REAL ESTATE GUIDE 2014

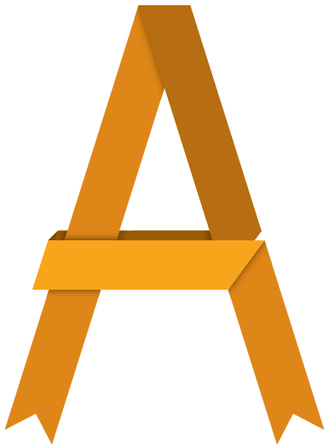
WHAT'S NEXT FOR YOUR TOWN

BY LISA GIBBS AND AMANDA GENGLER

After last year's dramatic comeback, the housing market is now getting back to "normal." But what does that big-picture forecast mean for the value of your home? Whether you're buying, selling, or just staying put, here's what you should know in 2014.

PHOTOGRAPHS BY CAMERON DAVIDSON

TAMPA
Impressive job creation and low unemployment rates are expected to drive up home prices in growing cities like Tampa this year.



After years of dramatic price changes and sales stats that have vacillated from red-hot to moribund and back again, you could be forgiven for forgetting what a typical housing market looks like. This year, though, you may finally be in for a refresher course.

Researchers are predicting an average price gain of 4.2%—respectable, but a far cry from the 11% average posted in 2013, according to data firm CoreLogic. At the same time, the shortage of for-sale homes should ease, as more would-be sellers get off the fence and construction of new houses continues to pick up.

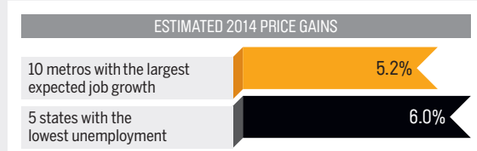
Of course, in reality no market is truly average. Some areas are predicted to grow at more than twice the nationwide rate, while a few will barely tick up. Then there's the specter of interest rate hikes, which could hit some places harder than others. To sort out what you can expect, MONEY zeroed in on four common types of markets, each with its own quirks. We'll help you determine which one most closely fits your area, and what moves you should make in 2014.

TAMPA
Prices in this Florida job center are expected to climb at nearly twice the U.S. average.

WHERE EMPLOYMENT—AND PRICES—WILL RISE

METRO AREA	EST. 2014 JOB GROWTH	EST. 2014 PRICE GAIN
Fort Worth	2.7%	8.9%
Baltimore	2.4%	8%
Salt Lake City	2.4%	6.3%
Tampa	2.3%	8%
Indianapolis	2.2%	6.6%
National average	1.8%	4.2%

Markets with good jobs stats will top average appreciation.



NOTES: *All projected price increase data throughout the story for Q3 2013 through Q3 2014. Job growth for 2014. Unemployment as of Dec. 2013.* **SOURCES:** *CoreLogic, Moody's Analytics, BLS*

BOOMING GROWTH CITIES

Areas with strong job growth and swelling populations should post big gains this year, says CoreLogic chief economist David Stiff. This may sound like common sense, but it hasn't always been the case: In 2013 the largest price increases were in places that attracted investor buyers, who were drawn by good deals, not good jobs.

For sellers living near major employment hubs or in mushrooming technology hotspots, 2014 is shaping up to be a good year. Buyers, though, will face higher prices and fewer available homes, due in part to competition from relocating workers. In job-creation juggernaut Fort Worth, for instance, there's now just a three-month supply of homes on the market (in January the U.S. average was nearly five months).

HOW YOU'LL KNOW: Check local stats at bls.gov/eag. Look for upward trends in the number of new jobs and a falling unemployment rate that's lower than the national average (6.6% in January). To see if your town is headed the way of Fort Worth, compare your area's "median age of inventory" numbers on Realtor.com's Trends page with the U.S. average (115 days in January). A lower number is a sign of a tight market.

BUYERS

BE A CREATIVE SHOPPER. Sign up for immediate new-listing alerts from your multiple-listing service, realtor, and sites like Zillow, which includes for-sale-by-owner houses that may not show up elsewhere. Zillow also has Make Me Move listings: homes that aren't currently for sale, but where owners have posted a price they'd consider.

