

2026 Housing Outlook: Ongoing Challenges, Cautious Optimism and Incremental Gains

Economics

Published Feb 17, 2026

Contacts: Elizabeth Thompson

ethompson@nahb.org AVP, Media Relations (202) 266-8495

Stephanie Pagan

spagan@nahb.org

Director, Media Relations

(202) 266-8254

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The housing market will continue to face several headwinds in 2026, including economic policy uncertainty as well as a softening labor market and ongoing affordability problems. But easing financial conditions led by an anticipated modest reduction in mortgage rates should help to somewhat offset these market challenges and support production and sales, according to economists speaking at the International Builders' Show in Orlando, Fla. today.

“The housing outlook in 2026 is one of cautious optimism as builders contend with rising material and labor prices and policy uncertainty, while builders and buyers alike should benefit from anticipated fiscal and monetary easing that will moderate housing finance costs and mortgage rates,” said Robert Dietz, chief economist of the National Association of Home Builders (NAHB).

On the inflation front, shelter costs are running at a 3.6% annual rate and continue to outpace broader consumer prices. “With a nationwide shortage of roughly 1.2 million housing units, the best way to ease the housing affordability crisis is for policymakers to remove barriers that are hindering builders from building more homes and apartments,” said Dietz.

Moreover, builders are facing persistent labor shortages, with the government reporting nearly 300,000 job openings in the construction industry in December. NAHB estimates that the residential construction sector will need to add roughly 740,000 workers a year just to keep pace with the industry's growth, retirements and departures.

Meanwhile, residential building material prices continue to experience elevated growth, as price growth has been above 3% since June 2025, despite continued weakness in the new residential construction market.

One silver lining is along the interest rate front, where the rate for 30-year fixed mortgages dropped 13 basis points to 6.2% following the announcement of \$200 billion in mortgage-backed securities buybacks by Fannie Mae and Freddie Mac. NAHB expects mortgage rates to remain slightly above 6% this year and unevenly trend slightly lower as the Federal Reserve is projected to make two 25 basis point rate cuts this year to reach a terminal federal funds rate of 3.25% by the end of 2026.

“A sustained sub-6% mortgage rate will likely wait until 2027,” said Dietz.

The Forecast

Given these market conditions, NAHB is anticipating slim single-family construction growth in the year ahead. Single-family starts are expected to increase 1.0% in 2026 to 940,000 units and move 5% higher in 2027 to a 984,000 pace. Meanwhile, townhouse construction gains continue, with market share at a multidecade high of more than 18%.

Multifamily starts are anticipated to fall 5% in 2026 to an annual pace of 392,000 units and decline an additional 6% in 2027 to a 367,000 rate. These figures follow a pandemic-era boom, when multifamily production hit 547,000 in 2022 with record-high completions. The market has slowed due to tighter financing and rising construction costs and is moving towards a more constrained development environment.

One area of the housing sector that continues to thrive is the remodeling sector, with the home improvement spending share for residential construction rising from 33% in 2007 to 45% in the third quarter of 2025. Residential remodeling activity is expected to increase 3% in 2026 and an additional 2% next year in inflation-adjusted terms.

“The surge in home equity has allowed more home owners to finance remodeling projects that meet their needs, which include growth for aging-in-place remodeling projects,” said Dietz. “NAHB expects robust long-term remodeling growth, and projects overall remodeling expenditures will be 19% higher in 2030 and 32% higher by 2035.”

Balanced Market Tilts Toward Buyers

The existing home inventory went from a cyclical annual low of a 2.3-months' supply in 2021 and steadily rose to a 4.1-months' rate in 2025, signaling that the sales climate is gradually moving away from a seller's market.

“We expect this rate to rise to a 4.6-months' pace in 2026, which is in line with a balanced market range of between four and six months,” said Danielle Hale, chief economist at Realtor.com.

On a year-over-year basis, Realtor.com projects that existing home inventory increased 15.2% in 2025 and will rise an additional 8.9% this year. Increasing inventory is also having a moderating effect on pricing. The median listing price of an existing home was \$399,900 in January 2026, down 0.1% from the previous year.

Meanwhile, the mortgage rate lock-in effect – where homeowners with low, fixed interest rates are reluctant to sell because they would have to buy another home with a significantly higher current mortgage rate – is improving but still weighs on the market.

“We have reached a mortgage rate lock-in milestone where the share of mortgages greater than 6% exceeds the share below 3%,” said Hale. “But the lock-in remains a market headwind, as roughly 80% of mortgages have a rate of 6% or lower.”

“We foresee slight gains in affordability this year,” she added, “with modest existing home sales growth expected and price appreciation lower than the overall inflation rate. These factors, along with income growth and likely lower mortgage rates, will work together to improve affordability.”

Prospective Buyers are Still Anxious

But even though 2026 began with interest rates in the low-6% range, many prospective home buyers are still uneasy.

“Consumers are dealing with a host of issues, including policy uncertainty, home prices, job security, and rising home maintenance and insurance costs,” said Zonda Chief Economist Ali Wolf.

Delving into demographics, Wolf broke down the percentage of all first-time buyers based on their generation:

- Gen Z and younger: 35%
- Millennials: 22%
- Gen X: 19%
- Baby boomers: 20%
- Silent/Greatest Generation: 5%

Each demographic group, Wolf observed, has unique characteristics that offer opportunities and challenges:

- Gen Z and younger: Enthusiastic about homeownership but have a very low homeownership rate, constrained by affordability and high student loan debts.
- Millennials: While roughly 50% are homeowners, have some equity, and are looking to for a first or second move-up home, the other half are renting and weighing whether it is more cost-effective to rent vs. owning a home.
- Gen X: They are relatively wealthy consumers but many still have an attractive mortgage lower than today’s prevailing rates.
- Baby boomers: Boomers also have relative wealth but they don’t have to move and they are very discretionary shoppers.

Summarizing the conditions that will allow consumers to feel more confident about buying a home, Wolf said it all comes down to one word – stability.

“Stability from policymakers,” said Wolf. “Stability in the labor market so that people are confident that their job is safe and/or they can find a new one easy enough. Stability that interest rates will stay steady and won’t move lower, which would keep buyers on the sidelines. And stability in home prices so that a home will be a steadily appreciating asset. These are the market conditions that will move hesitant buyers off the sidelines.”