

# Home Buying, or Selling, in a Falloff

After hurtling along for years, the nationwide real-estate boom has come to a screeching halt. In 2005, home prices in the U.S. rose more than 12%; this year, the National Association of Realtors expects appreciation to reach just 1.9%—the lowest gain since 1992.

Rising mortgage rates and sell-offs by skittish real-estate investors have helped depress housing prices in many metropolitan areas. But there's another factor that many observers miss: the relationship between home prices and incomes.

When the cost of housing in a given area grows far faster than local wages and salaries, the pool of potential buyers shrinks, and prices are much more likely to sink.

For the past five years, SmartMoney magazine has worked with Ingo Winzer, president of the consulting firm Local Market Monitor, evaluating home-sale prices against local income to determine whether a given market is overvalued, undervalued or fairly valued. Mr. Winzer relies on more than 15 years of housing and income statistics to find out where prices are headed.

According to Mr. Winzer, any market that's more than 30% overvalued is due for a correction. In the fall of 2003, only eight markets on the list of 152 fit that description; on this year's list, 37 did. Sure enough, price decreases are beginning to pop up in many of the markets that have shown up year after year as the most overvalued—especially in Florida and California.

What to do if you're in a falling market? Obviously, that's a promising climate for a bargain-hunting buyer. A savvy real-estate agent can help you craft a bid that's low enough to save you money, but realistic enough to be accepted. When one of Frank Borges Llosa's clients finds an appealing home, the Northern Virginia broker searches the history of the selling agent—data not available to consumers—on the local multiple listing service. If the agent frequently sells below the asking price, Mr. Llosa knows he can be aggressive.

Listing archives can also help buyers figure out the right bidding range. Ask your agent to comb the MLS for "pending sales," deals that are in contract but haven't yet

closed, to get an up-to-date sense of price ranges in your market.

In an ideal world, you wouldn't sell a house at all while prices were falling. But if you must, experts agree that it's best to act quickly, before prices slide further.

Often, that means gritting your teeth and offering the best price to get potential buyers in the door. Here again, getting your agent to tap pending-sales data can pay off. Pay attention to the pricing per square foot for homes similar to yours, and set your asking price at the bottom of, or even below, that range.

South Florida broker Mike Morgan recommends that his clients take 1% to 3% off the price every week until they get an offer.

Another way to motivate a potential buyer: Motivate his broker. In a typical sale, a commission of 6% is split evenly between the buyer's and seller's agents. But you can ask that a higher percentage go to the buyer's agent, or even offer extra money out of your own pocket, so that she'll steer customers your way.

David Lereah, chief economist of the National Association of Realtors, expects that nationwide prices will bounce back in 2007.

He adds that one-third of the country is primed for growth—a claim that Mr. Winzer's research supports. And if you don't have to sell your home, the short-term tur-

## Over, Under, or About Right

A sampling from U.S. markets of average home prices this year and the categories they fall into: overvalued, fairly valued, or undervalued

	AVERAGE HOME PRICES (\$THOU)	PERCENTAGE OVER/UNDERVALUED
<b>OVERVALUED</b>		
Riverside-San Bernardino, Calif.	\$370.9	+74%
San Diego	502.0	+60
Sacramento, Calif.	377.9	+51
Phoenix-Scottsdale	307.3	+46
Providence, R.I.	315.6	+24
Salt Lake City	231.0	+22
Myrtle Beach, S.C.	236.9	+20
<b>FAIRLY VALUED</b>		
Chicago	287.8	+14
Richmond, Va.	250.4	+10
Trenton, N.J.	331.4	+9
Tallahassee, Fla.	229.9	+9
Albuquerque, N.M.	215.4	+8
Minneapolis-St. Paul	262.2	+6
Milwaukee	226.5	+3
Springfield, Mass.	232.2	-1
Winston-Salem, N.C.	176.1	-8
Knoxville, Tenn.	175.2	-9
Raleigh-Cary, N.C.	211.7	-9
Peoria, Ill.	137.3	-11
<b>UNDERVALUED</b>		
Dallas	164.9	-18
Des Moines, Iowa	173.5	-16
Buffalo-Niagara Falls, N.Y.	146.9	-2

For a list of 152 housing markets, see the December issue of SmartMoney magazine.

moil underscores the point that it seldom makes sense to obsess over your home's value the way you'd obsess over, say, your Google shares. Better to sit back, enjoy your mortgage-interest tax deduction, and wait for better days.

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