Can you afford a premium of 10% to 15% over an existing house? You may also be able to dodge competition by shopping for a new home. A caveat: Most builders are postponing construction until they have a buyer, so you won't be able to move in for at least four to six months, says Stephen Melman of the National Association of Home Builders.

BE MINDFUL OF RATES. The average interest rate on a 30-year fixed loan is predicted to climb from the current 4.4% to 5.3% by the 2015 spring buying season, according to Freddie Mac. For a $250,000 loan, that means that a borrower who waits would pay $136 more per month and an additional $49,090 in interest over the life of the loan. Will you need a big loan? Better to act soon before rates tick up.

GO BEYOND A PRE-APPROVAL. Stand out by collecting all your paperwork and going through underwriting before you shop. "That's almost as good as cash," says Betty Taisch of the San Francisco Association of Realtors. After you make an offer, ask your lender to call the listing agent to confirm you're ready to go.

DON'T GIVE UP IF YOU LOSE A BIDDING WAR. Deals can fall apart, so check in with the listing agent weekly until the sale closes. "It is a great way to sneak in with little competition," says Taisch.

SELLERS

DON'T GET GREEDY. Better to price low and receive multiple bids than aim too high and have to cut. Use the past three months of sales data to find a good number.

MULTIPLE BIDS? To increase chances of a smooth sale, you or your listing agent should call each buyer's lender to verify that he has been vetted and can move quickly. With inventory tight, you may also want to negotiate to stay in the home for a month or two until you've found a new place.

OWNERS

PRICE A REMODEL. Like your neighborhood but ready for an upgrade? Look into renovating before you consider a move. Get bids from at least three contractors to assess the cost of improving your current home (see page 59). Then compare that figure with the price of relocating. Selling a $350,000 home, for instance, you'd pay $21,000 (or 6%) to your agent—and that's before closing and moving costs. For that, you could redo a master bath or upgrade a kitchen.

UPSCALE NEIGHBORHOODS

Do you live in one of the tonier areas of your city? Here's good news: It should be easier to sell this year. With jumbo rates now closer to those of conventional loans, and buyers more confident, sales volume for expensive houses is on the upswing. In January the number of U.S. homes selling for $500,000 to $750,000 picked up 15% vs. a year earlier, compared with a 6% drop for $100,000 to $250,000 homes, according to the National Association of Realtors. The time it takes to sell is also falling in many areas. In Denver, for one, $500,000 homes were on the market 12% fewer days in January of this year than in the same period in 2013.

Prices for high-end homes rose less than those on the low end last year, but that's likely to change soon, says CoreLogic economist Sam Khater. A jump in sales is typically followed by price increases, he says.

HOW YOU'LL KNOW: To find out if your home is in the top tier, check Zillow's Local Info page for your town. There you'll find the median home values for the low, middle, and top price tiers in your market. Then, gauge the strength of your specific tier by asking your agent for the inventory and days-on-market stats for homes in your range.

BUYERS

TIME IT RIGHT. Want a more expensive home? Buy now before prices climb. However, if you live in a pricey house but are looking to downsize to something less expensive, it may be worth waiting for your current home to appreciate.

LOOK AT JUMBOS. Will you need a large mortgage (typically more than $417,000)? The premium over what you'd pay for a smaller loan, which grew as wide as two full percentage points during the bust, has shrunk to next to nothing. Today rates on jumbos average 4.43%, vs. 4.42% for smaller loans, thanks in part to growing competition among banks. Big banks often offer the best rates and options on these types of loans, says Keith Gumbinger of mortgage publisher HSH.com.

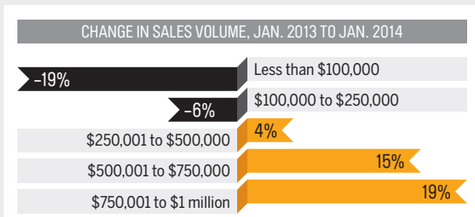
DON'T DISMISS ARMs. A five-year adjustable rate for a jumbo averages 2.93%. While rising rates are a very real risk, ARMs at least deserve a look if you're taking a big loan, says Gumbinger. On a $650,000 loan, you'd save $47,775 on interest during the first five years (vs. a 30-year fixed), and gain an extra $14,745 of equity. If you're planning to sell soon after rates reset or are confident you can handle a spike in your payment at the end of the adjustable period, you may decide the gamble is worth it.

