

Compass  
Intelligence

# 2026 Housing Market Outlook

Our Housing Market Outlook is here to help you navigate a market that isn't always easy to interpret. By examining the latest data, economic conditions, and emerging trends, we share our predictions for the year ahead to help you make more confident housing decisions.

# Foreword

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At Compass, our mission is to help everyone find their place in the world. With the debut of our first-ever Housing Market Outlook, we're directly supporting that mission by providing consumers and real estate professionals the insights and clarity they need to make informed decisions in the year ahead.

This economy is difficult to navigate. Conflicting signals continue to confound even the most sophisticated analysts, especially when it comes to the real estate market. For the average homebuyer or homeseller trying to make one of the most important financial decisions of their lives, that uncertainty can be especially unsettling.

The good news is: data is the antidote to fear. And providing you with the most relevant data, alongside clear explanations, is our main goal in creating this report. In it, you'll find the latest economic readings, the major trends that will shape next year's housing market, and the forecasts for how we think 2026 will likely play out.

Our outlook is the product of hundreds of hours of research and analysis by Compass' data scientists who worked in close collaboration with our real estate professionals across the country to translate the data into real world context. This collaboration has yielded clear answers to some of the most pressing questions in residential real estate:

- Where are home prices likely headed in 2026?
- What kind of market should buyers and sellers expect next year?
- Will sales activity finally begin to grow again?
- How does the local market stack up against national trends?
- How are broader economic and demographic forces shaping what happens next?

Whether you're preparing to buy your first home or you're among the more than 1 million real estate professionals in the U.S. guiding clients through important decisions every day, this report is designed for you. My hope is that it gives you a clearer view of the road ahead, and the confidence that clarity provides as we enter a new year.

**Mike Simonsen**

Compass Chief Economist

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# Summary: A New Housing Market Era Emerges in 2026

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The U.S. housing market is turning a corner. After four years of pandemic-driven disruption, including frozen migration, volatile mortgage rates, severe affordability challenges, and deeply uneven regional supply, 2026 marks the beginning of a new era.

In this era, home sales can grow again. Affordability pressures are starting to ease as prices flatten. And many of the distortions that defined the early 2020s are finally unwinding: mobility is slowly improving, inventory is normalizing in many regions, and both buyers and sellers are recalibrating their expectations after years of scarcity and shock.

In this Outlook, there are four key factors that we forecast for the coming year:

- **Home Prices:** We expect **flat national home prices in 2026**, with a forecast of +0.5% and a plausible range from **-3.6% to +4.6%**. Many metro areas across the country are already posting year-over-year declines, making 2026 the most likely year since 2010 for a modest national price dip. Rising inventory and stretched affordability limit upside, even as strong household balance sheets prevent significant downside risk.
- **Home Sales:** Home sales enter 2026 with the strongest forward momentum since the pandemic, with luxury continuing to outperform relative to entry-level price points. Existing home sales should rise modestly, approximately 5%, from 4.1 million to **~4.25 million**, assuming mortgage rates remain near 6%. With the right combination of macroeconomic variables, home sales could reach 4.5 million, which would result in a very strong 10% growth rate.
- **Inventory:** We forecast **~10% inventory growth** in 2026. In this next era, supply is finally showing signs of growth in the Northeast and Midwest, while the pace of growth in the Sun Belt is moderating. Supply stays sufficient to enable home sales to grow and prevent runaway growth in home prices.
- **Mortgage Rates:** Rates are expected to trade in a **5.9%–6.9%** range with the year's average about 6.4%. The labor market will determine the direction: rising unemployment could pull rates down into the high- 5s; a stronger economy or hotter inflation could push them back up toward 7%.

We explore three major themes that will help shape the housing market in 2026.

## 1. Improving Affordability

Housing affordability reached its worst level in nearly 40 years by late 2022, with homes remaining roughly 25% above what's traditionally considered affordable, as measured by home price-to-income ratio. We examine how that trend is now changing. Affordability will gradually improve not through dramatic price correction, but through an extended period of flat home prices, rising incomes, and gradually falling mortgage rates.

## 2. Unlocking American Mobility (“The Great Stay”)

American mobility collapsed after 2022, reshaping migration patterns and inventory across the country. This phenomenon, called “The Great Stay,” has created sharp regional imbalances: Northern metros remained supply-starved while Sun Belt markets experienced elevated inventory. In the next era, mobility has the opportunity to begin to resume as homeowners have delayed moves for many years and the employment landscape is shifting.

The mortgage rate “lock-in effect” that kept homeowners in place is fading, as nearly 20% of mortgages now carry rates above 6%, creating a growing pool of potential sellers who won’t feel locked in place.

## 3. An Economy Divided by Geography and Prosperity

Divergent economic conditions are shaping buyer and seller behavior in uneven ways. The economy is experiencing a split where older, affluent households are seeing wealth gains driven by strong equity markets and AI-related growth, while younger, lower-income borrowers face increasing financial pressures. For these reasons, we see luxury home sales continuing to outperform entry-level properties in 2026. Sun Belt markets saturated with record inventory face the greatest home price pressures while Northeast and Midwest metros remain in an inventory-drought. This divergence means national averages will mask sharply differing realities at the local level throughout 2026.

### Notable Local Markets in 2026

Several markets stand out heading into 2026, though for different reasons. Florida is poised for a rebound in transaction volume after three hurricanes suppressed activity in 2024; pending sales are already running roughly 10% above last year, even as prices in most of the states face continued pressure from elevated inventory. The Bay Area is experiencing an AI-driven boomlet, with rising rents and early signs of stabilization in San Francisco’s long-declining condo market, while Silicon Valley remains intensely competitive due to chronic inventory shortages. Dallas-Fort Worth, after years of rapid growth, now offers first-time buyers their best opportunities in nearly a decade, with inventory ten times higher than at the start of 2022. And Washington D.C. faces uncertainty as federal workforce reductions ripple through the local economy, contributing to a notable rise in new listings throughout 2025. These markets illustrate a broader theme: national averages will tell only part of the story in 2026, and local conditions will vary widely depending on migration patterns, employment trends, and the legacy of pandemic-era imbalances.

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# Part I: Outlook For 2026

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# The Macro Backdrop

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We begin with a look at the broader macroeconomic landscape to lay the foundation for the rest of the 2026 outlook. The landscape is best understood through the lens of a “K-shaped” economy where we can observe strengths and stresses diverging sharply across households, regions, and sectors.

After nearly four years of persistent expectations for an imminent recession, the U.S. continues to defy a clean narrative: employment is softening but not collapsing, GDP growth remains positive, and consumer spending has held up, even as 2025 delivered a string of disruptions, from tariff-driven cost pressures to a prolonged federal shutdown that left policymakers temporarily flying blind.

In housing, the examples of the K-shape economy are all around us and in 2026, national averages will mask sharply differing realities at the local level:

- Existing homeowners have historically cheap mortgages and tons of equity, while post-2022 buyers face the higher payments with essentially no equity appreciation. New buyers face the worst affordability in decades.
- Thanks to wildly different rental markets, the annual inflation rate is running too-hot in markets like New York (near 4%) and much more acceptable in markets like Dallas (about 1%).
- Older, affluent households are seeing wealth gains driven by strong equity markets and AI-related growth, while younger, lower-income borrowers face rising delinquency rates on their student loans and car loans.
- Sun Belt markets are saturated with record inventory of homes on the market; Northeast and Midwest metros remain in an inventory-drought.
- Unemployment remains relatively low, while job seekers face hiring conditions that look a lot like a recession.

The labor market split might be the most under-reported driver of the housing market recently. Workers with stable jobs are “job-hugging,” reluctant to move because hiring has slowed to recession-like levels. Yet, the unemployment rate itself remains historically low. Mobility stalls when job confidence stalls. And when mobility stalls, the housing market stalls.

These opposing forces matter because they define the macro runway for housing in 2026. Inflation and employment will remain the pivotal variables, but what’s new is how differently they are being experienced across demographic and regional cohorts. The question is no longer “Is the economy strong or weak?” but rather, “Strong for whom and weak for whom?”

The K-shape is why the Federal Reserve is divided on the best path for interest rates in 2026. The policy makers focused on the bottom leg of the K see very weak hiring plus recession indicators from industries such as shipping and construction. That perspective favors interest rate cuts in order to revive growth and stave off impending recession. Policy makers focused on the top leg of the K cite record-high financial markets, a healthy, growing GDP, and low unemployment. This group views further cuts in interest rates as

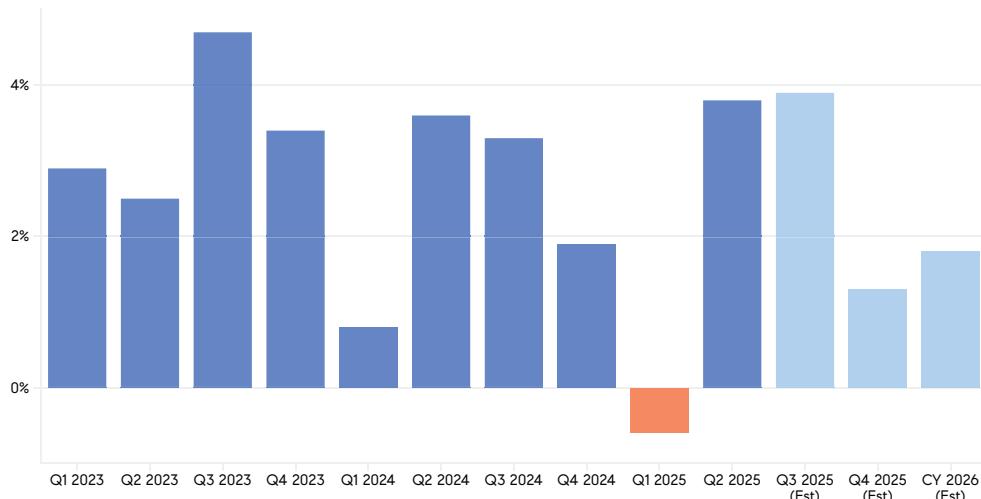
potentially overheating the economy leading to further inflation. In a K-shaped economy, both legs have credible arguments.

This divided economy makes it tricky to define precise growth or recession outlooks for the coming year, but let's dive in further to find some clarity.

## Economic Growth Scenarios

While many parts of the American economy seem mired in recession-like conditions, the economy as a whole is, in fact, growing. The US gross domestic product (GDP) grew at a real pace of 3.8% in the second quarter of 2025, up substantially from a slight contraction in the first quarter.

### US GDP Growth Rate



US Bureau of Economic Analysis, Atlanta Fed, Philadelphia Fed

Figure 1. US GDP Growth Rate

The consensus from economic forecasters is that GDP growth continues into 2026 and there are plenty of reasons to assume it will. First, we see signals that monetary policy could shift toward greater accommodation. After two years of restrictive decisions designed to bring inflation back to target, the Federal Reserve has indicated shifting its focus toward the labor market, which is clearly weakening. If employment softens further and inflation continues to drift lower, the Fed has room to cut rates. Lower Fed policy rates would likely feed through to lower bond yields and mortgage rates, easing financial conditions and supporting both consumer spending and homebuyer affordability.

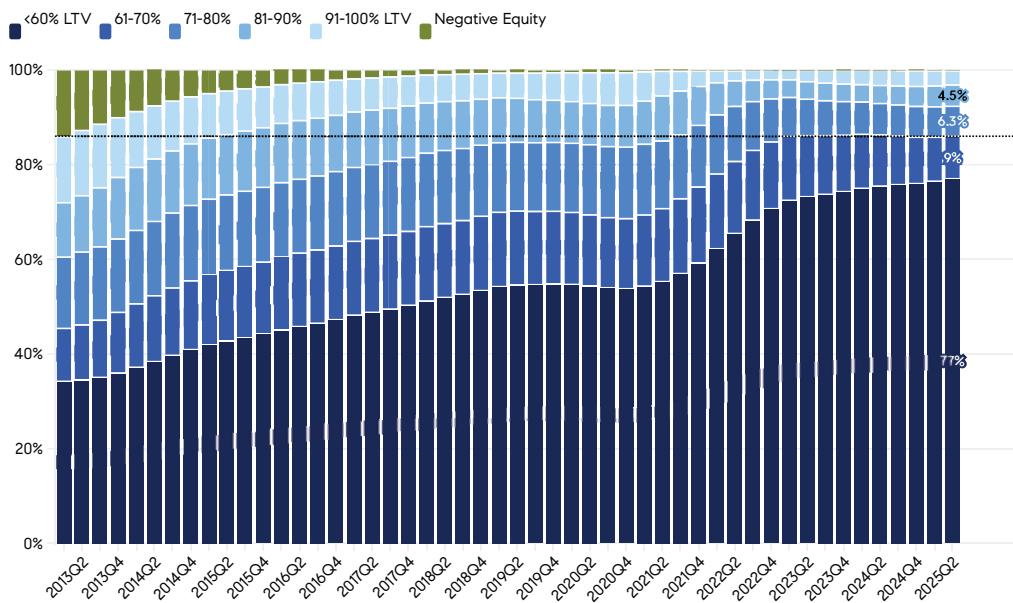
Second, government spending remains historically high. The current administration has shown a clear willingness to use fiscal expansion as an economic stabilizer. Deficit spending reached new records in 2025, with federal outlays running at roughly 23% of GDP, levels typically associated with recessions or a crisis response. This level of spending acts as a substantial tailwind to growth, even as tariffs function as a counterweight by raising costs for businesses and consumers. This mix of opposing forces complicates inflation dynamics, while still providing material support to overall demand.

Third, the early stages of the AI investment boom continue to ripple through sectors tied to technology, productivity, and financial markets. While the full productivity gains from AI may take years to materialize, the capital investment, job creation at the high end of the labor market, and associated wealth effects are already visible in certain regions. These forces can help offset softness in industries more exposed to automation or cyclical decline. On the other hand, there are concerns about a potential AI “bubble” correction in equity markets during 2026 making future forecasting even more difficult.

Finally, American households enter 2026 in an unusually strong financial position. According to data from the New York Fed Consumer Credit Panel, mortgage debt represents 70% of all outstanding household debt. Yet mortgage holders are exceptionally healthy: equity is at record highs, delinquency rates remain low, and the average loan-to-value ratio has fallen to just 47%, down from 70% a decade ago.

## Healthy Equity Cushion for Homeowners

86% of borrowers have at least 30% equity in their home



Source: FHFA • All outstanding mortgages, through June 2025

Figure 2. US Mortgage Holder Equity

Consumers also have substantial unused credit capacity, with balances at only 23% of credit limits, a level consistent with long-term norms. These factors suggest that household spending power has room to persist, even in a slower-growth environment.

These elements form a credible growth scenario for 2026: moderating inflation, easing monetary policy, strong household balance sheets, and targeted economic momentum from AI and fiscal stimulus. While there remain real risks, especially around employment, the U.S. economy is still poised to avoid an outright recession and maintain steady, if subdued, expansion through the year.

These elements form a compelling foundation for continued economic expansion in 2026. Moderating inflation creates room for monetary policy to ease if needed. Strong household balance sheets, anchored by record-high homeowner equity and conservative credit utilization, provide a buffer against economic shocks. The AI investment cycle is still in its early stages, generating job creation in high-skill sectors and wealth effects that ripple through tech-heavy regions. And historically elevated fiscal spending continues to act as expansionary, supporting demand even as other headwinds emerge.

While these growth drivers create genuine reasons for optimism, they do not eliminate downside risks. The economy remains delicately balanced, and the housing market's trajectory will depend heavily on how these positive forces interact with the vulnerabilities we examine next.

## Downside Economic Risks Remain

Like so many recent years, the risk of recession in 2026 remains present, particularly as the labor market continues to lose momentum. Unemployment has already inched up to 4.3%, but that low rate obscures other indicators of labor market weakness. Businesses continue to slow the pace of hiring, which is beginning to show recessionary signals. For every 100 jobs, there were only 3.2 new hires in August, the most recent data available. That slow pace of hiring looks much more like a recession than the current unemployment measure does.

## Hiring Rates Look Recessional

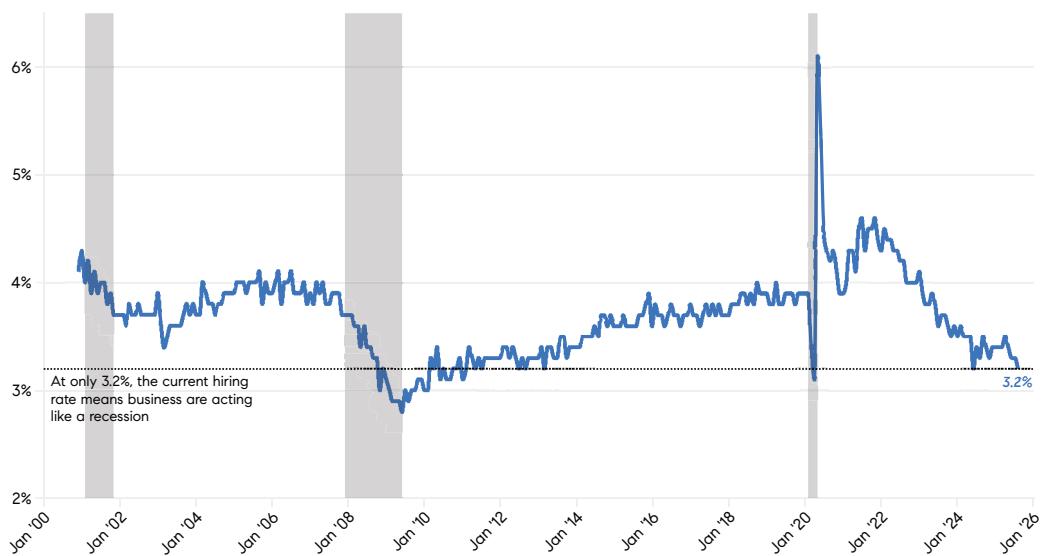


Figure 3. Business Hiring Rate

Hiring seems to remain slow because many firms are still unwinding post-pandemic over-hiring, facing high financing costs, and delaying decisions amid AI-driven productivity shifts.

