Frozen Assets

Weekender Special Report on US Housing

November 21, 2026

> Nothing terrifies ordinary people more than the responsibility of thinking for themselves. Give them cheap bread, a flag to wave, and someone to blame, and they will happily hand over their freedom to any lar who promises to carry the burden.
>
> **Fyodor Dostoevsky**

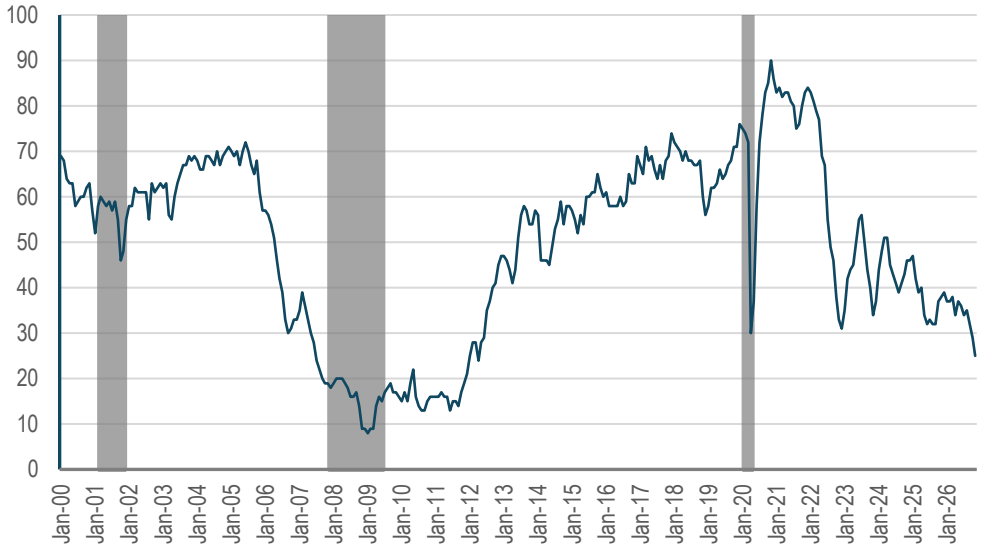
Good morning and welcome to a special report on US residential Real Estate. Although published at the same time as our regular Weekender, this report is more topical in nature.

Americans own $35 trillion of housing and cannot sell it. The largest asset on the household balance sheet has stopped trading, and the way it thaws, slowly through prices or suddenly through a recession, will say a great deal about the consumer, the Fed and the market in 2027.

Every durable asset has a price and a volume, and the two usually move together. The American house is the exception to this cycle. Prices have barely moved in four years, up a few percent nationally, down in parts of the Sun Belt, flat in real terms. Volume has collapsed. October existing-home sales ran at a 3.75 million annual pace, the lowest since August 2010, when the country was climbing out of a foreclosure crisis; in 2019, with a smaller population, the pace was 5.3 million. Builders' confidence is the lowest since April 2012. A market in which a record quantity of wealth sits in an asset that almost nobody is buying or selling is strange, and it is worth understanding, because housing is the channel through which interest rates reach ordinary families. This week the thirty-year mortgage rate went back above 7.25%.

S&P 500 Index Levels

(Source: Bloomberg)



Where the Market Stands

Transactions: a market in hibernation

The National Association of Realtors reported October existing-home sales down 5.5% month over month and 8.8% year over year. The West fell 14.5% from a year ago, the South 8%, the Midwest 8.2%, and the Northeast 4.1%. First-time buyers accounted for 29% of purchases, down from a historical norm near 40%; cash buyers were also 29%, and investors and second-home buyers 20%, up from 16% a year earlier. Together, those three numbers describe who can still transact: people who do not need a mortgage. Inventory rose to 1.59 million units, 4.6% more than a year ago, and months' supply reached 5.1, the first reading above five since 2016 and a level that textbooks call balanced. It is not balanced; it is a rising stock of unsold homes divided by a shrinking flow of sales. Homes took a median 35 days to sell, three more than a year ago. Lawrence Yun's comment that sizable pent-up demand could emerge if mortgage rates decline is both true and the whole problem: demand is pent up because rates have not declined.