BUY FOR THE FUTURE. Nearly 25% of owners regret the size of the home they picked, according to a Trulia study. With prices expected to climb, high-end homes are likely to be more affordable than they will be in the future, so think about how much space you'll need in the coming years and buy appropriately.

DON'T GO IT ALONE. A recent study found that buyers of homes priced at more than

PRICEY HOMES PICK UP

Sales of expensive properties are on the rise.



NOTE: All data are sale prices. SOURCE: NAR

DENVER
In the Mile High City, sales of homes priced at $500,000 or more spiked 65% this January vs. last.

TABLET BONUS
See homes for sale in each type of market.

Ready to Renovate? Here's the First Move You Must Make

Booking a good contractor is harder than it's been in years. Follow these steps to land the right pro at the best price.

When the real estate market was in the dumps, snagging a great contractor was a simple task. With few people remodeling, no project was too small for hungry pros, many of whom were bidding at 10% to 40% below their boom-time rates.

Those days are gone. Remodeling spending is now up 30% from its low point, and single-family construction spending has doubled. Depending on where you live, a project that cost $50,000 in 2010 might now come in at $60,000 to $70,000. "Materials costs are up, much of the skilled labor pool has jumped to the oil and gas industry, and contractors' phones are ringing," says Bernard Markstein, U.S. chief economist at Reed Construction Data. To get the best help, you'll need to be strategic.

START WITH REFERRALS

Begin by polling friends and tradesmen, and tell the contractor who pointed you in his direction. Using a referral will do more than just ease your mind—it will also make you a priority for the pro, who wants to keep his clients and subcontractors happy.

DON'T BE VAGUE

When you reach out, show that you've put careful thought into the project by expressing a clear vision of what you want to accomplish and a sense of what you can spend. "Bidding on a job takes about a dozen hours," says Boston renovation consultant Bruce Irving. "He's not going to bother unless he thinks you're serious."

GET HIS OPINION

When a contractor comes to see the job, don't jump right into discussing price. First ask for his input on the plan and on any initial sketches your architect has put together. This shows you value his knowledge and don't just see him as a nail-banger. Plus, his answers will show you how he thinks—and whether you want to hire him. Is he channeling what you want? Great. But if he suggests lazy solutions or pricey add-ons, move on.

NOW NEGOTIATE

Solicit bids from three or more contractors. Be sure to stoke competition by letting them know that you're gathering multiple offers. Skip any bids that are wildly high or low. Should your first choice still be over your budget, haggling is risky: He'll probably either walk or cut corners on the project. Instead, let him know how much he's over, and ask for some suggestions on how he might tweak the job to lower the price with minimal impact, says UCLA law professor Russell Korobkin, a negotiation specialist. Remember to hold out a contingency of 10% to 20%, since many remodels mushroom over the course of the project.

BE FLEXIBLE

This is also the time to nail down scheduling. Ask him for approximate start and end dates. But don't press too hard. For a top contractor, at a fair price, you may to have to wait a bit.

—Josh Garskof

$300,000 are more likely to try to negotiate the deal themselves than buyers of more moderately priced properties, says co-author Bennie Waller, professor of finance and real estate at Longwood University. It doesn't end well: The DIYers end up paying an average of 9% more than those who use their own agent.

SELLERS

PRICE CAREFULLY. With sales of higher-end properties picking up, homes are increasingly "stigmatized if they stay on the market too long," says Judson Henderson, a broker in Princeton, N.J. Overprice, and your place could be the one with the black mark. If you're unsure, pay the $500 or so for an appraisal. Also, if your home is older than 20 years, get an inspection to make sure your structure is sound, and your HVAC, plumbing, and electrical systems function smoothly. Fix whatever's on the fritz. "You don't want people feeling like the house is a project," says Henderson.

MAKE YOUR LISTING TECH-FRIENDLY. Most shoppers, and particularly those in the market for upscale houses, will be looking at your home on phones and tablets, says Amy Bohutinsky, chief marketing officer at Zillow. Photos on these gadgets need a higher resolution than what's required by a desktop. Check your listing on a mobile device to make sure it looks great. Some buyers may look at photos of your home on Google, so you should do the same (type your address into the map search, then click on the Street View tab). If the photo is outdated or taken in winter, note that in your listing.

