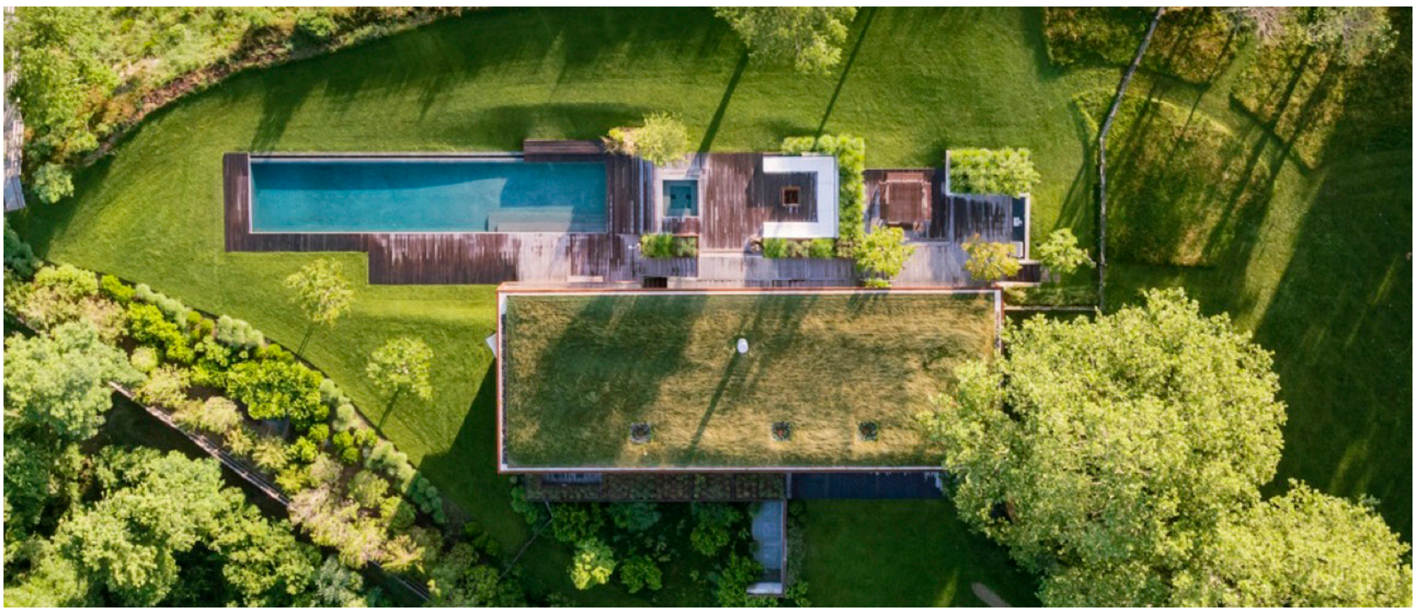
HCM Property Management Monthly Newsletter - March 2025



Inflation easing and retail sales bouncing back provide some good news for the economy and help set the tone for the Federal Reserve's meeting scheduled to take place later this week. It will be difficult, however, for the central bank's officials to ignore the consumers' pessimism and their persistent rise in inflation expectations observed in recent weeks. As of now, financial markets are betting that the Fed will leave the benchmark fed funds rate unchanged in the March meeting, but a 25-basis point rate cut in their May meeting is still a possibility.

Retail sales bounce back but at a slower-than-expected pace: U.S. retail sales rebound slightly in February after starting off the year with a sharp decline. American consumers spent 0.2% more last month than the prior month, but the increase was less than the 0.6% gain expected by economists. Overall spending on retail and food services in January was also revised downward to -1.2%, which was the biggest drop since 2021. Retail sales in February were dragged down by a pullback in spending at gasoline stations (-1.0%) and a slump in auto sales/car parts (-0.4%), but sharp declines at department stores (-1.7%) and restaurants (-1.5%) also contributed to weak sales last month. With the labor market staying healthy and wages increasing at a solid pace, growth in retail spending could remain in positive territory in March despite consumer pessimism about the future. Worries over economic growth will intensify, however, as the U.S. continues to engage in aggressive tariffs battles with its trading partners, and more pullbacks will likely take place in the second quarter if trade wars linger on.

