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# When Will Home Prices Hit Bottom, Already?

The end may be in sight—and getting a better sense of when it's coming can help you make the smartest buying and selling decisions.

by AMANDA GENGLER

**Call it the Great Housing Paralysis of 2009.** If you're hoping to buy your first home or invest in a second one, you're probably sidelined, unsure when to jump in. If you want to sell, you're thinking it may be better to wait. And even if you don't plan to either buy or sell anytime soon, watching one of your biggest assets tank is about as much fun as being chased by hornets. When will the pain stop?

Nationwide, home prices will bottom out at the end of this year, according to the forecasters at Moody's Economy.com. Median prices will probably fall another

10% on top of the 27% they've plummeted since their 2006 peak. That prediction assumes that President Obama's various recovery efforts—including billions to slow foreclosures and goose bank lending, plus a tax credit to most 2009 buyers who haven't owned in the past three years—will have some effect. If they don't, says Economy.com's Mark Zandi, the bottom could come as late as 2011.

And then? "The recovery will look more like a U than a V," predicts Mike Larson, a real estate analyst at Weiss Research. Translation: After home prices hit their lows, they'll probably stay there for a few years as the economy slowly struggles back to its feet. Prices aren't expected to reach their 2006 levels again for another decade.

Before you reach for the Xanax, think about a few things. First, the nation was in a housing bubble, remember? What's happening now is both inevitable and necessary. Second, if you haven't yet

bought your first home, you should be happier than Kate Winslet on Oscar night. Third—and most important—the outlook varies dramatically depending on where you live. If you're in Memphis or Greenville, S.C., for example, the bleeding is almost over. Find projections for when the nation's 100 largest metro areas will hit bottom—and how prices are likely to change in the next 12 months—in the maps on the following pages.

As you've heard countless times, you should think of your home primarily as a place to live, not as an investment. (For ideas to improve your digs, see "Make Over Your House Without Going Broke" on page 73.) And it's nearly impossible to time the bottom perfectly. That said, getting a sense of the price trends in your area can give you the confidence to make decisions that can save you a whole lot of money. For the latest advice on buying, investing, and selling—no matter where you live—turn the page.



## Raleigh, N.C.

• **WHO** | Grant and Bonnie Nichols, 51 and 48, a builder and a homemaker

• **GOAL** | Buy or build a vacation home on Lake Gaston, an hour away (estimated cost: \$1 million).

• **CHALLENGE** | Before they can buy, the couple need to sell a lakeside home they already own (worth about \$1.4 million). What Grant is counting on:

"People are still willing to invest in waterfront property."

• **STRATEGY** | Local home values aren't expected to fall much more. Agents advise them to put their existing vacation home on the market now to catch the spring busy season.

