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**Abstract:** The article discusses several trends that are shaping the U.S. real estate market. It is suggested that distressed properties that are at risk of being foreclosed will continue to keep home prices low. Prospective homebuyers should be prepared to have at least a 20% down payment if they are interested in buying a foreclosed home. Other trends regarding mortgage loans and tax credits are discussed.

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## MAKING THE RIGHT MOVES

**To profit in real estate today, you have to know the six trends shaping the still-shaky market-and how to work them to your advantage.**

**THE DRAMA IS NEARLY OVER.** After a decade of extremes-the ebullient highs of the real estate boom, then the devastating lows of the bust-calmer forces are beginning to prevail in the housing market. The big fall-off in home values, which has taken the median price of a house down almost 30% since 2006, looks to be in its final stages in most places: Three-quarters of the nation's 384 metropolitan areas will see prices down less than 5% a year from now, according to projections from Fiserv and Moody's Economy.com; 10% seem poised for modest increases. Meanwhile, Uncle Sam is lending a steadying hand with programs designed to prop up the market-at least for a while yet.

In this quieter environment lie new challenges and opportunities for homebuyers, sellers, owners, and investors. For the first time in years you aren't completely at the mercy of market forces: You can really affect how much you make (or lose). To come out on top, though, you need to understand the key trends shaping the shifting market. You'll find them outlined below, along with smart moves that should help you exploit them.

## WHAT'S AHEAD FOR PRICES

**Distressed properties will keep prices under pressure.**

For a while last year it might have seemed as if the long-awaited housing recovery was just about here. Home prices stopped falling in spring, and have stayed fairly stable since, according to the Case-Shiller housing index. Sales rose from their recessionary lows, and inventories came down from their highs.

But the pickup turned out to be short-lived. Sales of existing homes dropped sharply in January from the previous month, and inventories crept back up. Economists predict that the national median price for a single-family home will dip another 5% to 10% before finally bottoming by year-end or early 2011.

Place much of the blame squarely on the glut of distressed properties spilling onto the market. More than 3 million homes are expected to get foreclosure notices this year, according to RealtyTrac, a foreclosure-listing website, as job losses strain many families' ability to keep up with their mortgage payments. In addition, one in every four homeowners with a mortgage now owes more on that loan than the house is worth. A growing number of these owners are making a strategic decision to default-18% of delinquent borrowers were purposely behind, according to a recent study by Experian and Oliver Wyman. They're choosing to walk away rather than pour money into a home that will take years to regain its value.

Meanwhile, short sales-when a lender agrees to let a homeowner sell for less than he owes-are also expected to spike, reports Moody's Economy.com. Contributing to the jump: a streamlined approval process and a new government program that gives servicers financial incentives to arrange short sales instead of foreclosing on a troubled property.

**YOUR MOVE:** If you're in the market for a new home, you may be tempted by the low prices on bank-owned properties, which are going for about 30% less than seller-owned homes. But be prepared to come in with a hefty down payment (at least 20% to 25%) to compete with investors offering banks all-cash or significant cash deals. Be aware too that many of these homes need serious repairs, and you don't always have a chance to check them out before bidding. If you can't get a thorough inspection, walk away. And don't focus on short sales if you have to move quickly. Last year such transactions often took as long as six months. While some banks have streamlined the process, you can't count on a speedy deal.

But you don't have to take on the risks of a distressed property to nab a bargain. If you're shopping in an area with a growing number of foreclosures, use that fact to wring price concessions from owners anxious to sell. And ask the homeowner to fix anything wrong with the house flagged in the inspection, or to give you a discount to account for it.

Hoping to sell your house this year? Don't try to compete with repossessed properties on price. Instead, play up your advantages: a home in move-in condition (get your house inspected and do the repairs before you list it) and the possibility of a quick deal. To reassure prospective buyers that they're not getting a lemon, advises Pat Lashinsky, CEO of the online brokerage ZipRealty, toss in a one-year home warranty that will pay to fix problems like a broken furnace or hot-water heater. Cost: about $350.

**Big homes are lagging small ones in the recovery.**

Rushing to take advantage of what was then the expiring federal tax credit for first-time buyers, newcomers accounted for 50% of sales in October and November vs. 31% a few months earlier. That's helped stabilize prices on smaller, more affordable homes. But the market for larger, more expensive homes is hurting. The inventory of homes for sale priced at $750,000 to $1 million is now 20 months, vs. 11 months for homes in the $100,000 to $250,000 range, the National Association of Realtors reports. Many people don't feel comfortable making a large financial commitment these days, and fewer can meet stricter standards for the jumbo loans often needed to buy these homes.