Inflation cools in February: The latest headline Consumer Price Index (CPI) went up 0.2% from the prior month and was up 2.8% from the same month of last year. The annual growth in price was the first deceleration after four straight months of increases and the 12-month change came in lower than consensus expectations of 2.9%. The headline CPI was moderated by a slowdown in energy and food prices, as gasoline prices dropped 1% month-over-month, while grocery store prices were flat from the prior month. Shelter costs' growth continued to slow, with the annual increase up 4.2% from the prior year – the smallest gain since December 2021. Core CPI also slowed in February, up 3.1% on a 12-month basis and recorded the lowest reading since April 2021. Meanwhile, the Producer Price Index (PPI) released a day after the CPI report also provided some welcome news on inflation. February's wholesale price growth came in lower than expected, with the headline PPI showing no gain for the month as compared to a 0.3% increase projected by economists. Prices for hospital care, insurance, and air fares remained elevated, however. Economists predict that the personal consumption-expenditure index (PCE) – the Fed's preferred inflation gauge – could come in hotter than expected as inflation from those areas assert upward pressure on the PCE.

Small business optimism falls as uncertainty rises: The NFIB Small Business Optimism Index in January dipped for the second consecutive month in February. At 100.7, the level of optimism for small business owners remained above the prevailing average for the past four years. Despite the index falling by 2.1 points last month, February's figure remained above the 51-year average of 98 for the fourth consecutive month. While economic perceptions remained higher than what was observed in recent years, business sentiment continued to pull back last month as seven of the ten components that made up the optimism index dropped from the prior month. The Uncertainty Index rose again by four points in February and reached the second highest reading on record, as tariffs and layoffs in the government sector began to weigh on small firms. The expectation on the economy to improve lost 10 points from January, while the net percent who believed it is now a good time to expand dropped five points from the prior month. With trade wars likely to continue and escalate to a higher level in the near term, small business optimism could deteriorate further in coming months.

Consumer sentiment dives to a 28-month low: U.S. consumer sentiment declined for the third consecutive month and plunged another 11% from February, according to the March's Survey of Consumers released by the University of Michigan. The survey's Consumer Sentiment Index slid to 57.9 from last month's 64.7 and was the lowest reading since November 2022. Concerns about tariffs boosting prices and undercutting the economy were the primary factors in the deterioration in sentiment. Consumers' year-ahead inflation expectation jumped to 4.9% in March, the highest level since November 2022. Long-term inflation expectations also surged from 3.5% in February to 3.9% in March, and the month-to-month increase was the largest observed since early 1993. As the Federal Reserve is about to meet later this week to discuss the direction of the fed funds rate, it would be difficult for them to ignore the persistent rise in inflation expectations.

Foreclosure activity rises but remains muted: U.S. foreclosure activity increased from last month, as filings went up 5% month-over-month but declined 1.7% from a year ago, according to ATTOM's latest U.S. Foreclosure Market Report. A total of 32,383 properties in the U.S. had a foreclosure filing status in February, which was significantly below the peak observed during the 2008 housing market collapse when filings exceeded 300,000 per month. At the national level, one in every 4,395 residential properties had a foreclosure filing in February, an increase from the prior month when one in every 4,618 units had a foreclosure filing. States with the highest foreclosure rates include Delaware, Illinois, Nevada, New Jersey, and South Carolina. With home prices expected to rise again in 2025 and assuming that the economy will not go into a recession, foreclosure activity should remain stable in the next 12 months.

HCMPM Featured Listings

1 Dover Pl #1
Laguna Niguel, CA 92677

Schedule Viewing

280 Cagney Ln #207
Newport Beach, CA 92663

Schedule Viewing

122 Matisse Cir #109
Aliso Viejo, CA 92656

Schedule Viewing

Falling rates 'a strong incentive' for buyers to act

Mortgage rates have fallen for a seventh straight week — will that be enough to kickstart home sales, or will other factors keep buyers sidelined? Those are some of the big questions on the minds of housing economists as the spring homebuying season gets underway.

The 30-year fixed-rate mortgage averaged 6.63% this week, according to Freddie Mac, down significantly from last week's average of 6.76% and the largest weekly decline since September, noted Sam Khater, Freddie Mac's Chief Economist. For buyers, that "should provide a strong incentive to make a move," Khater said.

