. The credit is available

for individual taxpayers with annual incomes of up to $145,000 or joint filers with incomes up to $245,000.

9. Can I get a mortgage on attractive terms?

Only if you have a good credit record, a moderate amount of debt in relation to your income and the ability to fully document your income. That last requirement is fairly easy for people who work for a salary and have had the same employer for more than two years, but it can be tough for self-employed people with incomes that vary substantially from year to year.

A borrower with a strong credit score of 740 or higher (on the scale of 300 to 850) and the ability to make a down payment of at least 20% could get an interest rate of about 5% with no origination fees on a 30-year fixed-rate mortgage, says Lou Barnes, a mortgage banker in Boulder, Colo. But if your credit score is 680, the rate jumps to about 5.5%.

People who can't make a down payment of at least 20% generally are being funneled into loans insured by the Federal Housing Administration. That means paying extra fees for the FHA insurance.

Borrowing costs are steeper at the high end of the housing market. For so-called jumbo loans -- those above $729,750 in areas with the highest housing costs or $417,000 in places with the lowest costs -- interest rates on 30-year fixed-rate mortgages last week averaged 5.95%, according to HSH Associates, a financial publisher.

10. Should I invest in foreclosed homes?

Probably not. A lot of investors chase these properties, and only the most experienced know how to deal with all of the pitfalls. Homes auctioned at trustee or sheriff sales are sold on an as-is basis, and there is no provision for an inspection before you take ownership. If after buying you find out that termites have been treating the floor joists as an all-you-can-eat buffet, that is your problem. You must pay for the full price within a day or two, so you need a lot of cash or access to special short-term loans for investors that come with interest rates of around 18%. This is a pursuit best left to people with a lot of time, nerve, cash and knowledge of the local market.

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Printed in The Wall Street Journal, page A21