Zillow’s 6 predictions for the 2018 housing market

If only we could stare into a crystal ball to see exactly what 2018 holds for the housing market. More inventory? Yes! Slower home price growth? Absolutely! Oprah giving everyone a free house? That would be a dream come true.

For now we have forecasts from top economists and housing experts. And Zillow chief economist Svenja Gudell offered hers on behalf of Zillow.

“We’re on the other side of the housing recovery, and the real estate market looks quite different than it did 15 or even five years ago,” Gudell said in a statement. “We have a huge generation entering the market. They really want to be homeowners, and they’re faced with an inventory crisis that leaves them with few options.”

“Builders won’t ignore this hungry market, and we’ll start to see a rise in new construction at the more affordable end, instead of all the luxury buildings we’ve seen lately,” she added.

“However, builders are also facing high costs, so instead of adding density in cities where zoning laws and land costs often preclude affordable building, we’ll see the suburbs grow and expand outward.”

Here are the six things Gudell expects to happen in 2018:

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1. Inventory shortages will drive the housing market. Gudell says low inventory will continue to push up home prices and serve as a barrier for first-time homebuyers who struggle to save for a down payment.

Furthermore, this demographic of buyers will struggle to compete against more seasoned buyers who have profited from a home sale and know how to negotiate their way to the top.

Lastly, Gudell says there are 12 percent fewer homes to choose from nationwide than there were a year ago, and 51 percent of for-sale properties are in the top one-third of home values, which are out of reach for first-time buyers.

2. Builders will turn their focus to entry-level homes. Economists have said over and over again that increased residential housing starts, especially at the starter home level, are the key to bringing home prices down.

Housing starts have been well below the 50-year average of 1.2 million, but Gudell expects builders to finally hearken to the call of first-time and lower- to middle-income buyers yearning for more affordable options.

3. Millennials will move to the suburbs. It's no secret that the majority of millennials would rather live in urban centers with access to a plethora of entertainment and shopping options and robust tech-centered job opportunities. But most millennials, especially those without help from parents, can't afford to live in these areas.

Gudell says 25- to 34-year-olds will begin moving to the 'burbs in search of more affordable home prices.

4. Many homeowners will remodel rather than sell. In addition to higher housing starts, experts have said more homeowners selling their homes would help alleviate low inventory issues. Well, homeowners, despite having high confidence about being in a seller's market, will continue to stay

still, says Gudell.

Instead of buying a new home, homeowners will invest in remodeling efforts to make their current homes feel and look brand new.

5. Baby boomers and millennials will drive home design. Baby boomers and millennials are driving the housing market, so it's no surprise that Gudell says they'll be driving home design trends in 2018, too.

New starts and renovated homes will feature designs that appeal to both millennials and baby boomers, such as wide hallways that can accommodate both strollers (for young families) and/or wheelchairs (for aging boomers).

Furthermore, homes will also be built using frameworks that make it easy to add elements later, including extra support beams behind shower walls to which grab bars can be added as older generations age in place.

6. Homes prices will continue to grow, but at a slower pace. 2017 has been full of record-breaking home price growth, with economists calling it nearly "unstoppable**."**

Gudell says home prices are expected to climb 4.1 percent in 2018 — 1.1 percentage points higher than the "normal" annual appreciation closer of 3 percent, but slower than the current annual pace of 6.9 percent.

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