In response to slow hiring, many workers are simply opting out of the job market. The labor force participation rate is at levels significantly lower than the years leading up to the pandemic. Low labor force participation is a signal of discouraged potential workers. Those that are in the labor market are employed, but many have chosen not to be in the market.

There are other metrics in the economy that also signal weakness. Construction hiring has been declining. Data from freight and trucking activity are flashing recession signals as consumers scale back purchases, perhaps in the wake of tariff increased costs.

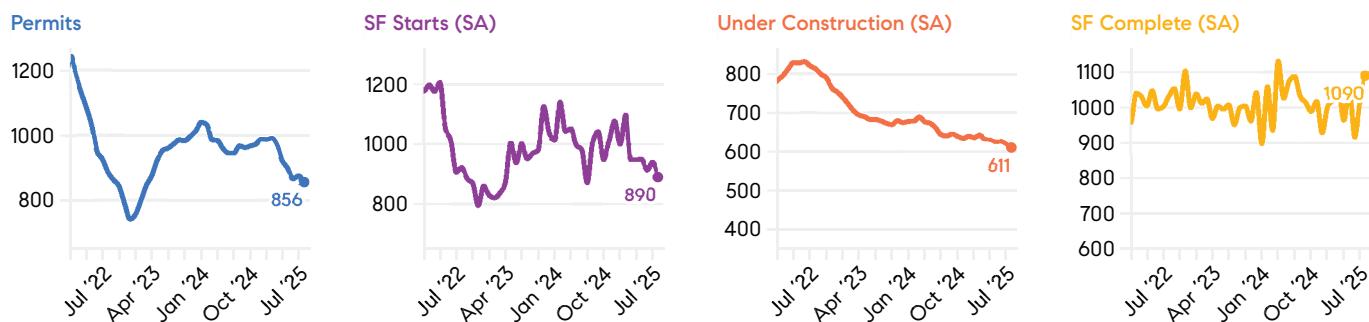
The historically long government shutdown in late 2025 further clouded visibility by delaying the release of critical economic data, leaving both policymakers and businesses uncertain about the true state of the economy heading into the new year.

Corporate planning for 2026 reflects this uncertainty. With budget-setting disrupted and confidence shaken, many companies have slowed hiring or paused expansion plans. This hesitation adds additional drag to an already cooling job market. At the same time, several structural headwinds continue to weigh on growth. Tariffs implemented over the past year function as a broad tax on both consumers and businesses, raising prices and pressuring margins. Restrictions on immigration, for both skilled and unskilled workers, will limit population growth and reduce future housing demand in markets that rely heavily on international inflows.

Construction employment has begun to weaken heading into 2026 with permits and starts each 30% fewer than three years ago. Weak housing construction is often an early indicator of recession risk. Unlike other sectors, construction is closely linked to both household formation and business confidence. Builders expand payrolls only when demand is strong and financing conditions are favorable. In late 2025, hiring in residential and commercial construction has shown signs of weakening as higher rates, softening buyer traffic, and tariff-driven material costs squeezed margins. A sustained downturn in construction employment has historically preceded broader labor-market deterioration. If this trend deepens, it would be a signal that a softer job market, slower household formation, and increased pressure on already-fragile Sun Belt inventory levels could get worse.

## Home Building Slowdown

Permits, starts, and construction in progress are all in multi-year declines.



Source: US Census Bureau • August 2025. Single family (000s)

Figure 4. New Construction Slowdown

Household finances face their own pressures. Despite strong balance sheets, consumer sentiment is weak due to rising costs and weaker incomes. Like the conflicting job market data, the University of Michigan's consumer survey reveals sentiment at low levels usually seen in the middle of a recession.

After years of pandemic-era deferrals, student loan payments have resumed, and delinquency rates have quickly risen to around 10%. This marks a meaningful headwind for younger households and first-time buyers, many of whom are already squeezed by high housing costs and anemic hiring conditions. Early signs of stress are appearing in pockets of the housing market, defaults are rising among lower-income and FHA borrowers, a pattern typical of the initial stages of an economic slowdown.

The recession case for 2026 rests on a weakening labor market, restrictive immigration policy, tariff-driven cost pressures, and signs of consumer stress now emerging among lower-income borrowers. These forces are real and bear watching throughout the year.

Yet recessions affect housing primarily through job loss, and the timing of any employment-driven distress would likely extend into 2027 rather than materialize immediately. With that macro context established, we turn now to the three defining trends that will shape how buyers, sellers, and prices actually behave in 2026.

# Three Big Trends That Will Shape Real Estate In 2026

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As we enter the fourth year of the post-pandemic housing correction, many of the familiar narratives still shape the market, but several new forces are beginning to emerge. Inventory has risen unevenly across the country, mobility remains constrained, affordability is stretched, and early shifts in employment and technology are reshaping demand. These pressures don't point in a single direction; rather, they create a fabric of layered trends by which we can understand the housing market in 2026.

To project how 2026 will unfold, we'll focus on the major themes that are driving behavior on both sides of the transaction: migration patterns, rate-lock and mobility, and shadow inventory on the sell-side vs. shadow demand, the return-to-office dynamic, and the critical interplay between unemployment and mortgage rates on the buy-side. Each of these forces has the potential to meaningfully influence supply, demand, and pricing over the next year. In the following sections, we break down these themes and outline how they will shape the housing market in 2026.

## Trend 1: Improving Affordability

The US housing market is entering a new phase. After years of declining affordability, we're now on a path where affordability slowly improves, not through a dramatic price correction, but through an extended period of flat home prices, rising incomes, and gradually falling mortgage rates.

The pandemic years delivered a double shock: home prices surged on record-low rates and a booming economy, then mortgage rates spiked. By late 2022, housing affordability had reached its worst level in nearly 40 years. Today, factoring in both prices and rates, homes remain roughly 25% above what's traditionally considered affordable.

How does affordability return? Some expect a sharp price correction like 2008. We see a different path—one that's already underway in much of the country.

### Home Prices in 2026: Flat is the New Up

Our forecast for 2026 calls for home prices to be essentially flat—up just 0.5% nationally, with a real possibility of modest declines. This would be unusual. Over the past 40 years, national home prices have only declined three times: briefly during the 1990 recession, dramatically during the 2008 financial crisis, and for a single month in 2023 as the pandemic boom unwound.

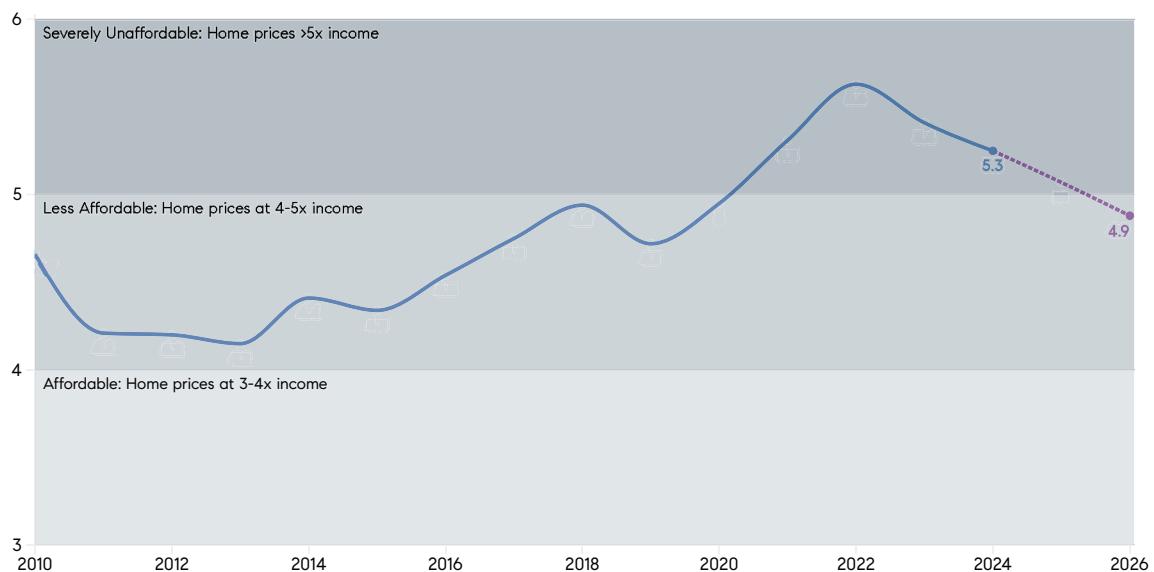
The conditions are in place for continued price softness. At the end of 2025, 11 of the 20 major markets tracked by the Case-Shiller Index show prices below where they were in 2024. The remaining 9 markets are still positive but decelerating. Inventory has risen for three consecutive years and now sits 15% above last year's levels. Buyer activity is strengthening, but not fast enough to absorb the additional supply, particularly across the Sun Belt, where some markets have seen prices fall meaningfully from their 2022 peaks.

Home prices are not alone in the affordability equation. Incomes determine how much home we can afford. In 2025, according to the latest Census data, incomes have been rising at a pace of about 4% per year.

This is how affordability improves. Flat or slightly falling prices, combined with rising incomes, gradually close the gap. The improvement is accelerated during times with lower mortgage rates.

## Affordability Improves in 2026

Price to income ratio improves as incomes climb faster than home prices



Source: Compass, Altos Research, US Census · Estimates for 2025 and 2026 incomes and 2026 home prices

Figure 5. Affordability in 2026

We're already three years into this process in parts of the country. Markets like Austin and Western Florida, which saw the steepest pandemic run-ups, are now offering buyers their first real bargains in years.

For buyers and sellers, a flat-price environment requires a mental shift. Buyers may be tempted to wait, expecting further declines. Sellers will need to price competitively from the start. When tracking home prices in 2026, recognize that the headlines may announce home price declines and while some buyers will be on the sidelines, we already see evidence of others finding bargains and increasing home sales volumes. Inventory levels have risen, but there's no wave of distressed selling. The conditions that triggered the last crash loose credit, widespread speculation, overleveraged households, simply aren't present today.

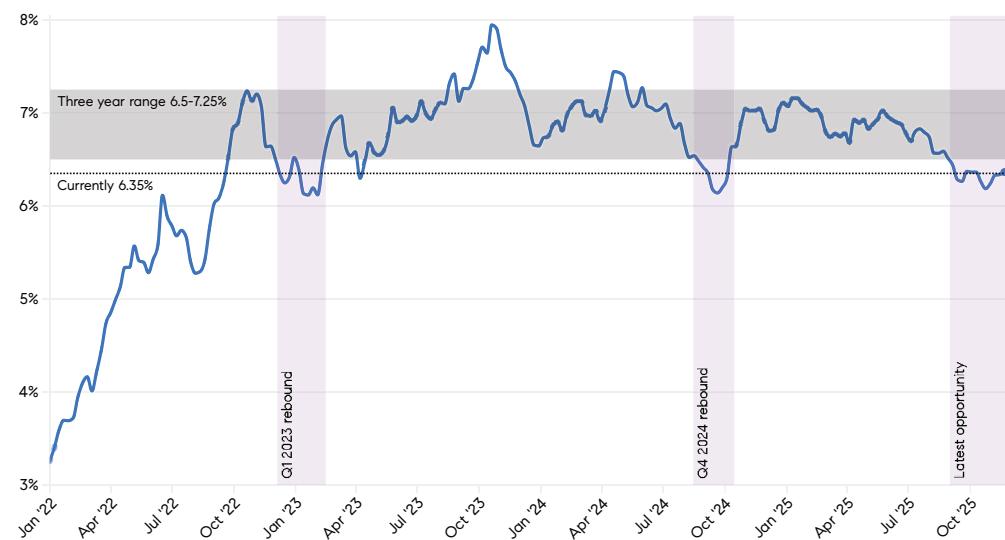
## The 6% Threshold

What could tip prices back toward appreciation? Recent history points to one possible scenario: mortgage rates below 6%.

Over the past three years, there have been three moments when rates dipped close to 6%: early 2023, September 2024, and again in September 2025. Each time, buyer demand noticeably picked up. At 6.5%, buyers stay on the sidelines. At 6.1%, they begin to move. It's not that 6% is truly "affordable" by historical standards, it's that after years of rates hovering between 6.5% and 7.25%, buyers recognize any relative improvement.

## Mortgage Rates in the Post-Pandemic Era

In each recent period where rates approached 6%, demand picked up



Source: Mortgage News Daily

Figure 6. Mortgage Rates Over Four Years

This pattern shapes the affordability outlook for 2026. The bullish home price scenarios all require mortgage rates to settle into the low 6s or even lower. The bearish scenarios involve rates drifting back toward 7%. Either outcome is plausible, and the difference between them could determine whether national prices finish the year slightly up or slightly down.

The good news: even in a higher-rate environment, affordability still slowly improves. If rates stay elevated but prices hold flat, rising incomes do the work. At 4% annual income growth (roughly the recent pace for American households), the market returns to traditional affordability levels within several years, even without mortgage rate relief. Lower rates would simply accelerate the timeline. (See the Mortgage Rate Forecast section below for more details on the mortgage outlook.) And there's another factor working in favor of a more active market in 2026: the mortgage rate lock-in effect is finally starting to fade.

## The End of Mortgage Rate Lock-in

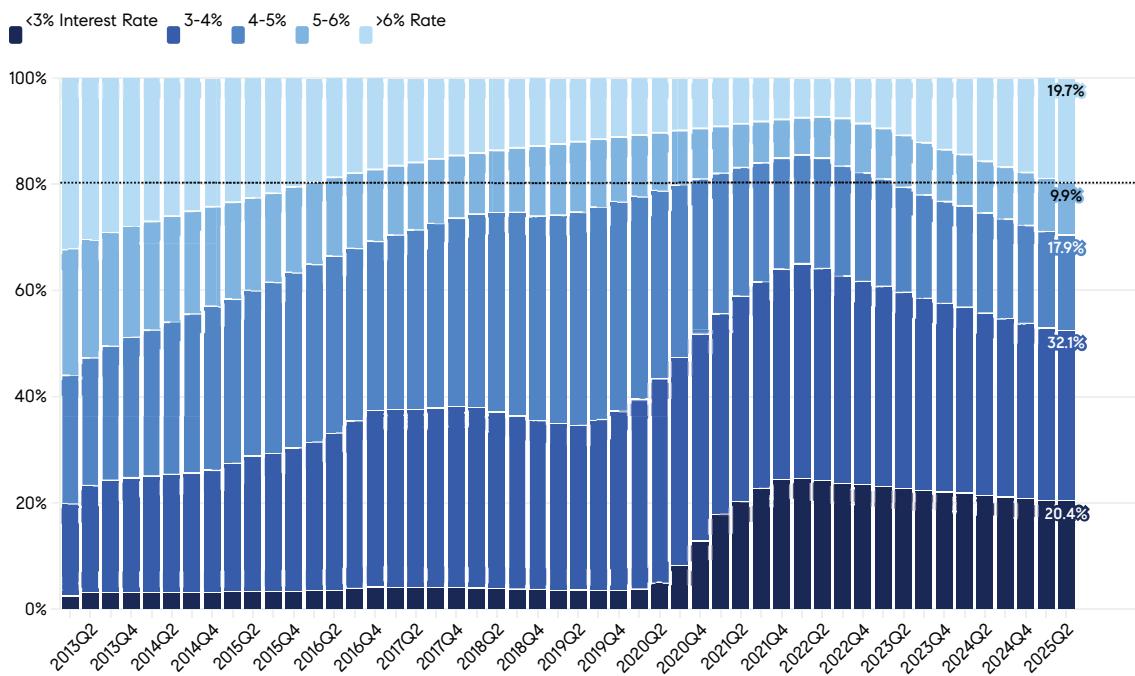
Mortgage rate lock-in occurs when homeowners stay put because their current mortgage rate is far below today's market rate. Selling means giving up a 3% loan for a 7% one, a difference that can add thousands of dollars to a monthly payment. For millions of homeowners, that math has made moving financially painful, even when life circumstances would otherwise prompt a sale.

