MALALA LIN
Assistant Vice President

Economic Research Office

T: +1 (929) 989 6613
E: mlin@us.mufg.jp

MUFG Bank, Ltd.
A member of MUFG, a global financial group

Economic Data Round-Up: A sluggish housing market constrained by affordability

July 31, 2026

- Housing activity remains sluggish despite moderating home price appreciation. Although conditions differ across the existing and new home markets, both continue to face affordability challenges. As a result, home sales remain historically weak. Existing home supply remains constrained by limited turnover and the mortgage lock-in effect, while elevated inventory in the new home market appears to reflect weaker demand and slower absorption.
- Going forward, the housing market is likely to remain subdued. While lower mortgage rates and continued nominal income growth may provide some support to demand, affordability challenges are expected to keep sales activity weak. A more meaningful recovery will likely require a larger decline in borrowing costs and a sustained improvement in affordability. Downside risks include further labor market deterioration and persistently high interest rates, both of which could suppress demand and delay recovery.

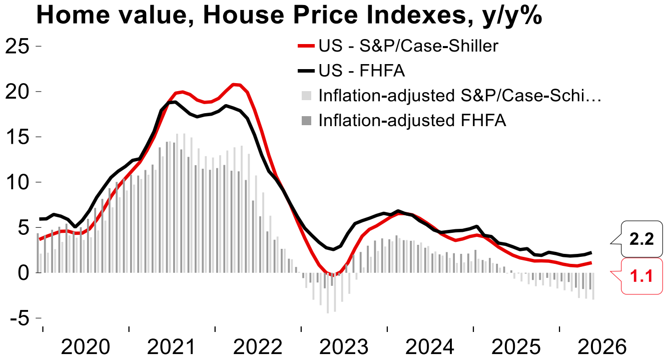
Home values continued to moderate

House price indexes, which reflect changes in home valuations, indicate that house price momentum is cooling. According to both the S&P Cotality Case-Schiller and FHFA indexes, the pace of appreciation remains well below the rapid gains observed earlier in the decade, when strong demand during the pandemic housing boom collided with limited housing supply. Price appreciation has since moved within a relatively narrow range since the start of the year (Chart 1). When adjusted for inflation, growth in home values has been persistently negative for nearly a year.

Despite moderating appreciation, existing home prices remain near record highs. In June, the median price for existing homes sold was $440,600, up 1.8% from June last year (Chart 2). The median price for single-family existing homes sold also increased by 1.8% y/y in June. Meanwhile, the median price for new homes softened to $398,300 in June, a 2.7% decrease from a year ago.

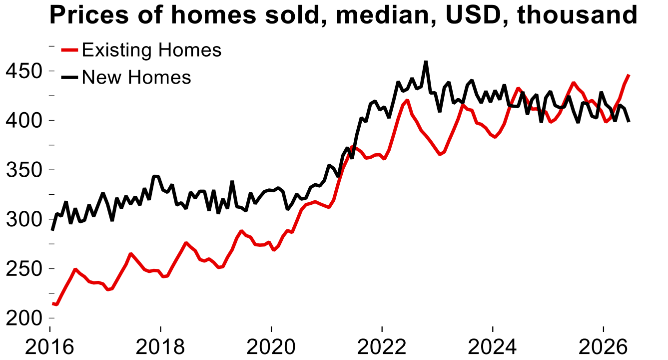
Although the price trends differ across the existing and new home markets, both ultimately reflect the most prominent issue in the housing market: affordability. Existing home prices remain elevated as turnover is limited, while softer prices in the new home market point to weak demand, which could both be attributed to high borrowing costs weighing on sellers of existing homes and prospective buyers.

Chart 1: Home price appreciation is softening



Note: Single-family homes; Real series are adjusted with PCE Price Index
Source: S&P Global, Federal Housing Finance Agency (FHFA), MUFG Bank Economic Research Office

Chart 2: Existing home prices are near record highs while new home prices are on a downward trend