HIGHLIGHT THE RIGHT FEATURES. According to a study by the National Association of Home Builders, buyers who expect to pay at least $500,000 today put warming drawers, wine fridges, and outdoor kitchens high on their wish lists. If your home has these or other unique selling points, mention them in your listing.

OWNERS

RENOVATE SOONER, NOT LATER. Don't let dated features drag down the value of your home. Owners thinking about remodeling have good reason to act now. Quality contractors, already busier than they have been in recent years, are likely to get even tougher to snag. Then there's the issue of rising rates, which would push up the cost of new home-equity loans and most lines of credit.

ATLANTA
Investing has continued to pick up in neighborhoods where foreclosures and other bargains are still on the market.

NEW INVESTOR FAVORITES

Investors are draining out of formerly foreclosure-torn cities like Phoenix and Las Vegas, but that doesn't mean they're abandoning real estate altogether. Instead they're relocating to cheaper, less competitive locales, a trend that's expected to continue. Areas with a median home price of $195,000 or less will be major draws, says RealtyTrac's Daren Blomquist. But once the buying starts to pick up, don't expect prices to stay that low.

HOW YOU'LL KNOW: Check Realtor.com's Trends page to see whether your city fits the price profile. Foreclosures are another indicator. Compare the number of homes in all stages of foreclosure with for-sale listings in your city on the Stats & Trends page of RealtyTrac.com (enter your city in the box). Areas with at least a 1:1 ratio are likely to draw investors, says Blomquist.

WHERE DEAL HUNTERS ARE FLOCKING

METRO AREA	INVESTOR PURCHASES		EST. 2014 PRICE GAIN
	JAN. 2013	JAN. 2014	
Baton Rouge	2%	16%	5.1%
McAllen, Texas	3%	11%	5.3%
Cincinnati	7%	12%	4.0%
Greensboro, N.C.	7%	12%	6.9%
Atlanta	23%	25%	5.3%
National average	8%	5%	4.2%

Real estate speculation has tapered off in some areas but is still ramping up in others.

INVESTOR SALES IN THE LARGEST 100 MARKETS, JAN. 2013 VS. JAN. 2014

NOTE: Investor purchases data are for investors buying 10 or more homes. SOURCES: RealtyTrac, CoreLogic

BUYERS

AVOID THE BIG GUYS. Shoppers looking for a property priced at $200,000 or less will most likely be competing with investors. One way to go around them is by searching Fannie Mae foreclosures at homepath.com. Non-investor buyers have dibs on these listings for the first 20 days. New construction is another good bet. Investors are after deals, and builders won't negotiate. To find developments, narrow your search on sites like Realtor.com and Trulia to "new home communities."

GET THE RIGHT HELP. A creative, aggressive agent can also help you find the right home before cash-toting investors swoop in. Ask candidates to walk you through their tight-market tactics. Find out whether they offer services like direct-mail solicitation (entreaties to sell that are sent to homes in your preferred neighborhoods), says Denver real estate agent Ron Buss. Also ask whether he has any current "pocket listings," for-sale homes that haven't been entered into the MLS.

ASK IF IT'S A FLIP. Some investors look for cheap out-of-shape homes, do a quick fix, and throw them back on the market. While that's not necessarily a bad thing, it's worth finding out whether a home has been flipped so that you can vet the renovations carefully. Any house sold in the past six months qualifies (check the property records on your local appraiser's website). To guard against poor-quality work, ask for a list of all recent repairs and flag them for your inspector, says Brandon Turner, editor of investing website BiggerPockets.com.

BE PREPARED. When you need a loan and competition is all-cash, you'll need to top the liquid offer by at least 5%, says Zillow blogger Brendon DeSimone. As in the growth markets, you should also prove to sellers that you're ready to act by going through underwriting before you shop. Finally, get personal: Write the seller about your plans to live in and care for the house.

When Wall Street Becomes a Landlord

First the pros snap up cheap houses. Then come new ways for you to invest in them. Be careful.

