SHOPOFF | REALTY INVESTMENTS

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How Affordability and Market Forces Continue to Shape Housing in 2025 | April 2025

In a recent edition of this newsletter, I shared that "each market and asset class brings its own set of challenges—and opportunities—for those with the experience and discipline may be better positioned to navigate them." That statement continues to hold true as we move through the spring of 2025. Recent insights from a leading housing economist further reinforce the careful balance required in today's environment, where affordability pressures, elevated interest rates, and regional variations in supply all play pivotal roles.

Affordability and Higher-for-Longer Interest Rates

One of the most persistent themes this year is the ongoing impact of elevated mortgage rates. Analysts anticipate rates will remain in the 6% to 7% range for the foreseeable future. While there is discussion about potential future rate cuts, the broader market is adjusting to the reality of "higher for longer." Builders have responded by relying heavily on incentives, including mortgage rate buy-downs, to maintain sales activity. Yet, affordability remains a critical hurdle, with the cost of owning a home now significantly outpacing the cost of renting in many markets.

Recent Tariffs and Their Impact on Mortgage Rates

Recent tariffs have introduced new volatility into the market, leading to a modest decline in mortgage rates. The immediate reaction was a flight to quality, pushing Treasury yields—and mortgage rates—lower. Over time, tariffs could influence rates in either direction: higher import costs may create inflationary pressures, while slower economic growth could encourage the Federal Reserve to cut rates. Navigating these crosscurrents with experience and discipline will be essential to finding opportunities amid uncertainty.

Diverging Trends in Resale and New Home Sales

The resale market has shown modest improvement year-over-year, with listings up nationally. However, distinct regional differences have emerged. Markets in the Sun Belt are experiencing a sharp rise in inventory, while supply in Southern California remains constrained relative to pre-pandemic levels. This tight supply has supported price stability despite broader economic headwinds.

On the new home side, builder sentiment remains measured. Sales are holding steady, supported by incentives, but overall consumer urgency remains muted. Community counts across Southern California are well below historical averages, driven largely by limited land availability and entitlement challenges. As a result, competition in these supply-constrained markets remains less intense compared to higher-production markets in the Southeast and Texas.

Rental Market Strength and Supply Dynamics

The rental market continues to benefit from challenges in the for-sale housing sector. Nationally, rental occupancy remains strong, particularly in markets with tight supply and high homeownership costs—such as Southern California. While some Sun Belt markets are experiencing pressure from elevated multifamily completions, the West Coast and Northeast regions continue to demonstrate resilience, supported by constrained supply and strong demand.
Demographics and Wealth Transfer: Long-Term Drivers

Millennials now represent a substantial portion of housing demand but continue to face barriers to homeownership due to elevated prices and affordability constraints. However, according to Cerulli Associates anticipated wealth transfer from Baby Boomers to younger generations could play a significant role in shaping future housing demand. Markets with strong job growth, high millennial concentrations, and diversified economies—such as Southern California—may benefit.