IE Business Daily

Inland housing market should be strong in 2018

January 15, 2018

By IE Business Daily

All signs point to more home building and sales this year. How much the recently passed GOP tax reform package will help remains to be seen.

Will 2018 be the year enough houses are built in the Inland Empire to keep up with demand?

Probably not, but 2017 was a solid year for home construction in Riverside and San Bernardino counties, and 2018 should be at least as good, several people familiar with the market said recently.

That forecast assumes unemployment stays down and interest rates remain reasonable, as homebuilding goes up or down with the economy.

“I think we’re looking at a stronger market in 2018 than we had in 2017,” said Satish Lion, vice president of community development with Foremost Cos. Inc. in Newport Beach. “There should be a lot of activity as long as interest rates and unemployment stay low.”

Overall economic indicators are good, and there’s nothing on the horizon that suggests the economy is about to slow. Job growth in the Inland Empire is expected to continue at its current rate for the next year or two, then taper off to two to 2.5 percent, according to the UC Riverside School of Business Center for Economic Forecasting and Development.

Statewide, California and its various submarkets are expected to experience more economic activity and job growth in 2018, with construction expected to be one of the job sectors to add the most jobs.

The center did make one prediction regarding the Inland Empire housing market during its economic forecast conference in October: that single-family home prices in Riverside and San Bernardino counties will go up five to six percent during the next two years, mainly because of tight supply – most of California isn’t building enough houses to keep up with demand – and more renters.

“We will see some multifamily construction in 2018, but the main focus of the Inland Empire housing market this year will be single-family housing,” said Robert Kleinhenz, chief economist with the center. “Price points will rise, in single digits, mostly because the economy is so strong, not only in the Inland Empire but all over.”

The housing market, both in the Inland region and statewide, is still coming back from the recession, Kleinhenz said.

Kleinhenz, whose focus is the two-county region, made two predictions regarding the Inland Empire housing market in 2018: more millennials will start buying houses, and more communities for people 55 years old and older will be built.

“There’s been a delay with the millennials because they took a huge hit in the recession, but I think we might see that trend start to change,” Kleinhenz said. “As for communities for people 55 and older, you will definitely see more of that, although not everyone is retiring at 65 anymore.

“But some people will want to leave their larger home for something smaller and more convenient.”

Lion, whose company is developing a series of 55-plus communities in southwest Riverside County, said the Baby Boomers will keep those projects going well into the future.

“I don’t know the exact numbers but there are thousands of baby boomers retiring ever day,” Lion said. “A lot of them are selling their larger houses and trading them in for some equity. They don’t need more than a one-story house.”

Escrow closings of single-family homes in the Inland region are expected to rise about 10 percent this year compared with 2017, said Matt Sauls, vice president of marketing and product development with Pardee Homes' Inland Empire division.

One reason to be optimistic about the housing market, both locally and nationally, are changes the Federal Housing Administration made recently to its loan requirements. Among other things, those changes will make it easier for people to buy a home with a 3.5 percent down payment.

"That's a realistic goal we think we can help people get to," said Sauls, who said Pardee Homes closed escrow on about 600 single-family homes in Riverside and San Bernardino counties last year. "Our demographic, which is basically middle class, should be able to hit that. But it will help everywhere."

Unlike some people in the housing industry, Sauls is not worried about a hike in interest rates.

"If it's just a slight increase that can be a good thing because it can get people off the fence," Sauls said. "They'll say 'maybe we should get into the market now before rates go way up. So a small increase wouldn't necessarily be the end of the world."

One element new to the housing market this year is the recent tax reform package passed by Congress and signed by President Trump. The National Association of Home Builders predicts the new law will spur economic growth and boost the housing industry in the process, but Sauls is skeptical.

"Our understanding is that, starting in February, people are going to see a little extra in their paychecks," Sauls said. "If people have more money to spend that's a good thing for us. But I think it's too early to say what impact tax reform is going to have. We don't know for sure what's in it."