The stronger-than-expected housing recovery—a 20% rebound since 2010—owes a lot to the investors who swept into recession-ravaged cities and scooped up distressed homes. Nowhere has that been truer than in the suburbs ringing Atlanta, where rampant overbuilding and economic woes produced a flood of foreclosures. At the same time, the local rental market couldn't absorb all the displaced owners. That combination proved irresistible to mom-and-pop investors, whose all-cash purchases stabilized the market: Atlanta home prices rebounded from a 12.7% decline in 2009 to flat in 2010.

Then Wall Street came to town. This second wave of housing investors is spending billions to flip foreclosures into single-family rentals. In January one in every four homes sold in Atlanta went to a large investor, four times the national average, says RealtyTrac. "They're coming from all over, even out of the country," says Atlanta agent and property manager Scott Goeber. In June 2012 the Atlanta office of real estate manager Waypoint Homes was "me and my cellphone," says regional director David Zanaty. By last fall he had hired 50 people and bought 600 homes, and hoped to own 1,500 by March.

Large investors are swarming local markets. Real estate powerhouse Blackstone has spent $8 billion to buy 43,000 homes nationwide. American Homes 4 Rent has spent $3.5 billion on 21,700 homes. Now these buying sprees are being converted to investments.

Since December 2012, four single-family home real estate investment trusts, similar to REITs that own apartment buildings or shopping centers, have opened up to individual investors. American Homes 4 Rent's (AMH) is the largest; most recently Waypoint merged with the home-rental division of Starwood Property to form a REIT that owns close to 5,800 homes (SWAY).

Plus, a new breed of bonds, which bundle rents from single-family homes, is being peddled to institutional investors, such as pension managers or mutual funds. Last October, Blackstone rolled out a $479 million bond backed by 3,207 homes in five states. Deutsche Bank estimates that another $5 billion in home rental bonds will hit the market this year.

So far investors have not been enthusiastic. Some of Blackstone's bonds are selling below the offer price, and most of the REITs have underperformed their index. The business model is too new, says Brad Thomas, editor of *iREIT Investor.* The biggest firms expect to generate 5% to 7% a year in return from rents, according to a Bank of America report. But that hinges on keeping down the cost of maintaining far-flung homes. "If a toilet breaks, you've got to send someone to fix it," Thomas says. "It's difficult to do that efficiently. In an apartment complex, a property manager can walk the building."

And REIT investors shouldn't count on big price gains. "It's unproven how their asset value will grow in a more normal market," says Forward Real Estate Long/Short manager Ian Goltra. Plus, the REITs have been plowing capital into buying homes, not paying big dividends. And yield is a big reason to own REITs, notes Goltra. Top apartment REITs currently pay more than 4%. The highest available yield in a single-family rental REIT is 1.2%. "It's early days," says Goltra. "For now, they're too risky." —*L.G.*

How many houses Wall Street firms own
98,800

4 New single-family home REITs

Highest yield you can earn **1.2%**

4% Average REIT yield

SOURCES: *The companies, NAREIT*

If you're lucky, the owner may prefer to sell to a person rather than to a company.

SELLERS

DECIDE ON YOUR BEST BUYER. Do you want the highest price possible for your home—and don't mind waiting to get it? A traditional buyer won over by a great school district and excellent staging is more likely to negotiate and will often end up paying more, says Alex Sifakis, president of a Jacksonville investing firm. On the other hand, selling to an investor means "fast, hassle-free" cash deals in exchange for a discount, he says. You won't have to worry about curb appeal or repairs; investors buy a home as is.

DON'T WASTE YOUR TIME. Sometimes inexperienced investors can't pull off a deal. To reach out to an established firm, contact your local realtors association for reputable names. Look for companies that have been in business for at least two years.

OWNERS

Sit tight and let your home appreciate. That applies even if your home is worth more than $200,000; investors tend to nudge up prices wherever they buy, and the value of your property should benefit from a trickle-up effect.

LAS VEGAS
The poster city for last year's recovery has finally seen price growth cool. An average gain of 5% is expected for this year.

