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Why Buying a Home in 2018 Could be a Smart Move

Soaring home costs, low inventory and the 2007/8 housing crisis may have put some would-be home buyers on the fence. But for those who are financially ready, there are a few key reasons 2018 could be the right year to buy a home.

Increasing Home Prices

Home prices have been increasing in the years since the 2007-2008 housing crisis and this trend is forecasted to continue.

The latest S&P CoreLogic Case-Shiller Index shows the average home cost grew by 6.4 percent between April 2017 and April 2018. According to the Reuters poll, home values in the 20 largest metro areas are set to increase by another 5.7 percent before the end of the year.

Paul Bishop, National Association of Realtor's vice president of research, predicts this growth will continue, although year-over-year increases might slow down to 3-5 percent."Homeownership is a long-term prospect," said Bishop. "So as long as prices continue to increase at even a modest pace over the next four, five, eight, 10 years, then that equity does build up, in some cases, to quite a substantial part of someone's net worth."

Buying a home now, before houses become even more expensive, could be a wise decision as homeowners can expect to build equity as their property values appreciate.

Mortgage Rates are Still Low

Interest rates, although increasing, are still low. Buyers who can purchase now and lock

in a lower interest rate will be able to afford a more expensive house and have lower borrowing costs.

The current 30-year fixed rate is still below 5 percent but prospective buyers shouldn't count on these low interest rates lasting much

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longer. According to the June Reuters poll, analysts predict the 30-year fixed rate will climb back up to 5 percent by the end of 2019, marking the first time in 10 years rates have been that high.

"The housing market has been on pretty solid footing now for a number of years, and a lot of that is due to pretty affordable mortgage rates," said Stijn Van Nieuwerburgh, a real estate professor at Columbia Business School.

Current interest rates, although climbing, are still more favorable than they were in 2000 when they exceeded 8 percent, or even in 1981 when the average rate was nearly 19 percent.

Tight Housing Inventory

Buyers hoping that housing inventory will ease up may need to realize today's highly competitive market and low inventory aren't expected to improve any time soon.

At the end of May 2018, existing single-family homes, condos, townhomes, and co-ops for sale totaled 1.85 million. According to NAR, this is 6.1 percent lower than a year ago and a year-over-year decrease for the 36th consecutive month.

Van Nieuwerburgh noted that while construction is on the rise, with nearly 1.3 million houses completed in May 2018, which is a 10.4 percent increase from the previous year, it's not enough. He estimated new developments account for approximately 2 percent of the market.

"There's only so much you can do with construction," Van Nieuwerburgh said. "For the time being, we're not building enough to alleviate those shortages."

Although there are compelling reasons to buy a house in 2018, housing analysts point out that potential buyers shouldn't purchase a home until they feel ready. Bishop suggests prospective buyers "really do their homework" and consider their financial security, location, and job situation before deciding to purchase a home. "Ultimately, you need to ask yourself: Are you likely to be in a particular location long enough that homeownership makes sense?" he said.

Five Fastest Selling Cities for Residential Real Estate

A strong job market and low housing supply are fueling demand. In April, there was a four-month supply of homes on the market. A six-month inventory is normal, according to the National Association of Realtors, a l.

"Things are moving quickly. You need to have your ducks in a row," said Felipe Chacon, housing economist at Trulia.

The five cities with homes selling the fastest are: Seattle, Wash., San Francisco, Calif., Oakland, Calif., San Jose, Calif., and Denver, Colo. In Seattle, it takes just 36 days from listing to sale. Home prices were up 19.5 percent from last year.

The time to sell in San Jose, Calif. is just 36 days. Redfin reported 83.2 percent of the homes sold in March went for above list price. Home prices are up 22 percent.

It also takes only 36 days to sell a house in San Francisco, the most expensive housing market in California. According to Trulia, home prices are up 13.7 percent.

In Oakland, Calif., the time to sell is 38 days. Home prices are down 6.2 percent annually. However, they are still up 50.5 percent the past five years.

Home prices soared 10 percent in Denver, Colo. There, the time to sell a home is only 41 days.

Almost Half of Freddie Mac Mortgages in Q1 Borrowed by First-Time Home Buyers

Recent market and mortgage conditions data indicates that more people are buying their first homes. First-time homebuyers accounted for nearly half the new mortgages issued by Freddie Mac in the first quarter of 2018, according to Bloomberg.

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During the first quarter of the year, 46 percent of the Freddie Mac mortgages issued were to first-time buyers. The rush for mortgages could be due to homebuyer fears that the situation for buyers will get worse, said Bloomberg. Home prices continue to rise steadily as mortgage rates increase.

The median age of the first-time home buyers is 32, according to The National Association of Realtors. Despite limited housing inventory, rising home prices, and student debt, young people are still buying first homes.

