

MONEY

Home sellers and buyers: What you must know for 2025

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The year promises a mix of good and harsh news.

The good news: Buyers will have more properties to choose from. Home prices won't skyrocket. *
Mortgage rates might drop, to the relief of buyers and some sellers.

The harsh news: Even if mortgage rates fall, they probably won't decline much. That will restrict affordability for buyers, and some homeowners will keep their homes off the market as long as mortgage rates remain elevated.

Here's a cheat sheet for buying or selling a home in 2025 (or doing both), along with advice from successful real estate agents.

Folks get real about mortgage rates

Buyers have one overriding question for 2025: "Can I find a home I can afford?" Three other questions lurk inside that one: What will happen to mortgage rates? What will happen to home prices? Will I find a wide-enough selection of homes?

First, mortgage rates: The 30-year mortgage rate spent much of 2024 above 6.5%, occasionally shimmying above 7%. For most of the year, forecasters expressed confidence that rates would fall below 6% in 2025. But since the election, forecasters have begun revising their mortgage rate predictions upward. They're forming a consensus that mortgage rates will remain above 6% in 2025. *

Mortgage rates parked themselves below 5% for 11 years from February 2011 to April 2022, and home buyers and refinancers grew accustomed to the friendly rate environment. But we're entering what more than one commenter called the "new normal." Terri Robinson, a real estate agent with Re/Max Distinctive in Ashburn, Va., says buyers "are getting used to the new normal in terms of what interest rates are — and they've stopped looking for that 3% unicorn."

Prices should rise, but not by a ton

When it comes to home prices, we talk of supply and demand. In 2024, buyers quickly made offers when mortgage rates dropped to around 6.25% or lower. Demand cooled when rates climbed above that. As rates rose, homes lingered on the market. According to Altos Research, there were 28% more

homes on the market in the first week of November than the same week a year before. Higher inventory benefits buyers because they have more properties to choose from.

Demand for homes still exceeds the supply, but the imbalance isn't as acute as it used to be. This means home prices will keep rising in 2025, but probably not by a lot, especially while mortgage rates remain above 6.25%.

Home prices might accelerate whenever mortgage rates drop noticeably, as buyers get off the sidelines and start bidding against one another for the limited supply of homes available.

The housing shortage may ease

You can trace the shortage of homes to a couple of factors. First, builders haven't constructed enough houses and apartments in the last 18 years or so. Second, many homeowners keep their homes off the market because they refinanced into mortgages with ultralow rates in 2020 and 2021. Almost half of outstanding mortgage debt has an interest rate of 3.5% or lower, according to the Urban Institute. *

These homeowners know that if they sell, they would pay a much higher interest rate on their next home. This dynamic, known as rate lock-in, prevented 800,000 homeowners from selling their homes in the 15 months between the second quarter of 2022 and the third quarter of 2023, according to a working paper published in November by the National Bureau of Economic Research. *

Stacy Hennessey, a real estate agent with McEneaney Associates in Falls Church, Va., sees signs that rate lock-in weakens over time. "People are getting used to the higher interest rates. People want to move," she says. "So I think people are just going to carry on with their plans and start putting their houses on the market." *

Robinson, the agent in Ashburn, Va., advises sellers to think less about the low mortgage rate they're giving up, and more about the home equity they've built. The monthly payment on the next house "may be the same or less, depending on how much equity you have and how much of that you want to use to put down on your next house," she says.

Advice for home sellers

Home sellers will continue to have a negotiating advantage over buyers. But sellers' dominance has slipped since 2021, and they must put in the work to market their homes effectively. "Stop thinking you hold all the keys to the castle," says Andy Sachs, managing broker for Around Town Real Estate in Newtown, Conn.

Begin by demonstrating value, says Chuck Vander Stelt, a real estate agent in Valparaiso, Ind. Work with the listing agent to set a reasonable price, and tell buyers about updates made to the home.

Insist that your agent hire a professional photographer, says Hennessey, the agent in Falls Church, Va., because buyers "will look at the first five photos and if they're great, they'll continue on. But if they're crummy, they're not going to look."

Hennessey laments the poor quality of real estate photography. “It’s an advertisement. It’s not a disclosure,” she says. “We don’t need to see your dirty closet. We don’t need to see your toilet seat up.”

Advice for home buyers

Buyers, on the other hand, should search first for deal-breaking flaws before focusing on a home’s delights, agents say.

Victoria Ray Henderson, owner and broker of HomeBuyer Brokerage in Bethesda, Md., says, “Don’t just go into the kitchen and go, ‘Wow, look at this granite countertop!’ You know, you gotta look at the bones first.”

If the home has a basement, “go directly into the basement first and look at the condition and the smell of that basement.” Has water gotten in? Has the owner taken steps to prevent water damage? If you find the basement acceptable, then climb the stairs and geek out over the kitchen counters.

A cautious buyer goes even further. Hennessey recommends that buyers in competitive markets get pre-offer home inspections. This means hiring a home inspector to accompany you and your agent on the home tour. A one-hour inspection won’t get into as much depth as a three-hour post-offer inspection, but it’s enough to detect something big, like a crack in the foundation. Not every seller will allow a pre-offer inspection, “but usually they do because they want an offer with no contingencies.”

The final bit of advice comes from Vander Stelt, who urges action over hesitation. “Go out there and buy,” he says. “Stop looking at interest rates. If you can afford the house today, buy it.”

