

# FOUR HOUSING PREDICTIONS

*Plus 10 Hottest Local Markets in 2014*

As we welcome the New Year, Zillow Research has identified **HOUSING TRENDS** we can expect to see in 2014. Here they are:

## U.S. home values will increase by 3 percent

# 1

In 2013, home values rose rapidly (roughly 5 percent nationwide and more than 20 percent in some local markets) and while these gains were beneficial at the time to pull home values up from unnaturally low levels, they were also unsustainable. Many metros saw appreciation well above historic norms, sometimes 4 or 5 times their historic appreciation levels. **THIS YEAR**, home value gains will slow down significantly because of higher mortgage rates, more expensive home prices, and more supply created by fewer underwater homeowners and more new construction.

## Mortgage rates will reach 5 percent by the end of the year

# 2

We believe that as the economy continues to improve, the Federal Reserve will start to taper its quantitative easing efforts, which, in turn, will cause mortgage rates to rise. We expect by late next year, rates will exceed **5 PERCENT** for the first time since early 2010. Because affordability is still high in most areas relative to historical norms, rising rates won't derail the housing recovery. However, some areas will be impacted by rising mortgage rates more so than other areas, as some markets are *very close to their historical affordability levels* and will soon become unaffordable. Higher mortgage rates will put additional pressure on these markets, particularly some of the booming California markets.

## It will be easier for borrowers to get a mortgage in 2014

# 3

Despite higher mortgage rates, actually getting a loan will become **EASIER** next year. With less demand for refinancing, lenders will have to make up lost business by competing for new buyers and loosening their lending standards a bit.

## Homeownership rates will fall to their lowest point in nearly two decades

# 4

Homeownership rates have been falling for some time now, and we expect this decline to **CONTINUE** as foreclosures continue to displace homeowners and rental demand continues to be high.

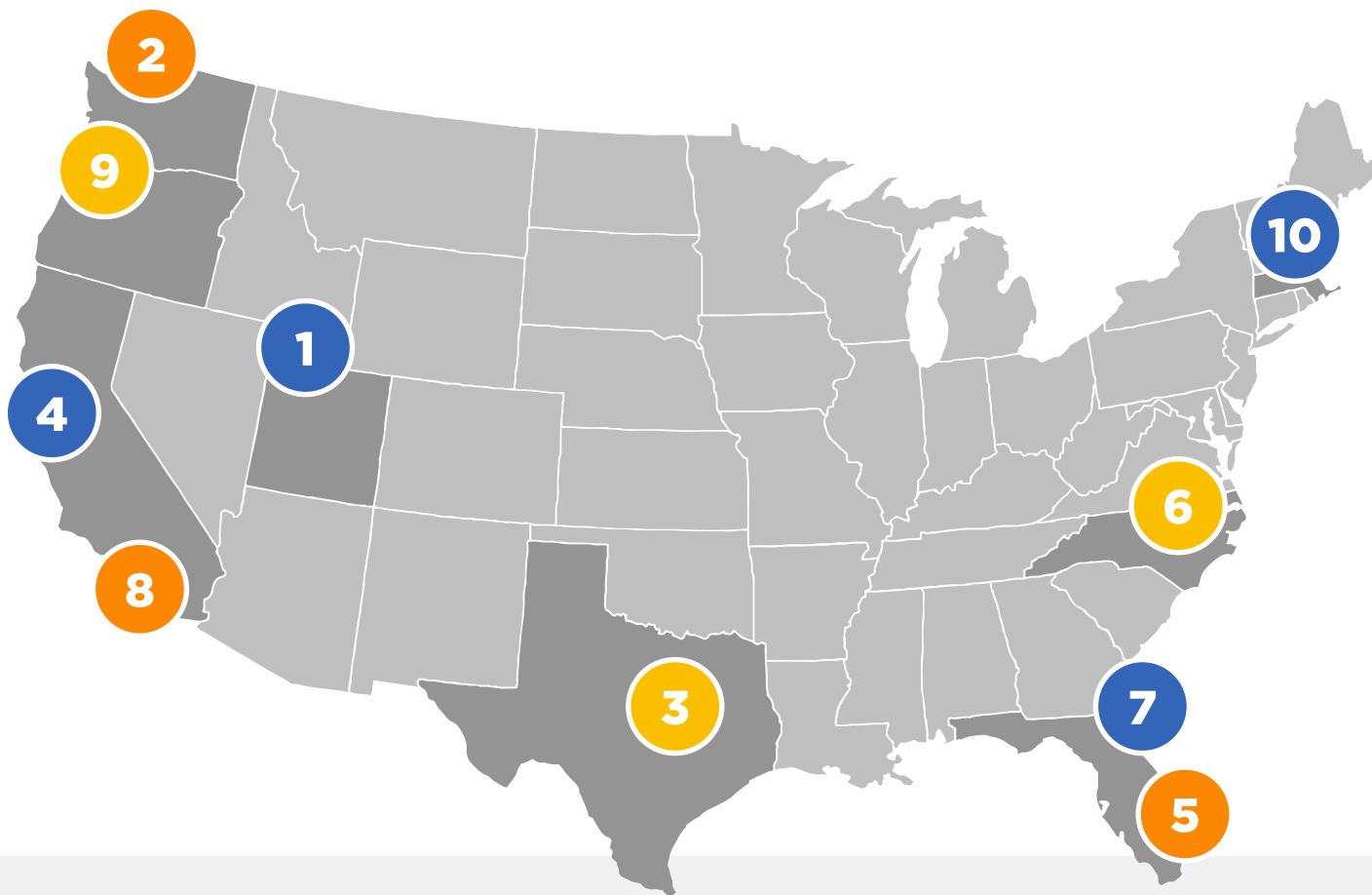
### Beyond the Predictions

Beyond the four housing predictions, most experts also agree that 2014 will likely see some level of overhauling of the nation's mortgage finance system and reforming of the government-sponsored enterprises (GSE) Fannie Mae and Freddie Mac. How these finance reforms will impact the housing market remains to be seen. **FOR MORE ON GSE REFORM,** see these articles and videos:

- [\*GSE Reform Needs to Happen Soon, But Process is Only Beginning\*](#)
- [\*A Conversation About GSE Reform with Senators Corker and Warner \(video\)\*](#)
- [\*On GSEs and HARP 3\*](#)

# 2014's Hottest Local Markets

To determine which markets will be the hottest in 2014, we combined data on unemployment rates, population growth and the Zillow® Home Value Forecast. Markets determined to be 'hot' are characterized by lower than average unemployment, population growth of greater than 2 percent during the past two years and are forecasted to have home value growth of more than 2 percent during the next 12 months. The list is intended to give an **EARLY VIEW** into housing markets that are likely to experience heavy demand for homes, as well as increasing home values.



## Top 10 Markets

- |    |                |     |              |
|----|----------------|-----|--------------|
| 1. | Salt Lake City | 6.  | Raleigh      |
| 2. | Seattle        | 7.  | Jacksonville |
| 3. | Austin         | 8.  | San Diego    |
| 4. | San Jose       | 9.  | Portland     |
| 5. | Miami          | 10. | Boston       |