

Housing Perspective

2025 Housing Market Outlook

The California housing market had a rough start for the year as mortgage rates extended their upward trend in the first two weeks of 2025 and devastating wildfires in Southern California destroyed thousands of homes. Statewide home sales pulled back in January and reached their lowest level in 13 months and the 10% month-to-month decline was the biggest dip in 30 months. Open-escrow sales in January also dipped from their year-ago level and had the largest year-over-year decline in 14 months.

Despite kicking the year off with a soft note, home sales should begin to pick up once we enter the spring homebuying season. While mortgage rates remain near their highest level since last July, they have trended down in the past four weeks since reaching their recent peak. Interest rates will likely moderate later this year but policy uncertainty and concerns about tariffs could keep inflation from easing, which could make it more difficult for rates to come down. However, with rates remaining elevated since late 2022, many buyers and sellers begin to accept the reality that rates are not going back to 3%, and the prevailing rate level could be the new norm. As such, assuming that the economy stays healthy in 2025, California should see an increase in housing demand in the next 12 months.

On the supply side, while the mortgage lock-in effect is still in place, it is expected to loosen up further this year. More properties will be released as more homeowners, who have been putting off their home trading plans in the past few years, decide to get back to the market. California, in fact, is already seeing an increase in housing inventory at the start of the year, as new active listings at the state level jumped at the sharpest year-over-year growth rate in 45 months in January. As the housing market gears up for the spring homebuying season, new active listings should continue to grow in coming months. While supply this year will still remain below the norm by historical standards, active listings are expected to increase by more than 10% if market conditions stabilize and the lending environment continues to improve.

The increase in for-sale properties will help bring more balance between supply and demand back to the market. Nevertheless, supply will remain tight by historical standards and the shortage will continue to apply upward pressure on home prices. In January, the statewide median price climbed again on a year-over-year basis and the gain recorded last month was slightly higher than the 6-month average observed between July 2024 and December 2024. The acceleration in price growth is an indication that further price gains could be observed in the coming months. Assuming a mild decline in rates in 2025, home prices should rise moderately with the state's median price climbing 4.6% to \$905,200.

California Housing Market Outlook

	2020	2021	2022	2023	2024	2025f
SFH Resales (000s)	411.9	444.5	343.0	257.9	269.0	297.3
% Change	3.5%	7.9%	-22.8%	-24.8%	4.3%	10.5%
Median Price (\$000s)	\$659.4	\$784.8	\$819.4	\$814.3	\$865.4	\$905.2
% Change	11.3%	19.0%	4.4%	-0.6%	6.3%	4.6%