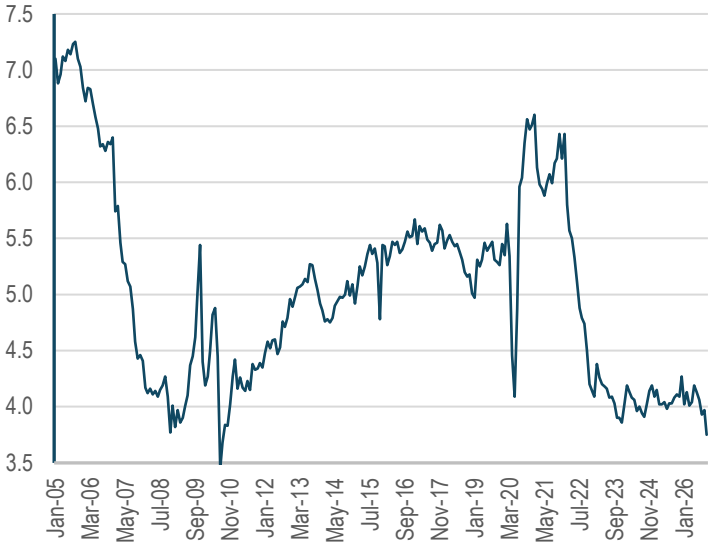
Prices: flat nationally, falling where they rose most

The NAR median was $416,700, up 0.4% from a year earlier. ICE's index put annual price growth at 1.0% in October, down from 1.4% earlier in the year; Case-Shiller's August reading was 2.1%. Single-family homes are up about 1.3% and condominiums down 1.2%, and single-family outpaced condos in 98 of the 100 largest metros. Regionally, the South's median is down 0.4%, and the West is flat, while the Northeast and Midwest, which never had the pandemic boom, are still rising at 1.5% to 3.2%. Realtor.com list prices have been below the prior year for twelve consecutive months and sit at their lowest October level since 2021. Negative equity is still rare nationally but concentrated where the boom was: Cape Coral at 11.2% of mortgaged homes, Lakeland 8.9%, Austin 8.4%, San Antonio 7.4%, Tampa 6.1%. For the fourth year, inflation has done the work of a price correction without the headline.

Existing Home Sales

January 2000 to October 2026

(Source: Bloomberg)



Rates: why the mortgage is 7% when the Fed is 4%

Freddie Mac's thirty-year rate was 7.28% in the week of November 19, up from 7.11% the week before and 6.26% a year ago; the fifteen-year was 6.66%. In October, the average was 7.33%, the highest since 2000. The arithmetic is unforgiving. A thirty-year mortgage is priced off the ten-year Treasury, which touched 5.15% last week, plus a spread that has hovered near 220 to 240 basis points for three years, up from a pre-2022 norm of 170.

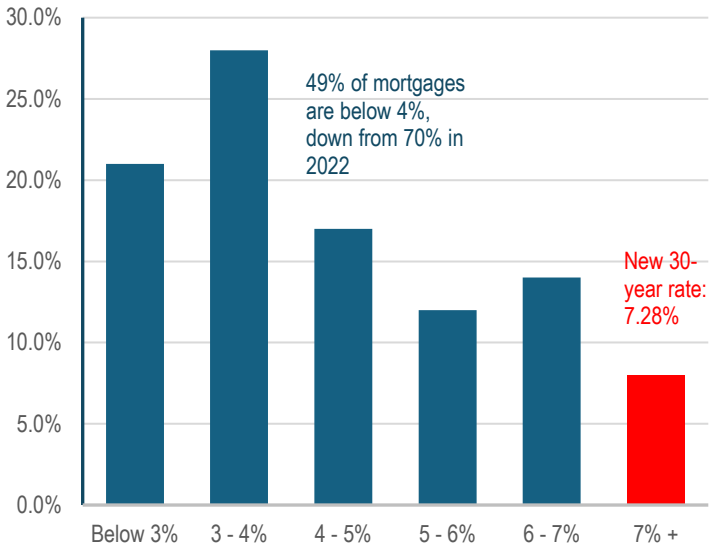
The spread is wide because the Fed is shrinking its mortgage-bond holdings, because banks have retreated from the market, and because prepayment risk is worth more when rates are volatile. The result is that even the Fed's eventual cuts, which every 2027 outlook expects late next year, pass through to mortgages only partially and only slowly. A ten-year at 4.5% with today's spread is a 6.75% mortgage. That number doesn't unlock the market. Adjustable-rate mortgages are back above 10% of rate locks, and the discount for a 5/1 ARM has widened past 100 basis points, which is how families are adapting.

