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Real Estate

Too many homes are on the market, and prices are falling fast in a lot of cities. Here's how to navigate what's likely to be the worst year for real estate in nearly two decades.

By **Stephen Gandel**

November 20, 2006 11:07 PM EST



(MONEY Magazine) – Larry and Tammy Curell are learning the meaning of Surprise, Ariz. The Curells had hoped to move to a bigger house in the fall. But nine months after putting their newly built four-bedroom on the market for \$354,900, they have yet to get an offer. Their development in the Tucson suburbs was hot when they bought three years ago. Now there is a house for sale on nearly every block. Many streets have more than one. To trade up, the Curells will have to get at least \$320,000, which is looking unlikely. A similar house down the street just went for \$279,000. In fact, the couple may be staying put for a while. In a recent report, Moody's Economy.com predicts it will be another year and a half before the Tucson housing market recovers. "There are so many developers still putting up houses and offering incentives," says Larry. "It is impossible to compete."

Real estate in 2006 turned a corner—and not a good one. In the past year, home prices have dropped 2.2%, says the National Association of Realtors. Recently built houses have fared worse, down 9.7%. Some economists have labeled the fall a long-anticipated correction that will soon be over. Economists at the NAR, for example, say home prices will start rising again in 2007, though by just 1.5%. "I would call this a minor adjustment," says NAR senior economist Lawrence Yun.

Don't believe it. Housing prices are going to fall longer and harder than most experts thought just a few months ago.

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First of all, the boom lured more investors into real estate than anyone thought. Most economists believed speculators made up 15% of buyers. But recently, even in places not associated with the bubble, such as Idaho and Vermont, nearly a quarter of sales were for second homes or investments. In parts in Florida, half of all 2006 housing deals were made by investors. Such buyers don't have to move when they sell, so they're quick to cash out. The result has been a surprising jump in the number of properties on the market. A million more homes are for sale than there were a year ago.

Additionally, home prices have risen faster than wages for most of this decade. That's made purchasing a home less affordable for more Americans, contributing to falling prices. All told, Edward Leamer, director of the UCLA Anderson Forecast, predicts prices are headed down for at least the next five years, possibly 10. "Something unusual happened to real estate prices," he says, "and when that happens, it always leads to comeuppance."

How much will prices fall? Leamer says 15% before values start rising again, but on prices, Leamer is more Eeyore than Tigger. Most other forecasters, including Fiserv Lending Solutions, the source of the data for the 100 Biggest U.S. Markets, say that prices will fall less than 5% on average. "The current strength of the economy puts a limit on how much prices will fall," says Fiserv chief economist David Stiff. Of course, the real answer hinges on where you live. Fiserv says prices in about half of the big cities in the Northeast, South and West will fall in 2007. Some of those declines, such as those in Las Vegas and Miami, will be quite painful. But in places like Atlanta and Seattle, where prices lagged during the boom, home values will stay high for some time.

No matter where you are, don't expect the market to be nearly as sweet as it had been. What should you do if you are a homeowner and expect to stay put for a while? Not much. Chances are, prices will recover by the time you decide to sell. But buyers and sellers must take a fresh approach to the housing market.

Advice for Buyers

SINGLE BEST IDEA It's a buyer's market. Drive a hard bargain. Once you've found the house you want, start the bidding at least 15% below the asking price. Barry Miller, a broker and owner of Denver-based Buyers Only America Realty, says that's the average discount his clients are getting. Paying a buyer's agent an agreed-upon fee, if you can in your area, makes sense as well. Having a negotiator who is working for you will probably lead to a lower price.

BUY FROM A BUILDER. Many homeowners will wait out the bust. Builders can't afford to. Besides a lower price, many are offering thousands in upgrades. Skip the stuff and ask the builder to buy down your mortgage rate. That's worth more than any perk in the long run.

GET A SECOND OPINION. If you are still not sure you got the best deal, spend \$350 to hire your own appraiser. Often the appraiser brought in by the lender is motivated to inflate the price so the bank can make the largest loan possible. If your appraisal comes in at less than the agreed price, renegotiate. And if the seller won't budge, walk. You can find another house.

Advice for Sellers

SINGLE BEST IDEA To make your house stand out, price like a buyer. The reason so many people are stuck with a house they can't sell is that they haven't priced it right. Most of us grow attached to our home, and good memories and ego distort how much we think it's worth. Go to open houses of similar properties in your neighborhood and decide how much you'd pay. Then list yours for that price. You may know that your house is better for entertaining, but that won't get a buyer to pay more. That's knowledge you gained only after living there. Forget about charging more than a neighbor because you have a new kitchen. "These days upgrades will get your house sold, but they won't get you any more money," says Lars Fahlberg of Prudential California Realty.

PUT ON A SHOW WITH A STAGER. With so many houses for sale, it pays to get help to stand out. Stagers will tell you how to make your home more attractive, and some will do the redecorating, even renting furniture. A hands-on stager can run about \$1,500. (For an example, see "They Got How Much?" on page 74.)

RENT TO SELL. If you still can't sell, consider renting. While sale prices are falling, rents are expected to rise nationwide by 5% next year, according to the NAR. What's more, renting can be a good way to snag a buyer. Real estate investor Andy Heller, author of Buy Even Lower, says many potential buyers would like to take advantage of the soft market but

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100 BIGGEST U.S.MARKETS by region Midwest and West

While homeowners in the Midwest should see modest prices gains, those in the rest of the country, especially the West, should expect tougher times.

NOTES: Data as of Oct. 24, 2006. Returns are actual for first six months, projected thereafter. The 100 Biggest U.S. Markets were determined using 2000 census figures. Metro areas may include a number of surrounding cities. N.A.: Not available. [1] Includes Kansas City, Kans. and Kansas City, Mo. SOURCES: Fiserv Lending Solutions, Texas A&M University, Illinois Association of Realtors, OFHEO.

THE END ISN'T NEAR

While home prices should bounce back in some slumping cities by early 2007, forecasters are predicting longer and later busts in other areas. These 10 big markets will be among the latest to recover, according to Moody's Economy.com.

100 BIGGEST U.S.MARKETS by region South and Northeast

NOTES: As of Oct. 24, 2006. Returns are actual for first six months, projected thereafter. The 100 Biggest U.S. Markets were determined using 2000 census figures. Metro areas may include a number of surrounding cities. N.A.: Not available. SOURCES: Fiserv Lending Solutions, Texas A&M University, Illinois Association of Realtors, Moody's Economy.com, OFHEO.

The View 2007

Buyer's market will intensify

Change in U.S. home prices: +0.1%

BIG LOSERS

Las Vegas -9.2%

Miami -9.2%

BIG WINNERS

Buffalo +4.3%

Dallas +4.0%

SOURCE: Fiserv Lending Solutions.

[From the December 1, 2006 issue](#)

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