That's because buyers could now save around $100 on their monthly mortgage compared to January, when rates topped 7%, said Bright MLS Chief Economist Lisa Sturtevant. Affordability is still a concern as home prices continue to rise, but perception goes a long way, and lower rates could "provide buyers with the psychological comfort they are looking for to get into the market," Sturtevant said.

Economic uncertainty could drive rates up ... or down
While "lower rates will spur on the housing market," according to Realtor.com Senior Economist Joel Berner, he added that rates could remain elevated due to "stubbornly high" inflation "which will not be helped by the tariffs that the Trump administration appears committed to rolling out." Those tariffs are likely to affect the homebuilding industry and push up the cost of everyday consumer goods. Higher prices, in turn, impact investor sentiment, Berner said, which can cause rates to rise.

But the uncertainty surrounding tariffs and other economic policies can also drive investors toward the safety of bond purchases, said Samir Dedhia, CEO of One Real Mortgage — and that could pull rates down further. The current economic turbulence has also "fueled expectations that the Federal Reserve will cut the Fed Funds Rate by 75 basis points this year, a notable shift from earlier projections," Dedhia said. Analysts previously forecast cuts totaling 50 basis points, with some saying the Fed might not cut rates at all in 2025.

Given these broader economic unknowns, buyers should expect mortgage rate volatility and "be prepared to act quickly if they see rates dip because they could easily come back up," cautioned Sturtevant.

Mortgage applications rise
Some buyers already appear to be acting quickly. The Mortgage Bankers Association reported that purchase applications rose 9% last week compared to the week prior, and while some of that is due to seasonality, applications were up slightly compared to this time last year, noted Joel Kan, MBA's VP and deputy chief economist. "These are more green shoots as we head into the spring homebuying season," Kan said.

Refinance applications posted an even bigger bump, increasing 37%. That's the fastest pace since October, Kan said.

Sales continue to lag
Despite the bump in mortgage applications and lower borrowing costs, many buyers are continuing to hold out. Pending sales were down 6.4% at the beginning of March, according to Redfin's latest weekly housing report. That's consistent with the most recent NAR data, which found that the Pending Home Sales Index fell to an all-time low in January — an indication of fewer closed transactions this spring.

Redfin attributes the slow pace of sales to the combination of high home prices and economic uncertainty. That $100 improvement in monthly mortgage payments? It's a different story when looking at changes in borrowing costs over the past year: Redfin found that today's buyers can expect to pay 5.3% more each month compared to a year ago.

That may be one reason demand has fallen slightly year-over-year, as measured by Redfin's Homebuyer Demand Index. But touring activity has increased since the beginning of 2025, following expected seasonal patterns, and inventory continues to edge up.

While agents might not yet be seeing the sales bump they hoped for this year, the spring shopping season is just getting started.

Stock Market Volatility Makes Real Estate Look a Whole Lot Better

After President Trump refused to rule out a recession on Sunday, the stock market's dramatic free fall on Monday showed how unpredictable relying on Wall Street can be when planning your financial future.

Trump said in an interview that aired Sunday on Fox News, "There is a period of transition because what we're doing is very big. What I have to do is build a strong country. You can't really watch the stock market."

The Dow Jones Industrial Average fell 890 points the following day, down 2.1%. The S&P 500 fell 2.7%, while the tech-heavy Nasdaq Composite fell 4%, its largest decline since 2022, and into correction territory. All the major indexes fell below their Election Day levels.

In light of the stock market's recent roller coaster ride, real estate remains a rock-solid investment if you prefer drama to be on the stage and big screen, not in your asset portfolio. Even Warren Buffett, who has mastered the art of picking the right stocks, admitted after the 2008 financial crash: "If I had a way of buying a couple hundred thousand single-family homes and had a way of managing them ... I would load up on them. I would take mortgages out at very, very low rates."

The Draw of Real Estate
Widening the lens, if the stock market is such an up-and-down investment, why do so many people invest in it?

Real estate is rarely passive, especially when starting out, leveraging, and building a residential property portfolio. Tenants, repairs, and turnover, now against the backdrop of higher interest rates and soaring insurance costs, put it out of the comfort zone for most investors with busy lives. However, not being hands-on—as with stocks—does have a downside.