The lock-in: 49% of mortgages below 4%

ICE reports that 49% of active mortgages carry rates below 4%, the first reading under half since 2020 but still enormous; the peak was 70% in 2022. The math is simple: a family with a 3% mortgage on a $400,000 balance would pay roughly $1,100 more a month to buy the identical house next door at 7.28%. That is why there is no volume. It is also why there has been no price crash: the sellers who would create the supply are not forced, and the 88 million homeowners, in Yun's phrase, are largely in a comfortable financial position. Equity held by mortgage borrowers reached a record $17.5 trillion in the third quarter, with 2.4 million borrowers holding more than $1 million. The cycle unlocks slowly, through death, divorce, job moves and the gradual repricing of the stock, and the data show that happening: the share below 4% is falling about three points a year.

Mortgage Breadown

(Source: Archimedes Research)



Builders: the one source of supply, and it is retreating.

For two years, the new-home market carried the volume the existing market could not, because builders could buy down a mortgage rate and existing owners could not. That is ending. New-home sales fell 11.7% from a year ago in October to a pace of 639,000; purchase applications for new homes were down 13.6%. The NAHB index fell four points to 25, the lowest since April 2012, with buyer traffic at 16, the lowest in fifteen years outside the pandemic. Forty-six percent of builders cut prices in November, a post-Covid record, by an average of 6%; 68% offered incentives, the twentieth straight month above 60%.

Starts rose 9.9% in October on a 23.6% multifamily jump, but single-family permits, the number that matters for next year, fell 8.7% on the month and 12.9% on the year to 772,000. Entry-level new-home prices are down 2.6% from a year ago. Lennar's fiscal fourth quarter in December will be the first clean read on how deeply the discounting has cut into margins. The Senate passed a permitting-reform bill 62–33 on November 19; it would help in 2028, not 2027.

Credit: the stress is at the bottom, not the middle

Mortgage performance is deteriorating from an extremely low base. ICE's national delinquency rate was 3.66% in September, up 24 basis points from a year earlier but below every pre-pandemic September on record. The New York Fed's third-quarter data put seriously delinquent mortgage balances at 1.1%, with the transition rate into serious delinquency at 1.6% and rising for several years. The stress is concentrated: FHA loans, which serve first-time and lower-income buyers, run delinquencies near 11% against 2.6% for conventional loans, and the end of pandemic-era FHA relief is pushing them up.

Cash-out loans are now one in seven rate locks, and three-quarters of refinancing borrowers who leave their servicer are taking cash out, meaning households are giving up historically low rates to access their equity. That is a sign of need, not of exuberance. Besides the mortgage, the rest of the household ledger is worse: auto loans 5.7% seriously delinquent, credit cards 12.9%, student loans 10.9%.

We believe housing in late 2026 is a stock with no flow. Prices are protected by owners who cannot afford to sell, volume is suppressed by buyers who cannot afford to buy, and the builders who bridged the gap are now cutting prices and permits. The consumer at the top of the ladder is sitting on record equity; the consumer at the bottom is paying 11% delinquency rates on FHA loans and cashing out equity to get by. Both are true at once.

What this means for the consumer

Housing reaches consumers through four channels, and three are currently closed. The first is the wealth effect: $35 trillion of housing value and $17.5 trillion of borrower equity make households feel richer and spend more. That channel still works at the top. The second is the equity-extraction channel: refinancing and home-equity lending turn paper wealth into spending.

At 7%, that channel is open only to those willing to give up a 3% mortgage, and those doing so appear to be doing it out of necessity. The third is the transaction channel: every home sale generates roughly $60,000 to $80,000 of adjacent spending on furniture, appliances, renovation, moving, and commissions. At 3.75 million sales against a 5.3 million norm, that is on the order of $100 billion a year of consumer spending that is not happening; Williams-Sonoma's 15% drop on Thursday and the cautious outlooks from Home Depot and Lowe's this week are that number showing up in earnings. The fourth is the formation channel: the first-time buyer share of 29% and the stagnant single-family permit count mean fewer households forming, more adults renting longer, and a generation accumulating less equity than the one before it.

The divided consumer that J.P. Morgan Asset Management flagged in its 2027 outlook is, to a large degree, a housing phenomenon. The household with a 3% mortgage has a fixed shelter cost that inflation has eroded for five years and a rising asset underneath it. The household that rents or bought in 2023 pays 40% more for shelter than it would have in 2019 and is carrying a 7% note. Retail sales can rise 0.2% in a month while that second household is going delinquent on its car loan, and both are in the same aggregate.

