HCM Property Management Monthly Newsletter - February 2025

Mortgage rates continue to dictate the direction of the housing market and California had a soft start for 2025 as rates remained elevated. Despite a sluggish beginning in sales in January, housing supply increased more than expected last month, which could lead to slower price growth, more options for buyers to choose from, and allow some demand to be fulfilled as competition heats up in the upcoming homebuying season. There is no doubt though that the market will see challenges in the months ahead, as uncertainties in the policy arena continue to linger on and are affecting the sentiments of both consumers and builders.

January home sales dragged down by elevated rates: California home sales pulled back to start the year as mortgages rates climbed in the first two weeks of 2025 and reached their 8-month high in mid-January. The number of closed sales of existing single-family homes in January fell 10% to 254,110 from the revised 282,490 recorded in December. The level of homes sold fell to the lowest level in 13 months and the double-digit month-to-month decline was the biggest dip in 30 months. On a year-over-year basis, statewide home sales decreased 1.9% and registered their first drop in eight months. With rates trending down in the past five weeks, home sales activity could see some improvement at the end of the first quarter if rates continue their declining trend.

Housing supply jumps at the start of the year: After dipping for the first time in 12 months in December 2024, new active listings at the state level bounced back with the sharpest year-over-year growth rate in 45 months. While the number of newly added properties remained below the pre-pandemic level in early 2020, the latest figure recorded last month was the five-year high for a January. New active listings, in fact, had the largest monthly growth rate in at least the last seven years. The surge in new for-sale properties last month resulted in a jump in the state's unsold inventory index. Total active listings also had the highest year-over-year growth rate in two years and increased on a month-to-month basis at an unseasonally strong pace. The solid rebound in housing inventory was due partly to the recent slowdown in market activity though. As the housing market continues to gear up for the spring homebuying season, housing supply will likely grow further in coming months.

Single-family rent growth registers below long-run trend rates in 2024: U.S. single-family home rent prices went up in December by 1.8% year over year, the lowest growth pace recorded in about four years, according to the latest CoreLogic Single-Family Rent Index. For the year as a whole, single-family rent growth had an average of 2.6% in 2024, a level below the 2010-2020 average of 3.5%. Prices for detached rentals grew 1.7% year over year, while attached properties increased by 1.8%. High-priced rental units experienced a faster growth rate, with an increase of 2.4% year over year, as compared to low-priced rental units which had a gain of 1.7% from a year ago. Of the metropolitan areas surveyed, Washington D.C. (+5.6%), Detroit (+5.5%), and Chicago (+5.1%) had the highest growth rates in December. With the job market remaining healthy and the demand for rental expected to remain solid, rent growth could remain steady or improve further in 2025.

Housing starts retreat in January as weather weighs on construction: U.S. housing starts fell sharply to start the year as harsh winter weather disrupted residential construction in January. Total housing starts plunged 9.8% from the prior month and was down 0.7% from the same time last year, according to the latest release from the Census Bureau. The steep monthly decline was attributed partly to the normalization following an outsized increase in December amid recovery from hurricanes, but snowstorms and freezing temperatures also had a distortion effect on housing activity last month. The contrast in housing starts movement between regions was evident that the decline in starts was weather-related. Northeast, Midwest, and the South - where the adverse weather hit the hardest, dropped sharply by double-digits in each region. Homebuilding in the West, on the other hand, surged 42.3% month over month. Looking ahead, an inch-up in permits may suggest a slight bounce-back in construction activity in the coming months, but elevated interest rates, tariffs, and new immigration policies could put a drag on home buildings in the road ahead. In fact, the February builder sentiment index released by

NAHB/Wells Fargo fell sharply and dropped to the lowest level in five months as developers became increasingly more concerned about prices of building materials and labor shortage in the construction industry.

Consumer sentiment dips to 15-month low: U.S. consumer sentiment extended its decline for the second straight month and plunged nearly 10% from January, according to the February's Survey of Consumers released by the University of Michigan. The survey's Consumer Sentiment Index declined to 64.7 from January's 71.7 and was the lowest reading since November 2023. All five components that make up the index dipped in February, with expectations on personal finances and the short-run economic outlook both falling by nearly 10%. Fears of tariffs that could potentially drive up inflation were the driving force for the decline, as respondents to the survey saw inflation over the next 12 months rising to 4.3% in February from 3.3% in January. The latest reading on inflation expectations was the highest since November 2023 and the increase was widespread across income and age groups. With trade policies likely to remain uncertain in coming months, consumer sentiment may continue to fluctuate in the near term.

