Opportunity on the Horizon: Is a Market Turnaround in Sight?

There's been a media frenzy this month over reports and forecasts about the spring-and-summer housing market. Will 2012 be the "year of the bottom," will we see a major rebound, or can we expect a double-dip recession? No one truly knows what to expect, but most experts are, as one commentator put it, "cautiously optimistic."

Here's why: Since 2007, home prices have dropped by anywhere from 35 to 55 percent nationally – but from 2010 to 2011, drops were much smaller than in the several years prior. Plus, home prices are actually increasing in more than half of major U.S. cities. Recovery after a major crash is always slow going, and location is everything in a variable market. But some experts predict that prices could stabilize in many parts of the country by the end of the summer – and from there begin a slow but steady ascent.

A balancing market
Supply and demand seem to be gradually coming into balance. So, is this good news or bad news for the average homeowner or buyer? Depending on your goals in the next couple of years, it could be either. But mostly, it's an improvement. A turned-around housing market reflects the state of the economy as a whole – if there are more home buyers, that's likely to mean an increase in jobs, and steadier incomes, and that's a good thing for everybody. But a sudden buyer boom could also mean rising prices and mortgage rates, less inventory, and more competition for the properties that are available.

Seeing higher prices and rates doesn't sound appealing, especially to those hit hard by job and income loss in the last few years, so let's put these "increases" in perspective: In the spring and summer of 2007, average interest rates for 30-year fixed mortgages from the major mortgage agencies were over 6 percent. Today's rates still sit around 4 percent or less, which means taking out a mortgage is less of a financial burden than it was even a few years ago. Additionally, the National Association of Realtors' (NAR) Housing Affordability Index – which is based on median home price, median family income and average mortgage interest rate – reached a record high this January.

Most authorities speculate that prices and rates will climb slowly over the next three-or-so years, by only a couple percentage points, which means many families who are recovering financially in 2012 will still have a shot at these historically low prices. If you're ready to buy this year, you might just find a winning situation if you have the right combination of vigilance, assertiveness, patience and luck. And if you're hoping to sell? Rising costs, even if they are slight, could mean a bigger return on your investment.

Buy, sell or wait?
Each city's economy can fluctuate based on countless factors, and it's worth it to get well-acquainted with the quirks and nuances of your local market, its housing costs, and the homes that are for sale. Individual factors like your own job stability, credit, savings and long- and short-term plans may be even more important in determining whether to move on an opportunity. If you're a prospective buyer, or looking to sell a home in this market, here are a few variables you might need to take into account:

1. Local market
First and foremost is your location. Each city's market is different – cities with strong and growing energy industries are turning around quickly right now, along with warm cities with large retiree populations and those where investors buy up a large amount of low-priced inventory. Other metros

might take a few years to catch up to these. Markets around the country will achieve the supply-and-demand balance at different times and in unique ways, since factors like local job availability and the speed of foreclosure processing vary from city to city.

2. Available inventory

Competition in local markets will vary greatly, depending on the homes available. Listings from builders, private parties and banks may include newly built homes, owned homes, short sales and foreclosures. Optimism in the housing arena has led to an increase in building this year, with new single-family home starts increasing 16.7 percent in the first quarter. Industry reports also say that low-priced houses are in high demand, for a few reasons: more jobs are available, so many first-time buyers who were unable to buy a couple of years ago may be ready to now, and low prices and foreclosed homes also attract investors. Those who do decide to buy may face some competition, and sellers should be prepared to deal with multiple – and, at times, creative – offers. For example, some recent home sale negotiations have included perks like turning over appliances to buyers, extending warranties, and accepting cash for furniture and other items.

With the huge amount of defaulted mortgages since the 2007 housing crisis, bank-owned properties are widely available and could be for the next several years. Although this fact raises concerns for sellers, who have had to contend with foreclosed homes driving down property costs, some experts believe that there are enough investors looking for cheap acquisitions to absorb the bulk of ill effects from a "foreclosure flood." Still, depending on the length of time it takes for lender inventory to clear – and some sources say it could take several years – this is an important factor to keep in mind.

3. Purpose

Lastly, the wise choice in your individual situation depends on the purpose of the purchase or sale. Are you hoping to make a quick profit? Find your forever home? Save more than you would paying rent? Fiserv, a financial technology provider that publishes home price indexes, predicts that the 2012 spring and summer selling season will begin with investors, and that first-time buyers and trade-up buyers will follow eventually. Investors who buy multiple properties might have the freedom to be a little riskier than families, especially those who are not sure where they want to stay for the long term. Even though mortgage payments go toward achieving equity and the interest may be tax-deductible, moving every few years can be much more expensive in the long run than renting, when you account for closing costs and interest paid.

Anyone's market

With home affordability at an all-time high and a positive outlook for the housing market, both buyers and sellers are watching with keen eyes for opportunities. Families on the verge of being able to buy a home might decide to take the plunge early based on the low cost of homes and the mortgage rates they can "lock down" this year. Sellers who are tired of holding onto houses, or those worried about losing even more value on their homes, may decide to cut their losses and list these properties – or, they might see the cost of homes in their areas rising and decide to try their luck on a larger return.

Determining how selling might impact your finances, or how much mortgage you can take on responsibly, can be tricky. Before purchasing or selling, it's a good idea to talk with a Mortgage Advisor about your assets and goals – so you'll be as prepared as possible to make a smart decision, regardless of the turns the market may take in coming months and years.