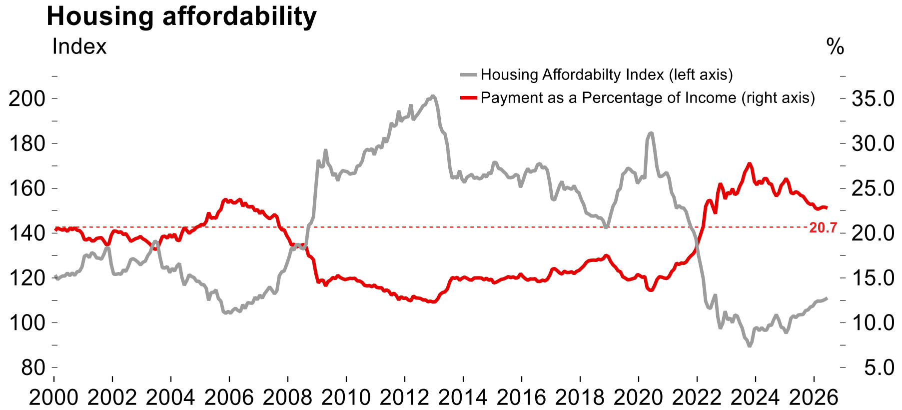


Note: Single-family homes
Source: National Association of Realtors (NAR), U.S. Census Bureau, MUFG Bank Economic Research Office

Affordability remains a key constraint for housing demand

Housing affordability has been a concern weighing on homebuying demand since 2023. Recent data suggest some improvement, but affordability remains particularly strained by borrowing costs. According to the National Association of Realtors, mortgage payments as a share of income have decreased, contributing to an increase in the Housing Affordability Index (Chart 3). Continued nominal wage growth has likely helped offset some housing costs. Even so, the payment burden remains above the long-run average of roughly 20.7%.

Chart 3: Affordability improved somewhat but elevated prices and borrowing costs continue to weigh on households

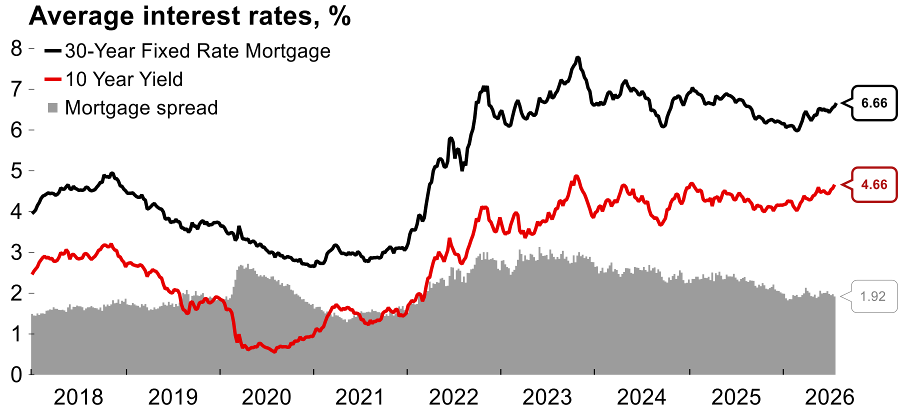


Source: National Association of Realtors (NAR), MUFG Bank Economic Research Office

Indeed, current economic conditions are perpetuating affordability challenges, as elevated inflation and the uncertain economic environment may delay significant changes in mortgage rate trends. The average 30-year mortgage rate continued to rise, moving to +6.7% this week (Chart 4). The 10-year Treasury yield, a key benchmark for mortgage rates, remains elevated at around 4.7%. As a result, the mortgage spread[1], which essentially indicates how restrictive financial conditions are for borrowers, has only narrowed slightly. This suggests that although affordability has improved somewhat, borrowing conditions remain tight. Unless long-term yields move decisively lower or markets begin pricing in a Fed easing cycle, meaningful improvement in housing finance conditions is likely to remain elusive.

[1] The mortgage spread measures the difference between mortgage rates and the 10-year Treasury yield.

Chart 4: Mortgage financing conditions remain restrictive



Source: Freddie Mac, Treasury Department, MUFG Bank Economic Research Office

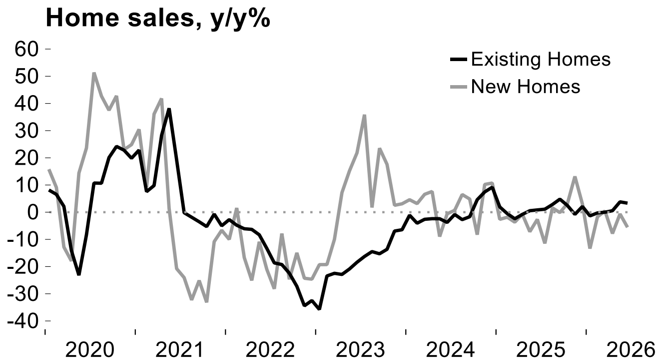
Going forward, low unemployment and steady job creation could help support income prospects and prevent a more pronounced weakening in housing demand. Rising incomes generally improves households' ability to absorb elevated borrowing costs, however, with the market still facing affordability challenges, homebuying activity is likely to remain constrained.

