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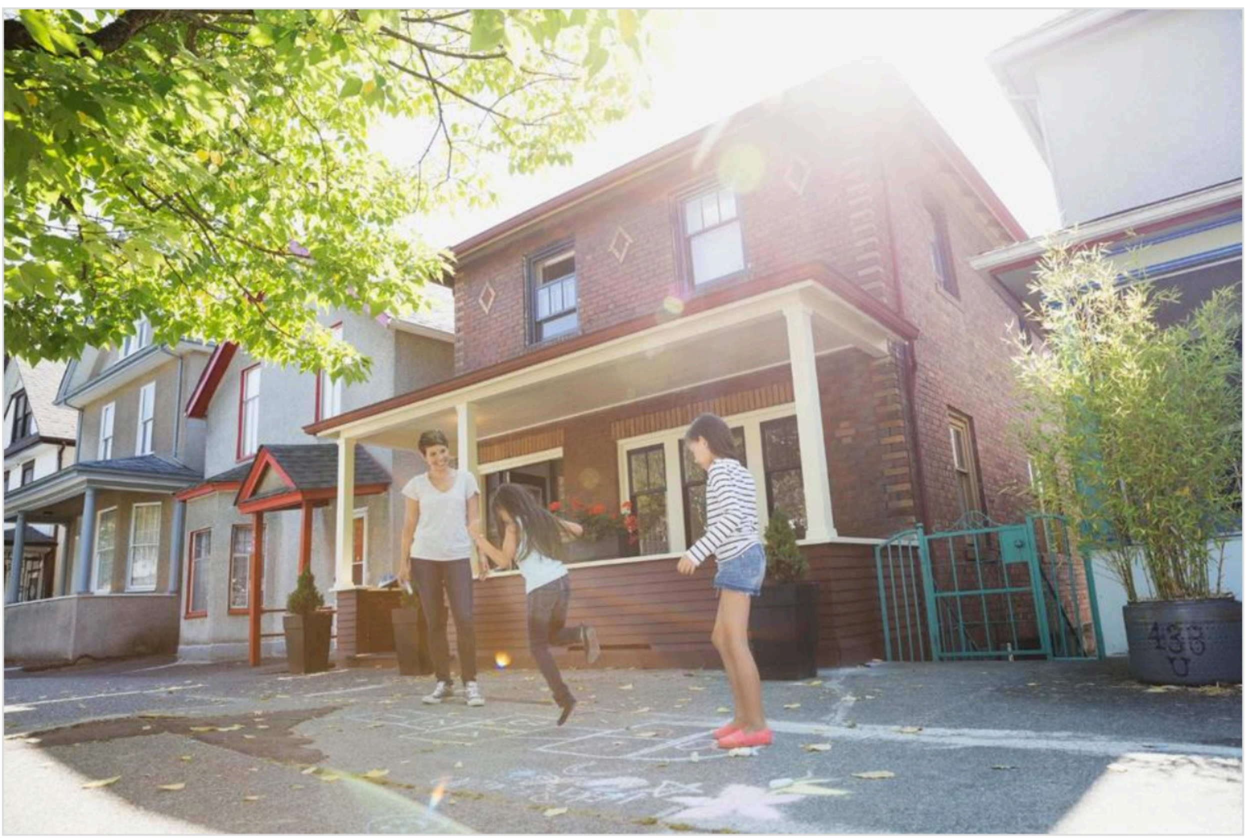
What to Expect from the Housing Market in 2018

By Devon Thorsby, Staff Writer | Dec. 13, 2017



With prices surging in many markets across the country, experts recommend that buyers line up their financing early and consider more affordable neighborhoods. (Getty Images)

Whether you're looking to buy or sell a home in 2018 – or find the perfect rental – it helps to know what you're up against. Experts say timing will be paramount for homebuyers in the coming months, while sellers will likely have an easier time making a successful deal. Meanwhile, renters may find more amenities and negotiating power.

Here's what to expect from the housing market in 2018.

Buying and Selling

With tight seller's markets being the leading narrative on homebuying over the past few years, Americans are unsure about their ability to buy a home, according to a recent survey of 2,000 adults published by real estate information company Trulia earlier this month. Just 25 percent of respondents believe 2018 will be a better time to buy a home than 2017, according to the report.

These attitudes have been pervasive for years and are beginning to wane on homebuyer enthusiasm. High rents hinder would-be first-time buyers' ability to save, while interest rates are expected to rise and home prices continue to swell in midlevel housing throughout the U.S.

"It's difficult to save up for a down payment," says Ralph McLaughlin, chief economist for Trulia.

Trulia anticipates the homeownership rate – 63.9 percent as of the third quarter this year, according to the U.S. Census Bureau – to continue the slight upward trend. Interested buyers will have to remain diligent about their research and keep a close eye out for new properties coming on the market. It will also be imperative for buyers to have their financing in order and tap attentive real estate agents to help make an appealing offer on a house, as there will likely be more than one offer on available homes in many markets.