Shifting tastes are also a factor. "If you asked someone 10 or 15 years ago what they wanted in a house, the reply likely would have been 'space, space, space,' but not anymore," says Nicolas Retsinas, director of the Joint Center for Housing Studies at Harvard. In response to dwindling demand for bigger residences, the median size of a new home shrank to 2,100 square feet in 2009, down from 2,300 three years ago, the National Association of Home Builders says. Size typically dips in a recession, but Retsinas believes this time the trend will stick beyond the recovery. "Americans now view their home primarily as a place to live, not as an investment," he says. "They're willing to give up some room for shorter commutes and lower energy bills."

**YOUR MOVE:** Trade-up buyers who want bigger houses will find the best deals this year. The big question is when to make your move. Act swiftly if prices are already stabilizing in your area (go to cnnmoney.com/real-estate2010 for price projections for the country's 384 metropolitan areas). Otherwise, hold off for a few months if you can, in anticipation of further price drops, since the high end of the market will be especially hard hit. Whenever you make your move, base your bid on comparable sales over the prior 60 days rather than the home's list price. Coming in 5% to 10% lower than the comps is a smart starting point, says Ellen Klein, a realtor in Rockaway, N.J.

If you want to sell a big house, try to unload your property quickly before prices dip further. Setting the right price at the outset is key: If you go too high, many buyers won't even look, knowing you'll probably have to go lower later. "One price reduction is okay, but when you start to see multiple reductions, it raises a red flag," says Ken Shuman of Trulia.com. You may be able to expedite a sale with aggressive pricing, listing your home for slightly below what comparable homes have sold for in the past couple of months. Another ploy to attract more traffic: Offer a larger cut-say, 3.5% vs. 3%-to the buyer's agent. True, you'll pay a little more in total commissions. But that's preferable to having to lower your price by 5% to 10% later if your house doesn't sell.

As for smaller homes, investors and first-time buyers will have a tougher time finding deals. Homes in good locations are getting multiple bids and are often selling above the listing price, says Alan Wagner, a Sacramento realtor. So if you find a house you love, don't bid less than similar homes have sold for in the past two months. You can find the median difference between listing and sales prices in your area at zillow.com under Market Reports.

## WHAT'S AHEAD FOR LOANS

**Mortgage rates will rise as Uncle Sam exits the market.**

Say goodbye to the lowest mortgage rates in about 50 years. For the past 16 months the Federal Reserve has helped keep rates low-around 5% for a 30-year loan-by purchasing mortgage-backed securities. But that program was scheduled to end in March, and private investors aren't expected to step in to fill the void at the same low rates. As a result, the consensus among economists is that rates will climb to between 5.3% and 6% by year-end. "It will be a gradual rise," says Mark Zandi, chief economist at Moody's Economy.com. "If rates spike, the Fed will get back into the market."

One exception to the rising-rate outlook: Rates on jumbo mortgages (typically loans larger than $417,000, but up to $729,750 in some high-cost areas) are expected to hold steady at 6% or so. That's because the government wasn't propping up the jumbo market, so these loans won't be affected much by the Fed's exit.

**YOUR MOVE:** Here's the dilemma if you're in the market for a new home: Do you move quickly to lock in low rates, or would you be better off waiting? For anyone who is house hunting in the majority of areas where prices are expected to drop 5% or less, locking in low rates now will probably be more valuable. Consider this: Taking out a $300,000 30-year loan at 5% today will cost $1,610 a month. Wait until the end of the year, and maybe you can land the house for $15,000 less. But by then rates may have climbed to 5.75%, so your monthly payment will be $50 more, and you'll pay almost $34,000 more in interest over the life of the loan.

For homeowners, the decision is much clearer. If today's rates are at least one point below your current loan, or you have an adjustable rate and plan to stay put for at least five years, refinance pronto. On a $300,000 30-year loan, shifting from a 6% rate to 5% could cut your payments by $300 a month.