Sales activity is historically weak despite modest improvement in existing homes

Sales activity remains subdued overall, although sales trends also differ across the existing and new home markets. Existing home sales (single-family), which account for the vast majority of real estate transactions, increased 3.3% y/y in June to 3.73 million units (Chart 5). The 3-month moving average has continued to edge higher, suggesting some improvement in demand. Even so, sales remain historically weak (Chart 6). Meanwhile, new home sales remain under pressure. Sales growth has stayed in negative territory, and activity has continued to trend lower on a 3-month basis since January.

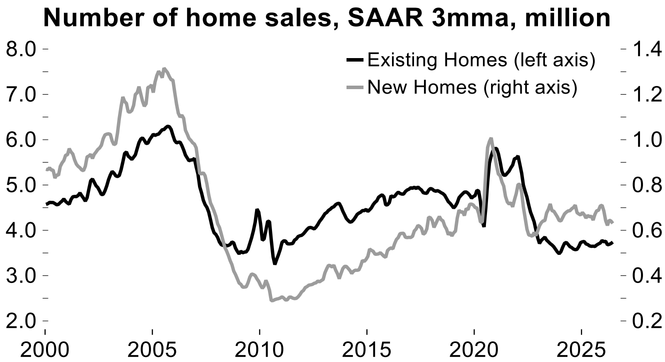
Although some buyers may be returning to the market, elevated mortgage rates and persistent affordability challenges are likely to continue suppressing demand, keeping sales activity below historical norms.

Chart 5: Home sales growth recently experienced modest improvement



Note: Single-family homes
Source: U.S. Census Bureau, National Association of Realtors (NAR), MUFG Bank Economic Research Office

Chart 6: The trend for home sales volume remains historically weak



Note: Single-family homes
Source: National Association of Realtors (NAR), U.S. Census Bureau, MUFG Bank Economic Research Office

Existing home inventory growth continues to moderate

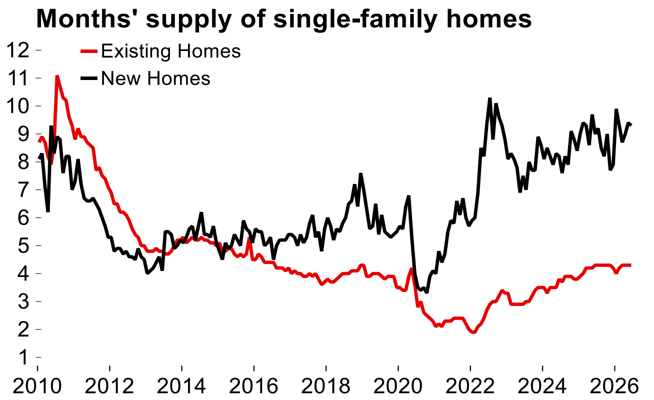
With existing home sales and prices gradually increasing, existing homes inventory decelerated further to 1.3% y/y in June compared to 2.0% in May and 6.8% at the start of the year. As inventory growth continued to moderate, months' supply of existing homes remained broadly flat (Chart 7).

This suggests there could be a lingering supply shortage. While inventory has increased from pandemic-era lows, existing home supply remains constrained by historical standards. Indeed, many homeowners who secured historically low fixed-rate mortgages in 2020-2021 have little incentive to sell their homes and take on a new mortgage at today's substantially higher rates. As a result, many potential sellers remain on the sidelines, limiting the flow of existing homes onto the market. This "mortgage lock-in" effect continues to hamper the supply of existing homes available for sale.

Weak demand is weighing on the new home market

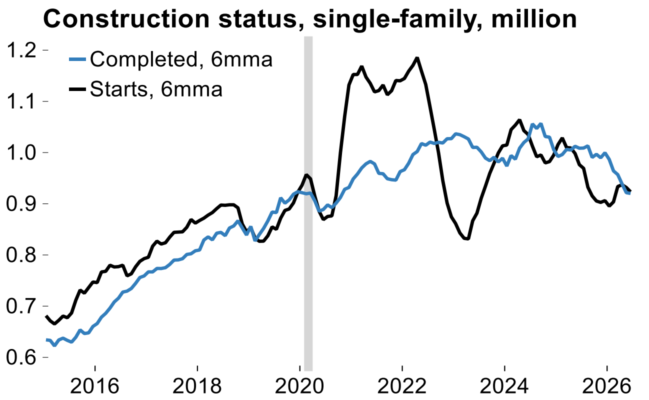
In contrast to the existing home market, inventory dynamics in the new home market more clearly point to weak demand and slower absorption. As discussed earlier, new home sales activity and prices have softened. Concurrently, inventory levels remain elevated relative to historical norms, representing a supply of 9.5 months at the end of June (Chart 7). Recent construction data show little evidence of a renewed supply increase compared to when starts surged in 2021-2022 and completions caught up in 2023 (Chart 8). Both starts and completions have been on a downward trend since last year, suggesting new constructions are not significantly contributing to increased inventory. Instead, homes are spending longer on the market likely because buyer demand is dragging.