PHOTOGRAPHS BY ANDREW HETHERINGTON

SEATTLE  
-4.8%  
\$400,000

SACRAMENTO  
-7.5%  
\$250,000

TACOMA  
-2.0%  
\$258,000

FRESNO  
-7.9%  
\$218,000

OAKLAND  
-11.7%  
\$400,000

OXNARD  
-10.0%  
\$431,000

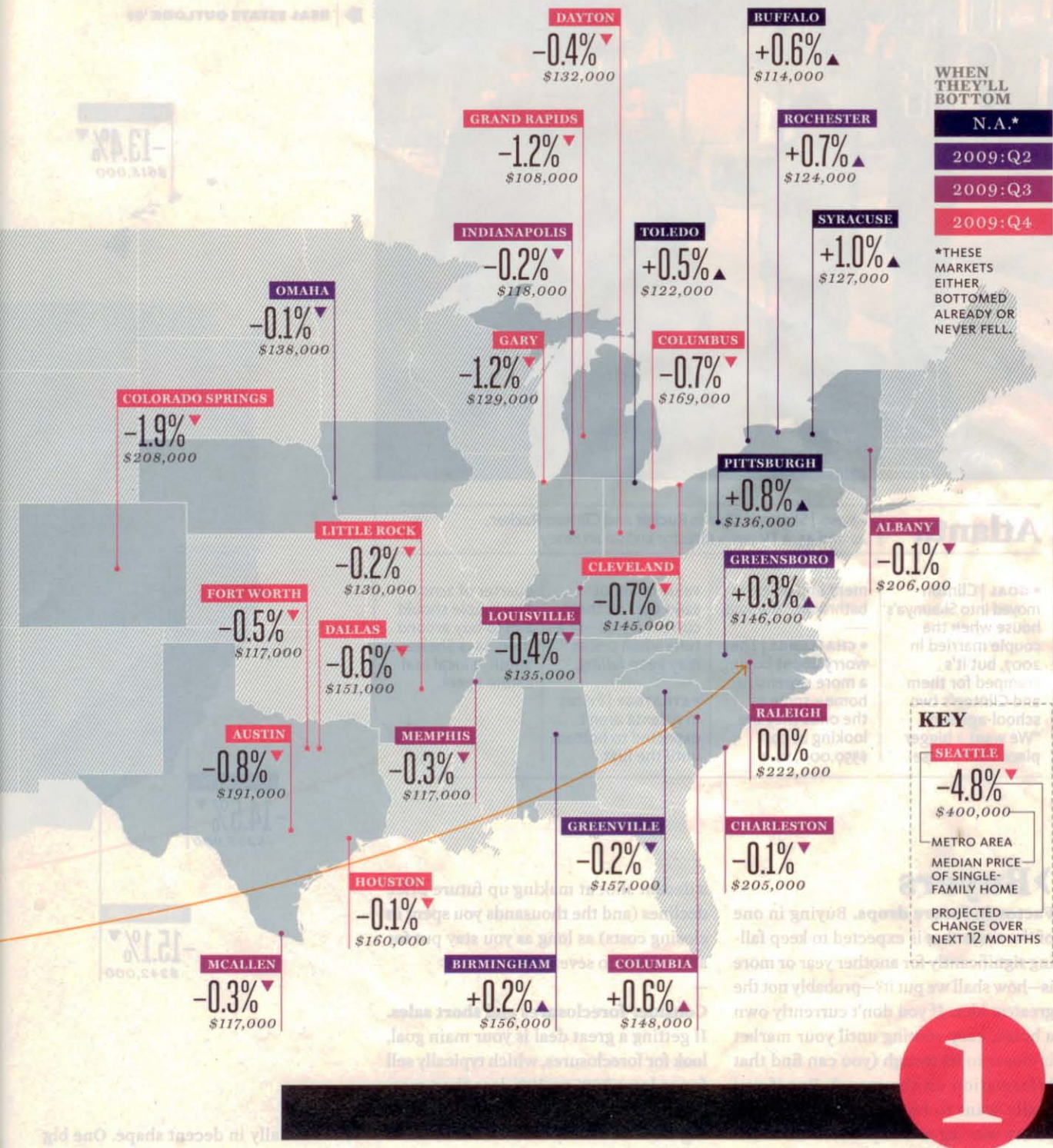
SAN FRANCISCO  
-10.0%  
\$755,000

BAKERSFIELD  
-7.6%  
\$185,000

SAN JOSE  
-4.7%  
\$600,000

SANTA ANA  
-9.6%  
\$515,000

SAN DIEGO  
-9.9%  
\$387,000

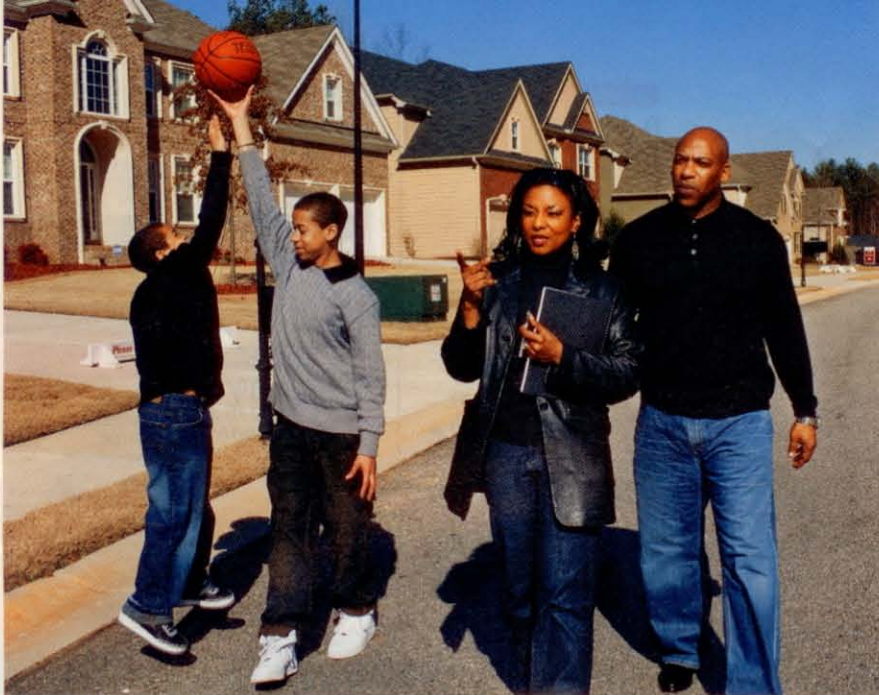


## RECOVERING FIRST

(BY THE END OF 2009)

Most of these areas (including many in the Carolinas, Ohio, and Texas) never saw a big price run-up, so their decline should be relatively mild. As for California, prices there fell early and fast, so they will probably bottom well before those in other hard-hit cities.

NOTES: The 100 largest markets determined using 2006 Census population figures; metro areas are generally labeled by the largest city in that area. Price data are for single-family homes through the third quarter of 2008, the most recent data available. Forecast change from first quarter 2009 to first quarter 2010. SOURCES: Fiserv Lending Solutions, Moody's Economy.com, Dutchess County Association of Realtors, Illinois Association of Realtors, Real Estate Center at Texas A&M University.



HONOLULU

-13.4%  
\$615,000

## Atlanta

• **WHO** | Shaunya Chavis Rucker and Clinton Rucker, 42 and 45, a TV news director and an attorney

• **GOAL** | Clinton moved into Shaunya's house when the couple married in 2007, but it's cramped for them and Clinton's two school-age sons. "We want a bigger place with a base-

ment and an extra bathroom," she says.

• **CHALLENGE** | They worry about buying a more expensive home—some of the ones they are looking at cost \$350,000, vs. a

value of about \$260,000 on their current home—at a time when prices may keep falling.

• **STRATEGY** | Prices in Atlanta aren't expected to bottom until the first

quarter of 2010. The couple should aim to buy around then, says Shelease Smith, a local real estate agent.

## ► Buyers

**Factor in future drops.** Buying in one of the areas that is expected to keep falling significantly for another year or more is—how shall we put it?—probably not the greatest idea. If you don't currently own a home, keep renting until your market is closer to its trough (you can find that information on the maps). But if you really want to buy now—for example, you're moving to a city where the available rental housing isn't appropriate for your family—aim to negotiate a deal that factors in this year's expected price drop. For example, if your market is forecast to fall 10%, bid at least 10% less than the home's current value. If the seller refuses, find another house (there are plenty). Even if you can't score a deal like that, you can console yourself that you'll have

a decent shot at making up future price declines (and the thousands you spent in closing costs) as long as you stay put for at least five to seven years.