"When you hit retirement, you do not need a lump sum in an IRA or 401(k)," Grant Cardone told GoBankingRates last year. "What you need when you retire at 65 or 68 years old is income to take care of your expenses. I would look for vehicles that, when you retire, are going to pay you money every month."

Cardone expounded: "When I was 30 years old, I started looking for the asset class where I couldn't lose money. That means I can't just save money because money is going down in value. I can't be in the stock market because I could lose money."

Given that real estate produces passive income, appreciates over time, and offers tax write-offs, Cardone rightly points out: "There's only one asset class that does all that. It's not gold, silver, Bitcoin, or the stock market—it's real estate."

The Case for Stocks
There are many recent instances where the case for the stock market has been extremely compelling, outstripping anything real estate has been able to match. Over the past five years, innovative GPU maker Nvidia, responsible for facilitating the artificial intelligence (AI) boom, has seen its share price rocket—with a 2,000+% increase over the last five years!

However, even Nvidia employees likely had no idea their company would become so successful. Being able to predict that kind of explosive growth is rare—otherwise, we would have all invested.

Even if you didn't buy Nvidia stocks or those of other tech giants such as Apple, Amazon, or Microsoft and put your money in real estate-related stocks, such as various well-performing REITs, Home Depot, and Bankrate's picks—Champion Homes and Builders FirstSource—the stock market would have done well for you. Crucially for investors, it would have been without the hassle of dealing with rental properties.

To Cardone's point, however, for the average investor without a nuanced understanding of analyzing a company's performance portfolio as a master investor like Warren Buffett can, the stock market does seem a bit like a fairer casino, but still a casino. You assume you'll be dealt a decent hand but never truly sure. While real estate certainly has its risks, it's not as pronounced and grants you more control. Issues can be mitigated, such as removing bad tenants, performing repairs, and investing in the right areas.

When you factor in the benefits of appreciation, leverage, cash flow, and depreciation, real estate becomes appealing for investors who don't mind a less passive approach than the stock market.

A Tough Spring
Traditionally, one of the key advantages of owning real estate over stocks has been potential cash flow. In a high-interest rate environment like ours, it's been hard to make a case for this. This means that, in the short term, unless you buy your real estate for all cash or with a large down payment, you won't be cash flowing.

Coupled with high home prices, it's unlikely that this spring will see a thaw; in that respect, you will be buying real estate for the same reason most people buy stocks: for long-term wealth accumulation. Over time, the stock market and real estate have consistently risen. The advantage of real estate is that even in a challenging market, the tax benefits make owning a portfolio that pays for itself worthwhile.

"While our National Index continues to trend above inflation, we are a few years removed from peak home price appreciation of 18.9% observed in 2021 and are seeing below-trend growth over the history of the index," Brian D. Luke, chartered financial analyst, head of commodities, real and digital assets at S&P Dow Jones Indices, told Forbes.

Current Real Estate Investors Are in a Good Position

For investors who currently own real estate, the difficult buying conditions will only increase demand for rental properties, meaning you won't have a problem finding tenants to pay market rents. Also, the general lack of housing inventory means home prices are likely to keep increasing.

"I don't expect to see a meaningful increase in the supply of existing homes for sale until mortgage rates are back down in the low-5% range," Rick Sharga, founder and CEO of CJ Patrick Company, a market intelligence and business advisory firm, told Forbes.

"More often, it seems the case that home prices generally keep rising, so the goalposts for amassing a down payment keep moving, and there's no guarantee that tomorrow's conditions will be all that much better in the aggregate than today's," Keith Gumbinger, vice president at online mortgage company HSH.com, said in the same article.

Meanwhile, the stock market's volatility this week has sent fearful investors straight towards bonds. The 10-year Treasury yield has fallen to 4.3%, down from 4.5% at the end of February and 4.8% in January. This matters a whole lot to real estate investors, as 30-year mortgage rates are typically tied to the T-bill's yield. As a result, we've already seen some mortgage rate relief—rates fell to 6.8% as of Wednesday, down from 7.1% just a few weeks ago.