Chart 7: Months' supply stayed flat for existing homes while inventory for new homes remained elevated…



Source: NAR, Census Bureau, MUFG Bank Economic Research Office

Chart 8: …but it is not because of construction activity



Source: U.S. Census Bureau, MUFG Bank Economic Research Office

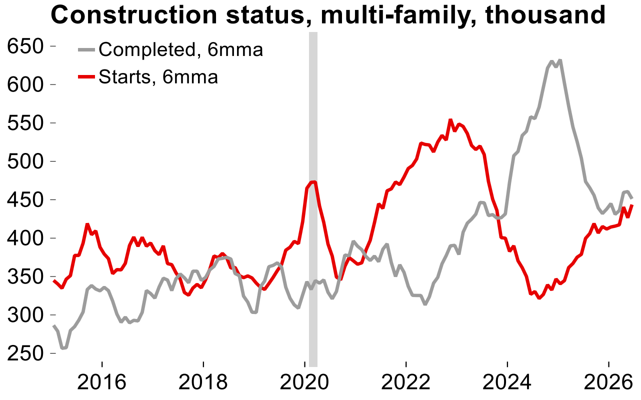
In an effort to boost housing supply, the ROAD to Housing Act[2] was enacted into law on July 11, 2026. The legislation aims to incentivize home construction, reduce regulation barriers, restrict institutional investor purchases, and expand access to financing. If successful, these measures could support housing supply over time. However, any supply response is likely to be gradual given the long lead times associated with housing development and construction. Moreover, there is uncertainty regarding the law's ultimate impact, as the provisions rely more on incentives over mandates.

[2] Inside the Deal: What's in the Final 21st Century ROAD to Housing Act • Bipartisan Policy Center

More visible evidence of a supply recovery in the rental sector

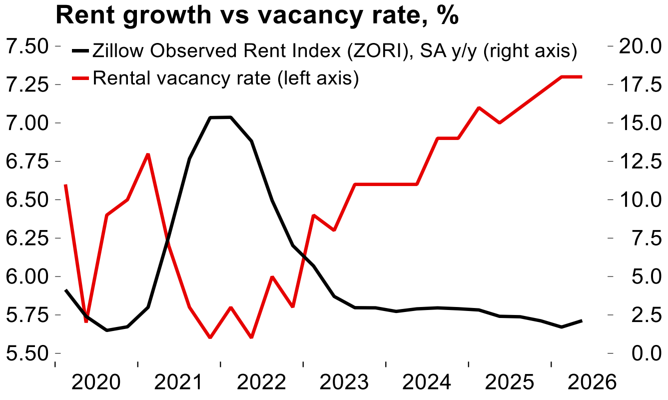
While evidence of a supply recovery remains limited in the home purchase market, it is more visible in the rental sector. Multi-family construction surged during 2021-2023 and record numbers of apartment projects were delivered in 2024-2025 (Chart 9). As a result, vacancies increased, and though they may vary across regions, overall rent growth has slowed sharply (Chart 10). Unlike increasing inventory in the for-sale market, which appears partly driven by weak demand and low turnover, softer rent growth is more clearly linked to an increase in available housing supply. The rental market therefore provides stronger evidence that post-pandemic housing imbalances are easing through supply expansion.

Chart 9: The multi-family construction boom likely contributed to supply increase in the rental market