Affordable homes will still be found in the suburbs and outlying neighborhoods of major markets. Millennials have been late to homebuying due to slower income growth than previous generations, points out Michael Fallon, chief investment officer for The Fallon Company, a real estate development and investment company based in Boston. That makes moving to a more affordable neighborhood key, but it's unclear if millennials are slow to embrace the suburbs because they like the convenience of city living or they simply don't feel confident enough to buy. "We haven't seen that shift to the suburbs yet," he says. "The contention is maybe that won't happen."

For sellers, on the other hand, enthusiasm is up – likely because home prices have continued to climb in recent years. The Trulia survey reports 31 percent of respondents believe 2018 will be an even better year to sell than 2017. Of course, this enthusiasm doesn't translate to more options for buyers: Americans may feel it's a great year to sell their home, but only 6 percent of homeowners currently plan to do so in 2018, according to Trulia. The lack of new inventory spells opportunity for those who choose to sell, but will keep many would-be first-time buyers from jumping into homeownership due to stiff competition.

New Construction and Development

Since the Great Recession, one of the housing market's biggest struggles has been a lack of new inventory coming on the market. New construction hasn't kept pace with the growth of U.S. households, and while construction has picked up in recent years, much of the development has been in multifamily buildings – apartments for rent or condominium communities – leaving many prospective homebuyers out in the cold.

"Much of [the new development] centers around trying to create an environment that allows tenants and residents – all users – to have that live, work and play feel," with a mix of retail, office and residential spaces so residents don't have to travel far, Fallon says.

In addition to more mixed-use communities that blend commercial and residential property, expect the size of individual apartments, condos and houses to get smaller as well. Jeremy Swillinger, a licensed real estate salesperson at Level Group Inc. in New York City, says many new apartments and condos in the city are shrinking to increase profit for developers, and residents so far have been willing to compromise. These smaller footprints are appearing in many other major markets as well.

"Four years ago, developers were making two-bedrooms that were 1,200 square feet, now they're making them 1,000 square feet," Swillinger says. "From the buyer's angle, it's: 'It's not enough square feet for me, but it'll still work.' They want to stay in the city."

Renting

If more first-time buyers don't embrace the suburbs, the share of renters versus homeowners in the U.S. will continue to grow in 2018. New construction following the recession has largely focused on meeting demand for rental options, and major cities in particular are beginning to experience some relief in rental rates – and even incentives for renters – with the completion of many new properties.

"If you're a renter, there are options – there's incentives, there's free months' rent. You have the pick of the litter, currently," Swillinger says.

You won't see rental rates in a luxury buildings suddenly dropping to midlevel prices, but you can expect a bit more power when it comes to negotiating your lease. Especially if you're looking at a neighborhood where more than one new building is beginning to lease to tenants, leasing agents will have to up the ante to attract tenants.

And if more consumers opt to purchase a home in 2018, renters will have even more bargaining power – not always in the rent itself, but with incentives like free rent for a month or two, free parking spaces or waived amenities fees.

Tax Changes for Homeowners

Residents in big coastal markets like New York and Los Angeles may see more change coming their way with tax reform, which has tentatively passed both the House and Senate. (Congress is working to reconcile the differences between the two forms of the bill to pass it into law.)

Currently, interest can be deducted from federal taxes on mortgage debt of up to $1 million. The bill that passed in the Senate keeps the deduction as is but removes the deduction for equity debt. The House reduced the maximum deductible debt to $500,000. Both cap state and local property tax deductions at $10,000.

Until the new tax law passes, it remains up in the air how much homeownership will be affected. However, experts agree that any of the proposed changes would have the biggest effect on coastal markets – particularly in New England – where property taxes are highest, while the middle of the country will be largely unaffected.

“The tax plan, in whatever form it passes, will predominantly cool the expensive coastal markets, but the rest of the country will be relatively unaffected,” McLaughlin says. “Just because most homeowners actually do not take the mortgage interest deduction because their mortgage isn’t high enough to justify itemizing.”

Residents in states like New Jersey or New York, which have high property taxes compared to most of the U.S., may want to take a closer look at a potential home purchase and whether the price is still worth it, explains Jeffrey Citron, a real estate expert and co-managing partner for the law firm Davidoff Hutcher & Citron LLP in New York City.

“People are going to be looking at homes, particularly the very high-priced homes, and sitting back and saying, ‘Wait a second, am I really going to pay $3 million for a home in Scarsdale and pay these school taxes if they’re not deductible?’” he says.

Tax reform isn’t expected to have a profound impact on homeownership in the long run, however, at least not on its own. Still, it could lead to some minor changes in the housing market.

“It doesn’t mean that the fundamental benefits of homeownership are changing under a Trump administration, but just that uncertainty typically causes people to hesitate rather than act,” McLaughlin says.