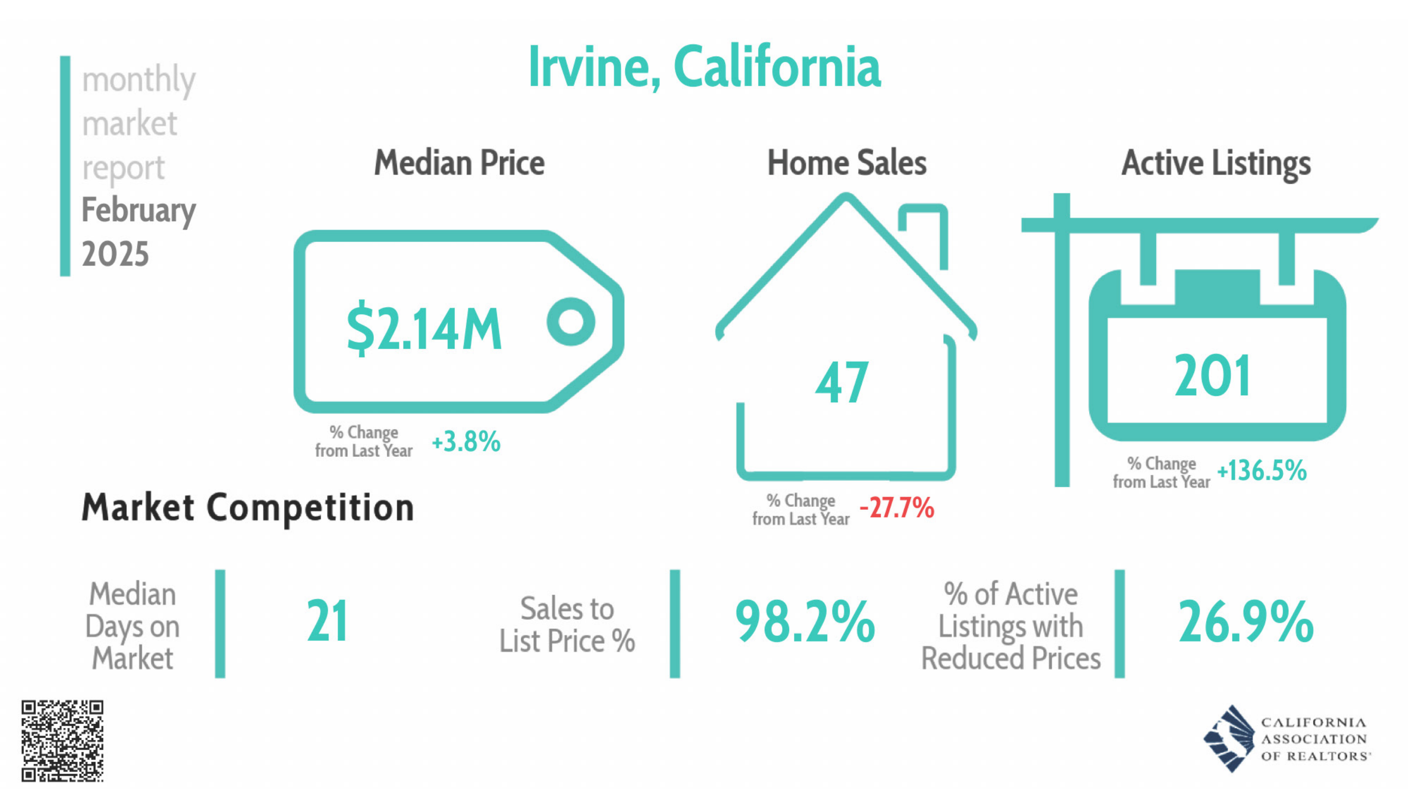
Whether the downward pressure on T-bill yields continues is up in the air, as the latest CPI report seemed to calm investors somewhat, ending the stock market's tailspin.

Final Thoughts
In an ideal portfolio, stocks and real estate work hand-in-hand. I know people who have done phenomenally well by owning tech stocks (Nvidia in particular), then sold some of their stocks and purchased real estate, which they have paid off quickly as share prices continued to rise, creating a stress-free real estate investment scenario.

But to a tech and Wall Street outsider such as myself, pulling off this remarkable feat seems a bit like threading a needle in a hurricane. Like many real estate investors, I was drawn to the asset class because I understand it, and I know I won't wake up as many stockholders did on Monday morning to see their wealth had fallen off a cliff thanks to a few inopportune words during a TV interview.

Investing is what you make it, and while I recognize I may not be maximizing my wealth, I sure as heck am protecting it.

Irvine Market Report



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