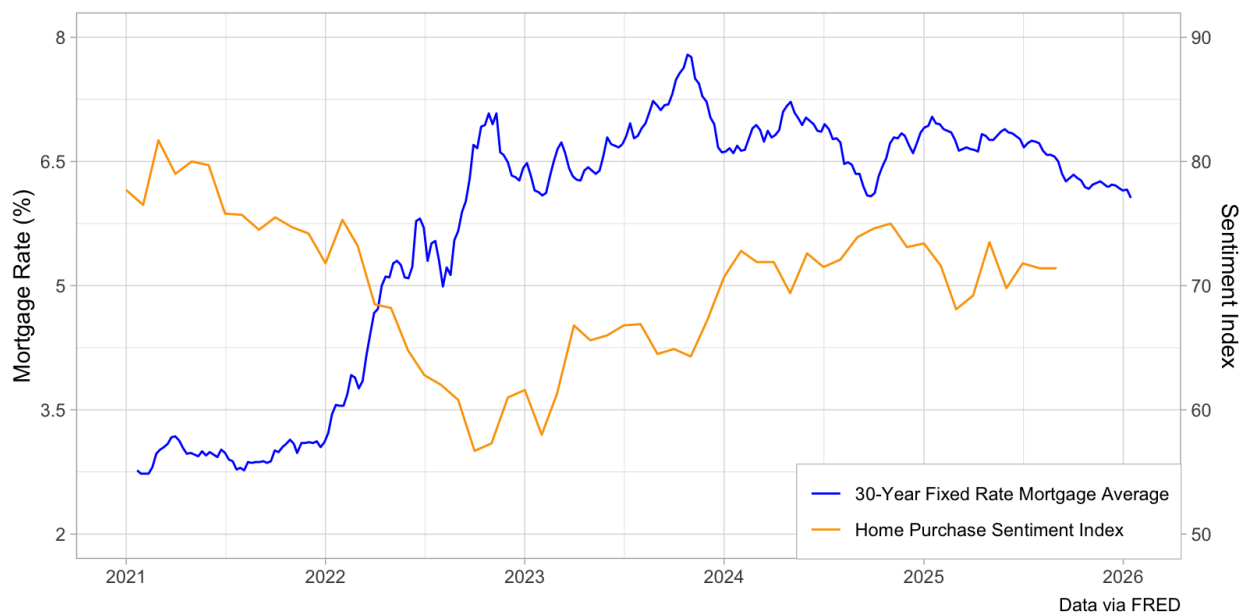


# Is the Housing Market Ready for 2026?

January 24th, 2026

## Are Mortgage Rates Finally Coming Down?

Mortgage rates are the interest rates charged on home loans and serve as a key indicator for the strength and affordability of the housing market. Typically measured as the average interest rate quoted on new 30-year fixed-rate mortgages, mortgage rates have stayed above 6% for the past three years. Over 30 years, even a difference of less than 1% on a mortgage can increase the cost of buying a house by thousands of dollars. High post-pandemic mortgage rates have contributed to rising housing costs, diminished demand, and poor home purchasing sentiment among consumers.



