Why 2019 won't be the year of affordable homes

Despite slowing price growth and slowing sales in many parts of the U.S., the national housing market is still going to become less affordable for many buyers next year, thanks to both rising prices and rising mortgage interest rates, according to a new forecast from Realtor.com. That means a true buyer's market is not on the horizon.

Though the forecast, out today, offers a few glimmers of hope for buyers, it paints an overall dour picture of the 2019 housing market as both buyers and sellers are forced to adapt to more expensive housing transactions.

Perhaps most significantly, Realtor.com expects mortgage rates to average 5.3 percent in 2019, and to hit 5.5 percent by the end of the year. That increase comes after multiple interest rate hikes in 2018, and will ultimately make buying a home 8 percent more expensive next year, according to the forecast.

The rising cost of buying a home will likely slow price growth, which Realtor.com expects to average 2.2 percent, and lead to a modest increase of 7 percent in home inventory.

Danielle Hale, a Realtor.com economist, told Inman that overall 2019 will continue the softening trend that began in 2018.

"It's going to be a tougher year in some respects," Hale said.

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The combined effect of this trend will ultimately be fewer home sales across the U.S. in 2019.

However, according to Hale a buyer's market isn't expected within the next five years "unless there is a major shift" in the country's economic trajectory.

"Unfortunately for buyers, it's only going to get more costly to buy, especially the most-demanded entry level real estate," Hale said in a statement. "To be successful, buyers should think through how they'll adapt to higher rates and prices."

Danielle Hale

Those prices and rates are functioning as a kind of double whammy to slow the market down. Still, Hale pointed out that as recently as the 1990s, mortgage interest rates were more than double what they are now.

"Mortgage rates seem high but they're still below where we've seen them for most of history," Hale said. "I don't think it's a reason to stay away from the housing market if people are at a point in their life where they're ready to buy."

Longer term, Hale doesn't expect interest rates to hit 10 percent any time soon, but speculated that they could reach 6 or 7 percent sometime during the current business cycle.

On the brighter side, buyers who can afford to stay in the market will face less competition and fewer bidding wars, the Realtor.com forecast projects. And sellers will still make money, though less than in the recent past.

"Sellers who price competitively can still walk away with a handsome amount of profit, but not the

price jumps observed in previous years," the forecast states.

Not every market will respond to these trends in the same way. The forecast points out that major metro areas such as Seattle, Boston, and the San Jose region near Silicon Valley are all expected to see double digit growth in inventory next year.

"The majority of the inventory gains have been in upscale homes in high-growth markets, which suggests higher prices are incentivizing sellers," the forecast notes.

Booming cities in the West and Florida are also likely to thrive in 2019. The forecast projects price growth of 6.8 percent in Denver, 6.9 percent in Boise, Idaho, and 7.9 percent in Las Vegas. The area around Sarasota, Florida, should see a 6.2 percent increase in prices, while prices in the Daytona Beach area are expected to grow 6.3 percent. The Lakeland-Winter Haven metro area will see prices rise by 7.4 percent, Realtor.com projects.

The largest demographic of people buying all these homes will be millennials, or people born in the 1980s and 1990s, the forecast predicts. In 2019, millennials will make up 45 percent of homebuyers. Members of Generation X will make up 37 percent, and Baby Boomers 17 percent. The forecast predicts that 2020 will be "peak millennial home buying year."

Hale said younger buyers do face a tough housing environment, and there seems to be a "general feeling that it's more difficult." But despite the obstacles, millennials are ultimately unlikely to shy away from buying homes.

"I think in spite of the challenges," Hale said, "millennials are quick to recognize that buying a home is a way to build up wealth in the long run."

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