"This is a millennial-driven rise. You've got a strong economy that's helping, along with the appetite of the financial market to invest in mortgages," said Sam Khater, Freddie Mac Chief Economist.

As rents continue to rise, many buyers, especially young people, are afraid they will be stuck renting indefinitely if they do not purchase homes now.

First-time buyers especially, are scrambling to close the deals quickly before home prices and mortgage rates go higher and become out-of-reach for those on tight budgets.

Slow Sales at Home Depot Signal Warning for Housing

The very strong housing market might be slowing down. Home Depot recently reported quarterly sales and the CEO noted, "a slow start to the spring selling season."

For the first time in two years, Home Depot did not top analysts' estimates. Shares of Home Depot (HD) fell nearly 2 percent on May 23. Rival company, Lowe's (LOW), slipped 1 percent.

Sales at Home Depot stores opened at least a year, commonly referred to as same-store sales, rose 4.2 percent in the quarter. However, analysts expected a 5.4 percent increase.

One of the problems for Home Depot could be rising mortgage rates. The U.S. Treasury bond, a benchmark for mortgage rates, is at its highest level since 2011.

Climbing mortgage rates make it more difficult for people to buy houses. For companies such as Home Depot, this is not good news.

Wall Street is already showing concerns that the housing boom may be coming to an end. Shares of big builders are also down this year, including KB Home (KBH), Lennar (LEN), D.R. Horton (DHI), and Toll Brothers (TOL).

The weather was another factor in Home Depot's less-than-satisfactory quarter. Companies such as Home Depot sell building products for outdoor construction projects. As a result, poor weather can adversely affect sales for these businesses.

Homeowners Gain $1 Trillion in Home Equity

In the past year, homeowners gained $1 trillion in home equity. Despite these gains, many homeowners with mortgages remain underwater on their home loans.

The average borrower gained $16,300 in home equity from 2017 to 2018, according to CoreLogic. Home equity rose 13.3 percent from last year. Collectively, this adds up to $1.01 trillion, the largest gain in four years.

But those big gains are not enough for 2.5 million borrowers with mortgages that are still underwater. A total of 4.7 percent of homeowners with mortgages owe more on their homes than the homes are currently worth, though that's an improvement from last year, when 3 million borrowers were underwater.

Gains differ based on location. Higher purchase demand, and strong economic growth are expected to fuel these equity trends into the future.

Listings move quickly and many sell above list price. Bidding wars are now the norm. According to Trulia, it took just 64 days to sell the average home in April. The National Association of Realtors reports homes are going to contract in only 26 days.

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Homeownership Trends Upward As Renter Households Decline

Renter households are starting to decline. Last year, the homeownership rate rose for the first time in 13 years. Current market conditions, including rising wages and looser credit standards, make it an ideal time for people to purchase houses.

Demographic shifts have also contributed to the decline in renter households as millennials enter their early to mid 30s, a time when people typically marry, start families and buy a first home.

Recently released U.S. Census data also revealed the homeownership rate increased from the prior year for the fifth consecutive quarter in 2018. It rose one full percentage point to 35.3 percent year-over-year in the first quarter.

Although homeownership is increasing, challenges remain. Limited inventory and rising prices have made it difficult for young people to save for and make large down payments. The new tax bill also significantly diminished the benefits of homeownership from a tax standpoint.

Rising interest rates and a lack of affordable inventory are also expected to continue to impact the homeownership rate. However, Fannie Mae is making it easier for borrowers to take on more debt, during the middle of last year, which is helping to make getting loans easier for potential homebuyers.

Mortgage Rates Reach Seven-Year High

In May, mortgage rates reached a seven-year high. Rates for home loans were the highest since 2011. Along with rising mortgage rates, low supply and soaring prices put a strain on the current housing market.

Freddie Mac reported the 30-year fixed-rate mortgage averaged 4.61 percent in mid-May. That marked the highest jump for the product since May 2011.

During the week of May 17, 2018, the 15-year fixed-rate mortgage averaged 4.08 percent, an increase of 7 basis points. During the same week, the 5-year Treasury-indexed hybrid adjustable-rate went up to 3.82 percent from 3.77 percent.

Mortgage rates follow the path of the U.S. Treasury Note. The Treasury Note was at its highest since 2011. Investors are starting to sell bonds again in response to this increase.

While rates are higher, the 30-year fixed rate mortgage is still much lower than its long-time average. However, home prices are rising faster than incomes.

Sam Khater, Freddie Chief Economist, said, “The prospect of rates approaching 5 percent could begin to hit the psyche of some prospective buyers.”

Low home inventory, rising home prices, and increasing mortgage rates change the marketplace for prospective buyers. With mortgage rates at a seven-year high, investors and buyers are watching the numbers for the remainder of 2018.