### Consider foreclosures and short sales.

If getting a great deal is your main goal, look for foreclosures, which typically sell for at least 20% to 30% less than market value, according to foreclosure-listing website RealtyTrac. Because these homes are sometimes abandoned and stripped, get a contractor to make a free estimate of the time and cost of repairs, and make sure they won't wipe out the amount you'd save. Another economical option: short sales, in which bankers allow homeowners to sell for less than they owe. They can save you 10% or more. The seller typically still lives in the home,

so it's usually in decent shape. One big drawback: The process can take up to six months and can fall apart at the last minute. "If foreclosure is 30 to 40 days away, it's very unlikely that the short sale will happen first," says Glenn Kelman, CEO of Redfin, an online real estate broker. For more on short sales, go to [cnnmoney.com/realestate](http://cnnmoney.com/realestate) and click on "Snag a Great Deal on a Short Sale."

STOCKTON

-14.5%  
\$225,000

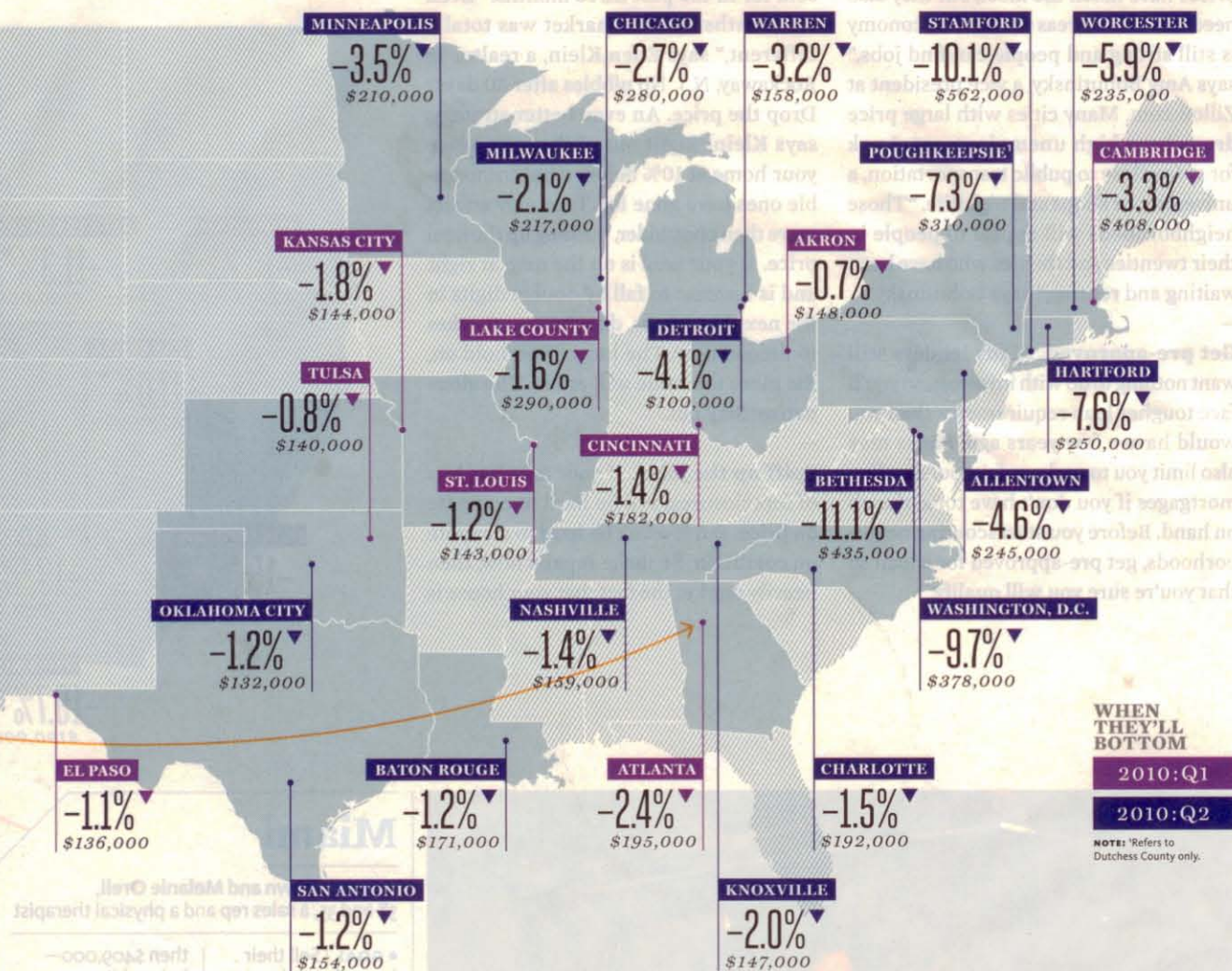
RIVERSIDE

-15.1%  
\$242,000

## RECOVERING NEXT

(IN THE FIRST HALF OF 2010)

Many of these areas bubbled somewhat but have already gone through most of their forecasted correction (such as Chicago and Minneapolis). Others are dragging, thanks to the economic downturn.



**Be smart about mortgages.** Today's rates—averaging 5.2% for a 30-year fixed loan—are steals. They'll probably hover in the 4.75% to 5.5% range all year, says Larson, so there's no need to rush to lock in. (Jumbo loans—those larger than \$417,000, or up to \$729,750 in certain high-cost areas—average 6.8% and are unlikely to close in on traditional rates this year.) However, because some lend-

ers are requiring more information