This dynamic has been one of the defining forces suppressing housing activity since 2022. Homeowners with ultra-cheap pandemic-era mortgages have stayed in place, keeping inventory artificially low. (See the American Mobility section below for more details)

But a fundamental shift is now underway. For the first time since the pandemic, by the end of 2025 there will be more American homeowners with expensive mortgages (rates above 6%) than those with ultra-cheap ones (rates below 3%).

# Expensive and Cheap Mortgages

Nearly 20% of all mortgages have greater than 6% rate



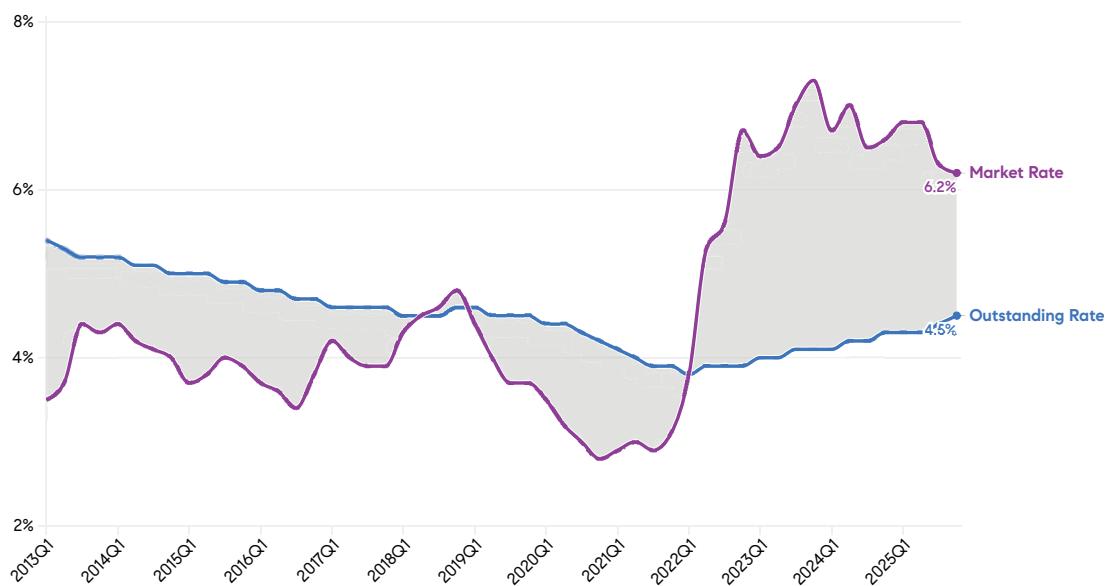
Source: FHFA · All outstanding mortgages, through June 2025

Figure 7. Interest Rate on Outstanding Mortgages

As of Q4 2025, the average interest rate on outstanding mortgages is 4.4%, the same level it was at the end of 2019, before the pandemic cheap-money frenzy. Nearly 20% of mortgages now carry rates above 6%, and that share grows with every new home purchase.

# Mortgage Rate Lock-In

Higher rates cure lock-in as the outstanding rate climbs



Source: FHFA National Mortgage Database, Freddie Mac · Market Rate = Quarterly average for the 30-year fixed mortgage rates via Freddie Mac survey Outstanding Rate = average interest rate for all outstanding mortgages

Figure 8. Average Outstanding Mortgage Rate vs. Current Market Rate

The mortgage rate lock-in effect fades over time. The longer rates stay elevated, the more homeowners enter the market with higher-rate loans. Those homeowners behave very differently. They're not anchored to a rate they'll never see again. They're more willing to move, more willing to sell. In 2026, roughly 10 million homeowners will have mortgages above 6%, creating a growing pool of potential sellers who won't feel locked in place.

The implication for 2026: expect slightly higher transaction volume as lock-in continues to recede. This won't unleash a flood of inventory, but it removes one of the key constraints that has kept the market frozen. Combined with flat prices and gradually improving affordability, it points toward a market that is slowly returning to normal.

## Don't let "foreclosures increase" headlines distract you

In 2026, we're likely to see headlines announcing rising foreclosure rates. Don't let them rattle you.

Yes, the number of homeowners facing foreclosure will be higher than in 2025. But the absolute levels will remain very low by historical standards. The roughly 80,000 completed foreclosures projected for 2025 compares to nearly 1 million in 2010 at the peak of the housing crisis. Even with increases, we're nowhere close to crisis territory.

Some uptick in foreclosures is actually a sign of normalization. The pandemic years saw artificially suppressed foreclosure activity due to forbearance programs and stimulus support. What we're seeing now is a return to more typical levels—not the start of a downward spiral.

The conditions that fueled the 2008 crisis simply don't exist today. Back then, loose lending standards meant millions of homeowners had little equity and couldn't withstand even modest price declines. Today, most homeowners have substantial equity cushions, and lending standards remain tight. There's no wave of adjustable-rate mortgages resetting to unaffordable levels, no widespread speculation, no credit bubble waiting to pop.

For the housing market, a modest increase in foreclosures adds to the supply of available homes, which is one more factor helping to keep price pressures in check. For the American homeowner, there's no evidence of the kind of credit crisis these headlines might imply.

## Trend 2: Unlocking American Mobility ("The Great Stay")

After three years of frozen mobility, the housing market is positioned to thaw in 2026.

The pandemic years turbocharged American migration, ultra-low mortgage rates and remote work sent households streaming from northern cities to the Sun Belt. Then, just as quickly, it stopped. Mortgage rates spiked, job confidence weakened, and families across the country stayed put. According to JBREC, the pace of relocation fell 30% from 2021 to 2023 and hasn't recovered. We've called this period "The Great Stay". We're staying in our jobs, in our towns, in our houses.

But the conditions that created The Great Stay are beginning to shift. Mortgage rate lock-in is fading as more homeowners hold higher-rate loans. Pent-up demand is building—surveys show the share of homeowners who want to move within two years has jumped from 10% to 25% since 2022. And the regional imbalances created by frozen mobility are starting to self-correct: Sun Belt markets that overheated have cooled, while inventory-starved northern markets are showing early signs of loosening.

2026 won't see a return to pandemic-era migration levels. But it should mark the beginning of a more normal market, one where people who need or want to move can finally do so.

## Two Markets, Two Opportunities

The Great Stay created sharp regional imbalances and understanding them is key to navigating 2026.

In northern metros like Chicago, Boston, and the Tri-state New York region, homeowners who would traditionally sell to head south have stayed put. The result: extremely tight inventory. Connecticut, for example, has 60% fewer homes on the market than in 2019. Even as home price appreciation slows, buyers in these markets still face limited selection and need to act quickly when the right home appears.

In the Sun Belt, the opposite occurred. Inventory swelled as the expected wave of buyers never arrived. Tampa's net migration flipped from positive 4-5% annually before the pandemic to negative 3% in 2025. More people are now leaving than arriving. Texas has 50% more homes for sale than in 2019. As a result homes sit longer, and sellers face price pressure.

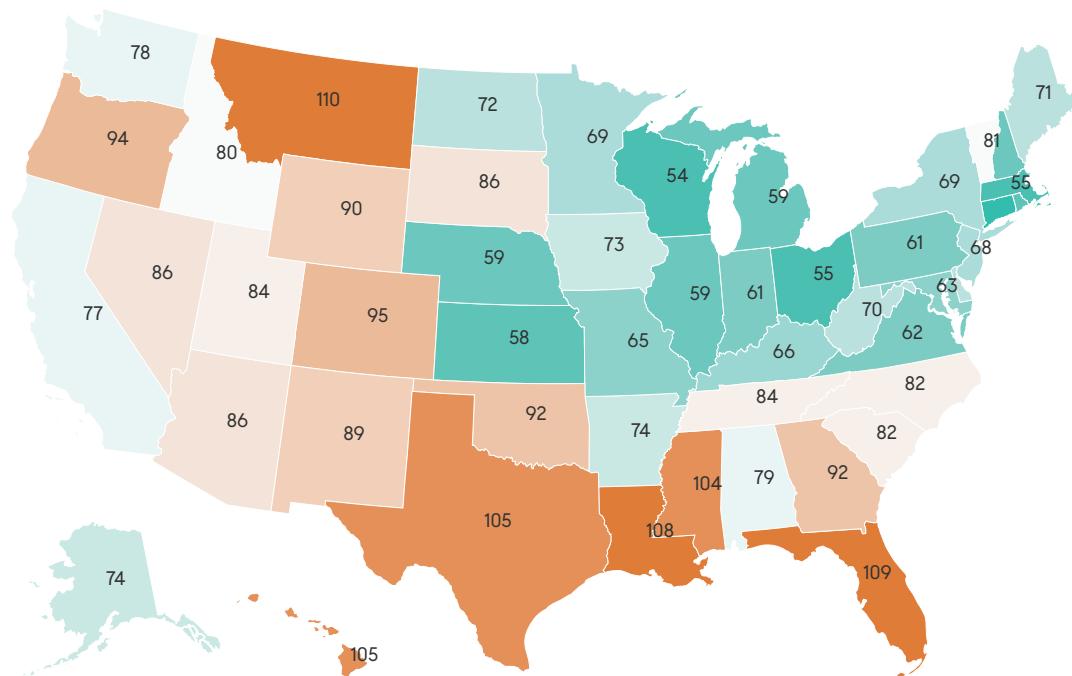


Figure 9. Days on Market per State

The map tells the story clearly. Blue states in the North have fast-moving markets with scarce inventory. Orange states in the South and West have slower markets with abundant selection.

For buyers, this divergence creates distinct opportunities. In supply-constrained markets, the challenge is finding the right home and those who do are buying into markets with strong price support. In the Sun Belt, buyers have leverage they haven't had in years: more choices, more time, and room to negotiate.

For sellers, the calculus also depends on where you are. Northern sellers, at the right price points, can still expect competitive buyer conditions, though not nearly the frenzy of 2021. Sun Belt sellers need to price realistically from the start and prepare for longer timelines.

As mobility begins to unlock in 2026, these imbalances should start to moderate. The regional divergence will remain a defining feature of the market for years to come, but inventory likely grows in the north in 2026 and the pace of inventory growth across the Sun Belt slows. For example, Florida has already slowed inventory growth from an annual pace of 50% to a much more manageable pace of approximately 10%.

## What Unlocks Mobility in 2026

Two forces have kept Americans frozen in place: mortgage rate lock-in and job market anxiety. As these forces ease, mobility improves.

We discussed mortgage rate lock-in in the affordability section, the reluctance to trade a 3% mortgage for a 7% one. As we enter 2026, that constraint is fading. Nearly 20% of outstanding mortgages now carry rates above 6%, and that share grows with every new home sale. The 10 million homeowners with higher-rate loans aren't anchored to a rate they'll never see again. They're free to move when life demands it.

Job anxiety, on the other hand, is proving stickier. A declining labor market is one of the significant risks to housing in 2026.

The national hiring rate tells us how readily jobs are available. The national "quits rate" measures how willing workers are to leave their jobs. Together they're a reliable indicator of confidence: when people feel secure, they quit for better opportunities; when they're nervous, they stay put. Since 2022, even though unemployment is relatively low at 4.3%, the hiring and quits rates have fallen to levels typically associated with recessions, even though unemployment remains low. Hiring is currently at 3.2%, meaning open jobs are as scarce as they were in the depths of early pandemic or the great financial crisis. Workers are "job hugging"—holding onto stable positions rather than taking risks. And when people won't change jobs, they won't change homes.

# "Job Hugging" and Labor Insecurity

When the "quits rate" declines, we're worried about the job market



Source: BLS JOLTS labor market survey · Gray shaded areas are recessions.

Figure 10. JOLTS Labor Survey Quits Rate

The hiring and quits rate are the indicators to watch in 2026. Any sustained uptick in either would signal that workers are feeling confident enough to make moves and housing mobility would follow. A lucky confluence of three years of pent-up demand, combined with fading lock-in and stabilizing job markets, would translate into modestly higher transaction volume.

One factor that won't disrupt mobility in 2026: work from home. After years of uncertainty about remote work's staying power, the dust has finally settled.

## Work From Home: The New Normal

The work-from-home debate has settled into a stable equilibrium and that's likely good news for housing mobility.

During the pandemic, remote work reached as high as 40% of all days worked. That number has come down, but not nearly as much as the return-to-office headlines might suggest. In the 10 largest US cities, over 30% of workdays are still done from home. That level hasn't changed materially in two years. Despite well-publicized RTO mandates, work from home appears to be here to stay.

# Work From Home Trends

Percent of days working from home

In American cities, the percent of time working from home has settled in at a "new normal" level.



Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Figure 11. Work From Home Trends

What does this mean for housing in 2026?

First, stability itself is valuable. The uncertainty about whether remote work would last, and whether "Zoomtowns" like the Hudson Valley or Lake Tahoe would see a mass exodus, has largely resolved. Buyers and sellers can make decisions without wondering if the rules are about to change.

Second, the hybrid model supports continued demand in exurban communities. A 2-3 day office schedule makes longer commutes tolerable. Home prices in rural counties have risen faster than urban counties for six years running, and that trend should continue. The "drive till you qualify" dynamic that's long shaped markets like Atlanta and Dallas now applies more broadly.

Third, if there's pressure from return-to-office policies, it's concentrated in smaller cities, many of which were the Zoomtowns that grew fastest during the pandemic. Larger metros appear more insulated from RTO-driven disruption.

## Immigration and Homebuyer Demand

While work-from-home patterns have stabilized, there's another factor shaping housing demand in 2026 that remains in flux: immigration policy.

As the current administration clamps down on immigration for both skilled and unskilled workers, housing demand is shifting. In some markets, immigrant demand shows up primarily in rentals which indirectly impacts homebuyer demand. In others, immigrants represent a significant share of homebuyers directly.

We can measure this exposure by examining mortgage records for non-permanent residents. According to data from JBREC, the markets with the highest share of immigrant homebuyers, Stockton, CA, Trenton, NJ, Seattle, San Jose, and Dallas. Each of these could see demand soften if immigration restrictions persist.

The exposure varies widely. In Stockton and Trenton, over 15% of purchase mortgages go to non-permanent residents. In markets like New York and Houston, the share is closer to 5%. For most of the country, restricted immigration will have a modest impact on home sales. But in high-exposure metros, it's a meaningful headwind to watch—particularly in a market already constrained by affordability and cautious buyers.

## The Mobility Outlook for 2026

After three years of The Great Stay, the pieces are in place for American mobility to gradually resume in the next era for the housing market. Mortgage rate lock-in is fading. Pent-up demand is building. Work from home has settled into a durable new normal. The greatest risk to mobility improvements in 2026 come from the labor market. Regional imbalances are still significant but are creating opportunities for buyers willing to look in the right places.

2026 won't be a return to the pandemic migration boom. But it should mark the beginning of a healthier, more balanced era, where households can finally act on the moves they've been putting off.

## Trend 3: An Economy Divided by Geography and Prosperity

The third trend defining 2026 is economic division itself. Prosperity and geography now split the market in ways that determine who can buy, who must sell, and how local conditions vary dramatically from one region to the next. While Trends 1 and 2 focused on affordability pressures and frozen mobility, this section examines dual forces that make policy and planning so difficult. The divide shows up in housing: "shadow inventory" from frustrated sellers which could flood the market, "shadow demand" from sidelined buyers who have been waiting for any improvement in mortgage rates. The divide is visible in the tension between falling rates and rising unemployment. These dynamics will determine whether 2026 tips toward a more active market or another year of stagnation.

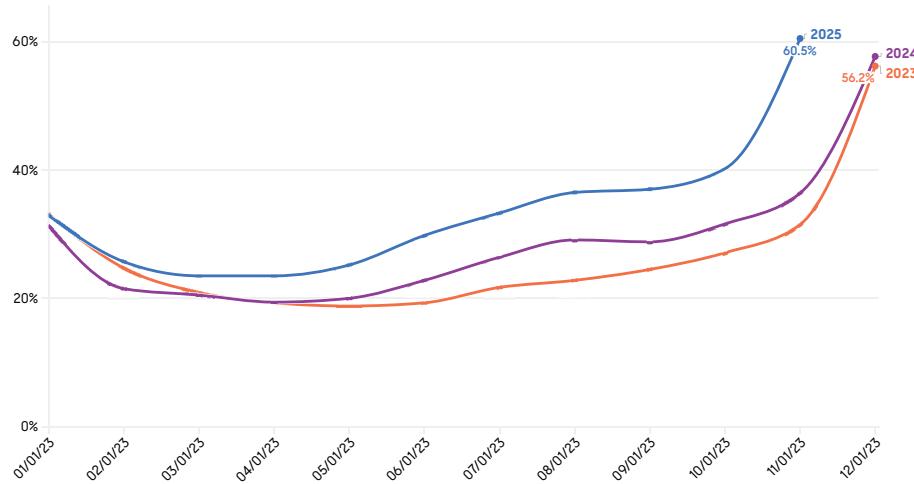
## Shadow Inventory vs. Shadow Demand

After three years of delayed transactions, who exactly is sitting on the sidelines? The answer matters: shadow inventory from frustrated sellers could flood the market and push prices lower, while shadow demand from sidelined buyers could absorb supply and support prices when rates dip.

