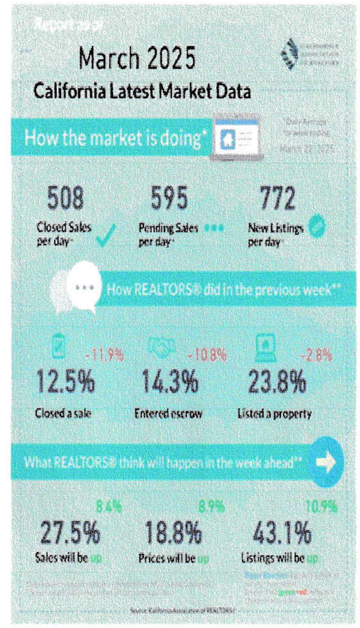
March 24, 2025 – California bounced back solidly after a slow start for the year as mortgage rates declined throughout the month of February. While home sales remain soft by historical standards, the increase is a first step in the right direction. Concurrently, the Federal Reserve held interest rates steady but lowered economic growth forecasts, citing trade policy risks. U.S. housing starts also rebounded, while homebuilder sentiment dropped to a seven-month low. Despite rising uncertainty in the economy and the policy arena, rates are expected to moderate later this year, and the housing market should continue to improve in Q225 and Q325.

Sales of existing homes in California reach a 2-year high: California home sales had a solid rebound in February as mortgage rates declined from their recent high in the second half of January when many sales opened escrow. Closed sales of existing single-family homes jumped 12% month-over-month and reached the highest level in 28 months. Statewide pending sales, however, dipped from last year's level for the third consecutive month but the drop was much smaller than the decline observed in January. The statewide median price increased 2.8% on a year-over-year basis, but the gain recorded last month was the smallest since July 2023. Price growth will remain positive and moderate throughout 2025, but the statewide median price will likely climb further in the next few months. New active listings at the state level rose year-over-year by double-digits for the second consecutive month but also recorded their first January-to-February decline in the last five years. The unusual dip could either be just a temporary hiccup due to the recent financial market volatility, or it could be a signal of the concern of the economy's well-being, which could in turn have a lingering effect on supply.

The Fed holds interest steady but lowers economic growth forecasts: The Federal Reserve held the fed funds rate steady in the March's FOMC meeting and maintained the prediction that the Central Bank will cut rate two times this year. The Fed's policy statement noted that "uncertainty around the economic outlook has increased," likely referring to the risks from the Trump's trade policy and the impact they may have on the economy. The U.S. central bank also lowered their GDP growth forecast and the Fed's chair Jerome Powell admitted that inflation progress has been delayed this year, partly due to the tariffs. Officials at the Federal Reserve now see inflation being higher this year than previously predicted but still expect the inflation goal to be reached by 2027. The Fed also announced that it will slow the pace of quantitative tightening beginning in April. The financial market reacted positively to the news, with the 10-year treasury yield dipping slightly on the day of the Fed's announcement and remaining steady in the following two days.

Housing starts bounce back as harsh weather eases: U.S. housing starts rebounded by double-digits after a rough start in January, as weather conditions improved in many parts of the country. Total housing starts in February jumped 11.2% month-over-month after dropping 11.5% in the prior month but was still down 2.9% from the same time last year, according to the latest release from the Census Bureau. Single-family housing starts increased 11.4% from January and hit the highest level in 12 months. Housing constructions surged in the Northeast and the South as disruptions caused by harsh weather subsided, but building activity in the Midwest continued to be dragged down by winter storms. Housing starts in the West also rose, with a 5.9% increase from January and a 26.2% jump from February 2024. Despite a strong bounce back in starts, weak permits data suggests more headwinds for residential construction in the months ahead. Total housing permits dipped 1.2% from January and dropped 6.8% from 12 months ago. The West region had even bigger declines of -7.6% month-over-month and -8.8% year-over-year. With mortgage rates staying high and trade policy uncertainty lingering on, the outlook for residential construction will remain murky in the near term.



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Weekly MLS Market Data Report

Quarterly Member Sentiment Report

Homebuilder sentiment drops to seven-month low: Builder confidence in the U.S. housing market dropped to its lowest level in seven months, with the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI) falling to 39 in March, down from 42 in February. Homebuilders are feeling less confident primarily due to concerns over tariffs, elevated mortgage rates, and high housing costs. To help boost market activity, the NAHB survey found that 29% of builders reduced home prices in March, an increase from 26% in February. The average price cut in March was 5%, which was unchanged from the prior month. Sales incentives were used by 59% of builders, also unchanged from February. Regional HMI scores showed declines in all regions, with the Midwest dropping the most by five points, and the West sliding the least by one point. Builders' expectations for future sales volume remained the same at last month's 47, which was the lowest level since December 2023.

Mortgage delinquencies edge up in February: Mortgage delinquency rate last month rose month-over-month and year-over-year but remained well below the pre-pandemic level, according to the latest release on delinquencies from Intercontinental Exchange (ICE). Mortgages that were late in payment by at least 30 days or more increased five basis points (bps) to 3.53% in February and were up 19 bps from a year ago. The national delinquency rate was still 32 bps below where it was before the onset of the pandemic in 2020. California was ranked one of the bottom five states by non-current percentage, with a delinquency rate of 2.38% last month, an increase from 2.21% in February 2024. The wildfires in Los Angeles resulted in a surge in mortgage delinquencies in the area, with 4,100 homeowners' mortgage payment now past due, up from 700 in January. Daily performance data suggests that the number could climb again in March. With home prices expected to rise this year and assuming no recession in 2025, the delinquency rate should maintain its stability throughout the next 12 months.

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