today, it's taking longer (about 45 to 60 days) for banks to approve loans. To land the best rates with no extra costs, you'll usually need at least 20% down and a credit score of 720 or better. And to qualify for any mortgage, your total debt should eat up no more than 43% of your pretax income; your monthly mortgage, insurance, and taxes should total 31% or less.

## Investors

**Think tortoise, not hare.** Because prices have further to fall in most areas, forget about flipping. You're better off investing in, say, a vacation home, a future retirement home, or a rental property that you're planning to hold for a minimum of five to seven years. Otherwise you run a significant risk of losing money from future price declines, plus closing costs.

## RECOVERING NEXT (IN THE FIRST HALF OF 2010)

### Focus on location, location, location.

If you plan to rent out your purchase at some point, look beyond the deal. "Many investors are simply looking for where prices have fallen the most, but they also need to look for areas where the economy is still strong and people can find jobs," says Amy Bohutinsky, a vice president at Zillow.com. Many cities with large price drops have high unemployment. Look for areas close to public transportation, a university, or shops and nightlife. "Those neighborhoods will appeal to people in their twenties and thirties who have been waiting and renting," says Bohutinsky.

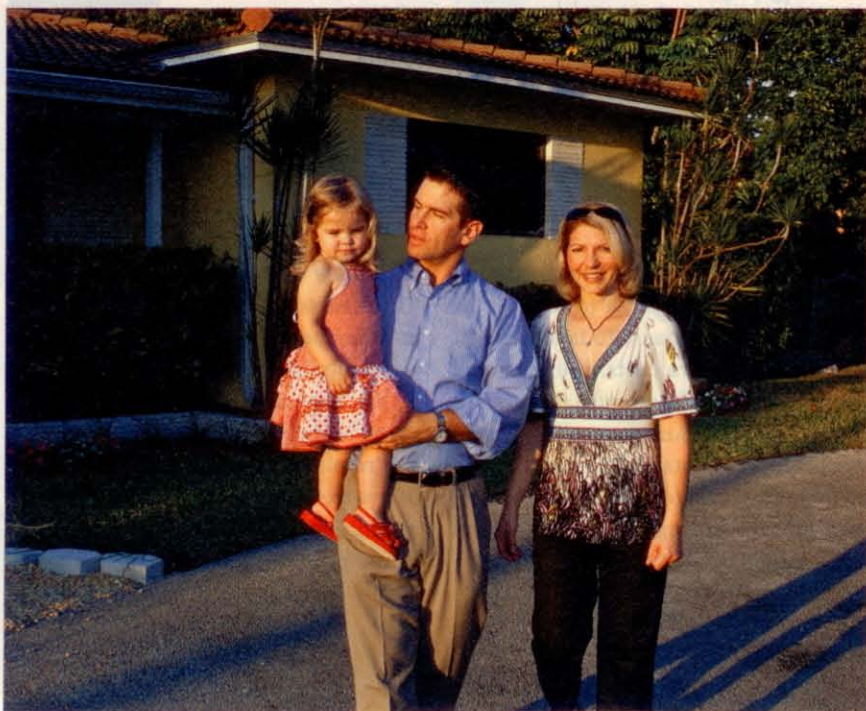
**Get pre-approved.** Many lenders still want nothing to do with investors, so you'll face tougher loan requirements than you would have a few years ago. Banks may also limit you to perhaps four outstanding mortgages if you don't have tons of cash on hand. Before you start scouting neighborhoods, get pre-approved for a loan so that you're sure you will qualify.

