Money

Posted 9/8/2003 1:48 AM Updated 9/8/2003 11:55 AM

Know the way the wind blows on home prices

By Thomas A. Fogarty, USA TODAY

Economists have been predicting wrongly for more than a year that the surge in home prices is about to moderate. The recent run-up in mortgage interest rates now gives everyone a reason to believe them.

Rising rates have home buyers and sellers worried about home prices.

By Tim Boyle, Getty Images

In a slowing market, home shoppers are at higher risk of buying at the top, taking on excessive monthly payments, and setting up for financial disaster when they go to sell for less than they paid.

Buyers have no surefire way to protect against paying a price today that will have them kicking themselves in a year or two. But in home buying, knowledge is power. And experts say a well-informed buyer can minimize the chance of diving into a frenzied market just ahead of a big crash.

Slower growth

Home prices have been increasing nationally at about the same rate as a year ago 7%-plus. But the rate of growth has been slowing in some local markets. Year-over-year increase in second-quarter median price in selected cities:

Metro area	2002	2003
Atlanta	5.2%	3.1%

Evidence is growing that the housing market nationally has peaked. The average interest rate on a 30-year fixed-rate mortgage is up by more than a full percentage point since June, and now stands at 6.44%. As a result, applications for purchase mortgages have softened. Industry forecasters generally agree that by the end of the year, the rate of sales will decline from its record, and home price growth, which has been running at 7%-plus, will slow by half.

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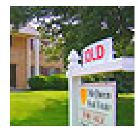

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Source: National Association of Realtors

Soaring expectations

In polling conducted just before housing market crashes in the late 1980s and early 1990s, home buyers expressed inflated expectations for appreciating property values. Polling this year in selected markets found buyers' expectations continue to soar. A look at how buyers, on average, think their property value will grow annually over the next 10 years:

	Orange County, Calif.	**San Francisco**	**Boston**
1988	14.3%	14.8%	8.7%
2003	13.1%	15.7%	14.6%

Note: Sample sizes range from 137 to 208 home buyers

Source: Economists Robert Shiller and Karl Case for the Brookings Institution

"In the near future, price increases will stall, even decline, in some cities," economists Robert Shiller of Yale University and Karl Case of Wellesley College concluded in a report this week to the Brookings Institution, a Washington, D.C., think tank. Most at risk, they say, are cities where home prices "have been frothy, notably cities on both coasts, and especially those cities that have weakening economies."

So if your boss tells you that you're being transferred to suburban New York City — which has been among the hottest markets in the country — what do you do to reduce the possibility of overpaying for a house?

Choosing an agent

All real estate commissions come from the seller's proceeds when the sale is closed. So there's no good financial reason for a buyer not to sign on with an agent to guide the home search.

When it comes to making an offer on a house, a good agent should have two things you don't: The most current data from recent sales of comparable property through Realtor-controlled multiple listing services, and local knowledge. By going to work every day, a good agent develops a sense when a hot neighborhood is cooling.

Chris Heagerty, general manager for eRealty in Austin, says buyers get better service when they work with a single agent rather than contacting different agents for each property on their shopping list. A written agreement between shopper and agent clarifies services that will be provided, she says.

But be aware of your agent's potential conflicts. The same real estate brokerage may be representing both you and the seller. The brokerage's first allegiance is to the seller, who, after all, is paying everybody's commission. That can compromise the advice you get on deciding how much to bid. Such built-in conflicts have given rise to realty firms that take no property listings and instead represent buyers only. They're worth a look.

If you're dealing with an agent whose brokerage deals on both sides of the transaction, be careful. At the time you make an offer to buy, you're depending mainly on the integrity of your agent to make sure your interests are protected.

Matters can get particularly difficult if you decide to make an offer on a house that your own agent has listed.

When that happens, Heagerty, whose firm represents both buyers and sellers, advises that an outside agent be brought into the deal. By having an outsider write and present your offer, your agent's conflict is minimized.

Find out about local markets

In mid-2002, the median price for homes in Bergen and Passaic counties in New Jersey was growing at 24.7% annually. By mid-2003, annual price growth had slowed to 7.1%. It's a handy thing to know for a buyer coming into that suburban New York market. But who's the custodian of such information?

In this case, it's the National Association of Realtors, one of three key trackers of local market price trends.

Here's what they tell you about local prices and how to find them on the Internet:

•**NAR.** NAR reports quarterly on changes in median prices — the sales midpoint — for more than 100 metro areas. The NAR data have weaknesses. Several big cities — Detroit and Cleveland, for example — don't report. And sometimes median prices shift because of the changing mix in the types of homes that are selling, not because prices are being bid up or down. Find the information at Realtor.org. Click "research," then "existing-home sales."

•**Office of Federal Housing Enterprise Oversight.** The federal agency analyzes records of 23 million home sales over 28 years to plot average price changes in more than 300 markets. Among its weaknesses: It expresses average home price as an index value, not a dollar figure. And because its sale records are from mortgage investors Freddie Mac and Fannie Mae, the high end of local markets is excluded from the calculations. Find the House Price Index at www.ofheo.gov.

•**Freddie Mac**. Economists at Freddie Mac dip into the same data as OFHEO and produce slightly different results. Find the Conventional Mortgage Home Price Index at freddiemac.com.

Checking out the house

When you've decided to make an offer on a house, there are a variety of ways that you — independent of your realty agent's recommendation — can estimate its worth.

One of the more mind-boggling applications of computer technology is something called an automated valuation model — AVM. They're a bit like the "blue book" for used cars, only for homes.

AVMs crunch data from millions of electronic records on sales history and physical characteristics of specific houses, and of recent sales in a neighborhood. A good AVM with access to sufficient data can produce an amazingly accurate estimate of current value for a specific address.

Because data for many properties are sketchy, AVMs express their degree of confidence — high, medium or low — for each estimate they spit out.

Free AVMs are available on the Internet, but the most reliable programs are marketed mainly to lenders and other real estate professionals. Subscription fees in many cases put them out of reach of one-time users like a home buyer. Ask your lender or realty agent to run a value check for you. Some of the good commercial-grade AVMs: Home Value Explorer, CASA, Home Price Analyzer or Home Value Calibrator.

One reputable AVM priced for consumer use is ValueSure, the program developed by Santa Barbara, Calif.-based FNIS. For $10, you can buy an FNIS value estimate at LendingTree.com.

Tax records, which many counties make available online, can be a reliable guide to the relative values of property in a neighborhood, says Steven Kropper, founder of realty Web site Domania.com.

So, when you're mulling an offer on a house, find five recent sales in the neighborhood. (Your realty agent, local newspaper listings or various Web sites, including Domania.com, can provide them.) Calculate the ratio of those recent sale prices to the properties' assessments for tax purposes. Then multiply the assessed value of the house you're bidding on by the ratio you've calculated for nearby houses.

Example: Five houses in the neighborhood sell for 1.2 times their assessed values. You're looking at a house with an assessed value of $200,000. Recent sales suggest a value of $240,000, or 1.2 times $200,000.