What this means for financial markets

Channel	Mechanism	What to watch
Inflation and the Fed	Shelter is about a third of CPI and measured with a lag of 12–18 months from market rents. Rent growth has slowed sharply, and multifamily completions are at a forty-year high, so shelter disinflation is the single largest disinflationary force in the pipeline for 2027. It is the best argument the Fed will have to stop inflation, and it arrives whether or not home prices move.	CPI owners' equivalent rent monthly run-rate; Zillow and Apartment List new-lease rents; multifamily completions. OER at 0.25% a month or below is the Fed's friend.
Treasuries and MBS	The housing market is the largest private borrower in the bond market. With originations at a decade low, net MBS supply is small, which supports agency spreads; but the Fed's balance-sheet runoff keeps the mortgage-Treasury spread wide. Agency MBS at 5.5–6% yields with federal credit are, in PIMCO's view and ours, among the better risk-adjusted income assets available.	Current-coupon MBS spread to the 10-year; Fed MBS holdings; refinancing index.
Homebuilders and suppliers	Builders have outperformed for three years on the lock-in, which handed them the only buyers. That trade is over for now: price cuts at a post-Covid record, incentives at 68%, permits down 13%, and margins about to show it. The group is a value buy at some point; the evidence says that point is after the December and January earnings, not before.	Lennar (Dec), D.R. Horton (Jan) gross margins and order growth; NAHB index; single-family permits.
Banks and non-bank lenders	Residential credit is not a bank problem in this cycle: conventional delinquencies are 2.6%, and loan-to-values are the lowest in a generation. The stress is in FHA and in nonbank servicers that hold the FHA book, and in the consumer-credit lines (auto, cards) that sit beside the mortgage. Regional banks' exposure is to commercial real estate, a separate story.	FHA serious delinquency; nonbank servicer advances; card and auto charge-offs at the big issuers.
Housing-related equities	Home improvement, furnishings, brokerages, title insurers and mortgage originators all trade on volume, not price, and volume is at a fifteen-year low. These names are already discounting that; what they are not discounting is a second year of it.	Existing-home sales pace; MBA purchase index; Home Depot and Lowe's comps.

Channel	Mechanism	What to watch
The wealth effect on equities	Households own record housing equity and record stock equity, and last week the second one fell 9%. If the two decline together, the top-income consumer who has carried spending for three years slows. That is the transmission mechanism by which a market correction becomes an economic one, and housing is half of it.	Conference Board confidence (Tuesday); luxury and travel spending; cash-out refinance volume as a stress gauge.

How it thaws: three paths into 2027

The frozen market will not stay frozen; the question is which of three forces melts it. The first and most benign is time. The share of sub-4% mortgages falls about three points a year, inventory rises 5% a year, prices stay flat while incomes rise 4%, and affordability repairs itself grindingly; NAR's affordability index is at 100.7 against 107 a year ago and would need rates near 6% or prices 10% lower to return to its long-run average. Under this path, 2027 looks like 2026 with slightly more volume and slightly lower real prices, and the consumer channels stay mostly closed.

The second is rates. Every 2027 outlook assumes the Fed finishes hiking by spring and the ten-year settles toward 4.5%; with the current spread that is a 6.75% mortgage, which does not unlock the market, but with a spread that normalizes toward 180 basis points it is 6.3%, which begins to. The unlocking would be gradual and would first show up in builders and then in existing-home volume.

The third is a recession. Job loss is the one thing that forces a locked-in owner to sell, and a wave of forced selling into 5.1 months of supply would do in two quarters what would take five years. That path is the one J.P. Morgan assigns 30% to. It is the only one that produces a meaningful decline in national prices, and the only one in which housing becomes a financial-stability question rather than an affordability one.

We do not expect a housing crash in 2027. The conditions for one, forced sellers and leveraged buyers, are absent; homeowners hold record equity and the weakest credit is a small share of the stock. Instead, we expect a fifth year of a market that does not clear, with the costs borne by the young, the renting, and the FHA borrower rather than by the banking system. For portfolios, that argues for owning the income side of housing (agency MBS, select REITs) over the volume side (builders, brokers, suppliers) until the December earnings show where the builders' margins land, and for watching shelter inflation as the best leading indicator of when the Fed can stop.

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