## Sellers

**Stop deluding yourself.** Ignore list prices and base your asking price on what similar homes in your area have actually sold for in the past three months. "Even six months ago the market was totally different," says Ellen Klein, a realtor in Rockaway, N.J. No nibbles after 30 days? Drop the price. An even better strategy, says Klein: Right out of the gate, price your home at 10% below what comparable ones have gone for. That may attract more than one bidder, pushing up the final price. If your area is on the map at right and is forecast to fall by double digits in the next 12 months, do whatever it takes to unload now. The longer you hold on, the more the value will erode. The alternative: Stay put.

**Spiff up the joint.** If your area has lots of foreclosures, it'll be hard to compete on price. But it won't be hard to compete on condition. So make repairs now, then heavily market the fact that your house is

**CNNMoney.com**  
For more data and projections on home prices in your area, plus continuing coverage of the real estate crisis, go to [cnnmoney.com/realestate](http://cnnmoney.com/realestate).



## Miami

**WHO** | Shawn and Melanie Orell, 38 and 35, a sales rep and a physical therapist

**GOAL** | Sell their house in the low to middle \$400,000s. That way, Shawn explains, "we can pay off our \$310,000 mortgage and still have enough for a down payment" on a bigger house for their growing family.

**CHALLENGE** | They listed at \$459,000 last fall, then cut the price to \$429,000,

then \$409,000—but no bites.