**Financing for condos, second homes, and jumbo loans are especially tough to get.**

To qualify for a new mortgage at the lowest rates, however, you'll have to meet some stiff requirements. You'll need at least 10% down or 10% equity in your home and a credit score of 720 or higher; your mortgage, insurance, and property taxes shouldn't exceed 31% of your gross income; and no more than 41% can go to paying debts of any kind. Exceptions: You usually need only 3.5% down for an FHA loan, and can refinance with less than 10% equity through the HARP program. (Makinghomeaffordable.gov has details.)

The standards are even more onerous for anyone buying a condo or a vacation or investment home, or who will need a jumbo. Many banks will approve a condo loan only if the building is at least 70% occupied by owners, which is often problematic for new construction. Meanwhile, jumbo borrowers and investors must often put 30% to 35% down. "These loans are often riskier, so lenders make you jump through more hoops to get one," says Keith Gumbinger of HSH Associates, a mortgage publishing website.

**YOUR MOVE:** Don't even think about shopping for a new home without being pre-approved for a mortgage. You don't want to fall in love with a house only to discover you don't have enough cash for the down payment the bank requires or you fail to meet some other requirement. Plus, most sellers and realtors won't even work with you unless they're sure you'll qualify for financing.

If a bank turns you down, try other lenders. Local banks and credit unions may be more lenient about whom they approve and often offer better rates than national banks. Can't prove income because you're self-employed or rely heavily on commissions? Apply at the bank where you have business or personal accounts; familiarity may help the lender get to yes. Buyers in the market for a condo should also make sure to research the association's financial health and the building's occupancy rate.

## WHAT'S AHEAD FOR TAX BREAKS

**Buyers, rushing to beat the tax-credit deadline, will set off a flurry of spring deals.**

One more reason prospective buyers and sellers may be tempted to move quickly: the looming expiration of valuable tax credits that have been dangled by Uncle Sam to spur sales. Homeowners who move can get up to $6,500, first-time buyers as much as $8,000, as long as they have a joint income of less than $245,000 (or $145,000 for singles). But there isn't much time left to act because buyers must be under contract on the new home by April 30 and close by June 30 to qualify for the credit.

Look for transactions to pick up as the deadline nears. When the credit for first-time buyers was originally set to expire last November, sales surged in the three months before the cutoff. Experts expect a similar pattern this spring.

**YOUR MOVE:** If you're looking to buy a home in an area where prices are still expected to fall more than 5% over the next year, don't rush to purchase just to get the tax break-a substantial drop in home prices in your desired town could more than offset the value of the credit. Otherwise, strictly from a price standpoint, there's no reason not to house hunt in earnest in case you find a place you love and can afford by the government deadline.

But homeowners hoping to buy have to consider another factor: how long it will take you to sell the place you live in now, since the cost of carrying two properties would quickly offset the credit. To avoid that double whammy, you'd need to unload your house in less time than the 110 days or so that the average home is now on the market. (Find out how long it's taking to sell homes in your area at zillow.com; click on Market Reports.)

Of course, the anticipated pickup in traffic among prospective buyers does enhance the prospect of a quick sale. But you'll have to move fast to get your house listed, and be prepared to negotiate a speedy deal.

**Going green this year can save you more money.**

Hoping to save the earth and a few extra bucks while you're at it? Well, the payback on energy-saving home improvements recently got a whole lot sweeter, thanks to a government program that extended and expanded tax breaks that had been scheduled to expire for those upgrades. You can get a federal credit for 30% of the cost of products like highly energy-efficient heating and air-conditioning systems, windows, and insulation up to $1,500 for 2009 and 2010 combined. (For details on the available tax credits, go to ase.org.)

**YOUR MOVE:** To figure out which upgrades will save you the most, do an energy audit to identify your biggest leaks. Ask your utility company if it offers this service free (many do) or DIY using the kit at energysavers.gov. Sealing leaks and adding insulation, including in your attic and basement, typically provide the best bang for your buck. And keep your eyes open for other incentives from Uncle Sam. In March, President Obama outlined an idea for a new program that would give homeowners even larger rebates right at the cash register for renovations that boost energy efficiency. More green-backs for going green could be a deal you won't want to miss.

