

2017 ECONOMIC & HOUSING FORECAST

WINDERMERE REAL ESTATE | MATTHEW GARDNER, CHIEF ECONOMIST

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MILLENNIALS AND FIRST-TIME BUYERS WILL BE A MAJOR PART OF THE 2017 HOUSING MARKET

I believe that 2017 will be the year that Millennials get into the market in full force; we will also see substantial growth of non-Millennial first-time buyers. In recent years, many first-time buyers have remained “on the fence”, but the likelihood of continued interest rate increases, in concert with a tightening labor market, will drive many of these buyers into homeownership.

MORTGAGE RATES WILL INCREASE TO ABOUT 4.6 PERCENT BY THE END OF 2017



Although interest rates remain remarkably low, they are expected to rise as we move through 2017. I am forecasting the 30-year fixed rate to increase to about 4.6 percent by year's end. Yes, this is above where interest rates currently stand, but still very low by historic standards.



THERE SHOULD BE A MODEST INCREASE IN THE NUMBER OF HOMES FOR SALE

In 2016 the laws of supply and demand were turned upside down in a majority of markets along the West Coast. Home sales and prices rose while listings remained anemic. In the coming year, there should be a modest increase in the number of homes for sale in most major West Coast markets, which should relieve some of the pressure.

2017 WILL REMAIN A SELLER'S MARKET

While I expect inventory levels to rise in 2017, it will remain a seller's market. New construction will pick up steam in 2017, but not to levels that will provide sufficient support to a stretched housing market. Sellers will likely find that it will take a little longer to sell, but demand will still outstrip supply on the back of a job market that continues to tighten.



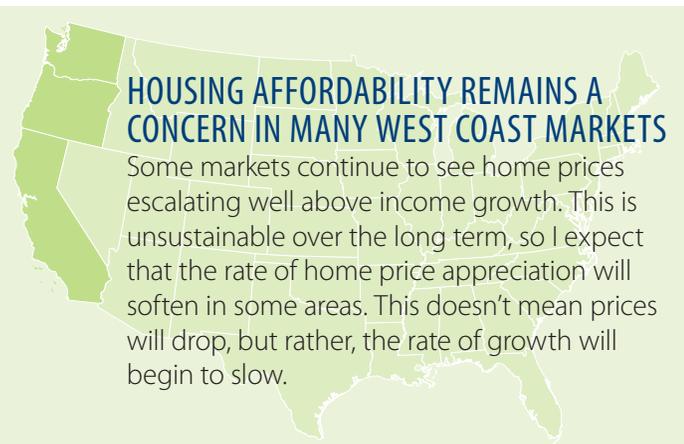
EXISTING HOME SALES AND HOME PRICES WILL RISE IN 2017

Existing home sales in the U.S. are expected to rise to 5.57 million units in 2017. I am forecasting existing home prices to rise to a median of \$243,000 in 2017—an increase of 4.5% from 2016.



NEW HOME SALES WILL CONTINUE TO SEE DOUBLE-DIGIT INCREASES, BUT PRICE APPRECIATION WILL BE MORE MODEST

In 2017, I anticipate sales of new homes will continue to increase by about 12.2%; new home prices will see a more modest 3.1% increase as construction costs weigh on prices.



HOUSING AFFORDABILITY REMAINS A CONCERN IN MANY WEST COAST MARKETS

Some markets continue to see home prices escalating well above income growth. This is unsustainable over the long term, so I expect that the rate of home price appreciation will soften in some areas. This doesn't mean prices will drop, but rather, the rate of growth will begin to slow.

THERE IS NO IMPENDING HOUSING BUBBLE IN THE COMING YEAR

I continue to hear concerns about an impending housing bubble, but I believe these fears to be unfounded. While price growth will likely slow in certain areas, there is no indication that the floor will fall on housing prices anytime soon. Everything I'm seeing points towards a modest shift towards a more balanced market in the year ahead.



MATTHEW GARDNER is the Chief Economist for Windermere Real Estate, specializing in residential market analysis, commercial/industrial market analysis, financial analysis, and land use and regional economics. He is the former Principal of Gardner Economics, and has over 25 years of professional experience both in the U.S. and U.K.


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