HCMPM Featured Listings

200 E. Wakefield Ave Unit #4
Anaheim, CA 92802

Schedule Viewing

963 E Mason Ln #89
Anaheim, CA 92805

Schedule Viewing

636 Springbrook North
Irvine, CA 92614

Schedule Viewing

Single-Family Homes Are Dominating Apartments in Rent Growth

According to a new study from Zillow, single-family rental (SFR) homes are outpacing apartments in rental pricing by 20%. The listing giant's rental market report for December 2024 shows a wider-than-ever gap between the two rental sectors, which only appears to be increasing.

Zillow analyzed the 50 largest U.S. metro areas and made the following determinations:

In December, the typical asking rent for a single-family home was $2,174 per month, up 4.4% over the past year and 40.6% since the start of the COVID-19 pandemic.
Apartment rents averaged $1,812 per month in December—up 2.4% year over year and 26.2% higher than pre-pandemic levels.
Concessions are being offered on two out of every five rental properties offered on Zillow.
For-sale inventory continues to recover but is still 25% below pre-pandemic norms.
The widest discrepancy between single-family and apartment rental pricing was in Salt Lake City, where SFRs were 59% more expensive than multifamily units. Detroit had the smallest percentage at 9%, and Pittsburgh—having undergone a single-family construction boom in recent years—had

a low 14% difference.
In December, Denver joined Austin and San Antonio, Texas, as the only metro areas where rents have fallen since 2023. However, rents fell monthly in 32 major metro areas. The largest monthly drops were in Denver (-1.3%), Salt Lake City (-0.6%), San Jose (-0.6%), Portland, Oregon (-0.6%), and Austin (-0.5%).
Rents rose from 2023 levels in 47 of the 50 largest metro areas. Annual rent increases were highest in Hartford, Connecticut (7.9%), Cleveland (7%), Richmond, Virginia (6.5%), Providence, Rhode Island (6.2%), and Chicago (5.8%).
As is often the case, supply versus demand was the main reason for the increasing rental discrepancy.

Skylar Olsen, Zillow's chief economist, said in a press release:

"Right now, more multifamily units are hitting the market than at any time in the past 50 years, but detached homes aren't seeing the same surge in construction. We've also got the large millennial generation wanting to move into a larger space. High and unpredictable mortgage rates and hefty down payments are pushing some to rent that lifestyle instead of buying it. Similarly discouraged, some homeowners may return to the market and sell to capitalize on record prices, rather than continue to wait for lower rates."

An Apartment Building Boom Results in Record-High Numbers of Concessions

The deluge of new apartments has resulted in property managers offering potential tenants concessions such as a month's free rent or free parking to fill units. Another interesting fact is that millennials are now renting for far longer than previously before buying a home—another reason for the delay in building single-family homes versus apartments.

Zillow's latest Consumer Housing Trends Report found renters' median age to be 42 in 2024, up from 33 just three years prior. The study concludes that the number of new apartments means that concessions in the multifamily sector will likely continue.

Single-Family Homes Are Fueling Rent Growth Backed by Wall Street

The cost of buying a single-family home, along with high mortgage rates and insurance costs, is proving prohibitive for potential buyers. Families looking for the convenience of living in a single-family home and a suburban lifestyle in a good school district are prepared to pay ever-increasing rents for the privilege.

Wall Street is heeding the demand, buying into and funding buy-to-rent communities, and driving up rents. Blackstone, Invitation Homes, and Pretium Partners are among the big Wall Street firms expanding their build-to-rent portfolios. According to the National Association of Realtors analysis of U.S. Census Bureau data, the share of build-to-rent housing starts doubled to 10% of overall single-family housing from 2021 to 2023.

However, there's a dark side to this trend. Invitation Homes, the biggest single-family rental operator in the U.S., agreed to pay the Federal Trade Commission $48 million in September 2024 to settle charges related to deceptive rental pricing practices and unfair evictions.

