

Mastering the New Real-Estate Rules



The housing market is getting hot—and that is changing the game for both home buyers and sellers.

In many cities, including those hard hit by the downturn, bidding wars are breaking out and winning offers often exceed the asking price. A relatively low inventory of homes for sale is feeding the scramble.

Existing-home sales were up 13% in May compared with the previous year, reports the National Association of Realtors, and the median home price was up 15%, to \$208,000, the biggest jump since October 2005. Average home prices for the S&P/Case-Shiller 20-city index, reported Tuesday, were up 12% in April over a year ago.

For first-time buyers and those eager to move up, it could be a good time to buy. Prices still are well below the mid-2000s highs. Interest rates have shot up, but they remain low by historical standards. The average rate on a 30-year fixed-rate mortgage jumped 0.53 percentage point to 4.46% for the week ended Thursday, up from 3.35% in early May, according to Freddie Mac's weekly survey. Until 2009, rates were above 5% going back to the early 1970s.

Initially, rising rates could drive potential buyers into the market before mortgage costs climb more. But if rates continue upward, they could help put an end to the boom.

While an active market can be good for both buyers and sellers, a sizzling market poses challenges. In some areas, real-estate agents have been accused of holding back choice homes for sale from the Multiple Listing Service database so they can market them first to their own clients. Bidding wars can leave potential buyers feeling bruised and frustrated. And climbing home prices mean appraisals might come in below the agreed-on price.

Here are some tips for navigating this evolving market:

◆ **Cash matters.** It helps to have a bundle of cash to get the home you want. Down payments today range from 3.5% for a loan backed by the Federal Housing Administration to as much as 40% for homes over \$1 million.

A typical down payment on a regular mortgage is 5% to 10%, says Bob Walters, chief economist at Quicken Loans. Buyers who need a "jumbo" loan—or one bigger than \$417,000 or \$625,500, depending where you live—might have to put down 20% or more.

If the lender's appraisal of the home falls short of your

purchase price, the buyer and seller must negotiate whether the seller will reduce the price or the buyer will pay the difference in cash—or some combination of the two.

◆ **Get prequalified.** Mortgage lenders still carefully scrutinize borrowers' ability to repay their loans, and sellers might be leery of bids that are contingent on getting financing. Potential buyers will be more attractive if they already have qualified

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for a loan, even in calm markets, like Connecticut, says Terence Beaty, director of the new-homes and land division at Prudential Connecticut Realty, based in Wallingford, Conn.

That means picking a lender and providing pay stubs, bank and brokerage statements and, for those who are self-employed, tax returns. Generally, you will need a credit score of at least 640 to get a mortgage, says Greg Gwizdz, executive vice president at Wells Fargo Home Mortgage, the nation's largest residential lender—and it will need to be higher if you want the best rates.

You won't be able to lock in your interest rate until you have a contract. Given that rates have been climbing, ask for a rate that can be locked in for 30 to 45 days at no additional cost.

◆ **Get a connected real-estate agent.** Bypass your sister's old roommate and pick an agent who knows the neighborhood well. That person should know about homes about to come on the market or for sale but not in

the database (sometimes called "pocket" listings), so you can see them early on. Whether you are a buyer or seller, you want an agent who keeps track of the most recent sales, which could help an appraiser justify the price.

Ask the agent what improvements the house needs to be consistent with what is selling. Older properties might languish without updates and repairs. Today's buyers come from "the HGTV generation" and don't expect to do the work themselves, says Dorcas Helfant-Browning, co-owner of Coldwell Banker Professional, Realtors, with seven offices in Virginia.

◆ **Prepare for auction.** Jason Glast, an agent at Keller Williams Luxury International in San Antonio, recommends that selling clients who get multiple bids reject all the offers and then ask each bidder to submit a "final and best offer" by a specific deadline, so the bids can be compared.

Jessica Edwards, who is Coldwell Banker Real Estate's consumer specialist and is based in Wilmington, N.C., recommends buyers who are competing for a house forgo a low initial bid and instead make their best offer. "You may only get one shot," she says.

Buyers should offer their best terms as well as price, including any contingencies, when they plan to close, whether they are prequalified for a loan and how much escrow money they are willing to fork over to secure the deal. Sellers might choose a lower price in favor of a buyer who appears more serious.

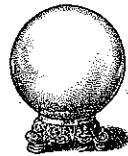
Mr. Glast of San Antonio adds one other thing: Playing off the emotion wrapped up in the process, he often pens a letter to the sellers explaining why his clients are the perfect buyers for their house.

"There's a bit of a dating ritual to this," he says.

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CRYSTAL BALL

What's ahead for Barnes & Noble's shares?



Send your prediction to crystalball@wsj.com by midnight EDT Sunday, with your full name, city, state and phone number. The first reader who gets it right will be named in next Saturday's paper.

◆ Last Tuesday, bookseller Barnes & Noble said it would retreat from the tablet market after its Nook digital business

posted heavy losses. Its shares sank more than 17% that day, ending at \$15.61. On Friday, shares closed at \$15.96. What will the stock's price be on Tuesday?

Kudos to Dave King of Mills River, N.C., for coming closest to guessing the Standard & Poor's 500-stock index's closing level of 1588.03 on Tuesday.