Why homebuyers face a tough spring

By ALEX VEIGA and JOSH BOAK AP Business Writers

Eager to buy your first home this spring? Already own, but want to trade up? Be warned: there'll be plenty of competition

Bidding wars have broken out in hot real-estate markets like Denver and Los Angeles, where there aren't enough houses to meet demand. The lack of supply is a key reason home sales nationwide have yet to return to healthy levels following the housing collapse in 2008.

"Inventory is still fairly low in a lot of markets across the country," said Skylar Olsen, senior economist at real estate data firm Zillow. "Buyers are not going to have the easiest time out there."

Further tilting the market in favor of sellers are low mortgage rates, which have ratcheted up pressure on buyers to wrap up deals before borrowing becomes more expensive.

Then there's the matter of price. While the overall rise in home prices has slowed this year, fierce competition in many cities and markets will make the cost of buying much harder this spring. Prices are peaking or coming close in roughly half the country. Seven states set highs in March, including Colorado, New York, Tennessee and Texas, according to real estate data provider CoreLogic.

Homebuyers this spring will need to pay attention to six major factors:

— SUPPLY IS TIGHT

There just aren't enough homes for sale in many parts of the country, and properties are moving fast. In March, one measure showed it would take fewer than five months to sell all the homes on the U.S. market. Normally, it should take six.

Among the toughest markets for buyers: San Jose, San Francisco and Los Angeles, as well as Seattle, Denver, Dallas-Fort Worth, Texas, Nashville and Boston, according to Zillow.

Homes in those areas are selling an average of 48 days faster than properties in markets where buyers have the edge.

"The same day the house gets listed, it's not unusual to get four, five or six offers," said Brian Callahan, an agent for real estate brokerage Redfin in Madison, Wisconsin, where homes take fewer than four months to sell, on average.

Homebuyers are likely to find more listings and pay less than asking price in Philadelphia, Chicago, Cleveland, Detroit and Miami-Fort Lauderdale, Florida.

Markets with a bigger inventory of homes tend to have weaker job growth and more construction. In cities with tighter inventory, job growth tends to be stronger.

— A PREMIUM ON LOW-PRICED HOMES

There's heavy demand for houses at the lower-end of the market, and that means people hunting for those homes are seeing prices rise faster.

Homes valued at $135,000 or less climbed 9 percent in price for the 12 months ending in February, according to data from CoreLogic.

"This is the hottest home price appreciation prior to the spring selling season in nine years," said Anand Nallathambi, president and CEO of CoreLogic.

By comparison, homes that priced for $226,800 or more rose 5 percent.

— LOW MORTGAGE RATES

Long-term mortgage rates remain near historic lows. The latest national average for a 30-year fixed-rate mortgage was 3.80 percent, compared with an average of 4.21 percent a year earlier.

Those cheaper rates are good news for some homebuyers, who will get better houses for lower monthly payments.

How long rates will remain this low, however, is a source of much speculation.

The Federal Reserve has opened the door to begin raising its key short-term interest rate from near zero sometime this year. That would likely lead to higher mortgage rates.

"The reason we see so much competition is people have an incentive to get in there before that interest rate goes up," Olsen said.

Even with low rates, rising home prices and stagnant wages have made it tougher for many people to save for a dowr payment.

Many buyers are choosing adjustable-rate mortgages, which accounted for 16 percent of all home purchase loans so far this year, according to the Mortgage Bankers Association. Popular before the housing bust, ARMs have interest rates that are initially lower than a traditional 30-year, fixed-rate loan, but the rate can jump after a few years.

— FEWER CASH OFFERS

When housing prices bottomed in 2012, institutional investors such as The Blackstone Group started buying troubled properties in ways that fueled their recovery.

As prices rose by roughly 20 percent over the next three years, these investors backed away. Now they account for 3.4 percent of single-family home sales, down from a peak of 8.7 percent in early 2013, according to the housing data firm RealtyTrac.

"The reason investors aren't in the market is prices are so high," said Glenn Kelman, CEO of Redfin. "The smart money has left the building."

That means traditional buyers — with a mortgage and a desire to live in the homes — won't have to compete with as many all-cash offers from investors who want to rent or flip.

All-cash purchases have hit a four-year low, accounting for 26 percent of single-family home and condo sales at the start of this year, according to RealtyTrac.

Metropolitan areas around Boston, San Jose, California, Albuquerque, New Mexico, and Jackson, Mississippi, are markets where there's the least competition from institutional investors.

In some cases, investors who bought a few years ago are looking to sell the properties to traditional buyers, Kelman said.

Still, bidding wars between investors and traditional buyers are strong possibilities in places like Memphis, Charlotte, North Carolina, Atlanta and Jacksonville, Florida. Those are markets where institutional investors bought up the most single-family homes between January and March, according to RealtyTrac.

— FEWER FORECLOSED HOMES

After the housing boom, a widespread surge of foreclosures helped push down prices. A rash of short sales, when an owner sells their home for less than what they owe on their mortgage, also contributed to the drop.

Fire sales still happen, but not as many as before. The reason? The number of homes in some stage of foreclosure is down 12 percent from a year ago, and bank-owned homes are down 34 percent, according to RealtyTrac.

"Distressed sales are dropping precipitously," said Daren Blomquist, vice president at RealtyTrac.

Buyers will be hard pressed to find such bargains in Salt Lake City, Albuquerque, New Mexico, and Austin-Round Rock, Texas, where foreclosures accounted for 4 percent or less of all home sales through February.

Elsewhere, though, distressed properties represent more than 20 percent of sales, especially in areas around the Florida cities of Palm Bay-Melbourne-Titusville, Jacksonville and Tampa-St. Petersburg-Clearwater.

— VACATION HOMES

Buyers are snapping up vacation homes, thanks to stock market gains and a wave of baby boomers searching for a pleasant spot to spend their golden years.

Vacation homes accounted for 21 percent of sales last year, the highest share ever measured by the National Association of Realtors. The number of purchases shot up 57 percent in 2014.

Those sales are expected to hold steady this year, although prices might increase as more baby boomers cash out of stocks, said Lawrence Yun, chief economist at the Realtors.

With the stock market at all-time highs, Yun says, "this is benefiting the top 10 percent and one percent of the families in the country and they're in a good position to buy vacation homes."