The current evidence points to significant activity on both sides in 2026. As inventory rose in 2025 and demand stayed subdued, many sellers reconsidered their plans. By November 2025, listing withdrawals had climbed to nearly 60% of new listings, the highest in recent history. These are the roots of shadow inventory: properties that could return to market in 2026 if conditions improve.

## More Withdrawals This Year

Do withdrawn listings represent shadow inventory or shadow demand?



Source: Compass - Withdrawn listings as percent of new listings - Monthly. Data for all listings in 37 states where Compass operates

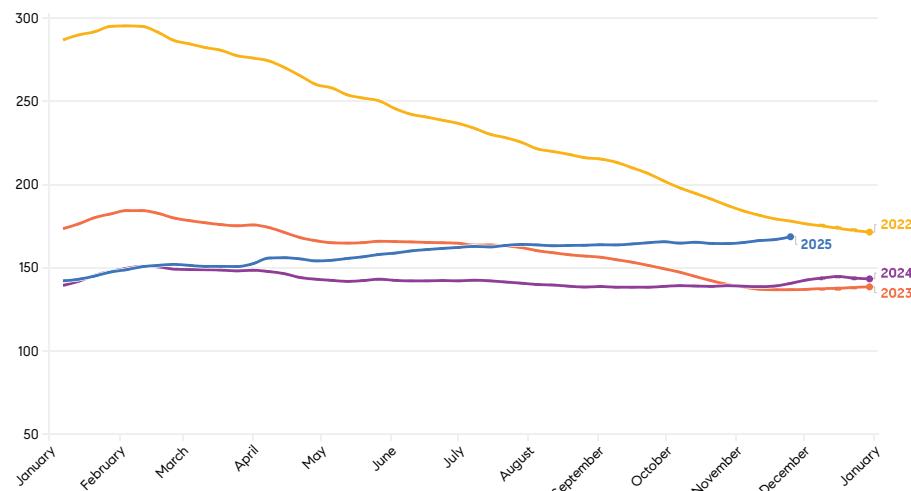
Figure 12. Withdrawals of Active Listings

But shadow inventory isn't the same as excess supply. Most home sellers are also buyers. When a seller pulls their listing, they also delay their next purchase. For owner-occupiers, every withdrawn listing represents two delayed transactions, a sale and a purchase. When these households finally transact, total inventory doesn't rise, but transaction volume does.

The demand side tells a similar story. Throughout 2025, purchase mortgage applications ran 15-25% higher year-over-year, yet actual sales rose only 2-4%. This gap represents shadow demand – buyers who initiated the process but stepped back as affordability remained tight or the right home didn't materialize.

## Purchase Mortgage Applications

13-week rolling average shows a slightly improving market



Source: Mortgage Bankers Assoc., Compass

Figure 13. MBA Purchase Mortgage Applications Index

For buyers and sellers in 2026, these dynamics cut both ways. Buyers should recognize that competition could materialize quickly if rates drop—the sidelined demand is real. Sellers should understand that pricing correctly from the start matters more than ever; the withdrawn listings from 2025 represent future competition waiting in the wings.

The balance between these hidden forces will shape whether 2026 leans toward rebalancing or continued stagnation. A small move lower in rates could unlock both sides simultaneously, boosting transaction volume without flooding the market with excess supply.

### The tension between falling rates vs. rising unemployment

The entire industry enters 2026 hoping for lower mortgage rates. Each time rates have approached 6% in the past three years, as they did in early 2023 and again in September 2024, buyer demand, transaction volumes, and prices all ticked up. If rates reach the 5s in 2026, demand would likely accelerate sharply.

Here's the catch: the most likely path to lower rates runs through a weaker economy. Interest rates reflect the balance between inflation and unemployment. When the economy cools and joblessness rises, rates fall. As the bond market saying goes, "Bad news for the economy is good news for rates."

This creates a tug-of-war for housing demand. Lower rates improve affordability and unlock mobility. But rising unemployment undermines buyer confidence and removes potential purchasers from the market entirely. Which force wins?

The answer depends on depth and speed. A gradual rise in unemployment to 5%, still historically healthy, would likely leave enough employed buyers in the market that cheaper rates would likely “win,” and demand would pick up. A sharper deterioration would tip the balance the other way.

Typically during recessions, job loss leads to an increase in mortgage defaults and ultimately foreclosures. In this cycle, that’s likely to be less of a factor. We’ve already discussed the strong equity cushion that American homeowners have. In this cycle homeowners who lose their jobs are much more likely to hold on to that cheap mortgage, or leverage their equity, to stay on their feet during an employment downturn. You’re much less likely to default on a 3% mortgage than a 7% mortgage. Delinquency rates have stayed near record lows, both because unemployment is low, but also because the average mortgage terms are very favorable.

For buyers in 2026, this tension creates both opportunity and risk. Falling rates may signal the window to act, but also that the economic ground is shifting. For sellers, a rate-driven demand surge could arrive quickly, but only if the job market holds. The interplay between these two forces will be the defining variable of the year.

## AI: Widening the Divide

No economic outlook for 2026 would be complete without addressing artificial intelligence. AI has moved from speculative future to present-day force, reshaping industries, labor markets, and investment flows in real time. For housing, AI’s impact is indirect but increasingly visible through its effects on employment, wealth creation, and regional economic winners.

The slow hiring rates of the past few years have coincided with rapid AI adoption across industries. Is AI to blame for weak hiring and job insecurity? The causality isn’t proven but research from the Federal Reserve Bank of St. Louis shows unemployment rising faster in AI-exposed occupations. But AI’s influence on the labor market is no longer theoretical, and it’s worth watching closely.

If AI is contributing to job displacement, it complicates the traditional policy playbook. Rate cuts typically restore hiring and confidence during downturns. But if labor weakness is structural rather than cyclical, lower rates may not produce the usual employment rebound. The bearish AI scenario for housing: rates fall as unemployment rises, employment fails to recover, inflation reaccelerates, and rates get pushed back up, leaving both affordability and job security under pressure.

At the same time, AI is generating concentrated wealth. Investment in AI-related companies has produced significant gains for high-income workers and equity holders, driving housing demand in markets like San Francisco, San Jose, and New York. These areas are seeing rising rents, stronger condo demand, and early signs of urban recovery that had been absent since the pandemic. Meanwhile, other tech hubs like Seattle and Austin show much less rebound, illustrating how unevenly the AI boom is distributed.

This is the K-shaped economy in sharp relief. AI simultaneously displaces workers in some sectors, while creating wealth in others. It weakens demand in some regional markets, while supercharging a select few metros. In the long run, AI-driven productivity gains should support broader economic growth and improve affordability.

## Luxury Continues to Lead

While much of the housing market has softened, the luxury tier continues to show surprising resilience. The share of transactions occurring in the top quartile of home prices (homes priced over \$1million) has been rising for several years, and that trend only strengthened in 2025. Even as price reductions increased across most other segments, the highest-priced homes remained the notable exception.

## Luxury Share of All Home Sales

Share of home sales at the high-end is increasing.

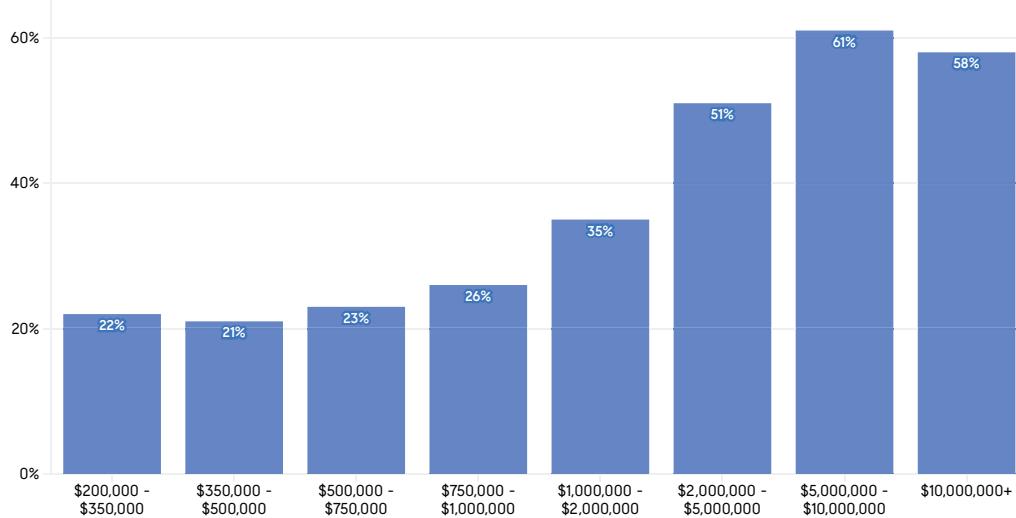


Source: Altos Research, Compass · Single family homes weekly pending sales. Percentage of sales in the top quartile of all listings

Figure 14. Luxury Tier Home Sales as Percentage of All Home Sales

The top quartile for single-family homes nationally now begins just above \$1 million. Affluent buyers in this segment are less sensitive to mortgage rates, many pay cash. Often these buyers benefit from stock market gains. They buy and sell for discretionary reasons, providing a stabilizing force at the top of the market even when the mainstream market is constrained by affordability challenges.

## Cash Buyers By Price Range



Source: Realtor.com Report: Cash Is King, Trends in All Cash Home Sales • Data for H1 2025

Figure 15. Cash Buyers by Home Price Range

Looking ahead, we expect luxury to outperform again in 2026. High-net-worth buyers face fewer financing barriers and are more directly connected to sectors benefiting from AI-driven wealth creation and strong financial market performance.

That said, there's risk in this picture. Much of the stock market's recent gains can be attributed to AI-related speculation, and market volatility has become the norm. If the AI boom turns to bust in 2026, the luxury market, especially in tech-heavy metros like New York and the Bay Area, would feel significant impact. But barring such a reversal, the dominant trends position luxury as likely to outperform in what will otherwise be a mixed housing landscape.

## How these Themes Will Shape What Comes Next

The 2026 housing market will be defined not by a single force but by the interplay of these three themes. Affordability remains stretched, but the path toward improvement is now visible: flat prices, rising incomes, and mortgage rates that could drift lower if the labor market softens. The Great Stay continues to limit inventory and mobility across much of the country, though early signs of thawing appear as the mortgage lock-in effect fades and pent-up demand builds. And the divided economy creates opposing pressures, with shadow inventory and shadow demand roughly balanced, and the tension between falling rates and rising unemployment defining the central risk of the year.

These dynamics explain why national averages will obscure sharply different local realities in 2026. They help us understand why the market may feel cold in Phoenix but warm in Boston, why luxury continues to outperform while the middle tier takes longer to rebound, and why small movements in mortgage rates or employment data can shift consumer behavior quickly.

The themes outlined represent the qualitative landscape we can expect next year. The forecasts that follow translate them into measurable expectations for mortgage rates, inventory, home prices, and sales. In Part II, we map out the most likely path for each indicator, and explore the scenarios that could push the market toward strength or renewed weakness.

# The Era of Improving Affordability



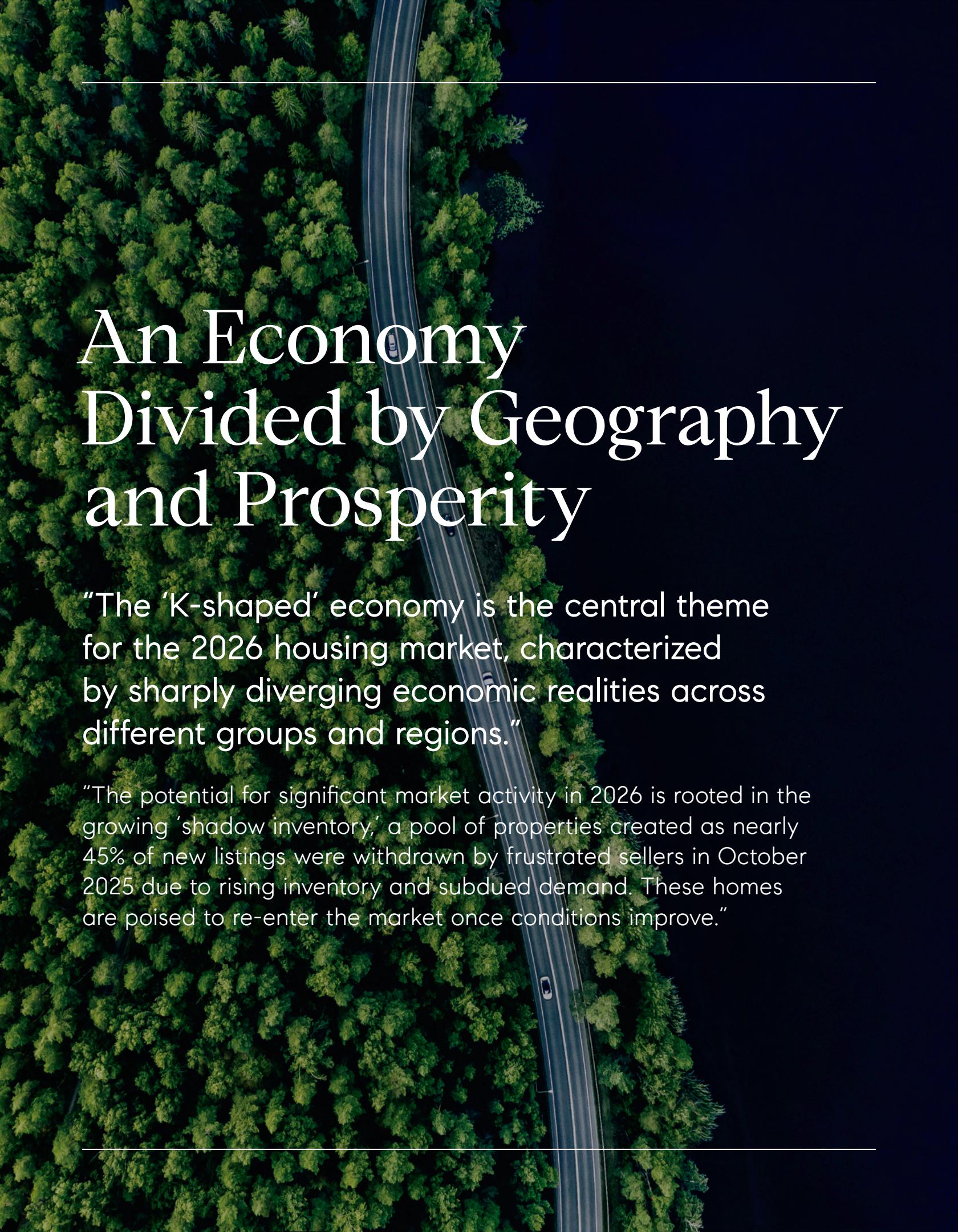
**"The next evolution of the housing market marks a meaningful change, with income growth overtaking home price growth and restoring some affordability."**

**"For both buyers and sellers, a flat market means thinking about things a bit differently. If you're buying, you might feel like waiting for prices to drop even more—that's totally understandable. If you're selling, you'll want to price your home competitively right from the start. As we move through 2026, you'll probably see headlines about falling home prices. And yes, some buyers will decide to wait it out. But here's what's interesting: we're already seeing plenty of others finding great deals and boosting sales. Inventory has gone up, but it's not because people are desperately trying to sell. The big difference from last time? All those ingredients that caused the 2008 crash—risky lending, wild speculation, people stretched way too thin financially—just are not part of today's picture"**

# Unlocking American Mobility & *The Great Stay*

“Shadow Inventory vs. Shadow Demand:  
The Hidden Tension Poised to Unlock  
2026 Home Sales”

“The 2026 housing market is defined by a standoff between ‘shadow inventory’—listings withdrawn by sellers—and ‘shadow demand’—buyers who backed out after starting the mortgage process. As most sellers are also future buyers, a small decline in mortgage rates is the key that could unlock both sides simultaneously, significantly increasing transaction volume without overwhelming the market with excess supply.”



# An Economy Divided by Geography and Prosperity

“The ‘K-shaped’ economy is the central theme for the 2026 housing market, characterized by sharply diverging economic realities across different groups and regions.”

“The potential for significant market activity in 2026 is rooted in the growing ‘shadow inventory,’ a pool of properties created as nearly 45% of new listings were withdrawn by frustrated sellers in October 2025 due to rising inventory and subdued demand. These homes are poised to re-enter the market once conditions improve.”

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# Part II: Housing Activity Forecasts

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# Part II: Housing Activity Forecasts

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With the major real estate and economic trends of 2026 now in view, we turn to the measurable factors that will define the housing market over the next year: mortgage rates, inventory, home prices, and sales volume. As we enter a new era, each of these indicators is shifting after several years of pandemic-era distortions, and together they reveal a market trying to define its new equilibrium. In the sections that follow, we use real-time data and national benchmarks to map out the likely path of rates, supply, and demand, while identifying both the risks and opportunities through 2026.