**The Largest Gainers**

Home prices are expected to fare the best in these five metropolitan areas over the next year.

| Area | Projected price change |
|---|---|
| Memphis | 1.4% |
| Pittsburgh | 0.7 |
| Seattle | 0.6 |
| Sacramento | -0.1 |
| San Diego | -0.3 |

NOTE: Forecast period is from first quarter 2010 through first quarter 2011 for the 75 largest metro areas. SOURCES: Fiserv, Moody's Economy.com

**TAKING YOUR MARKET'S PULSE**

**Your local area may be in better or worse shape than the nation as a whole. Analyze these four factors in your region to assess its health.**

1: UNEMPLOYMENT RATE

**U.S. AVERAGE: 9.7%**

**WHAT IT MEANS:** When unemployment falls, fewer homes will go into foreclosure.

**WHERE TO FIND IT:** At bls.gov, click on the Unemployment tab, then Local Rates.

**2: FORECLOSURE RATE**

**U.S. AVERAGE: 2.2%**

**WHAT IT MEANS:** Declining foreclosures equal a healthier market.

**WHERE TO FIND IT:** Search for your city at realtytrac.com, then click the Trends tab.

**3: PRICE-TO-RENT RATIO**

**U.S. AVERAGE: 10.9**

**WHAT IT MEANS:** If it costs a lot more to own than to rent, prices are likely to drop more. Look for the ratio to return to historical norms.

**WHERE TO FIND IT:** cnnmoney.com/rent

**4: AFFORDABILITY INDEX**

**U.S. AVERAGE: 71%**

**WHAT IT MEANS:** The higher the percentage, the more affordable the market is.

**WHERE TO FIND IT:** At nahb.com, search for "housing opportunity index."

**The Biggest Losers**

Prices are expected to drop the most in these five metropolitan areas over the next year.

| Area | Projected price change |
|---|---|
| Fort Lauderdale | -21.3% |
| Phoenix | -18.5 |
| West Palm Beach, Fla. | -18.5 |
| Las Vegas | -15.4 |
| Tampa | -13.8 |

NOTE: Forecast period is from first quarter 2010 through first quarter 2011 for the 75 largest metro areas. SOURCES: Fiserv, Moody's Economy.com

**When Will Your Market Recover?**

Here's what's in store for the 50 largest markets in the U.S. You will find projections for all 384 metro areas at cnnmoney.com/realestate2010.

Legend for chart:

A: METRO AREA
B: MEDIAN HOME PRICE
C: CLIMB DURING THE BOOM
D: PRICE DROP SO FAR
E: PROJECTED ADDITIONAL DECLINE
F: WHEN PRICES WILL HIT BOTTOM
G: PROJECTED ONE-YEAR CHANGE

1 New York
$410,000 120.2% -17.9% -13.8% 2011: Q3 -12.9%

2 Los Angeles
335,000 176.6 -42.3 -12.9 2010: Q4 -8.1

3 Chicago *
250,000 68.3 -21.8 N.A. 2009: Q1 -7.3

4 Houston
161,000 49.1 0.0 -1.2 2010: Q4 -0.9

5 Atlanta
182,000 33.1 -18.3 -3.5 2011: Q2 -4.0

6 Washington, D.C.
370,000 146.2 -29.0 -13.2 2010: Q4 -10.7

7 Phoenix
140,000 123.5 -53.5 -22.8 2011: Q2 -18.5

8 Riverside, Calif.
175,000 189.6 -57.8 -9.8 2010: Q4 -3.3

9 Dallas
156,000 31.3 0.0 -2.7 2010: Q4 -2.0

10 Philadelphia
218,000 92.3 -7.2 -3.1 2010: Q4 -2.2

11 Minneapolis *
177,000 68.4 -28.3 N.A. 2009: Q1 -9.8

12 Santa Ana, Calif.
505,000 162.5 -36.7 -10.2 2010: Q4 -4.7

13 San Diego
370,000 143.3 -41.4 -10.1 2010: Q3 -0.3

14 St. Louis
136,000 51.9 -6.7 -4.0 2011: Q3 -2.6

15 Nassau/Suffolk, N.Y.
395,000 126.1 -16.9 -15.4 2011: Q3 -13.4

16 Tampa
153,000 130.6 -40.6 -17.2 2010: Q4 -13.8

17 Baltimore
276,000 123.4 -16.0 -7.4 2011: Q1 -5.5

18 Warren, Mich.
120,000 22.9 -43.2 -1.6 2011: Q1 -2.1

19 Seattle **
365,000 84.6 -21.5 N.A. 2009: Q3 0.6

20 Oakland
349,000 114.8 -46.2 -11.6 2010: Q3 -4.4

21 Denver
248,000 35.4 -8.1 -6.3 2011: Q1 -5.1

22 Naples, Fla.
240,000 189.5 -54.9 -18.6 2010: Q4 -10.0

23 Pittsburgh **
129,000 35.8 0.2 N.A. 2009: Q2 0.7

24 Edison, N.J.
320,000 117.3 -16.9 -11.2 2011: Q1 -9.8

25 Newark
392,000 103.7 -18.2 -8.1 2010: Q4 -6.8

26 Portland, Ore.
251,000 84.7 -18.2 -5.7 2010: Q4 -2.8

27 Cleveland
144,000 21.6 -17.7 -3.9 2010: Q4 -3.2

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28    Cincinnati
164,000       25.3        -10.9       -5.7        2010: Q4     -2.2