New Home Prices Decline to 12-Month Low

For years, homebuyers have heard that home prices are steadily increasing. However, the cost of purchasing a newly constructed home recently fell to its lowest point in the past year. From March to April, the median price of a new home plummeted by almost 6.9 percent.

The median price of a new home is now $312,400, according to a joint report by the U.S. Department of Housing and Urban Development and the U.S. Census Bureau.

“This could be a sign that builders are trying to build at lower price points,” said Danielle Hale, Chief Economist at realtor.com®.

The decline in home prices is also good news for buyers on a budget or first-time home buyers who have been priced out of the current home market.

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Hale adds, "The largest share of home buyers and home shoppers are looking to buy entry-level homes."

With 4 percent of new-home sales going to houses priced under $150,000, this figure marks the largest share purchased by homebuyers at that price point since August 2016.

New homes are still almost 24.8 percent more costly than the median cost of an existing home. The reasons for the higher price are expensive appliances and finishes as well as rising costs for labor, land, and building materials.

The Best Cities for Housing Market Purchasing Power

Based on the current housing market conditions, on average prospective buyers across the country have less purchasing power than two years ago. In today's market, savvy buyers in the best cities use their market purchasing power to get the most for their money.

Homebuyers are increasingly concerned about how much home they can afford to purchase as the demand for housing continues to exceed the low levels of inventory. This is in addition to the fact that home prices are reaching levels higher than the peak prices of the last housing boom. Mortgage rates are also expected to rise for the remainder of 2018.

Conversely, a strong economy means more jobs and income growth. These conditions have helped keep more money in consumers' wallets. Cities with steady price growth and lower median home values offer buyers more purchasing power than the more expensive markets.

According to a First American analysis of home values, which factors in mortgage rates and local wages in big cities, there was an increase in purchasing power nationally of 6.4 percent. Still, in specific markets, such as Washington, D.C., home prices are steady or declining.

First American's Real Home Price Index determined the 12 best cities for housing market purchasing power. The data includes area wages, home prices changes, and mortgages rates to "better reflect consumers' purchasing power and capture the true cost of housing."

12 Providence, R.I.
Median sale price: $252,750
RHPI: 90.47
Year-over-year RHPI: 6.62 percent

11 Chicago, Ill.
Median sale price: $231,424
RHPI: 68.95
Year-over-year RHPI: 6.36 percent

10 Portland, Ore.
Median sale price: $365,000
RHPI: 99.45
Year-over-year RHPI: 5.25 percent

9 Virginia Beach, Va.
Median sale price: $227,500
RHPI: 93.81
Year-over-year RHPI: 4.94 percent

8 Raleigh, N.C.
Median sale price: $259,750
RHPI: 80.03
Year-over-year RHPI: 4.88 percent

7 Philadelphia, Pa.
Median sale price: $217,594
RHPI: 84.64
Year-over-year RHPI: 4.73 percent

6 Hartford, Conn.
Median sale price: $216,100
RHPI: 72.72
Year-over-year RHPI: 3.26 percent

5 Memphis, Tenn.
Median sale price: $155,000
RHPI: 55.98
Year-over-year RHPI: 2.67 percent

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4 Oklahoma City, Okla.
Median sale price: $159,500
RHPI: 72.81
Year-over-year RHPI: 2.63 percent

3 Baltimore, Md.
Median sale price: $265,000
RHPI: 82.65
Year-over-year RHPI: 2.55 percent

2 Washington, D.C.
Median sale price: $383,000
RHPI: 85.39
Year-over-year RHPI: 1.22 percent

1 Pittsburgh, Pa.
Median sale price: $148,000
RHPI: 65.23
Year-over-year RHPI: -1.24 percent

Helping Clients Celebrate Their New Home Purchase on Social Media

It's no secret that millennials like to share their lives on social media. So it comes as no surprise that millennials, as well as other age groups, like to post pictures of themselves with their newly purchased home.

Kyle Schulze, an agent with Berkshire Hathaway Home-Services, Ambassador Real Estate in Omaha, says, "The practice stirs up a lot of conversations. Facebook has an algorithm that recognizes milestones, like buying housing and having a child—and those posts reach more people. So these posts get a lot of likes and comments, and then their friends are interested in buying, too." Shortly after Schulze closed with one of his clients, Heather Mangiameli, they both posted photos, and he got two referrals from her friends.

When Mangiameli closed on her new home she was excited to share it on social media, but she wanted to do something unique. Inspired by the reality show "Say Yes to the Dress," Schulze ordered a giant key prop for her shoot with the words, "I said yes to the address."

"I typically get an average of 20 likes," Mangiameli says. "I got about 400 likes on that photo. And the feedback was that no one had seen that before." Schulze also got a number of likes and comments on his feed, too.

From a hiring a professional photographer to just snapping a casual selfie, post-closing photos are a fun and easy marketing tactic. Here are some tips to make the most of this marketing opportunity.