## Mortgage and Interest Rate Outlook

Mortgage rates are one of the main drivers of the real estate market, so they're an important element of any forward-looking outlook. Unfortunately, accurately predicting interest rates is notoriously difficult. Over the four years in the housing market, observers have been consistently over-optimistic in their estimation that mortgage rates would decline again. After the ultra-low-rates period during the pandemic, the adjustment to a higher cost of money has lasted longer than virtually anyone expected. This higher-for-longer phase continues into 2026, with the latest economic data pointing to slight improvements over time.

During any given year, mortgage rates typically fluctuate within a range of approximately 100 basis points. In 2025, the interest rate range was 6.1% on the low end in September and 7.2% in January, a 110 basis point spread, with most of the first half of the year spent at the higher end of the range. The average interest rate for a 30-year fixed rate mortgage in 2025 has been approximately 6.7%.

## Mortgage Rates Over Time

The trading range for mortgages tends to be approx. 100bp in a year



Source: Freddie Mac weekly survey · 30-year fixed rate mortgage. Each dot is a weekly average

Figure 16. Mortgage Rate Ranges in Each Year

In the above visualization, we show the distribution of mortgage rates over the last 13 years, with each dot representing one week's average mortgage rate, as reported by Freddie Mac. In 2022 and 2023, the trading range of rates was much more volatile than most years. Where the typical annual range is roughly 100 basis points, that range widened to 450 basis points in 2022, and 200 basis points in 2023, as the economy wrestled with persistent inflation, a tight jobs market, and strong consumer spending. In 2024 and 2025, that volatility calmed down to a much more typical pattern.

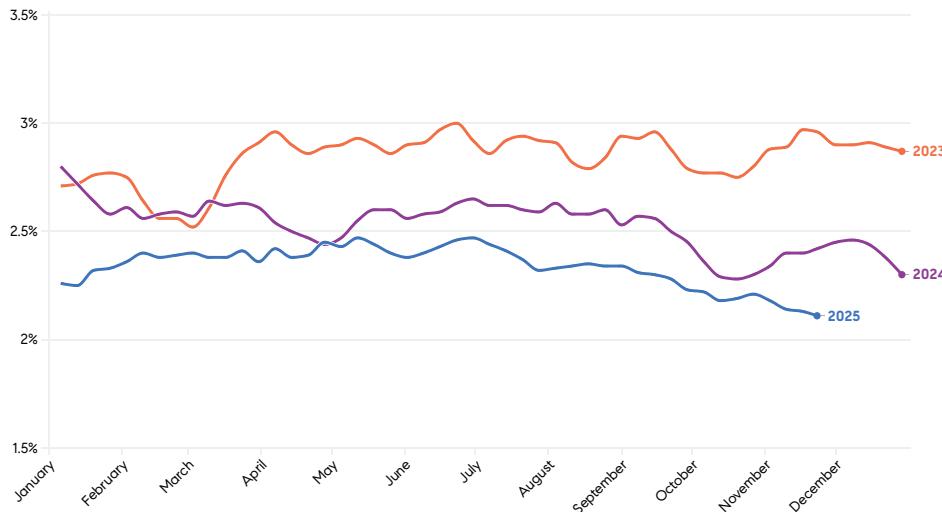
Our mortgage rate forecast assumes the 10-year Treasury yield trades in a range of approximately 4.0% to 4.8% throughout 2026, and that mortgage spreads continue their recent trend of compression, easing from current levels near 2.0 percentage points toward historical norms closer to 1.7 percentage points. Under these conditions, we expect mortgage rates to trade in a range of roughly 5.9% to 6.9% in 2026, averaging around 6.4%—about 0.4 percentage points lower than in 2025. Three factors should support this modest improvement:

- **A softening job market.** Slower hiring and rising unemployment typically push rates lower.
- **Narrowing mortgage spreads.** Mortgage rates don't move in lockstep with Treasury yields—there's a gap (or "spread") between them that reflects the additional risk lenders take on with home loans compared to government bonds. That spread has shrunk to its lowest level in three years. When it compresses, mortgage rates can fall even if Treasury yields hold steady.
- **Persistent inflation.** Sticky price pressures will likely prevent any sharp decline in rates.

Within this range, weaker economic data would push rates toward the lower end, while signs of reaccelerating inflation would drive them higher.

## Mortgage Rate Spread

When the spread narrows, mortgage rates can fall even if Treasury yields don't



Source: Mortgage News Daily, Federal Reserve Bank of St. Louis · Spread = 30-year fixed rate mortgage - 10-year treasury yield. 4 week rolling averages

Figure 17. Mortgage Rates vs Treasury Yields

In the fourth quarter 2025, mortgage rates have remained remarkably stable as the bond market went almost two months without government data on employment and inflation. Interest rates stayed around 6.3% for most of the quarter and look poised to begin 2026 80 or 90 basis points below the start of 2025. Using this as a framework, we anticipate the range for the 30-year fixed mortgage rate for the calendar year 2026 is projected to be between 5.9% and 6.9%, with an average of 6.4% for the year.

## Key Economic Drivers: Labor Market Sensitivity and Inflation

Mortgage rates are highly sensitive to the broader economic environment, particularly the labor market, and in the second half of 2025, we saw rates finally easing lower as data pointed to a weakening job market.

We have three plausible scenarios for mortgage rates in 2026 to consider:

- **The Downward Push:** The most likely scenario to cause rates to fall significantly below the mid-6s is a rapid deterioration of the economic data, particularly the jobs market, accompanied by lower inflation. If the labor market decelerates quickly, bond yields could push lower, potentially allowing rates to enter the 5s.
- **The Upside Risk:** On the other hand, rates could be pushed higher if the economy shows stronger than expected employment numbers or if inflation accelerates above target. Mortgage rate risk is primarily associated with accelerating inflation. As of late Q4 2025, the latest inflation data, whether measured by consumer or producer prices, remains above the Federal Reserve's 2% target.
- **Optimistic Spread Trend:** The spread between the 10-year Treasury yield and the 30-year mortgage rate has been compressing over the past two years (see the Mortgage Rates Spread chart in this section). A trend of declining rate spreads implies positive news for mortgage markets. Mortgage rates can decline even if the yield on the 10-year does not.

## Inventory - How The Supply Landscape Changes

Understanding where housing inventory is headed is foundational to any market outlook. Supply is the variable that most directly shapes both transaction volume and home prices. When inventory rises, buyers gain leverage, homes sit longer, and price appreciation slows or reverses. When supply tightens, competition intensifies and prices climb.

Rapidly rising inventory has been the story of the past four years. The new era for the housing market has plenty of supply nationally, and likely much less year-over-year change. Tracking the trajectory of available homes for sale allows us to anticipate where pricing and sales activity are likely to move in the months ahead, making inventory an essential starting point for our 2026 forecast.

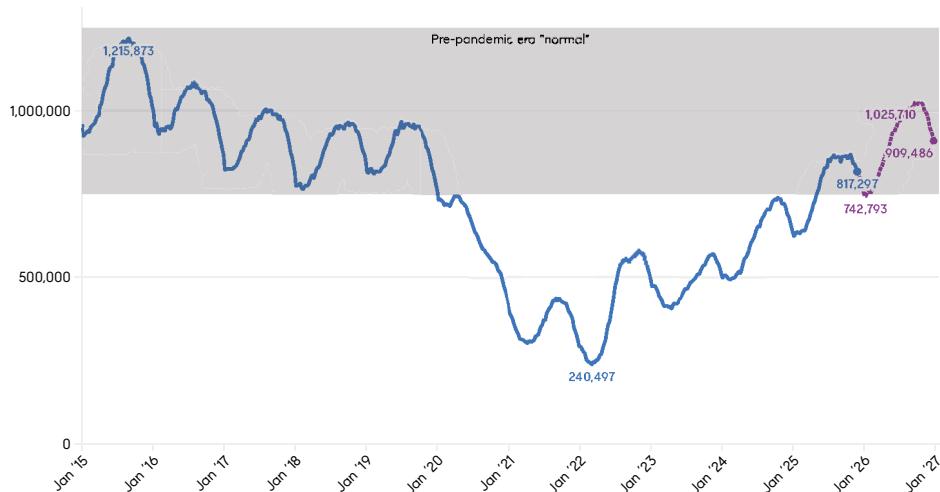
## Base Case for Inventory: Extending Modest Growth Momentum

Housing supply enters 2026 still elevated from the rapid inventory buildup of the past three years, but the pace of growth is already slowing. After peaking at year-over-year gains of 25-35% in early 2025, inventory growth decelerated to roughly 16% by the fourth quarter. Our base case forecast extends this trend and anticipates inventory rising by approximately 10-15% in 2026 – enough to improve selection and pricing for buyers, but far from the sharp surges seen earlier in the cycle.

The typical seasonal patterns we see each year will remain intact: inventory is expected to climb into the summer months and peak above 1 million active single-family listings for the first time since 2017, before retreating in the fall. By December 2026, total supply is projected to settle just above 850,000 homes nationwide.

## Inventory Forecast Through 2026

Inventory should grow approximately 10% in 2026



Source: Altos Research, Compass · Weekly active inventory, single family homes. Data as of November 14, 2025

Figure 18. Inventory History and Forecast

While larger shifts remain possible, the baseline outlook is one of moderate, steady inventory growth that supports a gradual normalization of market conditions in 2026.

## Our Dynamic Inventory Forecasting Model

At Compass we've built a dynamic forecasting model for inventory that allows us to rapidly update our expectations for housing supply based on current market variables as they change over time.

This model's forecast indicates that inventory for 2026 will follow much more traditional patterns than recent years have. We expect supply to decrease until January 2026 with the strongest supply growth starting at the end of March 2026. Given the current trajectory of the market, our projected listing count for early January 2026 is roughly 708,000 single-family homes, approximately 11.5% year-over-year increase from the same period in 2025. By early March 2026, we forecast a low of 683,000 homes which is approximately 6% year-over-year increase from March of 2025.

## Scenarios for Larger Inventory Increases

While our baseline forecast calls for inventory to grow by roughly 10% in 2026, several conditions could push supply higher. The most straightforward driver would be a renewed slowdown in demand. Historically, when housing demand weakens, active inventory rises. A sharp rise in mortgage rates, especially in the first and second quarter when housing activity typically peaks, would create these conditions. This is the scenario that kicked off the very slow first half of 2025: Mortgage rates rose to 7.25% at the beginning of January and stayed at those levels through June before starting a slow decline. Correspondingly, inventory in 2025 rose 34% over the prior year in that first half of the year. As demand slows, inventory grows.

Investor behavior is another important element to consider when analyzing future inventory trends. While most homesellers are also buyers and the two transactions do not add to net inventory, investor sales do not necessarily have a purchase counterpart which can amplify supply. A turn in sentiment among investors or institutional owners in markets where they hold meaningful market share, could add inventory more directly than owner-occupant moves, particularly if rents soften or carrying costs rise.

Investor carrying costs include insurance and taxes as well as tariff driven materials costs and labor. A notable increase in all of these costs has weakened investor income opportunities over the past three years. A continuation of rising carrying costs in 2026 – a realistic risk – would lead to further selling and larger inventory increases.

Finally, a substantial deterioration in the labor market would raise the risk of increasing distressed listings. Although U.S. homeowners are generally in strong financial health with high equity levels and low delinquency rates, greater job uncertainty would result in lower household formation and migration. We can see a microcosm of this in the Washington DC metro area, where a marked decrease in federal government employment led to a substantial rise in new listings throughout the year as government jobs grew less secure.

In extreme job-loss recessionary environments, an influx of distressed sellers can add significantly to active inventory. Distressed sellers often are less price sensitive, leading to a dual downward spiral of supply growth and price declines. Because the vast majority of American homeowners have so much invested in equity and historically favorable mortgage terms, a large spike in distressed inventory is unlikely in 2026. Importantly for this component of our outlook, the timing of job loss effects is long; meaning that even if unemployment were to rise sharply in 2026, the resulting distressed supply wouldn't emerge until 2027.

## Scenarios Where Inventory Declines

A "Goldilocks" environment for homebuyer demand could produce the opposite outcome: inventory falling on an annual basis. This scenario requires a precise alignment of conditions, solid economic growth, steady employment, and mortgage rates that remain low enough to support strong buyer demand. We anticipate that mortgage rates in the 5s for extended periods during the year could be enough to spur sufficient demand that inventory falls on a year-over-year basis.

Under such conditions, multiple dynamics could contribute to tightening supply. First, accelerating demand would absorb available listings more quickly, particularly in markets where inventory has grown the most in recent years. Second, improved buyer confidence could draw out a portion of the shadow demand that has built up as households delayed moves throughout 2024 and 2025.

We witnessed this tight mortgage-rate-inventory correlation phenomenon as recently as 2023. In the first half of that year, mortgage rates dipped back down close to 6%, demand accelerated and inventory tightened after a massive spike the previous year. By July 2023, inventory was actually less than the same period of 2022. Unfortunately for homebuyers, that reprieve in mortgage rates was short-lived. Mortgage rates and inventory rose in tandem later in 2023. As mortgage rates hit 8% in October 2023, demand hit the brakes, inventory spiked and finished 2023 with 5% more homes unsold than at the end of the prior year, setting up 2024 for big gains in inventory.

## How Inventory Will Shape Prices

Overall, the housing supply outlook for 2026 points to a market gradually rebalancing. Inventory is still growing, but at a slowing pace; regional differences remain significant, with tight conditions persisting in the Northeast and Midwest while Sun Belt markets continue to carry elevated supply. While larger shifts remain possible, our baseline expectation is one of moderate, steady inventory expansion.

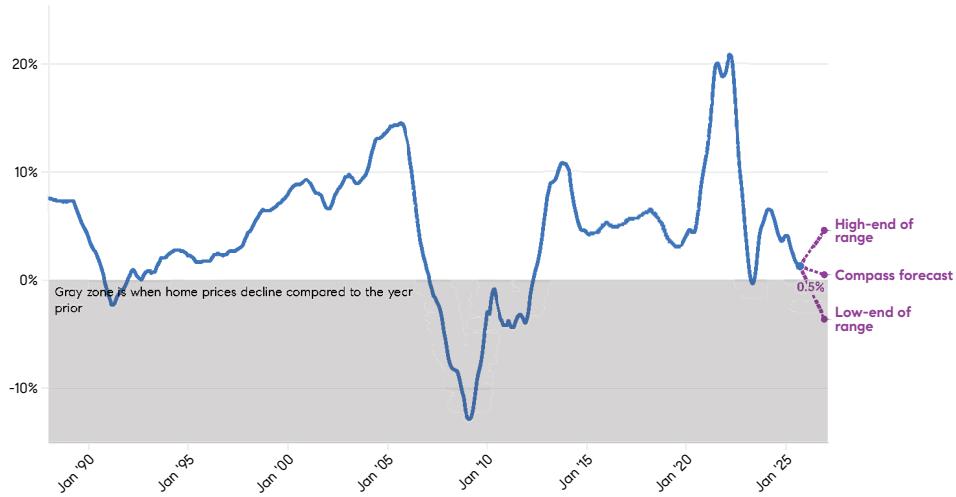
This trajectory matters as we shift to explain the outlook for pricing. With supply still above last year's levels and mildly improving demand still lagging behind supply, the inventory environment entering 2026 sets the stage for continued deceleration in home price appreciation. In many markets where price growth has already reversed, this supply imbalance could clearly extend price declines in 2026.

## Where Are Home Prices Headed Next Year?

Home prices enter 2026 under clear downward pressure from the inventory environment described in the preceding section. Supply is meaningfully higher than a year ago; demand, while improving, remains constrained. Most major markets have already experienced a multi-quarter deceleration in price appreciation, with many metros showing outright declines. While the headline home price readings from NAR and the Case Shiller Index still show slight home price appreciation in 2025 over the previous year, other measures of the active housing market are reporting lower prices than the same period a year ago.

### Home Price Change vs Prior Year

In 40 years there have been three instances when home prices were negative from the previous year. 2026 could see that also. Dashed lines are the forecast range.



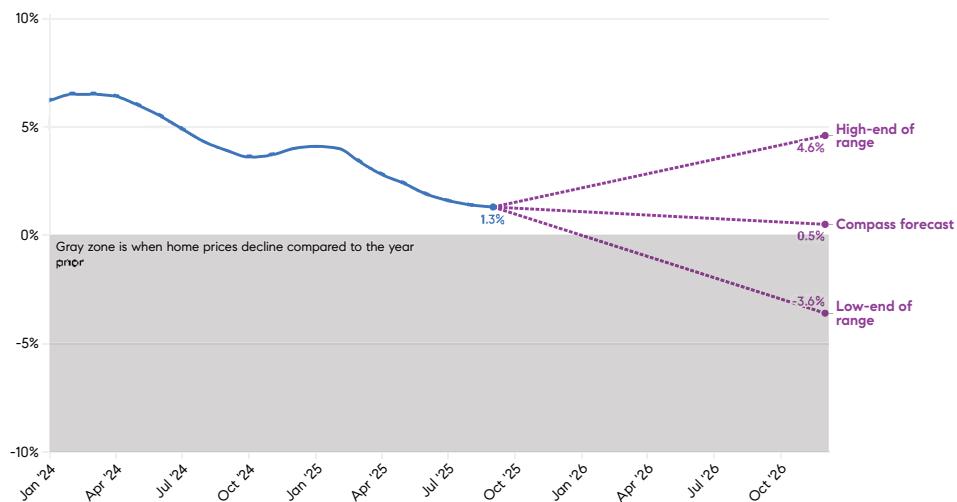
Source: S&P CoreLogic Case-Shiller

Figure 19. Home Price History and Forecast

Over the last 40 years, there have been just three instances when home prices declined from the previous year. During the recession of 1990, home prices fell 2.2% nationally on average. During the Great Financial Crisis in 2008, home prices fell 27% over five years from peak to trough. And for one month in 2023, home prices dipped negative as the pandemic boom abruptly ended. Now, as we approach 2026, home prices are just slightly higher than last year at this time, according to the Case Shiller Index. We can see plenty of economic scenarios where home prices finish 2026 below their 2025 level.