29    Sacramento
225,000       161.6       -52.2       -9.4        2010: Q2     -0.1

30    Orlando
168,000       132.5       -50.8       -14.2       2011: Q1     -9.0

31    Fort Worth
112,000       36.2        -1.0        -2.7        2010: Q4     -2.1

32    Detroit
52,000        25.1        -50.4       -5.6        2011: Q1     -5.5

33    Kansas City, Mo.
146,000       37.1        -2.9        -4.3        2011: Q3     -2.8

34    San Antonio
153,000       57.6        -0.1        -1.4        2010: Q4     -1.2

35    Boston
340,000       84.7        -14.5       -3.9        2010: Q4     -3.8

36    Fort Lauderdale
224,000       177.1       -47.6       -28.4       2011: Q1     -21.3

37    San Jose
525,000       71.8        -36.0       -8.7        2010: Q4     -4.4

38    Las Vegas
157,000       130.8       -57.0       -18.1       2011: Q3     -15.4

39    Columbus
161,000       25.5        -9.3        -4.1        2010: Q4     -2.2

40    San Francisco
677,000       78.4        -28.3       -9.7        2010: Q3     -4.3

41    Indianapolis
120,000       24.1        -1.6        -3.1        2011: Q3     -2.0

42    Virginia Beach
215,000       120.8       -10.4       -6.3        2011: Q3     -3.8
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| | | | | | |
|---|---|---|---|---|---|
| 43 Providence | | | | | |
| 226,000 | 117.4 | -21.4 | -4.2 | 2010: Q4 | -1.4 |
| 44 Charlotte, N.C. | | | | | |
| 178,000 | 32.2 | -10.4 | -2.7 | 2011: Q1 | -0.9 |
| 45 Austin | | | | | |
| 189,000 | 57.0 | -2.2 | -2.5 | 2010: Q4 | -2.0 |
| 46 Milwaukee | | | | | |
| 215,000 | 56.7 | -11.0 | -5.0 | 2011: Q4 | -3.0 |
| 47 Cambridge, Mass. | | | | | |
| 395,000 | 64.3 | -12.7 | -4.4 | 2010: Q4 | -4.2 |
| 48 Nashville | | | | | |
| 159,000 | 45.5 | -6.7 | -3.3 | 2011: Q3 | -2.6 |
| 49 Lakeland, Fla. | | | | | |
| 125,000 | 117.0 | -52.1 | -7.7 | 2010: Q4 | -4.3 |
| 50 Memphis ** | | | | | |
| 118,000 | 17.4 | -17.3 | N.A. | 2009: Q1 | 1.4 |

**KEY**

* **DOUBLE DIPPERS:** Prices hit bottom, have been rising, but are likely to fall again.

** **SMALL GAINERS:** One of three areas expected to see a modest rise in prices.

NOTES: The 50 largest markets based on 2006 population figures; metro areas are generally labeled by the largest city in that area. Median home price data are for single-family homes (except in Dallas and Fort Worth) through the third quarter of 2009, the most recent data available, and includes sales of bank-owned properties; price drop so far includes estimates for the fourth quarter of 2009; projected one-year change from first quarter 2010 to first quarter 2011. N.A.: Not applicable. SOURCES: Fiserv, Moody's Economy.com, Real Estate Center at Texas A&M University.

**The Most Foreclosures**

These five areas had the highest proportion of foreclosures to total homes last year.

| Area | % of homes in foreclosure |
|---|---|
| Las Vegas | 12.0% |
| Riverside, Calif. | 8.8 |

| | |
|---|---|
| Orlando | 8.2 |
| Phoenix | 8.0 |
| Naples, Fla. | 6.4 |

NOTE: Rates include all homes with at least one foreclosure filing for the 75 largest metro areas. SOURCE: RealtyTrac

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