

Housing experts expect 2025 to be another strong year for new homes in the Sacramento Region

BY TIM MURPHY
NORTH STATE BUILDING
INDUSTRY ASSOCIATION

Sacramento-area homebuyers should have a good selection of new homes to choose from, according to two housing experts who spoke at the North State Building Industry Association's 25th annual Regional Housing Forecast.

Speaking to about 325 BIA members, economist Sanjay Varshney and real estate advisor Mollie Carmichael agreed that despite some economic headwinds, the fact that too few new homes and apartments have been built in the Sacramento region for at least the past decade means there are a lot of people who have wanted to buy new but were not able to.

"For the next five years we see employment softening compared to the past five years, but there's



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Moderator Clifton Taylor asks questions of panelists Sanjay Varshney, Mollie Carmichael and Tim Murphy at the North State BIA's 25th annual Regional Housing Forecast.

pent-up demand because we couldn't provide enough new housing," said Carmichael, a principal with national real estate consulting firm Zonda.

She also noted that permit applications for both single-family and apartments in the region are the highest since 2006 and are projected to edge upward in the next three to four years.

Varshney, a professor

and former business school dean at Sacramento State and founder and principal of Goldenstone Wealth Management, agreed the market will remain in good shape but noted there are some headwinds.

"If the government doesn't go crazy, we should be fine in 2025. The economy will be OK," he said. But he added that the fact that many companies

are now requiring employees to return to the office, coupled with downsizing at Intel and other area companies, could be a problem.

"Many of my neighbors are now on the road (back to the Bay Area) three days a week and they hate it," he said.

Of course, mortgage interest rates were a hot topic at the event. From a historic low of 3% or even slightly below by the end of the COVID pandemic, they climbed to above 7% at their peak before easing into the 6% range currently. Those increases significantly increased the monthly payments for buyers, but Carmichael and Varshney pointed out that homebuilders are able to help reduce those rates for many of their buyers.

Builders often are able to buy down the interest rate for at least the first few years — often to between 4% and 5% — making the purchases more affordable.

That is a feature often not available to buyers of existing homes.

Additionally, the number of existing homes on the market continues to be constrained by the unwillingness of homeowners who bought or refinanced when interest rates were at their all-time lows to sell.

While interest rates are fluctuating, both experts agreed they should fall further in the months to come. Varshney predicted they will wind up between 6% and 6.5%, while Carmichael was slightly more optimistic, believing rates will fall into the upper 5% range.

To help address the affordability problem, builders are designing somewhat smaller homes than in the past and working to increase density. But the biggest problem is the difficulty builders have in getting land zoned and entitled, lengthy delays and, of course, the high

fees charged in the region, which average \$100,000 per home and can be as much as \$130,000.

One piece of good news is that state voters approved Proposition 2, the school repair and construction bond measure, earlier this month. Had it failed, builders would soon have had to absorb the state's share of school financing as well as their own share, which would have added another \$40,000 to the cost of each new home. That would have made many developments infeasible and so would have added even more to the state and region's housing crisis.

The BIA will continue working with local governments to speed approvals and reduce fees to provide more new homes and more affordability.

But on a more positive note, Carmichael noted that a home today is no longer just a place to sleep.

"A home is the one place people feel a sense of control and security in a turbulent world, so housing today is a bigger deal than it's ever been before," she said. "It's the one place where people can control their safety, the quality of schools, and where they work."

The BIA couldn't agree more.