Home buyer resolutions

By Ilyce Glink and Samuel J. Tamkin, Tribune Content Agency, Real Estate Matters

It has been a rough couple of years for home buyers. At the beginning of 2016, we said, "Be prepared to see higher prices and fewer homes on the market." At the beginning of 2017, we said, "Expect to see more of the same."

And now, as we enter 2018, the news may be even worse for home buyers. Housing economists are predicting even fewer homes will be listed for sale, and not enough new homes will be built to satisfy demand, which means home prices will skyrocket further, putting incredible pressure on home buyers.

And that's before the full effects of tax reform are known and understood. What is known is that millennials have become the largest segment of home buyers. They've time-shifted home buying into their mid-30s, and are now looking to stop paying (ever-escalating) rent and set down some roots.

But it's going to be a tough year for anyone to buy a home. The number of homes for sale (known in real estate jargon as "inventory") is very low. If tax reform requires -- but only if enacted this way -- homeowners to live in their homes for five out of the last eight years instead of two out of the last five years before keeping up to $250,000 (or $500,000 if you're married) tax free from the sale of their homes, that will likely keep many people from selling.

Is there anything that could help home buyers? The elimination of SALT (state and local tax) deductions might encourage a few more homeowners to sell in a higher-cost state and move to a lower-cost state, but only if they can get a comparable job. No one wants to net out with a lower standard of living because they're paying lower taxes but getting less money. And, eliminating deductions might push down housing prices, which have become overheated in some markets.

The tight labor market might help some home buyers increase their earnings. Over the course of 2017, more than 2 million net new jobs were created. According to the National Association of Realtors chief economist, Lawrence Yun, 17 million new jobs have been created since 2010, and "current employment levels are way above the pre-recession levels by nearly 10 million."

What might hurt home buyers next year? All of the same things, and more. Eliminating or just limiting the mortgage interest and property tax deductions will hurt middle-income and upper-middle-income home buyers. Rising interest rates mean homes are even more expensive. Limited inventory means home buyers are chasing fewer homes, so prices may rise.

And while more new homes are being built, the overall new number is nowhere close to the number from before the housing crisis. While overall employment is solid, construction employment is still slow in coming, Yun said. "Although the latest month's job growth rate in the construction sector of 2.7 percent is twice as fast as the overall growth rate, total construction jobs are still well below the pre-recession levels by roughly 20 percent. Without more skilled construction workers and more hiring in the sector, the housing shortage will continue well into 2018."

As we often say, when it comes to buying a home, the best defense is a great offense. If you're going to buy, be prepared. Here are some home buyer resolutions you should make if you're preparing to buy a home (particularly a first home) in 2017:

1. Understand how much you can spend. Rising interest rates coupled with falling deductions means you need to get pre-approved for your mortgage (as opposed to pre-qualified) so that you'll be able to act quickly when you find the right house. Remember that there's a difference between what lenders tell you is affordable and what will feel affordable to you.

2. Learn how much your home will cost. Yes, there are the costs of the mortgage, real estate property taxes, and insurance. And then there's the cost of heating and cooling your future home. Maintenance is typically underestimated by home buyers, especially first-time home buyers, so be sure to set aside enough in your budget for small things (like blacktopping your driveway every year or two) and big things (like re-roofing or tuckpointing).

3. Think about how easy (or hard) it will be to sell before you buy. Whatever attracts you to a home will be the thing you lean on when it comes time to sell. (And, we won't always have a seller's market in this country. In 2009 through 2012, it was really difficult to sell a home.) But just because you can overlook a major flaw (a highway in your front yard or backyard, or a municipal waste facility across the street, or some other reason the location is undesirable) doesn't mean future buyers will -- unless the price reflects that.

4. Understand the art of negotiation. The past few years have been all about sellers, and 2018 is looking to start in the same direction. That means you have to be prepared to pay more and get less. But, there are still deals to be found. You just have to look harder. You also have to understand what you want and what you're willing to give. Real estate doesn't have to be a zero sum game. Just because you win doesn't mean everyone else has to lose.

The best real estate deals allow everyone to shake hands and walk away from the table feeling like a winner. And in what looks to be another year of uncertainty, disappointment and just plain incivility, spreading a little extra goodwill during the negotiations and at the closing table seems like a very good idea indeed. We promise it will pay off in spades.

Happy New Year!

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