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Losses from natural disasters such as California's Palisades fire are hitting new records. ALISHA JUCEVIC FOR WSJ

Climate Change Projected to Wallop U.S. Home Values

BY NICOLE FRIEDMAN AND DEBORAH ACOSTA

Climate change will cause a \$1.47 trillion decline in U.S. home values by 2055, according to a new study from climate-research company First Street.

Rising home-insurance costs and more homeowners spurning some risky neighborhoods will drive these declines, First Street said.

The study is an attempt to quantify the economic risk that weather events such as hurricanes, drought and heat waves pose to many Americans' biggest financial asset—their homes.

Thousands of displaced Americans are contending with the fallout from recent natural disasters including this year's wildfires in Los Angeles and hurricanes that ravaged the Southeast last fall.

The relationship between climate change and home values has become a more urgent question as losses from storms, wildfires and other natural disasters are hitting new records. Climate change is making many of those events worse, scientists say, and more Americans have moved to disaster-prone areas in recent years, increasing the number of properties at risk. *

First Street projects the hardest-hit places will have rising home-insurance costs and population declines. The counties with the biggest projected population loss over the next 30 years are California's Fresno County and New Jersey's Ocean and Monmouth Counties.

Other regions are projected to have higher home-insurance premiums but continued population growth over the next 30 years. These include counties in the Houston, Miami and Tampa, Fla., metro areas.

Some economists have argued for years that climate change should weigh on home prices in certain places, as home insurance becomes more expensive and Americans move to safer areas.

The effects could be farreaching. Homeowners might have to sell their homes at a loss or struggle to sell them at all. Declining property values could hurt local propertytax revenues.

So far, however, the effect of climate change on home prices has been hard to find on a national level. Home prices climbed sharply in 2020 and 2021 as housing demand rose. Home-sales activity has plunged in recent years, but prices remain near record highs, including in some states considered vulnerable to climate change such as Florida and Arizona.

“There is evidence that it’s affecting people’s behavior about where to live and where to buy homes, but only in some locations and still kind of at the margins,” said Jenny Schuetz, vice president of housing at Arnold Ventures. “If you look at national population growth and migration, people are moving towards relatively high-risk places.” *

First Street’s \$1.47 trillion estimate represents the effect that climate risks are projected to have on home values and doesn’t account for how inflation or other factors could also affect home values. These projections also don’t take into account any changes that local areas might make to adapt to climate change, such as building better flood protections.

And if home values continue to appreciate at a rapid rate, the First Street figures won’t look as ominous as they seem today. For instance, if home values double in the next 30 years—from an estimated \$50 trillion today to \$100 trillion in 2055—a \$1.47 trillion decline would represent only about a 1.5% decrease. *

Home-price gains in many areas will likely outpace the climate-related losses, said Jeremy Porter, First Street’s head of climate implications research.

“They just won’t gain as much as they would have without the climate risk,” he said.

First Street sells its data to companies, and its propertylevel risk forecasts are available on home-listing sites such as Zillow.

First Street’s study projects that average home-insurance premiums will rise 29.4% in the next three decades.

“One of the pain points for homeowners in the coming years is going to be affordability of insurance and property taxes,” said Benjamin Keys, professor of real estate and finance at the Wharton School of the University of Pennsylvania. “There are people who are going to be stressed and will want to relocate.”

In many cases, people will likely move out of the riskiest neighborhoods into nearby areas that are relatively safer, Porter said.

“We’re not seeing mass migrations— everybody’s not leaving Houston to go to Minnesota or something like that,” Porter said. “But people are leaving Southeast Houston to go to Northwest Houston, because it’s higher ground.”

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