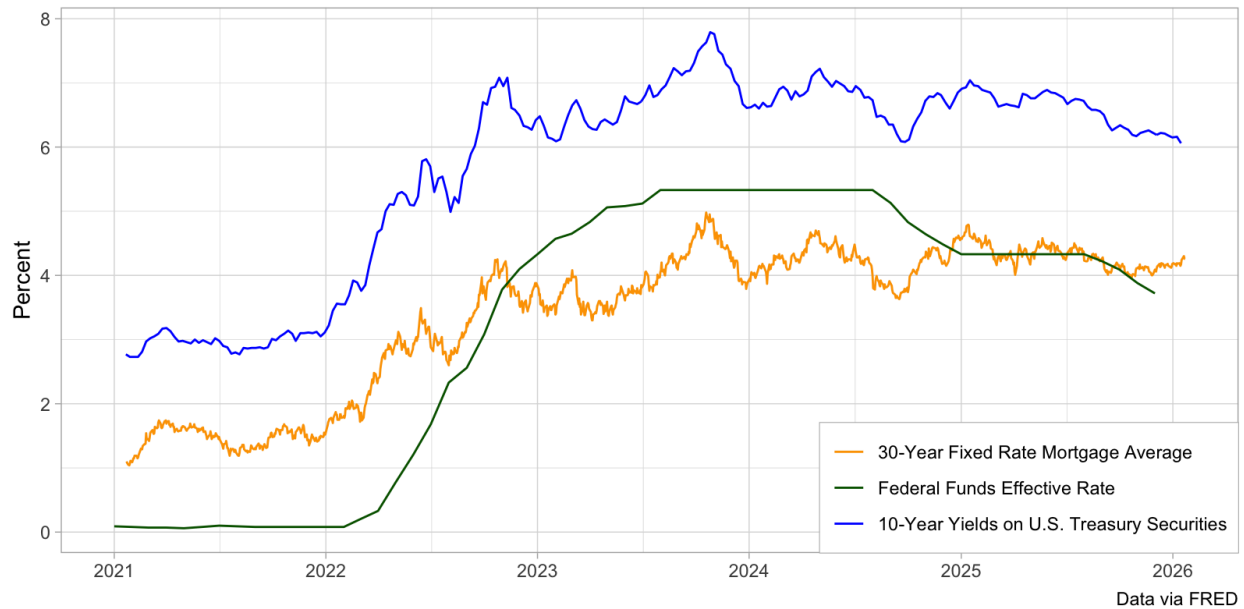
In 2025, mortgage rates peaked in early January at 7.04%, but have fallen steadily since, to 6.09% on January 22. Combined with recent rate cuts that have pushed the Federal Funds Target Rate to 3.50%-3.75% for the first time since 2022, leaving many wondering if mortgage rates will return to pre-pandemic levels over the next year.

The Federal Funds rate, however, is just one part of the equation. While the Federal Funds Rate holds sway over most short-term interest rates, 30-year mortgage rates are closely tied to 10-year

Treasury note yields, with an additional mortgage spread added on. The Federal Funds Rate is one of multiple key factors that determine Treasury note yields; others include expectations of inflation, economic growth, and the national debt.

The Federal Funds Rate indirectly affects mortgage rates, as it largely determines the yield on 1-year Treasury notes. For an investor to buy a 10-year note, its return must be greater than the expected return on the alternative, 10 consecutive 1-year treasury notes, so a higher Federal Funds Rate does push 10-year rates up as well. While the Fed's political future is uncertain, economists surveyed by Bloomberg predict two quarter-point rate cuts in the next year. By contrast, J.P. Morgan is expecting interest rates to remain unchanged through 2026, particularly due to sticky inflation.

A higher inflation rate decreases the real interest rate on bonds, so when investors expect high future inflation, they demand higher nominal interest rates to compensate. Combine this with the ever-growing national debt, which increases the supply of Treasury bonds, pulling capital away from mortgage-backed securities, which must increase yields to attract investors, and mortgage rates are unlikely to fall significantly in 2026. Morgan Stanley is forecasting a fall to as low as 5.50% by the end of 2026. Deloitte's forecasts of rising 10-year Treasury note yields would place rates in the low 6%, both indicating a limited change to mortgage rates over the next year. While declining rates are a good sign moving into 2026, mortgage rates are unlikely to return to the lows seen in 2020 and 2021.

