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REAL ESTATE

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THE NATION'S HOUSING

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The Tide Is Turning

What's the shape of a post-bubble, post-correction real estate market? And more to the point: What does that mean for you?

Those questions are becoming increasingly relevant as the latest sales data show a small but unmistakable uptick in activity and declining unsold inventories. In late December, the National Association of Realtors reported that existing home sales were up by a hair in November, 0.6 percent, the second straight month of modest increases off the cyclical trough in September.

That same week, the Commerce Department reported that sales of new houses rose 3.4 percent in November over the prior month, while builders' unsold inventories dropped.

All of which suggests that the 18-month market correction that followed the four-year housing boom has just about run its course. From a national statistical perspective, we're somewhere near slack tide — but no one's looking for another frothy high tide anytime soon.

Some local markets are moving contrary to the relatively flat national trend. Three dozen metropolitan areas — primarily markets with moderate prices and solid employment growth — were still racking up low

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It Seems the Market Has Weathered the Worst of the Correction

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double-digit house price inflation at the end of the third quarter of 2006, according to federal data. Dozens of others, primarily where unemployment has been a persistent and increasing economic drag, showed continued signs of modest deflation in home values, according to the same data.

In the main, however, the housing market appears to have weathered the correction phase of the cycle without the blood running in the streets that some bubble-bust bears had forecast. Median prices of resale houses have fallen 3.6 percent nationally year to year, and anecdotal reports of 10 percent to 20 percent asking-price reductions in formerly hyperinflated markets are commonplace. But that's what corrections are all about, as opposed to outright busts.

Moderate price cuts also eventually stimulate buyers who had been sitting on the sidelines wondering when the market might bottom out to wade back in and start shopping. That's where we appear to be at the moment, and where we are headed in 2007, absent unexpected economic jolts to the global capital markets that could send mortgage rates spiking. In that event, all bets are off.

So what are smart strategies in a slowly recovering real estate environment?

One good rule: Think baby steps instead of big leaps. Sellers shouldn't assume that with the trend turning positive they can suddenly price their house for what they might have commanded in early 2005. Forget about it. In most places, buyers still have the upper hand. There's plenty of inventory to choose from; shoppers are picky; and unrealistic pricing is a guaranteed route to sitting dead in the water for months, unvisited and unsold. Be real on pricing. And be happy there are buyers out there again.

On the other hand, smart shoppers should recognize that the game is changing, the spring buying season is just on the horizon and lobbing lowball offers at already marked-down properties isn't a winning strategy. If you are seriously in the market, be prepared to pay a price that may not be as low as you had hoped, but that just might be your last shot at a particular house before it sells for closer to the asking price a few weeks from now.

Shoppers also need to understand that today's prevailing mortgage rates — a little above 6 percent for 30-year money, and the high-5 percent range for 15-year loans — are less than a point above 40-year lows. They won't be around indefinitely, so a fairly priced house combined with a low-cost mortgage adds up to a potentially great deal.

A second essential for the emerging market: Smart buyers and sellers need to be well-informed. They need to plug themselves into all the key local information that shapes pricing and dealmaking: time on the market, inventory declines and increases, the overall pace of sales, and the average gap between asking prices and closing prices. Be in command of these numbers and you will be well equipped to play heads-up ball, whether as buyer or seller.

A lot of these numbers are available online and offline from real estate Web sites, regional or local multiple listing services, Realtor associations, and mortgage lenders and brokers. It's also available person-to-person from the front-line experts on any given micro-market: the real estate agents who work in specific neighborhoods or market segments. They make their living, in up cycles and down, by listing, selling and thoroughly knowing what's happening inside their target areas.

Better yet: There are no commissions for information from these specialists. All you need to do is show that you're serious and you can compile a lot of valuable market intelligence for free.

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