Ask permission. Make sure the buyers are on board before you post pictures online.

Take multiple photos. Be sure to take several shots so you can choose the best.

Get inspired. Look for ideas on Pinterest or other social media to help you get creative.

Consider the platform. Take photos in square mode because those look good on Instagram and on Facebook.

Tailor the shoot to the client. Look to the client for inspiration. Take a photo that reflects their personality.

Be sensitive to clients. Be mindful of your client's feelings. For instance, a single client may not feel comfortable posing for a photo alone. Feel free to jump in the photo and take a selfie with your client.

Don't post before the sale closes. You can take post-closing pictures during a walk through but don't post them on social media in the contract stage. Negotiations can get harder if the seller sees pictures of the prospective buyer saying how much they love the house.

Tag. Ask if you can friend and then tag your buyers. Send the new homeowners the photo and have them tag you, too. It's a great way to get more likes and show up in more social media feeds.

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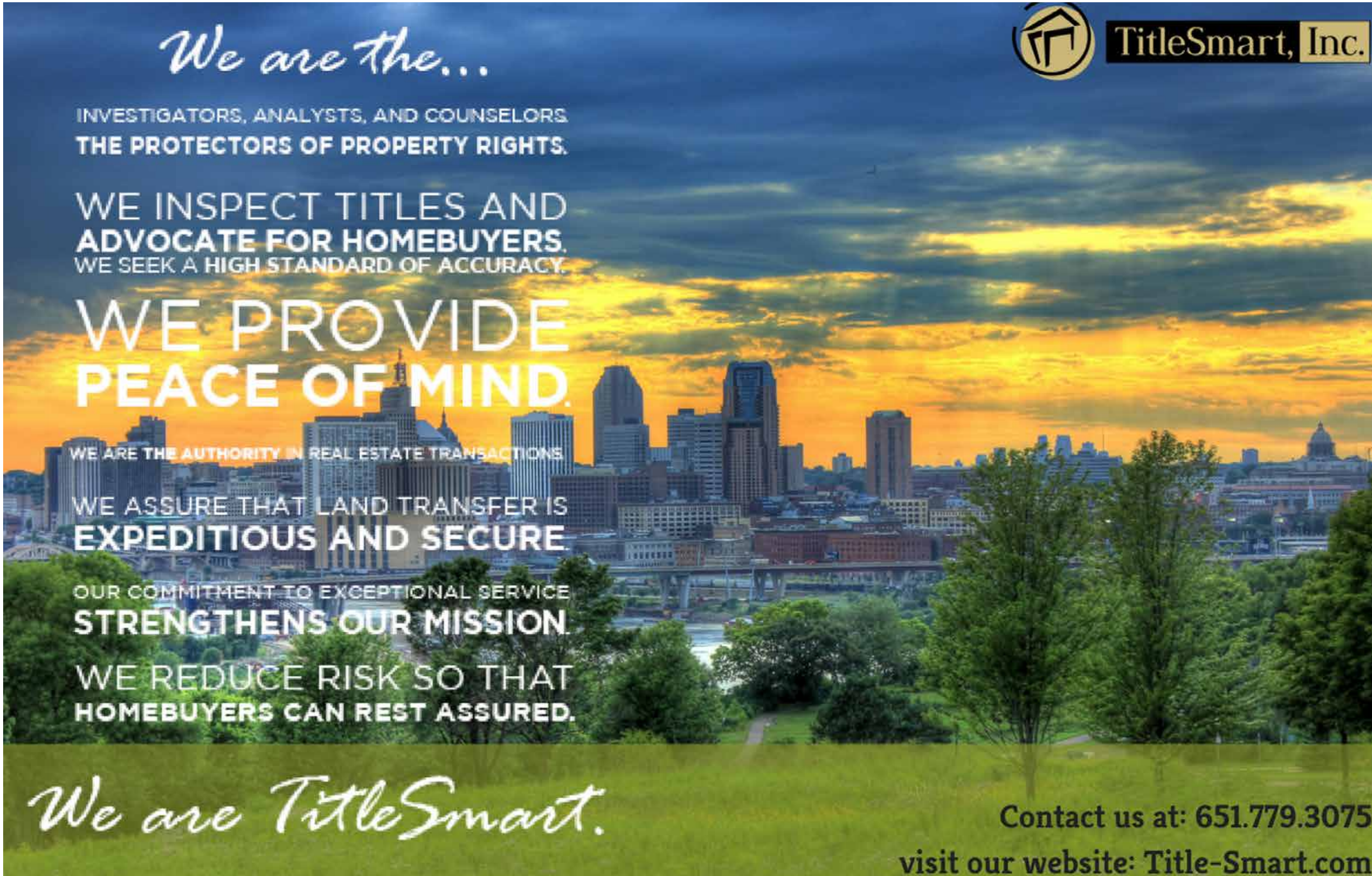

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