## Home Price Change Forecast Ranges

Home price pressures have been sufficiently weak to expect that national price declines in 2026 are possible.



Source: Compass, S&P CoreLogic Case-Shiller

Figure 20. Home Price Forecast Detail

Our baseline forecast calls for essentially flat prices, up just 0.5% nationally, with a plausible range spanning slight declines to modest gains. Next year's broader supply-and-demand dynamics support this outlook. Inventory has been rising for three consecutive years. This is a trend we expect to continue in 2026. Buyer activity is strengthening but is not yet strong enough to absorb the additional supply in markets where inventory has expanded most sharply, as it has across the Sun Belt. Meanwhile, markets with chronically low inventory, such as Chicago, Boston, and parts of the Northeast, continue to show small but steady price gains, underscoring the regional divergence embedded in the national average.

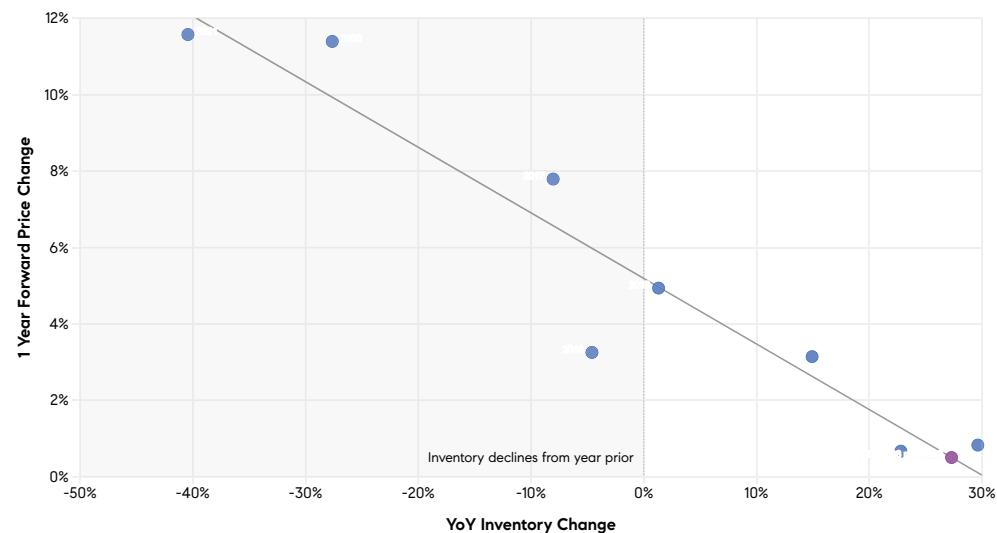
Taken together, these patterns set the stage for a year in which pricing stability, rather than appreciation, becomes the base case. This is a rare occurrence. In most years home prices appreciate roughly 4–5%. A “flat” year in home prices only arises as the result of multiple years of dramatically slow buyer demand. In the sections that follow, we explain how we arrived at this outlook, starting with the relationship between inventory and prices.

## How Inventory Growth Today Determines Prices Next Year

Our home price forecast relies on a year-forward pricing model that links changes in supply today to price outcomes in the following year. The model is grounded in a simple but powerful historical relationship: when inventory rises, future price appreciation slows, and when inventory declines, prices tend to accelerate. This relationship is illustrated in the chart below, where each dot represents a single year's inventory growth on the horizontal axis and the corresponding price change one year later on the vertical axis.

### Inventory Change vs. Price Change (2017-2025)

Each dot is inventory change in year X, price change for year X+1



Source: Altos Research, Compass · Inventory = single family homes, weekly inventory count. Price = median ask price, single family homes, weekly

Figure 21. Inventory Growth vs Home Price Appreciation

The trend line shows a consistent, downward-sloping relationship. Years with large inventory drops, such as 2020 and 2021, produced strong price gains the following year. Years with inventory growth from 2022 through 2024 led to much weaker price appreciation, with the most recent points clustering near zero. The 2025 data point, based on an average 27.3% increase in inventory, aligns squarely with the low end of the regression curve. This indicates very limited price growth in 2026.

Applying this model, our baseline projection for 2026 is +0.5% home price appreciation, with a wide plausible range from modest declines to modest gains. Regional variation remains substantial. Sun Belt markets with the largest inventory increases are already showing year-over-year price declines, while tight-supply markets like Chicago and New York continue to post small gains.

## Price per Square Foot Trends and Price Expectations

Price per square foot (PPSF) offers a useful early read on pricing direction because it adjusts for changes in the size and mix of homes being listed or sold. As of late 2025, PPSF data points to continued softening in national home price momentum.

### Price per Square Foot

Asking price per square foot has dipped below 2024

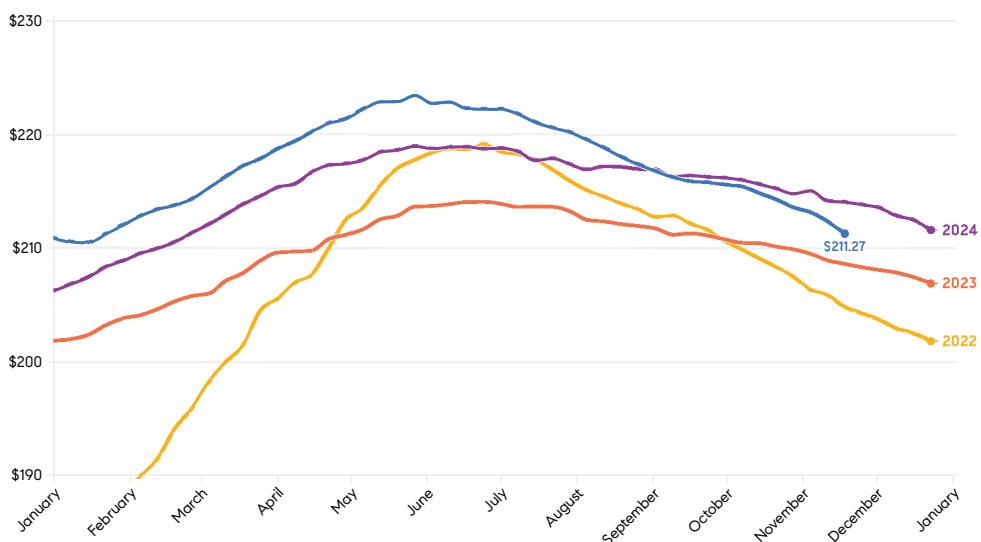


Figure 22. List Price per Square Foot

The national median PPSF for single-family homes has slipped below last year's levels, now trending in the \$213–\$217 range. That represents a decline of roughly 0.3% to 1% year over year. This decline has come faster than typical seasonal patterns would suggest. PPSF peaked near \$223 in late May 2025 and has cooled more quickly than usual, placing it among the earliest indicators signaling potential negative year-over-year price prints. The downward slope also reflects shifting seller behavior: those who are successfully transacting are doing so by pricing more competitively from the start, consistent with the broader softening seen in price reductions.

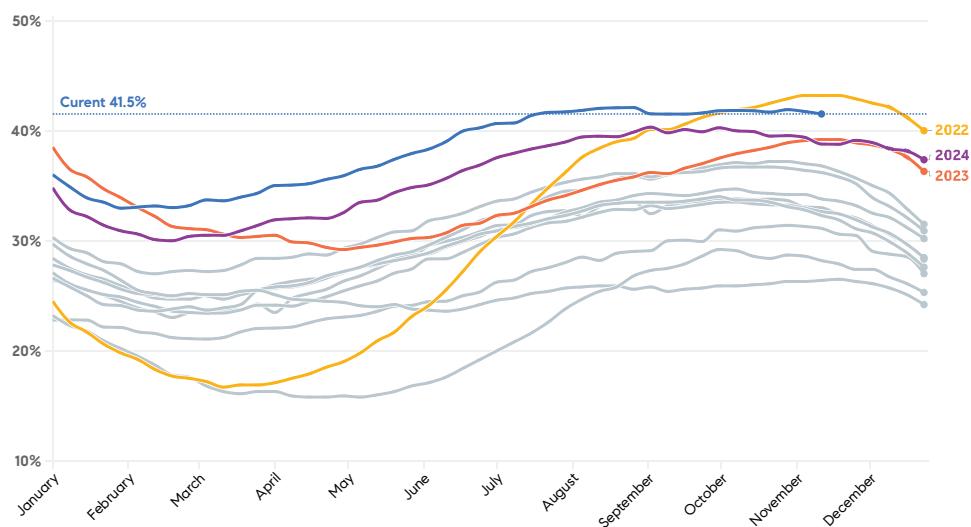
These trends reinforce our expectation for essentially flat national home prices in 2026. With supply elevated and buyers still cautious, sellers who want to transact are adjusting their expectations. The PPSF data shows that adjustment is already underway.

## Which Direction Price Reductions Are Pointing

Price reductions offer one of the clearest real-time signals of where closed-sale prices are headed. In a balanced market, roughly a third of listings take a price cut before selling. When that share climbs into the 40s, it signals weak demand and homes sitting too long. When it drops into the mid-20s, buyers are competing and sellers are getting their asking price.

## Price Reductions Are Not Improving

Price reductions in Q4 2025 imply weaker sales prices in early 2026



Source: Altos Research, Compass · Percent of active listings with price reductions. Single family homes

Figure 23. List Price Reductions by Year

As of late 2025, roughly 42% of active listings nationally have taken a price cut. That is one of the highest late-year readings in more than a decade. This elevated level reflects broad softness across most price tiers. The luxury segment is faring somewhat better, with reductions at 36%, only slightly above normal.

## What Current Price Reductions Tell Us About the 2026 Price Outlook

High and persistent price reduction levels point to continued softness in closed-sale prices heading into early 2026, particularly in markets weighed down by excess inventory. That said, the national price reduction rate has held relatively steady rather than accelerating. This implies that the supply and demand imbalance is not deteriorating sharply. This pattern aligns with our expectation of essentially flat national home prices in 2026, with a modeled outcome near +0.5% and a plausible range spanning slight declines to modest gains.

Looking ahead, the price reduction rate will be an important signal to watch. A meaningful drop in reductions would suggest improving buyer activity and help establish a floor under prices. A renewed climb would indicate further weakness.

## Arriving at Our 2026 Home Price Forecast

The leading indicators discussed above set a clear backdrop for our 2026 home price outlook. Inventory growth, softening price per square foot, and elevated price reductions all point in the same direction. Consistent with those signals, our model projects minimal national price movement in 2026, with a baseline forecast of +0.5% appreciation and a plausible range from approximately -3.6% to +4.6%.

Home prices, as measured by the Altos median price, are expected to end 2025 essentially flat compared to 2024. The year began with roughly 4% year-over-year gains, but by late summer that growth had slowed to 1.3% and continued to decelerate each following month. Entering Q4, the real-time view provided by the Altos median asking price for single-family homes shows 0% year-over-year change, confirming that national pricing momentum has largely stalled.

This cooling trend in pricing is consistent with a market carrying significantly more supply than a year ago. Inventory is currently 15% higher than at this time in 2024, and average annual supply growth for 2025 reached 27.3%, the fastest rate in our records. Demand has improved but remains insufficient to absorb this additional supply, particularly in markets where inventory surged the most.

## The Affordability Case for a Deeper Home Price Correction

We already know that there is sufficient supply of unsold homes on the market in many parts of the country to keep a lid on home price growth in 2026. However, there is another important factor that could drive home price changes: affordability. From an affordability perspective, today's home prices appear significantly disconnected from underlying household incomes. The Federal Reserve Bank of Atlanta's Affordability Index illustrates just how severe the distortion has become. For most of the 2010s, typical housing expenses consumed less than 30% of median household income, a level considered broadly sustainable. Today that ratio sits above 40%, near the highest point of the past two decades.

## The Affordability Crisis

At current home prices, mortgage payments as percent of income are near record highs



Source: Federal Reserve bank of Atlanta • Includes home price, mortgage rate, down payment, insurance as payment assumptions

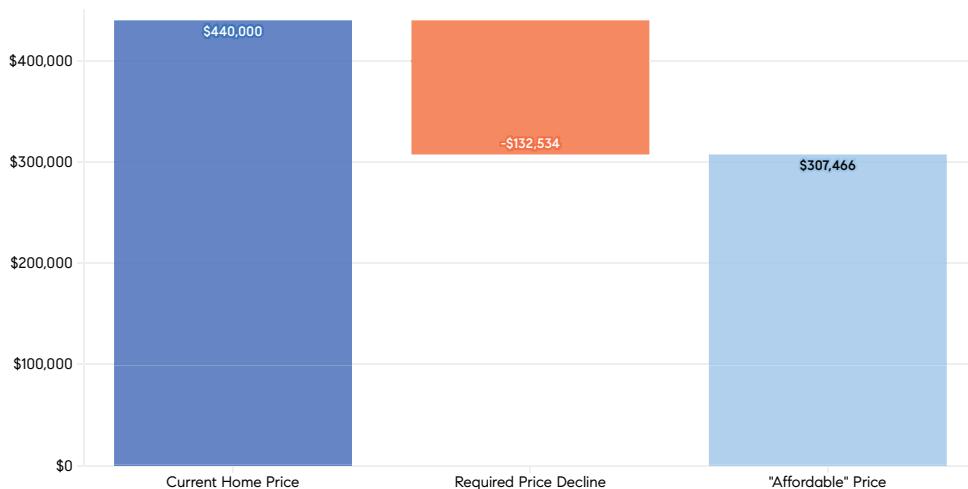
Figure 24. Atlanta Fed Housing Affordability Index

This gap matters because affordability imbalances have historically resolved through some combination of lower mortgage rates, stronger income growth, or downward price adjustments. In the current economic environment, the first two levers are limited. Mortgage rates may drift lower in 2026, but structural forces such as long-term fiscal deficits, large treasury issuance, and sticky inflation components make it unlikely that we'll return to the ultra-low rate regime that previously supported high home price valuations. Meanwhile incomes continue to grow, but not nearly fast enough to close the gap. Even optimistic scenarios do not bridge a 12- to 15-percentage-point difference between what households earn and what today's home prices require.

That leaves prices as the adjustment mechanism with the most room to move.

# How Far Would Home Prices Have to Fall?

To get to commonly accepted levels of affordability, with no change in income or interest rates



Source: Compass, Altos Research, Atlanta Fed

Figure 25. Accepted Levels of Affordability

A straightforward affordability math exercise suggests that returning to the long-run “affordable” range would require a price correction of approximately 30%. When viewed in the context of affordability, it’s not difficult to see why predictions of major home price correction are common in the headlines. A 30% price correction would exceed even the Great Financial Crisis. Without the credit bubble that triggered 2008, a crash of that magnitude is unlikely.

But home prices don’t have to fall for affordability to return. Affordability is a ratio of price to income. If prices stay flat while incomes rise, the math gradually improves. This is already happening: in much of the country, home prices have been flat or declining for three years while incomes have grown. At 4% annual income growth, roughly the recent pace for American households, the market returns to equilibrium within a decade, even if mortgage rates never fall.

YEAR	HOME PRICE	MORTGAGE RATE	PAYMENT AS % OF INCOME
0 (now)	\$430,000	6.5%	42.9%
3	\$430,000	6.5%	38.2%
5	\$430,000	6.5%	35.3%
7	\$430,000	6.5%	32.6%
9	\$430,000	6.5%	30.2%

Table 1

Nine years sounds long, but we're already three years in. And this scenario assumes rates never decline. Any sustained drop in mortgage rates accelerates the timeline considerably.

Our base case: affordability improves gradually through flat prices and rising incomes, not through a dramatic correction.

## Local Market Prices

As of the August 2025 data for the Case Shiller home price index, nine of twenty major metro markets around the US had negative home price changes from 2024. Home price declines are led by Tampa, Miami, San Francisco, Phoenix, and Dallas.

Las Vegas, Washington DC, and Atlanta still have home prices positive vs. 2024, but are poised to move into negative territory.

The cities with strongest price appreciation in 2025 include Chicago, New York, Boston, Cleveland, and Minneapolis, and broadly across the northern part of the country. Due to the Great Stay, inventory is tighter in these cities where the supply-and-demand balance favors demand, inching home prices upward.