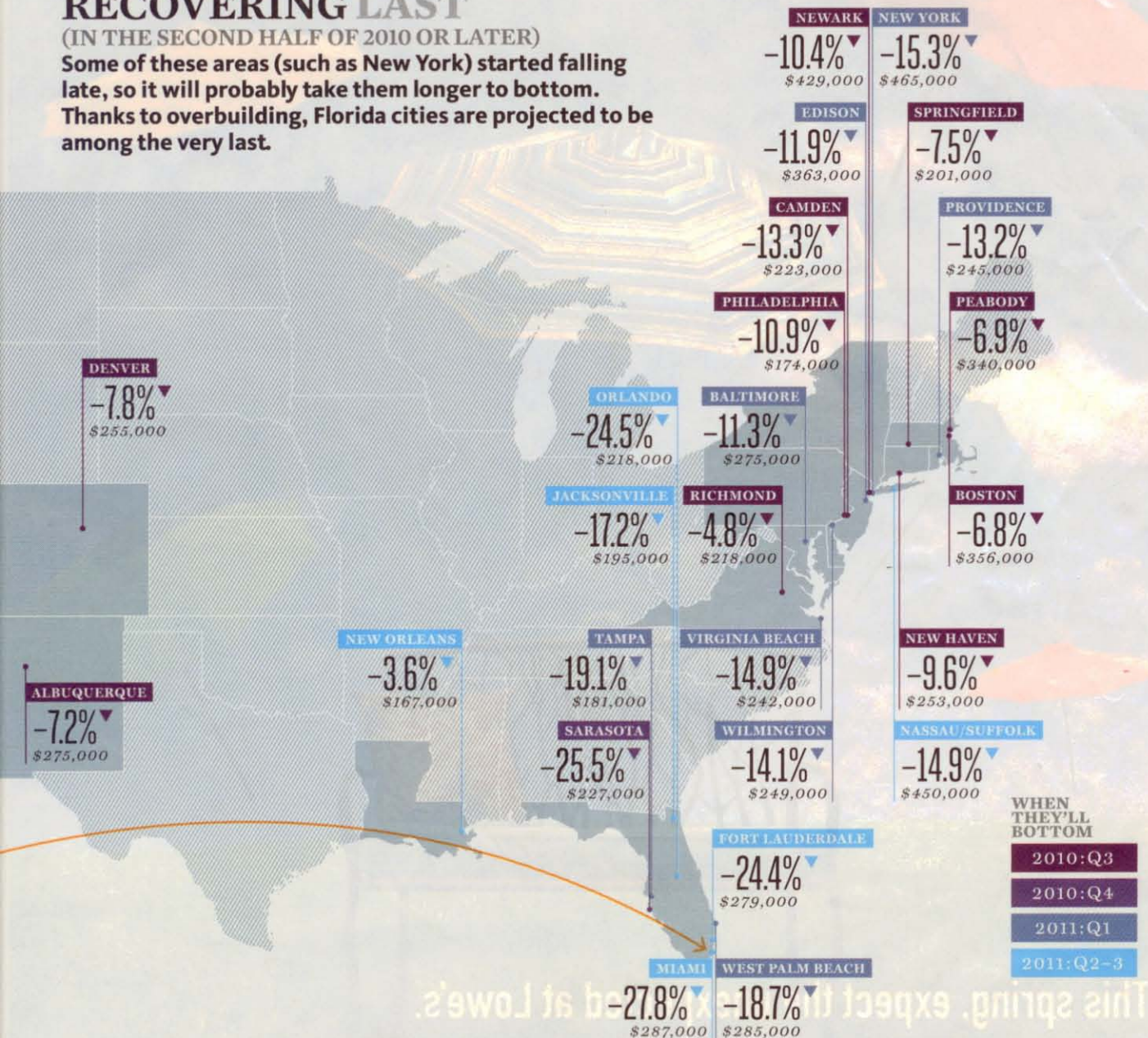
**STRATEGY** | The Orells should either stay put or immediately drop their price to whatever's necessary to unload the place, say realtors—then rent, save up a bigger down payment, and wait for larger homes to become more affordable.

## RECOVERING LAST

(IN THE SECOND HALF OF 2010 OR LATER)

Some of these areas (such as New York) started falling late, so it will probably take them longer to bottom.

Thanks to overbuilding, Florida cities are projected to be among the very last.



WHEN  
THEY'LL  
BOTTOM

2010:Q3

2010:Q4

2011:Q1

2011:Q2-3

move-in ready. Throw in a bigger commission to buyer agents so that they'll show it more often. Also advertise that you have a flexible closing date—even if it means you must rent until your next home is ready. That way buyers who must move in 30 days will know yours is an option.

**Get creative.** If you absolutely must move out soon and your home isn't selling,

consider offering a rent-to-own option, suggests Eric Mangan of ForSaleByOwner.com. A potential buyer pays you a monthly sum to live there. After a set number of months—say, six to 18—he either has the option to buy or is required to buy. You'll need to pay an attorney about \$300 to draft the contract. But at least you'll have money coming in each month to cover some or all of your mortgage payment.

No matter where you live, remember that a year can make a huge difference. If the forecasts prove true, by this time in 2010 about half the metro areas mapped on these pages will have stopped falling. The housing market—slowly, gingerly—will start reviving. At last! **\$**

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