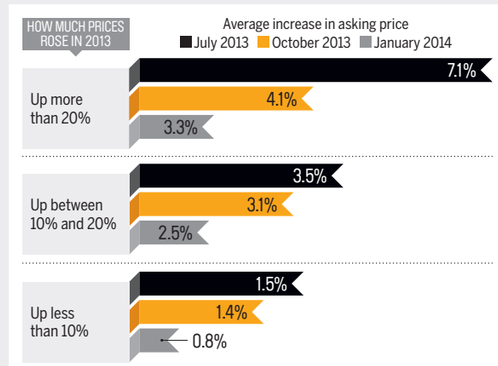
ONCE HOT, NOW NOT

During the past couple of years investors swooped in to snatch up deals in cities clobbered by the crash, driving up prices. But with that low-hanging fruit gone, these markets are now cooling off. In 2014 they should see less impressive price hikes and far more homes for sale. And if rates rise, these areas could get even flabbier, since last year's price jumps put many homes out of reach for locals.

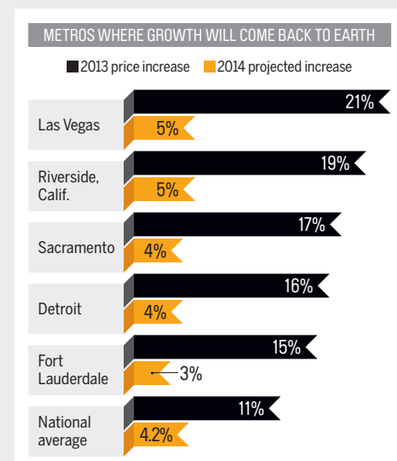
HOW YOU'LL KNOW: Your first clue is the amount that area home values increased in 2013. Look at Realtor.com's Trends page: Anything over 15% is in the pocket. A big jump in the number of homes for sale is another giveaway. (Think Sacramento, which saw December available listings spike 58% from a year earlier.) Check the page's Total Listings column to see whether your area has had a similar increase.

THE COOLING EFFECT

The slowdown is most dramatic in areas that took off last year.



SOURCES: *Trulia, CoreLogic*



BUYERS

TAKE YOUR TIME. While most of these areas aren't quite a buyer's market, you'll have more choices and power than last year, so don't rush into a place you don't love.

ASK FOR EXTRAS. You may want to build in a clause that says your offer is contingent on your ability to get financing or to sell your current home.

BID LOW. When markets start to slow down, sellers get nervous—and pliable, says Los Angeles agent Connor MacIvor. Ask your realtor to send you listings where the price has been cut. Those sellers are the most eager, says MacIvor; set your bid at 8% to 10% under asking.

SELLERS

COURT BARGAIN HUNTERS. A year ago Phoenix sellers could price above similar listings and still get 10 bids in the first week, says agent Greg Markov: "Not anymore." Now you want your house to look like a deal, he says. Check current asking prices for comparable homes, then price your house near the bottom of the range. Two weeks and still no offer? Cut it by 5%.

MAX OUT YOUR LISTING. Choose an agent that offers pro photos. Homes that have them sell faster and for up to 3% more, according to Redfin. Go beyond Realtor.com, Trulia, and Zillow by posting your house on Craigslist. Make sure that your agent is promoting it on Facebook, Twitter, and Pinterest. Creating a video for your listing (or to post on YouTube) is another option; 12% of sellers tried it last year, says NAR. If you go that route, walk the camera through the home, since buyers want to see the layout, says Princeton, N.J., broker Henderson.

FIRST IMPRESSIONS COUNT. With more competition for buyers, the focus on curb appeal and staging is back. Be sure your front yard looks neat, pressure-clean the roof, and repaint your front door. Inside, eliminate all clutter. A professional stager can suggest paint colors and lighting and furniture arrangements that will help your place look its best; a two-hour consultation typically costs $150 to $400, according to contractor referral site Fixr.com.

OWNERS

DON'T PANIC. This isn't another bust: Your home will still appreciate. In fact, CoreLogic predicts that prices in last year's hottest 20 markets will rise at an average annual rate of 3.7% through 2018, vs. 3.1% nationwide. Keep those numbers in mind if you're thinking about remodeling. Smaller projects that bring your home in line with your neighbors' will pay off, but you're unlikely to see big enough gains to justify a massive renovation. M