## Home Price Change - YoY

Case Shiller Index National Home Price Change



Source: S&P CoreLogic Case-Shiller • Purple cities have home price appreciation vs. Sept 2024. Orange cities have home price declines from Sept 2024

Figure 26. Home Price Trends for 20 Major Metros

Using our home price forecast model applied to each state's 2025 inventory change, we can project 2026 price changes per state. Using this approach, 13 states are projected to have negative price change in 2026.

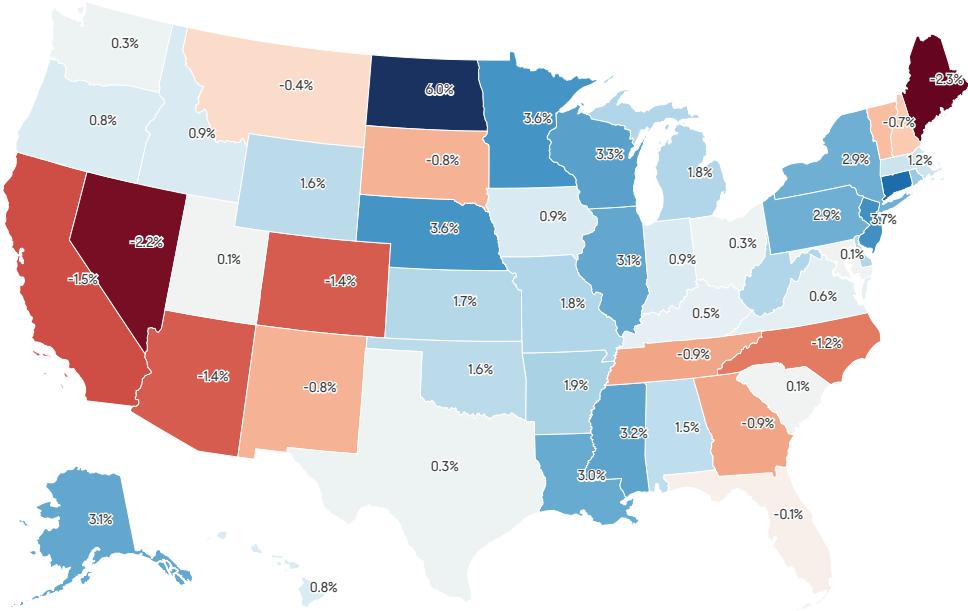


Figure 27. Home Price Change

The regional pattern reinforces themes we explored in Part I. The K-shaped economy and the Great Stay have created two distinct housing markets. In the Sun Belt, elevated inventory and softening demand are pushing prices lower. In the Northeast and Midwest, limited supply continues to support modest price gains. This divergence means national averages will obscure sharply different local realities throughout 2026.

## Ranked States for 2026 Home Price Changes

The table below ranks all 50 states by projected home price change in 2026, based on our inventory-to-price model. States at the top of the list have tight inventory and are expected to see continued appreciation. States at the bottom have elevated supply and face the greatest price pressure. The range spans from +6% in North Dakota to -2.3% in Maine, illustrating the wide regional variation hidden within the flat national forecast.

RANK	STATE	2026 HOME PRICE CHANGE	RANK	STATE	2026 HOME PRICE CHANGE
1	North Dakota	<b>6.0%</b>	26	Idaho	<b>0.9%</b>
2	Connecticut	<b>4.6%</b>	27	Hawaii	<b>0.8%</b>
3	New Jersey	<b>3.7%</b>	28	Oregon	<b>0.8%</b>
4	Minnesota	<b>3.6%</b>	29	Virginia	<b>0.6%</b>
5	Nebraska	<b>3.6%</b>	30	Kentucky	<b>0.5%</b>
6	Wisconsin	<b>3.3%</b>	31	Texas	<b>0.3%</b>
7	Mississippi	<b>3.2%</b>	32	Washington	<b>0.3%</b>
8	Alaska	<b>3.1%</b>	33	Ohio	<b>0.3%</b>
9	Illinois	<b>3.1%</b>	34	Utah	<b>0.1%</b>
10	Louisiana	<b>3.0%</b>	35	South Carolina	<b>0.1%</b>
11	New York	<b>2.9%</b>	36	Maryland	<b>0.1%</b>
12	Pennsylvania	<b>2.9%</b>	37	Florida	<b>-0.1%</b>
13	Rhode Island	<b>2.2%</b>	38	Montana	<b>-0.4%</b>
14	Arkansas	<b>1.9%</b>	39	New Hampshire	<b>-0.6%</b>
15	Michigan	<b>1.8%</b>	40	Vermont	<b>-0.7%</b>
16	Missouri	<b>1.8%</b>	41	South Dakota	<b>-0.8%</b>
17	Delaware	<b>1.8%</b>	42	New Mexico	<b>-0.8%</b>
18	West Virginia	<b>1.8%</b>	43	Georgia	<b>-0.9%</b>
19	Kansas	<b>1.7%</b>	44	Tennessee	<b>-0.9%</b>
20	Oklahoma	<b>1.6%</b>	45	North Carolina	<b>-1.2%</b>
21	Wyoming	<b>1.6%</b>	46	Arizona	<b>-1.4%</b>
22	Alabama	<b>1.5%</b>	47	Colorado	<b>-1.4%</b>
23	Massachusetts	<b>1.2%</b>	48	California	<b>-1.5%</b>
24	Indiana	<b>0.9%</b>	49	Nevada	<b>-2.2%</b>
25	Iowa	<b>0.9%</b>	50	Maine	<b>-2.3%</b>

Table 2

## Looking Ahead

The pricing outlook for 2026 is one of stability rather than growth. Elevated inventory, softening price per square foot, and persistent price reductions all point to a market where appreciation has stalled. Our baseline forecast of +0.5% reflects this reality, though the plausible range extends from modest declines to modest gains depending on how mortgage rates and demand evolve. Importantly, flat prices are not a sign of crisis. They are the mechanism through which affordability gradually returns after years of rapid appreciation. For buyers, this environment offers more selection and negotiating power than at any point since the pandemic. For sellers, it demands realistic pricing from day one.

The next question is whether transaction volume can finally break out of its three-year slump. With inventory rising and affordability slowly improving, the pieces are in place for home sales to grow in 2026. In the next section, we examine the leading indicators that will determine whether that growth materializes.

## Will Home Sales Momentum Gain Steam?

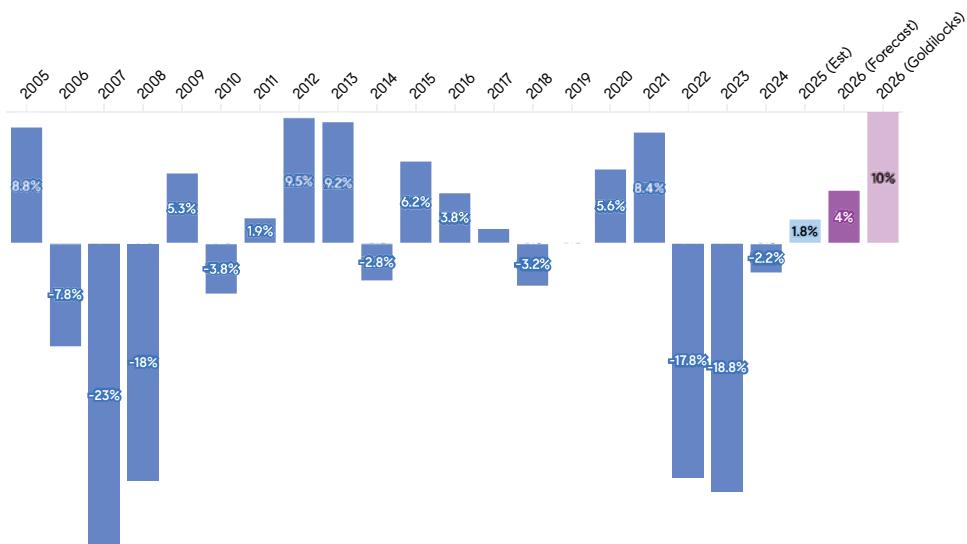
Home sales enter 2026 with the strongest forward momentum since the pandemic. After three years of depressed transaction volume, roughly 4 million existing home sales annually, demand began improving in the second half of 2025 as mortgage rates eased off their highs. Existing sales ran 2-4% above 2024 in recent months, and both purchase mortgage applications and weekly pending contracts show meaningful gains heading into the new year.

Multiple leading indicators align to suggest that 2026 will start slightly stronger than 2025. The MBA Purchase Applications Index is up 15–25% year over year, pointing to expanding early-stage demand, even while affordability remains tight. The Altos weekly pending sales are at their highest Q4 levels since 2021, signaling that lower rates are already translating into more signed contracts. New home sales, meanwhile, continue their steady 660,000–680,000 pace, with builders using incentives to support high sales volume, despite rising costs and softer permitting activity.

Against this backdrop, our baseline forecast for home sales growth calls for a modest improvement of roughly 4% existing homes sales growth in 2026, consistent with the gradual gains observed in late 2025. But the data also supports a viable “Goldilocks” scenario in which sales could outperform expectations. Conditions that would enable stronger growth include: mortgage rates holding near 6%, the release of significant pent-up demand after years of delayed household moves, and elevated withdrawal rates that appear to represent not just shadow inventory but also *shadow demand*.

## Home Sales Change per Year

Sales grow slowly over time, but can stop abruptly



Source: NAR, Compass

Figure 28. Homes Sales Transaction Volume Changes Over Time

Mortgage rate risks remain the most obvious negative force that could stunt home sales in 2026. A resurgence in inflation or stronger-than-expected employment numbers could push rates back toward 7%, suppressing demand. Conversely, a labor-market slowdown could weaken buyer confidence even as lower rates improve affordability. But as of late 2025, the alignment of moderating mortgage rates, rising early-stage demand, and healthier contract activity puts the housing market in its most balanced posture in several years. If conditions hold in this “just right” range, 2026 could produce the strongest transaction growth of the post-pandemic period, so far.

## Existing Home Sales

Existing home sales in 2025 remained historically low for most of the year, extending the post-pandemic period of depressed transaction volume. For the third consecutive year, the market operated near an annual pace of 4 million sales. Elevated interest rates in Q1 and Q2 pushed 2025 activity below even the already weak levels of 2023 and 2024.

Momentum shifted meaningfully in the second half of 2025. NAR reported that July, August, and September sales each came in 2-4% above 2024 levels. The latest reading for October 2025 shows existing home sales rising to an annualized pace of 4.1 million, up from 4.06 million in September. According to the weekly pending home sales data from Altos Research, the full-year 2025 is on pace to

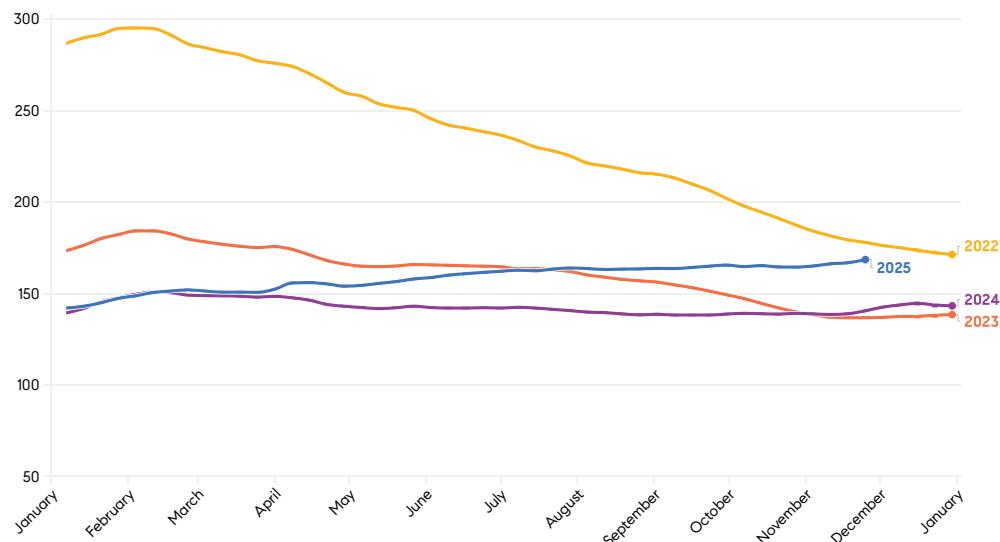
finish with roughly 1.8% home sales growth over 2024, with most of that modest growth coming late in the year. This late-year stabilization positions 2026 to begin at a sales pace modestly ahead of 2025.

## Purchase Mortgage Applications

As the improvement in existing home sales emerges late in 2025, the Mortgage Bankers Association's Purchase Mortgage Applications Index provides an important forward-looking confirmation of strengthening demand. The index measures the number of mortgage applications submitted each week for home purchases, making it a useful early indicator of future sales activity.

## Purchase Mortgage Applications

13-week rolling average shows a slightly improving market



Source: Mortgage Bankers Assoc., Compass

Figure 29. Purchase Mortgage Applications

After three years of steady declines toward levels last seen during the Great Financial Crisis, purchase applications have consistently trended higher throughout 2025. For much of the year, weekly application volumes have run 15-25% above the same period in 2024. In Figure 27, a 13-week rolling average of the Index shows mortgage applications on pace to surpass their 2022 levels by the end of 2025. This increase has not translated one-for-one into completed sales, as actual closed transactions have risen only 2-4%. However, the application data makes it clear that more households are attempting to enter the market again.

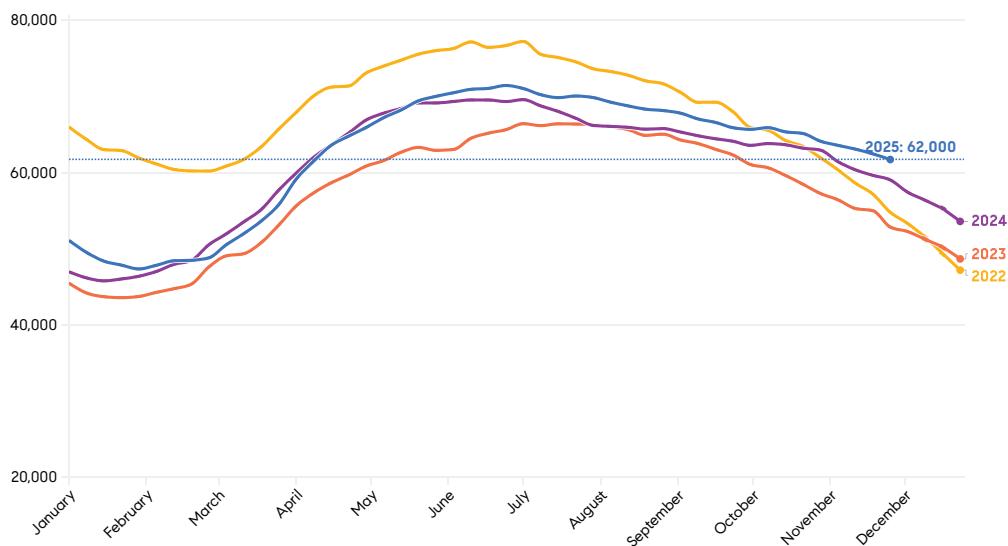
The reliability of this upward trend suggests that buyer intent is building after nearly four years, even if conversion from applications to sales remains constrained. This strengthening early-stage demand is one of the clearest signals that the housing market is positioned to begin 2026 with more momentum than it has in the previous three years.

## Weekly Pending Home Sales

The strengthening in early-stage demand seen in purchase applications is also visible in the Altos Research weekly pending home sales counts, which tracks the number of homes going under contract each week. Because most transactions close 30-45 days after going pending, this measure serves as an immediate indicator of near-term sales activity.

## Weekly Pending Home Sales

Home sales are higher than the past three years



Source: Altos Research, Compass · Weekly pending home sales, single family, 13 week rolling average

Figure 30. Weekly Pending Home Sales

Since August 2025, weekly pending contracts have run a modest 1-5% above the same period in 2024 across most of the country. Florida has been a standout performer with commonly 15% more transactions started each week than in the fall of 2024. The midwest and northeast markets such as Illinois and New York, which are supply constrained, are showing little or no gains in transactions compared to last year. A handful of important metros, such as New York, Nashville and Atlanta, continue to lag in the weekly pending data. As of November, pending sales reached their highest Q4 levels since the pandemic, marking a clear shift from the unusually weak spring and early summer.

