The 3 Best Reasons to Buy a Home *(but You'd Better Hurry)*

By Holly Amaya | Jan 4, 2018

Figuring out when to plunge into the real estate market can be quite intimidating especially when prices are high, choices are limited, and history urges restraint.

"We've seen two or three years of what could be considered unsustainable levels of price appreciation, as well as an inventory shortage that resulted in a recordlow number of homes for sale across the country," says Javier Vivas, director of economic research for realtor.com®. "When you factor those together, you have a market that has to either explode or see some relief."

Comforting, right? Well, take heart: Experts agree that relief is indeed on the horizon. New predictions for 2018 forecast more moderate gains in home prices and rising inventory levels, while low unemployment and record levels of consumer confidence mean more buyers are feeling good about their finances.

A lot depends on where you live (and how much you plan to finance), but these factors combined could mean 2018 will be your year to take the buying plunge.

1. Rates are going up

After years of record-low interest rates (hello, 3%!), the Fed is finally making some noticeable increases: The rate for a 30-year fixed mortgage broke the 4% mark last year. And with economic growth continuing to carry momentum, Vivas predicts we'll see at least two to four more rate increases throughout 2018. Rates are anticipated to hit 5% by the end of the year.

"The big story there is that those increases will further constrict affordability," Vivas says. "The more buyers wait, the more expensive it will get to buy—not just because of home prices, but because of inflationary pressure."

In other words, if you want in on the American dream, now might be the time.

2. Prices are climbing, but not crazily fast

Home prices have soared over the past few years, pricing otherwise well positioned buyers out of high-cost areas and leading some experts to cry "bubble". But in 2018, price

increases are expected to moderate.

Vivas forecasts a home price increase of 3.2% year over year, after finishing 2017 with a 5.5% year-over-year increase. Existing-home sale prices are predicted to increase 2.5% year over year.

Of course, it all depends on where you live. While red-hot markets such as San Francisco are predicted to finally lose some steam, sales numbers and home prices are poised to climb in Southern states such as Texas and Florida, where economic momentum continues chugging along and new construction is happening in the right price points.

So what does that mean? Basically, home prices will still increase, but not at the same pace as they have over the past few years.

3. Inventory levels will begin to increase

An inventory shortage has plagued the U.S. housing market since 2015, forcing some buyers to settle (a tiny house with linoleum floors for $1 million, anyone?) and keeping others out of the buying game entirely. But by fall 2018, the tides will begin to turn, with markets such as Boston; Detroit; and Nashville, TN, recovering first.

The majority of inventory growth will happen in the middle- to upper-tier price point, in the ranges of $350,000 and $750,000 and above $750,000, Vivas predicts.

New home construction is also expected to expand. But that will happen slowly, thanks to a constricted labor market, limitations on the amount of lots and land that's available, tight bank financing for building loans, and a run-up in building material prices, says National Association of Home Builders chief economist Robert Dietz.

"It's been a slow climb back from the recession, and now we're confronting all of these limiting factors and supply-side constraints," Dietz says.

It's particularly tough, he says, for builders to break ground at the entry level for first-time buyers, particularity in high-cost coastal markets such as California. That means it will take longer for those inventory levels to recover. But there's a bright spot: Builder confidence is at its highest level since 1999, according to the NAHB. And that means hope is on the horizon.

"As we head into 2019 and beyond, we expect to see the inventory increases take hold and provide relief for first-timers and drive sales growth," Vivas says.

The wildcard: Taxes and politics

When the Republican tax plan was introduced, the proposed elimination of the mortgage interest deduction was all anyone could talk about: While the new limitations on the deduction will affect only 2.5% of all existing mortgages in the U.S., it will have a disproportionate effect on Western markets, where 20% to 30% of mortgages are above the new threshold, according to Vivas.

Across the board, experts agree that the new tax plan decreases incentives for homeownership and reduces the tax benefits of owning a home—particularly in highly taxed, expensive markets such as California, Illinois, New York, and New Jersey. But on the flip side, that means that

if fewer folks are motivated to buy, then there's less competition for those who want in the game. Plus, some taxpayers—including renters—will see a tax cut. That increase in buyers' disposable income could spur demand from folks who are looking to build equity as a homeowner, rather than flushing away their savings in rent.

"Buying remains the more attractive option in the long term—that remains the American dream, and it's true in many markets where renting has become really the short-sighted option," Vivas says. "As people get more savings in their pocket, buying becomes the better option."

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