

Construction of homes won't return to normal this year, but it will strengthen enough to be the main driver of the housing recovery as home price gains shrink, according to investment manager Goldman Sachs Asset Management. GENE J. PUSKAR/AP

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2014 home market: Higher prices, sales

Gains won't be as strong as 2013, analysts say

By Julie Schmit
USA Today

The housing recovery hit high gear in 2013 with bigger-than-expected price gains and solid home sales. This year isn't likely to be as exciting. Rising mortgage interest rates will price out some potential buyers. Instead of double-digit price gains, look for single-digit ones, economists say, while existing-home sales remain at last year's level.

Sound boring? "You want boring in the housing market," said Svenja Gudell, director of economic research for Zillow.

Here's what's ahead:

» **Home prices.** They were the highlight of the 2013 housing market, up 12.5 percent in October year over year, CoreLogic says. Prices are now 20 percent off their 2006 peaks after falling more than 30 percent, shows the Standard & Poor's Case-Shiller index.

Economist John Burns looks for a 6 percent gain in 2014. Many others see smaller increases ahead. Zillow forecasts a 3 percent rise.

Prices will likely rise more slowly as more homes come on the market, fewer investors bid for homes and higher ownership costs — including interest rates and home prices — take a bite out of housing affordability, housing experts say.

Still, housing remains 4 percent undervalued when compared with other economic fundamentals, such as consumer incomes and the cost to rent, said Trulia economist Jed Kolko.

» **Existing-home sales.** They've started to slow. In November, they were down year over year for the first time in 29 months, National Association of Realtor data show.

The dip was driven by higher interest rates and a tight supply of homes for sale. It doesn't mean the housing recovery has come off the rails, because home prices and housing starts continue to improve, said Capital Economics economist Paul Ashworth.

Existing-home sales, which came in at a 4.9 million seasonally adjusted pace in November, are expected to be about 10 percent higher in 2013 than 2012 and stay about the same at 5.1 million in 2014, NAR forecasts. That's roughly back to 2007 levels but below the inflated levels preceding the housing crash.

New-home sales, which make up a smaller part of the market, have more room to grow. They hit an annual pace of 464,000 in November, up almost 17 percent from a year ago but still below the 700,000-a-year pace considered healthy.

» **Housing construction.** This part of the housing recovery has lagged. November's data showed an improvement, with housing starts topping 1 million a year, the Commerce Department said. That was up almost 30 percent from a year earlier, but it's still far below the norm. Starts averaged 1.5 million a year before the mid-2000s housing boom.

Construction won't return to normal this year, but it will strengthen enough to be the main driver of the housing recovery as home price gains shrink, according to Goldman Sachs.