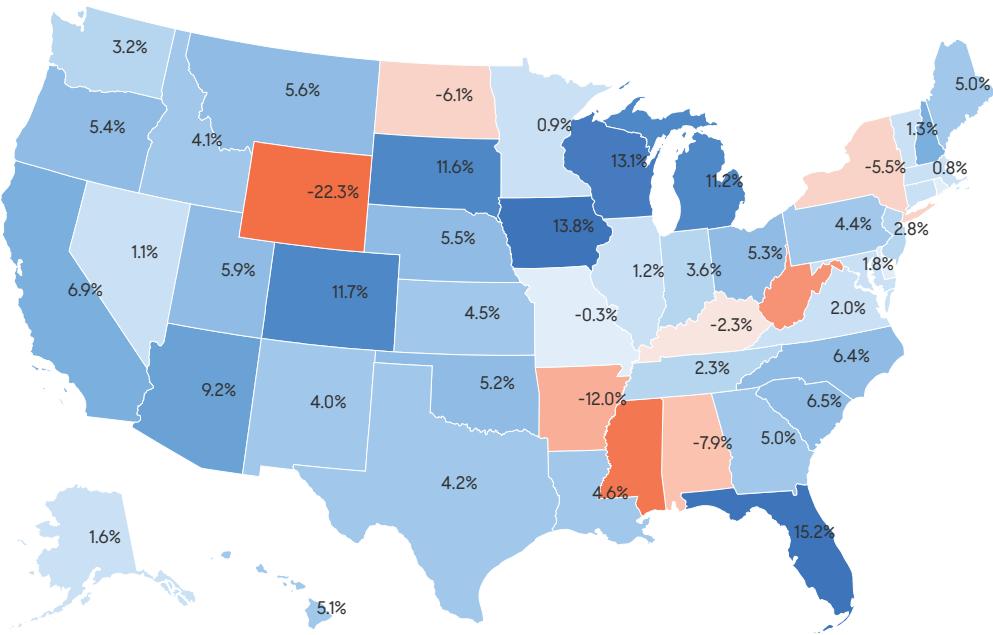


Figure 31. Pending Sale Changes vs 2024

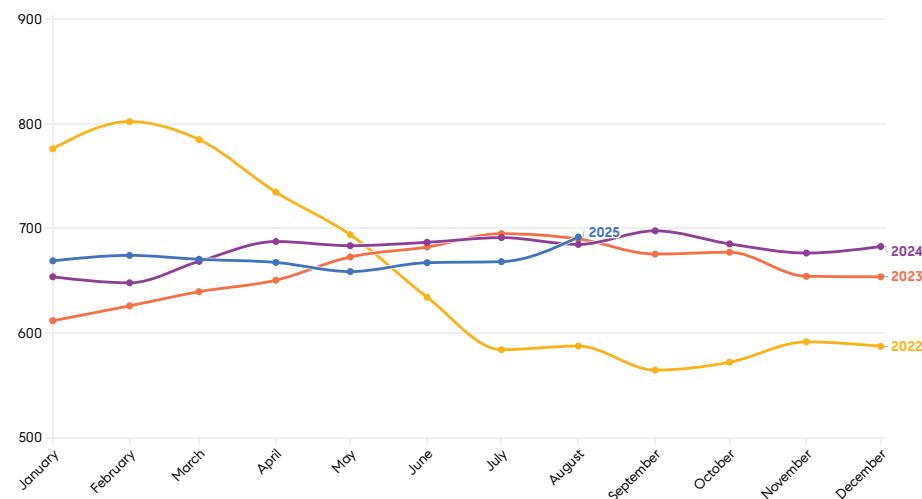
The consistency of this improvement is notable. Unlike brief spikes that can result from severe weather anomalies, the current run has extended for several months and aligns with the broader trend of slowly rebuilding buyer intent. Together, the applications data and the pending-sales data show that more buyers are taking actionable steps toward purchasing, even if overall transaction volumes remain low by historical standards and affordability remains an obvious headwind.

While this measure alone does not signal a breakout year, it suggests that 2026 will begin with a firmer sales pipeline than at any point since 2022, giving the housing market its first genuine chance at year-over-year growth in several cycles.

## New Home Sales

New home sales have been one of the steadier components of the post-pandemic market, holding in a narrow annualized range of 660,000 to 680,000 units for nearly three years. Unlike existing sales, which have swung sharply with affordability pressures, new construction has benefited from a deep pipeline of builder inventory and aggressive use of incentives.

## New Home Sales



Source: US Census Bureau · 13 week rolling average, single family home sales

Figure 32. New Home Sales

As 2025 draws to a close, the picture is less optimistic as the growth in existing home sales seems to show. New home sales have been running lower than in 2024. Permitting has softened and major builders have begun pulling back on starts, reflecting concerns around buyer traffic and rising construction costs, including tariff-driven materials inflation. At the same time, the impact of mortgage rate buydowns and other incentives, which attempt to support short-term transaction volume, may be beginning to wane.

## Home Building Slowdown

New construction activity is down 30% from the recent highs



Source: US Census Bureau · Total permits single family + apartments. Seasonally adjusted annual rate, in thousands.

Figure 33. New Construction Activity

For 2026, we expect modest growth rather than a breakout. Our forecast calls for approximately 688,000 new home sales, slightly above 2025 levels but below other more optimistic projections that reach into the 700,000–710,000 range. This reflects two key dynamics:

- Strengthening early-stage demand visible in mortgage applications and pending sales, which should lift new construction alongside existing sales.
- Rising existing-home inventory in several major Sun Belt metros, which increases competition for builders and may limit upside in regions where new homes have dominated market share.

Overall, new home sales appear positioned to track alongside the broader housing recovery, contributing incremental gains but unlikely to serve as the primary driver of national sales growth in 2026.

When considered together, the indicators across the resale and new-construction markets show a housing sector entering 2026 with more underlying strength than at any point in the past three years. Existing home sales are ending 2025 on a modest but clear upward path. Purchase mortgage applications are running materially higher than a year ago. And weekly pending contracts have returned to their strongest late-year levels since the pandemic. These measures point to a market where demand is rebalancing slowly, even against the backdrop of persistent challenges in affordability.

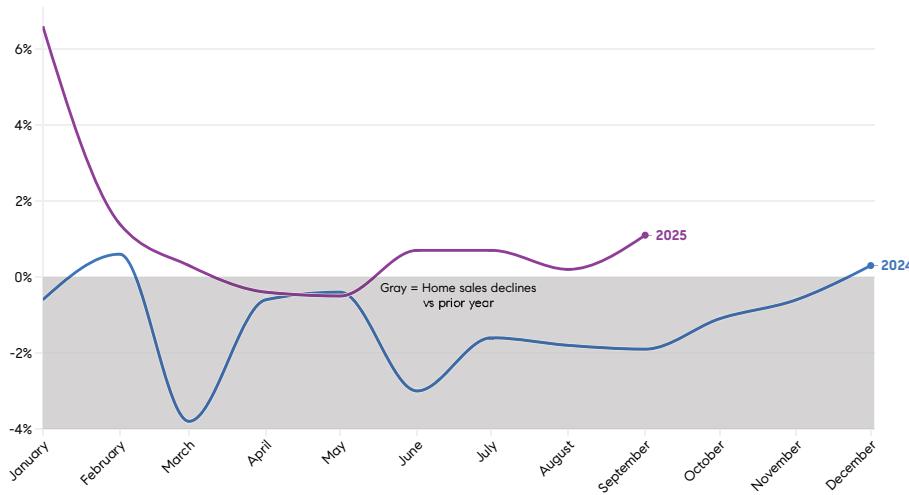
The improvement in these metrics does not imply a surge in sales on its own, but it creates the conditions under which home sales continue to expand in 2026. It also presents a possibility of a stronger-than-baseline year should optimal conditions materialize.

## The Goldilocks Case for Home Sales

Weekly pending home sales data entering Q4 2025 points to a meaningful improvement in transaction volume after three years of historically low activity. Altos Research counts show newly pending contracts running 8% above 2024 levels, coinciding with mortgage rates stabilizing near 6.3% which is roughly 70 basis points below last year at this time. After a weak first half of 2025 when rates hovered near 7%, cumulative closed transactions are now greater than 1% above 2024 through the third quarter, the latest period for which Compass has released sales data.

## Home Sales Growth vs Prior Year

After a very slow Q2, 2025 home sales have been reliably improving with lower mortgage rates



Source: Compass · Cumulative closed transactions in the 37 states in which Compass operates. Data as of November 20, 2025

Figure 34. Home Sales Growth

NAR's October reading reinforced this trend, with existing home sales rising to an annualized pace of 4.1 million. Momentum appears sustained rather than transitory, suggesting that if mortgage rates remain near the low-6% range through early 2026, home sales should continue improving.

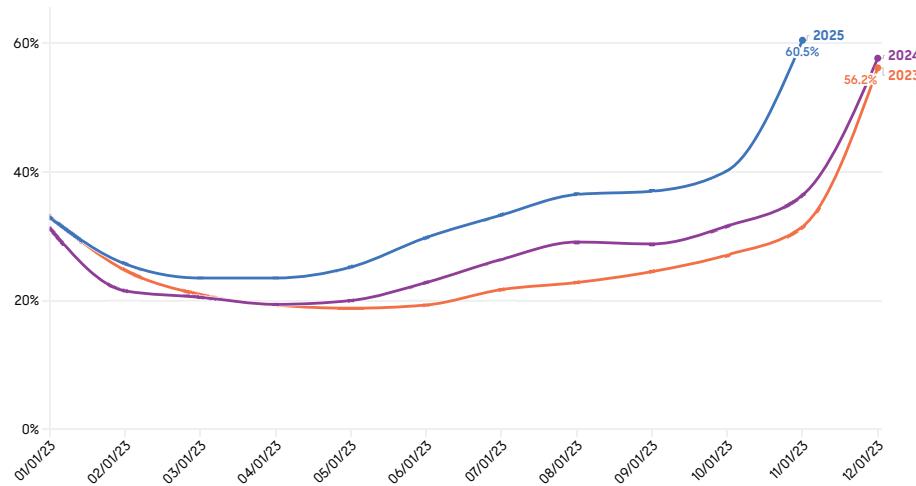
While our baseline forecast for 2026 calls for modest gains of roughly 3.5-4%, current data indicates a credible scenario in which sales outperform, potentially approaching **8-10% growth** under the right convergence of factors, including:

**1. Release of pent-up demand.** Three years of delayed household moves have created significant latent demand. In supply-rich Sun Belt metros such as Austin, Denver, Tampa, and parts of Florida, buyers now have greater selection, reduced competition, and price conditions that resemble bargain territory. These markets have capacity for higher transaction volume simply because inventory is no longer a constraint.

**2. The great withdrawal phenomenon = shadow demand.** In 2025, withdrawals ran extremely high as frustrated sellers pulled listings that didn't get offers. Compass counts over 150,000 more withdrawals than in 2024 (year-to-date through November 15, 2025.) The withdrawal ratio of frustrated sellers vs new listings is sharply higher than in 2024.

## More Withdrawals This Year

Do withdrawn listings represent shadow inventory or shadow demand?



Source: Compass · Withdrawn listings as percent of new listings - Monthly. Data for all listings in 37 states where Compass operates

Figure 35. Withdrawals as a Percentage of New Listings

At first glance withdrawals seem to imply shadow inventory, or sellers who want to sell but can't. But upon closer inspection, many of these appear to be owner-occupants, not investors. Withdrawals may, in fact, be an indication of shadow demand. For owner-occupiers, every withdrawn listing is two delayed transactions from 2025 into 2026: a sale and a purchase. This condition implies that home sales grow but total inventory does not. If rates hold near 6% in 2026, a meaningful share of these delayed transactions could finally materialize.

**3. Price softness encourages activity.** In many Sun Belt markets, prices have been flat or declining for up to three years. Entering 2026, this "cheaper homes + cheaper money" combination is producing anecdotal signs of bargain-driven buying behavior in markets like Austin, Naples, Denver, Tampa, and Naples.

**4. Hiring improvement, even with rising unemployment.** September's data showed an optimistic combination for housing: higher hiring and higher unemployment at the same time. That's not as contradictory as it seems. More Americans, especially those over 55, are re-entering the labor force. Rising unemployment from labor-force expansion should have the impact to pull interest rates down while healthy hiring helps keep buyers confident. A too-robust job market pushes rates higher. So this may be an ideal macro mix for 2026.

**5. Florida as a national swing factor.** After three hurricanes suppressed 2024 transactions, Florida saw no major storms in 2025. Pending sales are running roughly **10% above** last year, positioning the state to materially boost national totals again in 2026.

The Goldilocks setup is not guaranteed. If inflation, hiring, or wage data reaccelerate, mortgage rates could rise back toward 7%, capping any sales rebound. Elevated economic anxiety, job losses, or renewed deflationary psychology could also restrain buyer behavior. Still, current contract activity and rate movements provide the most constructive setup for home sales since 2021. If conditions remain in the “just right” zone, 2026 could produce the strongest transaction growth of the post-pandemic period.

The indicators across existing home sales, new construction, and early-stage demand point to a housing market entering 2026 with more momentum than at any point in the past three years. Purchase mortgage applications are running materially higher than a year ago. Weekly pending contracts have returned to their strongest late-year levels since the pandemic. And while affordability remains a constraint, the alignment of moderating mortgage rates and improving buyer activity suggests that transaction volume can finally begin to grow again. Our baseline forecast calls for approximately 4% growth in existing home sales, with a credible path to stronger performance if conditions remain favorable. With the major trends and forecasts for 2026 now established, we turn to what this all means for buyers, sellers, and real estate professionals preparing for the year ahead.

# Navigating 2026: What The New Era Means for You

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The housing market entering 2026 looks different from the one that emerged from the pandemic. After four years of disruption, including frozen migration, volatile mortgage rates, and uneven regional supply, we are moving into a more stable phase. This transition brings both challenges and opportunities, and understanding them can help anyone making real estate decisions in the year ahead.

## The Big Picture

Our analysis points to a market defined more by stability than dramatic swings. National home prices are expected to be essentially flat in 2026, with our forecast of +0.5% appreciation sitting within a range that includes the possibility of modest decline or modest gain. This is neither a crash nor a boom. It reflects a market working through years of accumulated imbalances to achieve necessary affordability for future homebuyers.

Mortgage rates should trade in a 5.9% to 6.9% range, averaging around 6.4% for the year. While this remains elevated by historical standards, it represents an improvement from the peaks of the past three years. The labor market will largely determine direction: weak employment data tends to push rates lower, while strong inflation data pushes them higher.

Home sales are positioned for growth, with existing home sales potentially rising from 4.1 million to approximately 4.25 million. Years of pent-up demand, combined with fading rate lock-in and stabilizing job markets, create conditions for increased transaction activity. A lucky combination of those variables could unlock significant growth in home sales.

## For Buyers

In many markets, 2026 offers improved buying conditions compared to recent years. Sun Belt metros like Austin, Tampa, Dallas, and Denver, which saw steep pandemic-era price increases, now offer more selection and negotiating leverage than buyers have had in some time. Inventory in Texas alone is 50% higher than in 2019.

The affordability picture is also evolving gradually. Not through dramatic price correction, but through the slower mechanics of flat prices and rising incomes. At 4% annual income growth, the market moves closer to traditional affordability levels even without significant rate relief. Each year that prices stay flat while incomes rise helps close the gap.

Regional differences remain important. In the Northeast and Midwest, inventory is still tight. Markets like Chicago, Boston, and Connecticut continue to favor sellers, with homes moving quickly. In these markets, preparation and decisiveness remain valuable.

## For Sellers

In a flat-price environment, sellers who price realistically from day one tend to fare better. Roughly 42% of active listings nationally have taken a price cut, one of the highest late-year readings in more than a decade. Homes that sit too long on the market often end up selling for less than they would have with accurate initial pricing.

The encouraging news is that buyer demand is improving. Weekly pending contracts are at their highest fourth-quarter levels since 2021. If a home is priced appropriately and presented well, buyers are ready to transact. The mortgage rate lock-in effect that kept many potential move-up buyers in place is fading, which means more households are entering the market.

## For Real Estate Professionals

In a market defined by regional variation and shifting dynamics, clients benefit from knowledgeable guidance. National averages can mask very different local realities. What is true for Tampa may not be true for Boston, and what works in Dallas may not work in San Francisco. Local market expertise helps clients navigate these differences.

The leading indicators discussed throughout this report provide real-time signals of where individual markets are heading. This data offers a framework for interpreting conditions on the ground and translating them into useful advice.

## Looking Ahead

The three themes explored in this report, improving affordability, unlocking American mobility, and the K-shaped economy's impact on housing, will continue to shape the market through 2026 and beyond. These forces will not resolve in a single year, but they are generally moving in directions that support a healthier, more balanced market over time.

American homeowners remain in a relatively strong financial position. With strong equity and favorable terms, there is no indication of a wave of distressed selling ahead. The credit conditions that contributed to the 2008 crisis are not present today.

As we noted at the outset, data can help reduce uncertainty. The conflicting signals that challenge even experienced analysts become clearer when you understand the underlying dynamics. Home prices are stabilizing and affordability is gradually improving rather than crashing. Mobility is beginning to thaw after years of constraint. And while economic conditions vary across different groups and regions, the housing market as a whole appears to be finding its footing.

At Compass, our mission is to help everyone find their place in the world. The insights in this report are designed to provide clarity for informed decisions, whether you are a first-time buyer considering entering the market, a homeowner thinking about your next move, or a real estate professional guiding clients through important financial decisions. We hope this analysis serves you well in the year ahead.

2026 marks the beginning of a housing market defined by stability, not dramatic swings. After years of volatility, the forces shaping the market will begin falling into a more healthier balance, with gradually improving affordability and normalized levels of both housing supply and demand. For buyers and sellers, this return to balance lays the groundwork for a more predictable era ahead.



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