

**August 25, 2025** – In July, the U.S. housing market showed signs of weakness as California home sales and prices softened further. Pending sales also fell sharply, while inventory climbed to their highest level in nearly six years, as high mortgage rates and economic uncertainty continued to linger on. Nationally, housing starts surprised to the upside but permits continued to decline, pointing to ongoing slowdown in single-family construction, despite multifamily demand remaining resilient. Buyers' caution was also evident in the record-high share of canceled contracts, while fix-and-flip investors scaled back amid rising costs, labor shortages, and slowing price appreciation. Against this backdrop, Federal Reserve Chair Powell signaled that a September rate cut is likely as the central bank could begin to shift its focus back to job growth, since labor market risks appear to be rising.

**California Housing Market Cools in July as Sales Slide, Prices Dip, and Inventory Hits Six-Year High:**

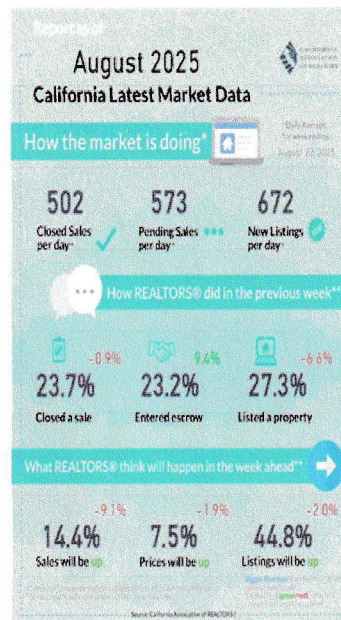
California's housing market weakened in July as sales fell both month-over-month and year-over-year, marking the fourth straight annual decline and pushing year-to-date activity into negative territory for the first time in six months. Elevated mortgage rates and economic uncertainty kept many buyers on the sidelines, while pending sales registered their sharpest annual drop since late 2023. The statewide median home price slipped year-over-year for the third straight month to a five-month low, despite seeing price gains persisted in many counties across the state. On the supply side, active listings continued to increase from the year-ago level for the 17th consecutive month, reaching their highest level in nearly six years. While broad-based growth continued to be observed in almost every county, the pace of increase in inventory has begun to slow in recent months. Overall, the market reflects an ongoing pullback in demand as high borrowing costs and economic uncertainty continue to keep buyers on the sideline.

**Housing Starts Jump in July, but Falling Permits Signal Ongoing Weakness in Single-Family Construction:**

In July, U.S. housing starts jumped unexpectedly, but a continued decline in building permits pointed to ongoing weakness in residential construction, especially in the single-family sector. Single-family starts rose 2.8% but remained down year-to-date, with regional growth concentrated in the South. Permits have been trending lower since February and could pull back further in the months ahead as builders remain cautious about the current home building environment. Builder sentiment worsened in August, as the NAHB Housing Market Index fell nearly to its lowest level in over a decade (outside the pandemic era), as housing affordability and soft demand remain ongoing concerns for developers. Meanwhile, multifamily construction has gained momentum, with starts up nearly 19% year-to-date, supported by strong rental demand amid high homeownership costs. Although multifamily permits dipped in July, the overall trend remains stable, particularly in the South and Midwest, where developers continue to respond to demand for apartments.

**Home-Purchase Cancellations Hit Record High for a July as Buyers Pull Back amid Rising Costs and Uncertainty:**

In July 2025, about 58,000 U.S. home-purchase contracts - or 15.3% of pending sales - were cancelled, according to a study published by Redfin. The cancellation rate last month was the highest on record for a July going back to at least 2017. The increase in the number of home purchases falling through reflects buyers' hesitation amid elevated mortgage rates, high home prices, and market/economic uncertainty, as many buyers exercise contingencies or seek better deals. Cancellations were most pronounced in high-growth markets such as San Antonio, Fort Lauderdale, and Jacksonville, while more stable areas like New York and Seattle saw far fewer terminations. A few of the major metros in California that experienced increases in cancellations from a year ago include Los Angeles (16.5%), Riverside (19.5%), and San Diego (16.1%). Sacramento (14.3%), on the other hand, was one of the 11 metros that fell in cancellations year-over-year. The trend underscores a "buyer's market"



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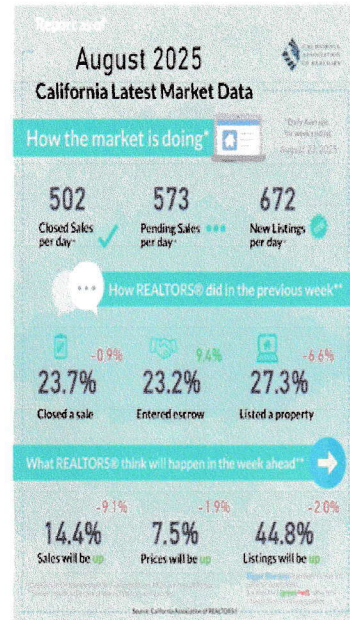


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dynamic, where affordability challenges and cautious sentiment are keeping demand restrained before mortgage rates started declining in recent weeks.

**Fix-and-Flip Investors Retreat as Rising Costs, Labor Shortages, and Slowing Home Prices Erode Market Momentum:** In the second quarter of 2025, fix-and-flip activity slowed notably as developers faced mounting cost pressures and labor shortages, according to an index from John Burns Research and Consulting and Kiavi, a lender focused on the real estate investor. Investor sentiment fell, with only 30% reporting "good" sales - down from 38% a year prior, prompting many professional flippers to scale back deal volume even as ROI margins held steady near 30%. Regions like Florida, Northern California, and the Southwest experienced the greatest headwinds due to elevated insurance costs, competition from homebuilders, and cooling home price appreciation.

**Powell Signals September Rate Cut as Fed Balances Persistent Inflation with Rising Labor Market Risks:** Federal Reserve Chair Jerome Powell signaled that monetary policy easing is likely to take place in September, citing a shifting balance of risks between persistent inflation and a softening labor market. While inflation pressures remain elevated due partly to tariffs, Powell believed with more confidence now that these effects could be transitory. He noted that while unemployment remains stable, downside risks to employment are increasing, which requires the Fed to shift its focus back to maximizing sustainable employment. With policy still restrictive but closer to neutral than a year ago, Powell reiterated that the upcoming decisions will be data-dependent and stressed that the Fed will adjust carefully to evolving economic conditions rather than follow a preset course. Following Powell's speech at Jackson Hole, mortgage rates posted their biggest drop since August 1, slipping to the lowest level since October 3, 2024, according to Mortgage News Daily.

**Note:** *This summary report gets updated every Monday by 6:00 pm PST. Feel free to email us at [research@car.org](mailto:research@car.org) if you have any questions and/or feedback.*