"When institutional investors or larger landlords own the rental units, we see an increase in the number of evictions for tenants," Ruth Jones Nichols, a former housing official in the Biden administration who now serves as executive vice president of programs at the Local Initiatives Support Corp, told the Wall Street Journal.

Should You Buy a Single-Family Rental or Apartment Building in 2025?

It's almost impossible to say what is a better investment—a single-family home or a rental—because it depends largely on an investor's goals, funding, and appetite for risk. There are pros for both. Multifamily investors like Grant Cardone swear by multifamily investing for obvious reasons: scalability and cash flow.

However, no discussion about investing is credible unless location is factored into the equation. A single-family home in a good neighborhood is liable to outperform a similarly priced multiunit in a high-crime neighborhood over the long run, giving you far fewer headaches along the way.

Here are some factors to consider.

Scalability
If you want to scale a portfolio and build your door count, you must invest in multifamily rentals. Again, the caveat for this is the quality of the multifamily units you are investing in. There is no point in investing in 1,000 doors that do not cash flow (for various reasons: poor tenant pool, overleveraging, high repair costs). A single-family portfolio in good neighborhoods with sensible financing makes more sense. Risk
The Cardone argument generally holds true here. All things being equal, you are mitigating your risk with a 16-unit multifamily or more rather than a few single-family units in the same neighborhood for a similar price simply because one vacancy won't kill your cash flow with a multifamily building.

Appreciation
Single-family homes are appreciating at a clip these days and are in high demand for rentals. However, the great thing about a multifamily with over four units (the more units, the better) is that an investor can force appreciation by doing repairs and increasing rents. Unlike single-family homes, multiunits are valued based on rent roll, not comps. For this reason, it is easier to plan an exit strategy with a multifamily building than a single-family one.

Financing
There are many arguments to the financing equation. However, for the rookie investor, single-family or small two-to-four-unit multifamily properties are easier to finance than larger multifamily buildings. That's because commercial buildings (five units and more) require a 25% to 30% down payment, whereas one to four units can be financed with an FHA loan (3.5%), providing the investor lives in the unit for at least a year. Beyond that, the argument changes because investors can use 1031 exchanges to continue to scale their portfolios.

Tenant turnover
Single-family homes have less tenant turnover than multifamily units. Assuming you have purchased your single-family home in a decent neighborhood, a single-family portfolio will likely give you fewer headaches than a multiunit. That, however, is a broad generalization, and there are always exceptions.

Final Thoughts
If you are on the fence about buying a single-family rental or a multiunit—all things being equal—you need to size up the competition. If hundreds of new apartment buildings are springing up around you, with deep-pocketed landlords offering concessions to move in, it will generally be hard for an investor to compete unless they can offer a similar product at a lower price. Many renters are willing to pay a few hundred dollars more per month to be in a new amenity-filled building than an older multiunit building without amenities.

There is generally less competition in the single-family arena. However, build-to-rent communities could also pose competition, so as an investor, you need to pick your location carefully to maximize demand and minimize competition.

LA fires: What we know so far, and what's ahead for housing

The wildfires that have devastated parts of Los Angeles this month already rank as one of the most expensive natural disasters in U.S. history. As the region starts to move forward, many questions remain.

Over the last few weeks, Real Estate News spoke to industry leaders and experts who shared their perspectives on the area's housing future. Some are pushing for policy changes that will allow communities to rebuild faster, while others believe certain areas should not be rebuilt at all. Though opinions differed, they conveyed a common sentiment: This is a time for unity, empathy and resilience.

A historic disaster
Just two days after the fires broke out, some experts were already predicting it could be the most expensive wildfire in U.S. history, with early damage estimates of around $50 billion. At that time, roughly 2,000 structures had been affected.

Now, with more than 18,000 structures damaged or destroyed, those estimates exceed $250 billion. That number is likely to grow as local leaders, government agencies and private insurers get a clearer picture of the destruction.

By comparison, Northern California's 2018 Camp Fire — the costliest U.S. fire to date — resulted in losses of around $12.5 billion, the WSJ reported. And the country's most expensive natural disaster of all time was Hurricane Katrina in 2005, with $102 billion in insured losses (adjusted for inflation).

