

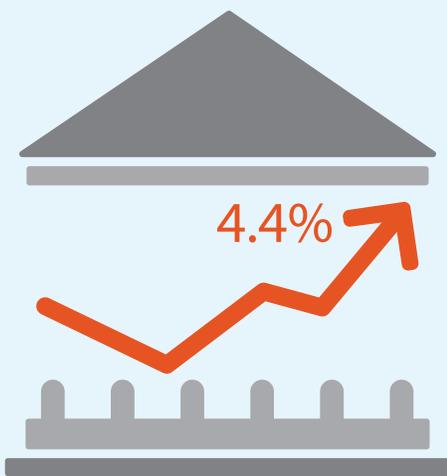
2018 HOUSING FORECAST

It's the time of the year when I look deep into my crystal ball to see what's on the horizon for the upcoming year. 2017 was a stellar year for housing across the country, but can we expect that to continue in 2018? Here are my thoughts:

MILLENNIAL HOME BUYERS

Last year, I predicted that the big story for 2017 would be millennial buyers and it appears I was a little too bullish. In 2017, first-time buyers made up about 34% of all home purchases—below the 40% that is expected in a normalized market. Although they are buying, it is not across all regions of the country, rather they are currently attracted to less expensive markets such as North Dakota, Ohio, and Maryland.

This year, the number of millennial buyers should expand further and be one of the biggest influencers in the U.S. housing market. I also believe that they will begin buying in more expensive markets.



INTEREST RATES

Interest rates continue to baffle forecasters. The anticipated rise that many of us have been predicting for several years has yet to materialize. As it stands right now, my forecast is for interest rates to rise modestly to an average of 4.4% for a conventional 30-year fixed-rate mortgage—still remarkably low when compared to historic averages.



NEW HOME SALES

New home sales should rise by around 8% to 655,000 units, with prices increasing by 4.1%. While housing starts—and therefore sales—will rise next year, they will still remain well below the long-term average due to escalating land, labor, materials, and regulatory costs. I do hold out hope that home builders will be able to help meet the high demand we're expecting from first-time buyers, but in many markets it's very difficult for them to do so due to rising construction costs.



EXISTING HOME SALES

In 2018 we should expect existing home sales to increase by 3.7%—or 5.62 million housing units. In many areas, demand will continue to exceed supply, but a modest increase in inventory will help take some heat off the market. Because of this, home prices are likely to rise by 4.4%.

HOUSING BUBBLE

I continue to be concerned about housing affordability. Home prices have been rising across much of the country at unsustainable rates and, although I still contend that we are not in "bubble" territory, it does represent a substantial impediment to the long-term health of the housing market. But if home price growth begins to taper, as I predict it will in 2018, that should provide some relief in many markets where there are concerns about a housing bubble.

In summary, along with slowing home price growth, there should be a modest improvement in the number of homes for sale in 2018, and the total home sales will be higher than 2017. First-time buyers will continue to play a substantial role in the nation's housing market, but their influence may be limited depending on where the government lands on tax reform.



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