Source: U.S. Census Bureau, MUFG Bank Economic Research Office

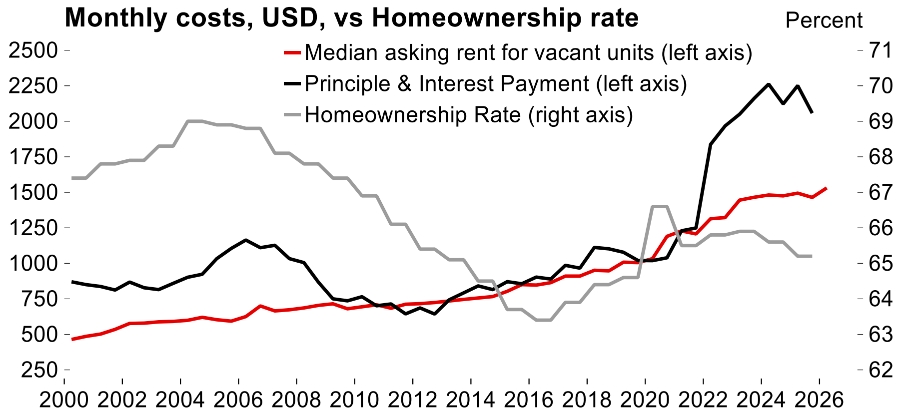
Chart 10: Higher vacancy rates are slowing rent growth



Source: U.S. Census Bureau, Zillow, MUFG Bank Economic Research Office

Moreover, the gap between homeownership costs and rents has been especially wide after the pandemic housing boom (Chart 11). Over the same period, the homeownership rate has largely stagnated, suggesting that higher ownership costs may be discouraging some households from transitioning into homeownership. As a result, renting has become a comparatively more attractive option for many households, potentially delaying the transition from renting to homeownership and limiting the pace of recovery in home sales.

Chart 11: Owning a home is far more costly than renting as the homeownership rate has largely stagnated



Source: U.S. Census Bureau, National Association of Realtors (NAR), MUFG Bank Economic Research Office

Macro implications and risks to housing activity

The housing market is likely to remain weak in the near term. While continued labor market resilience and wage growth could support homebuying demand, persistent affordability challenges and the ongoing mortgage-rate lock-in effect that have been constraining buyers and sellers will likely continue to weigh on activity.

Borrowing conditions will remain an important determinant of the outlook. Precisely, a more meaningful recovery in housing demand will likely require a more sustained decline in mortgage rates.

Risks to the outlook remain tilted to the downside. As markets price in Fed policy uncertainty[3], borrowing costs could remain higher for longer, further perpetuating unaffordability and suppressing home sales. Another downside risk is labor market deterioration. Rising unemployment would weaken household formation, increase financial stress, and reduce housing demand, including in the rental market.

Looking ahead, housing is unlikely to become a major driver of economic growth in the near term. The outlook will largely depend on the path of mortgage rates, labor market conditions, and affordability, which will determine whether the market transitions to a healthy recovery or remains bound by weak demand and limited turnover.

[3] Warsh-led Fed leaves rates on hold and a bond market scratching its head | Reuters

Analyst Certification

The views expressed in this report solely reflect the personal views of Malala Lin, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and such views may not necessarily reflect the thoughts and opinions of MUFG Bank, Ltd. and its affiliates or management team. No part of such analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

Disclaimers

The information and views contained herein are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject MUFG Bank, Ltd. (collectively with its various offices and affiliates, "MUFG Bank") to any registration requirement within such jurisdiction or country. The information and views contained herein are provided for general informational purposes only, are subject to change, and are not intended to be, nor should be used, or considered, as an offer, or the solicitation of an offer, to sell or to buy or to subscribe to or for securities or any other financial instruments, and do not constitute specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. Neither this nor any other communication prepared by MUFG Bank should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective and it does not take into account the specific investment objectives, financial situation, or the particular needs of any specific person who may receive this information. Any information relating to performance contained herein is illustrative and no assurance is given that any indicative returns, performance or results, whether historical or hypothetical, will be achieved. Before entering into any particular transaction, you should consult an independent financial, legal, accounting, tax, or other advisor as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting, or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements contained herein, and any assumptions on which such statements are based, are in each case accurate, neither the authors nor MUFG have independently verified its accuracy, and such information may be incomplete or condensed. The information is provided "AS IS". The authors and MUFG do not warrant the accuracy of the materials provided herein, either expressly or implied, for any particular purpose and expressly disclaims any warranties of merchantability or fitness for a particular purpose. The authors and MUFG cannot and do not guarantee the accuracy, validity, timeliness or completeness of any information or data made available to you for any particular purpose. MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information and views contained herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention.

About MUFG and MUFG Americas

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,000 locations in more than 40 countries. MUFG has nearly 120,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges.

MUFG's Americas operations, including its offices in the U.S., Latin America, and Canada, are primarily organized under MUFG Bank, Ltd. and subsidiaries, and are focused on Global Corporate and Investment Banking, Japanese Corporate Banking, and Global Markets. MUFG is one of the largest foreign banking organizations in the Americas. For locations, banking capabilities and services, career opportunities, and more, visit www.mufgamericas.com.