

How The Real Estate Market Will Change In 2016?

The only constant is change. That's just as true of the real estate market as it is of anything else. As a result, you can expect to see some changes in the industry in 2016.

Here's how real estate will change this year.

1. High Rents Will Go Higher

A character known only as "Brandon S." made news recently when he decided to set up his permanent residence on the parking lot of his employer. In this case, his employer is none other than the search engine giant Google.

Why did Brandon decide to live in a truck in a parking lot instead of buying or renting a house in the Bay Area? Because, as a famous ex-politician once put it, the rent was too damn high.

"For all the money I'm spending on this apartment, I'm hardly ever there!" Brandon wrote on his blog. "I wake up, catch the first GBus to Google, work out, eat breakfast, work, eat lunch, work, eat dinner, hang out at Google, and eventually take a bus home, pack my gym bag for the next day, and go to sleep."

Although property prices in San Francisco aren't reflective of the rest of the country (the median price for a home in San Francisco as of last year was \$1.36 million, compared with a median price of \$223,000 for a home in the entire U.S.), it's still true that people are getting squeezed in rent.

That's not going to change. Expect rents to go even higher in 2016. That doesn't necessarily bode well for residential real estate investors. If people find that it's more affordable to buy than rent, they'll start shopping for homes quickly.

As noted at ThinkConveyancing: "We're seeing more renters buy houses than we've ever seen. They're pricing out mortgages at low rates and realizing that they can save money and build equity by purchasing a home instead of renting an apartment."

2. Mortgage Rates Will Go Higher

As of this writing, the current rate on a 30-year fixed mortgage stands at 4.05 percent. By the end of 2016, expect that number to go higher.

In 2015, we saw a great deal of volatility in mortgage rates. The average rate went up, but then it came back down again. You can expect those types of swings to continue.

However, by December you should expect to see the average mortgage rate stand at 4.5 or 4.6 percent. Those higher rates will, of course, drive mortgage payments higher. That's going to put more of a squeeze on homeowners and also make it a little more challenging for people to build their net worth. It's also going to put a damper on sales of higher-priced homes. Look for luxury home sales to suffer a mild slump as homebuyers look for more affordable options because of higher rates.

3. Millennials Will Drive Sales, But Not as Much as in 2015

Millennials bought almost two million homes in 2015. They were the largest plurality of homebuyers at 32 percent. They were also by far the largest percentage of first-time homebuyers at 68 percent.

Expect that trend to continue this year as a housing industry hungry for sales develops homes for the Millennial market. Keep in mind also that college-educated Millennials, while not flush with cash, often enjoy a comfortable income. It's not uncommon for them to be able to afford mortgage payments on top of their college loan payments.

However, it's not likely that Millennials can keep pace with the staggering figures that they reported last year. While the market certainly offers opportunity for a younger generation, they're not going to dominate like they did in 2015.

4. Gen-Xers Will Be There Too

Gen-Xers are often in the "financially recovering" category. That is, they've made some mistakes with their money or struggled during the Great Recession. In 2016, look for them to emerge as viable homebuyers.

In some cases, Gen-Xers will sell their primary residence to move to a better neighborhood. In other cases, they'll sell so they don't have to pay rent anymore (see point No. 1). In either case, they'll provide a boost to the real estate market that will certainly be appreciated.

5. It's a Good Year to Sell

Overall, expect real estate prices to jump 3 to 5 percent in 2016. That means it's going to be a very good year to sell.

Supply is still tight, which is advantageous to the seller. The buyer doesn't have a lot of choices and may have to settle on paying a little more than originally planned just to get into a great place.

Wrapping It Up

It's impossible to predict the future in any market. Although there certainly will be changes, the real estate market looks to stand strong in 2016.

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