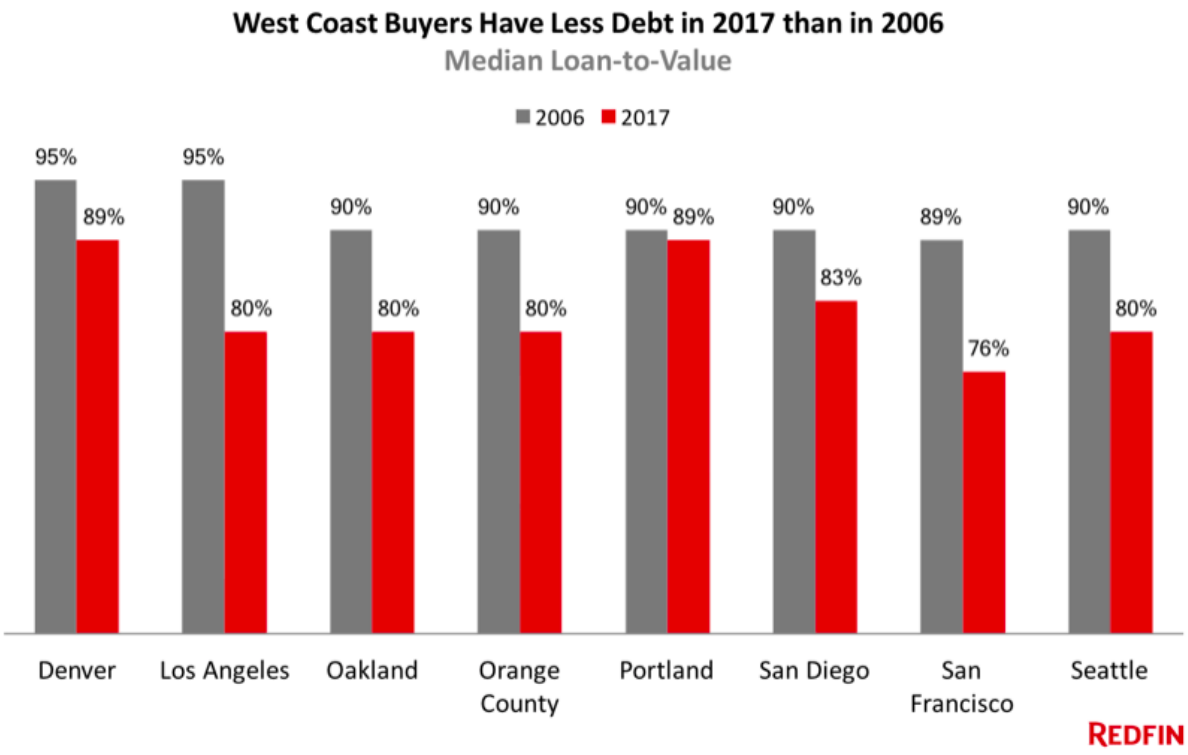
Redfin's 8 predictions for the 2018 housing market

Redfin has released eight predictions for 2018 — among them, some good news and some bad.

Redfin chief economist Nela Richardson says fears about an impending housing bubble can be put to rest, thanks to a solid sale-to-list ratio and declining homebuyer debt in the nation's most competitive and high-priced markets, but tax reform could negatively impact homeowners and dissuade aspiring homebuyers, which will prolong inventory shortages and high mortgage rates that have risen to their highest level in 10 years.

Here are Redfin's eight predictions for 2018:

1. **Inventory will continue to drive the market.** According to the latest existing-home sales report, total housing inventory is in its 29th consecutive month of year-over-year declines, and Richardson doesn't foresee any real change except for a small uptick in inventory at the end of 2018. Buyers looking for reasonably-priced starter homes won't have much luck since inventory at this tier level is expected to stay at seven-year lows.
2. **State and local tax (SALT) deduction changes will drive homebuyers away from the coasts.** GOP legislators have proposed cutting a number of tax deductions that will negatively impact a swath of homebuyers, but Redfin has focused on the SALT, which allows taxpayers to deduct state and local income and property taxes. According to a November 28 Redfin survey of 900 homebuyers, 37 percent of respondents said they'd consider moving to a state with lower taxes if SALT is axed. Richardson said states with high state and local taxes such as California, New York, New Jersey, Maryland, Massachusetts and Illinois would be most impacted.
3. **Homeowners will stay put.** Capital gains tax changes will keep homeowners in place, says Richardson, since owners will have had to live in their home for five of the previous eight years to deduct gains — a three-year increase from the current law.
4. **Mortgage rates will reach 10-year highs.** Thirty-year mortgage rates are expected to reach somewhere between 4.5 and 4.8 percent in 2018, says Richardson. This, in conjunction with growing home prices, means buyers will face a 15 to 20 percent bump in monthly payments of principal and interest.
5. **Don't worry about a housing bubble.** Home prices have been rising at breakneck speed, causing some economists and housing experts to sound the alarm for an impending housing bubble. But Richardson says two factors — the sale-to-list ratio and the homebuyer debt — will keep the bubble at bay. Although home prices are at 10-year highs, homeowners and buyers seem to be in agreement about listing prices, as evidenced by a 99 percent sale-to-list ratio in the nation's most high-priced markets. Furthermore, Richardson says buyer loan-to-value ratios have continued to tumble.



6. **Buckle up — homes will be selling faster than ever.** In 2017, 25 percent of homes sold in two weeks or less and 19 percent sold in less than a week. In 2018, 30 percent of homes are expected to sell in two weeks, even more of a reason to make sure buyers are pre-qualified and ready to bid.
7. Millennials **will go to the 'burbs (sort of).** Millennials aren't ready to go full "Old MacDonald" in the name of finding more affordable housing, so they'll be moving to urban-suburbs, areas that have the prices of suburbs with the amenities and walkability of urban, city centers.
8. **Having roommates is making a comeback.** In the past 10 years, the number of households with roommates has risen from 5.6 percent to 6.6 percent, and Redfin expects that rate to grow as buyers are looking for ways to save money.

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