

The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client:

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For house hunters facing slim pickings... There's no relief in sight. Listings are scarce and prices are bound to keep rising in most places.

HOUSING In fact, a tight market is going to get tighter as demand for homes continues to grow and supply fails to keep up. As a result, home sales will barely grow this year...up just 1.3% nationwide.

Builders can't put up new units fast enough to make up for the slowdown the recession caused.

Too many homeowners are reluctant to sell, afraid they won't find a new place to move to. Thus, inventory will keep shrinking relative to demand.

The inevitable result: Continued price rises in most parts of the country. Figure on a gain of 5.5% in average home prices this year and 5% in 2018.

Home builders still face an array of hurdles that are keeping them from adding new homes faster: Not enough buildable land or enough skilled workers. Rising material costs. Trouble getting financing.

Recent hurricanes won't help the situation. In the Houston area alone, thousands of carpenters, roofers and other skilled tradesmen are needed to repair or replace the many homes damaged or ruined by Hurricane Harvey. Home builders were already competing for such workers, who have been gravitating to commercial construction projects, where the work lasts longer and the pay can be better than in residential construction. Lumber prices, up 12% so far this year, figure to shoot still higher on heavy demand.

Rising mortgage rates won't dampen price gains. Rates on 30-year mortgages will creep up from today's 3.8% average as the Federal Reserve slowly raises its rates and shrinks its huge portfolio of long-term Treasuries and mortgage-backed bonds. But any tick up in mortgage rates will just spur potential buyers to get off the fence and nab a loan while rates remain relatively low, pushing up home prices even more.

Even many of the hottest housing markets can expect prices to keep soaring: Seattle; Salt Lake City; Dallas; Portland, Ore. and other Western cities. Note, however, that a few areas where prices have skyrocketed, such as San Francisco, are slowing. They've simply gone up too much, too fast...beyond the reach of most buyers.

One wild card factor that might cool price gains: Tax reform. Home builders are wary that Congress could whittle down the deductions for mortgage interest or property taxes as part of a broader tax overhaul...a realistic possibility at some point.

Some housing markets do remain relatively affordable, and attractive for first-time buyers who find themselves priced out of other areas. Among them: San Antonio, Texas. Pittsburgh. Cleveland. Indianapolis. Oklahoma City. Memphis. Their relatively modest prices are sure to catch the eye of many aspiring homeowners.

Housing Forecasts		
	2018 level	% change
Single-family starts	900,000	7.1%
Multifamily starts	345,000	-4.2%
New-home sales	670,000	9.8%
Existing-home sales	5.6 mil.	1.5%
Year-end 30-year mortgage rate	4.3%	--
Year-end price change	---	5.0%