Agents asked to serve — and protect

Mauricio Umansky, CEO of The Agency and star of Netflix's Buying Beverly Hills, told Real Estate News that agents need to "give extraordinary service to the people that need housing." But he had no sympathy for property owners who were trying to profit from the situation.

"I have asked my agents that if they have any landlords that want to price gouge, that we fire them," Umansky said. "I don't want to work with those motherf*****s."

Price gouging is prohibited following an emergency declaration, but that hasn't stopped some landlords and agents from attempting to take advantage of displaced families. California's attorney general has sent more than 650 warning letters to potential violators, and in some cases, has pressed charges.

While there are some bad actors, many property owners want to help. Several local MLSs were able to add a new "Fire Relief Rentals" property type, allowing "agents and residents to identify housing options specifically available to displaced families," according to real estate tech company FBS, which created the tool in response to the fires. "Homeowners with properties for sale can list them as temporary rentals, landlords can make long-term rentals available for short-term use, and individuals can even offer spare rooms to help displaced families," FBS said.

How do we rebuild — and should we?

In the aftermath of a disaster, the focus often turns to rebuilding. But some experts caution against rebuilding in the same way — or even rebuilding at all — in places with a high risk of future wildfires or other environmental dangers.

"I mean, to me, it's just very obvious what's happening — it's nature rebelling against us. We maxed out the credit card," Seydina Fall, a senior finance lecturer at Johns Hopkins Carey School of Business, told Real Estate News.

But the Los Angeles area remains a major economic engine, and rebuilding is inevitable. The best way to reduce future risk? "Building to a building code that includes wildfire mitigation measures will be number one," said Lindsay Brugger, VP of resilience at the Urban Land Institute.

California's home insurance crisis

As climate-related disasters have increased in frequency and severity, the state's insurance troubles have also become more dire. Some major insurers have stopped issuing new homeowner policies in California or dropped existing policyholders — decisions affecting thousands of residents.

While the California FAIR Plan — the state's "property insurer of last resort" — has been an option for those unable to get coverage elsewhere, the recent wildfires could effectively bankrupt the program, and legislators are scrambling for a solution. If the plan cannot be sustained, the state's insurance woes could reach critical levels.

Going forward, Californians may have to consider alternative insurance models where individual communities "start insuring themselves," said Seydina Fall.

A call for real estate 'unity'

The tragedy in LA moved Marc Davison, co-founder of 1000WATT, to connect with a couple of friends in the real estate industry and music industry. The goal? To quickly produce a song that could spread positivity and hope — and raise money for affected families. He worked with John Heithaus, CMO of Ocusell and the owner of a Grammy-nominated record label in Nashville, and David Charron, former CEO of Bright MLS and a current board member with Collabra, on a track titled "Santa Ana Fury." Visitors to the song's Bandcamp page are invited to donate to The Realtor Relief Foundation.

"The idea of the song was to create unity, to unify our industry around something positive, as opposed to all this negativity," Davison told Real Estate News. "We're going to fight over Clear Cooperation. Some people want it. Some people don't want it. People hate this. People hate that. So much hate. Can we just do something together?"

Evaluating damage 'a big hill to climb'

Current cost estimates of the wildfire damage are just that — estimates — and it will take considerable time and effort to accurately assess the number of homes lost and the cost to rebuild.

"We're eager to initiate the restoration and start understanding how big the hill is we have to climb," Dr. Tom Jeffery, senior hazard scientist for CoreLogic Location Science, said during a webinar to industry professionals this month.

Data scientists and experts like Jeffrey will "start at the parcel level," he explained, looking at individual properties, their size and when they were built to help gauge the cost of rebuilding. They also utilize aerial imagery and compare it to what those on the ground are observing to get a more holistic view.

But not everything is easy to measure or predict.

"Let's be frank," Jeffrey said. "We don't have a society that is used to the fact that there are going to be a lot of inefficiencies and wait times for getting plans approved, getting buildings permitted and inspected — and all of those inefficiencies will be contributing to a higher-than-average reconstruction cost."

Irvine Market Report