4 predictions about 2012 real estate market

Mood of the Market

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With 2012 nearly upon us, many of us will be spending this week reviewing the events of 2011 and setting resolutions, goals or visions for what we'd like to accomplish next year.

It will come as no surprise that the most common New Year's resolutions fall into the categories of getting organized and getting fit -- physically and financially.

Financial fitness includes getting your real estate business in order. But you can't set up your real estate plans for the year in a vacuum. They must be done in context of what's going on in the market. Here are four predictions about what that market context will look like in the coming year:

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1. Even more foreclosures

While I'd like to claim crystal-ball credit for this one, it doesn't take heightened powers of prediction to foresee an uptick in the rate of home repossessions in 2012. Last fall's robo-signing debacle and the ongoing legal fallout from it created a massive backlog in the foreclosure pipeline, meaning that banks are taking many months, even years, to actually foreclose on mortgages in default.

Earlier this year, the New York Times reported that the additional hurdles New York state courts are requiring banks to leap in the wake of the robo-signing revelations, like additional settlement meetings with the homeowner to see if a modification can be brokered, have created a backlog of foreclosures that it would take 62 years to clear, at the current rate of foreclosure.

It's pretty clear that in 2012 and beyond, the banks will work through those backlogs. The inevitable result will be an increase in foreclosures.

2. REOs and short sales will become the new normal

If you even know anyone who has house-hunted in the past couple of years, you've likely heard tales of the high-drama high jinks -- super-long escrows, first-time buyers being bested by investors' cash offers, banks resistant to negotiating for repairs -- that take place in the course of a distressed property sale.

In the coming year, distressed home sales will continue to represent an increasing share of homes on the market. So, buyers will shift from considering whether to

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buy a short sale to understanding that they must be educated and prepared to do a deal with a seller, a bank (to buy an REO) or a hybrid of the two (to buy a short sale) to access the full selection of homes on the market.

This, in turn, will empower buyers to make smart decisions about what to offer and what to expect on any listing they like, as well as to set smart priorities and make realistic comparisons between listings based on their own personal priorities around timing, certainty and seller flexibility.

3. So-called 'smart cities' will do well

This year, a number of housing markets saw double- or even triple-dips in home values. In others, pricing stayed relatively flat. However, in areas where technology powers the economy, home values prospered along with the industry. Silicon Valley real estate, for instance, saw fierce competition among buyers as the young employees of companies that went public like used their newly stocked bank accounts to buy their first homes.

I recently talked with Jed Kolko, chief economist for real estate search site Trulia, and **his 2012 forecast** was that so-called "smart cities" will continue to have hot real estate markets next year. But Kolko defined smart cities much more broadly than the California tech hubs. Other tech centers like Austin, Texas, and the Massachusetts suburbs of Cambridge, Newton and Framingham all made Kolko's list, as did Rochester, N.Y. (a town known for its highly educated, highly skilled work force).

4. Consumers will get 'hopeless'

I mean hopeless in the best of all possible ways. For years, buyers and sellers have been waiting for that singular event to occur that would cause a quick market recovery. But 2012 will mark the fifth or sixth year of the real estate recession, depending on who you talk to. I predict that those consumers who have not already done so will drop unrealistic hopes for a fast return to the heady real estate fortunes of the subprime era. Instead, people will make their real estate plans based on:

- today's low home prices, rather than the fantasy of what could happen if the market miraculously came back;
- assumptions of very low, or no, appreciation in home values for years to come; and
- very conservative estimates of their own finances and how they will grow.

As a result, buyers won't break their necks to hurry and buy before prices uptick; rather, they'll save and plan to buy when it makes the most sense for their finances. Homeowners will do the same; they will either refi, remodel and be content where they are for the long haul, or decide their homes no longer fit their lifestyles and their finances, divest of them and move on. But the good news is, people will make these decisions based on what is or is not sustainable for their lives and their finances, and not based on inflated hopes about what the market will or will not do.

*Tara-Nicholle Nelson is author of "The Savvy Woman's Homebuying Handbook" and "Trillion Dollar Women: Use Your Power to Make Buying and Remodeling Decisions." Tara is also the Consumer Ambassador and Educator for real estate listings search site Trulia.com. Ask her a real estate question **online** or visit her website, **www.rethinkrealestate.com**.*

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