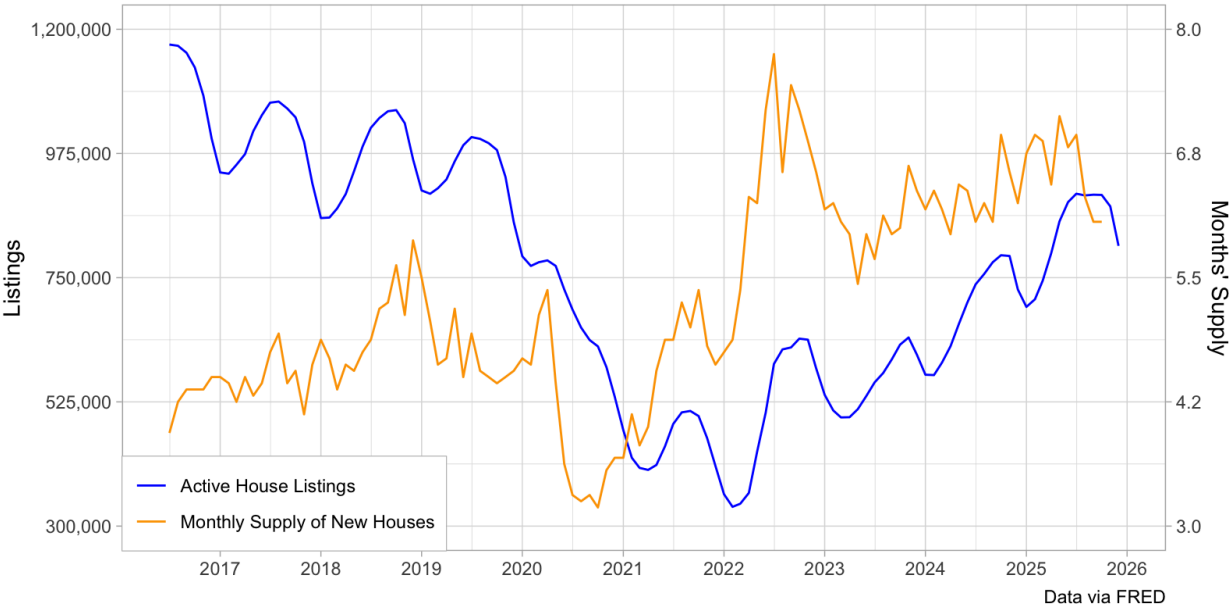


## Can the Supply of Housing Keep Up?

On the supply side, 2026 could bring a modest increase in housing supply, something desperately needed as housing becomes increasingly unaffordable. A few factors contribute to an increase in housing supply, notably new real estate developments and the decline of locked-in pandemic mortgages. Due to the long time scale of many housing construction projects, it has taken years for post-pandemic housing developments to find the market, but multiple years of steady growth have resulted in a near-complete recovery in the number of new housing units on the national market. However, uneven growth has led to large disparities in the supply of housing between states. While many states are within range of their pre-pandemic levels, growth has been concentrated primarily in the Southwest, Northwest, and Florida, while many Midwestern and Northeastern states lack sufficient housing supply.

Another key development is the decline of low-interest-rate lock-in mortgages. Homeowners who bought in 2020 and 2021 enjoyed 3% mortgage rates, locking them into their mortgages when rates jumped in 2022. However, the percentage of homeowners with 6%+ mortgages has recently surpassed the percentage of homeowners with sub-3% mortgages. As current mortgage rates fall and 6% mortgages become more common, the strength of the lock-in effect fades, allowing owners who had previously held onto low-rate mortgages to enter the market. The effect can be seen in the recent growth of mortgage applications, with the Mortgage Bankers

Association's Composite Index of mortgage applications up 14% year-over-year. With estimates for real house prices remaining fairly constant for the next year, 2026 may produce a new norm characterized by greater stability, continuing development, and modest declines in mortgage rates compared to the past five years.



# Bruin Reserve Bank Macro Team

**Terrence Yu** Research Lead [terrenceyu@g.ucla.edu](mailto:terrenceyu@g.ucla.edu)

**Sofia Sheremet** Editorial Team

**Nicole Pasternak** Editorial Team

**Dhru Goud** Senior Analyst [dsgoud@g.ucla.edu](mailto:dsgoud@g.ucla.edu)

**Ronojoy Borpujari** Analyst [ronojoyb19@gmail.com](mailto:ronojoyb19@gmail.com)

**Diego Perdomo** Analyst [diegoperdomo@g.ucla.edu](mailto:diegoperdomo@g.ucla.edu)

**Nirvaan Singla** Analyst [nirvaan4871@g.ucla.edu](mailto:nirvaan4871@g.ucla.edu)

**Madelyn Goforth** Analyst [madelynegoforth@g.ucla.edu](mailto:madelynegoforth@g.ucla.edu)

**Atul Prasanth** Analyst

**Sahil Shah** Analyst

**Eric Lee** Analyst

**Nathan Gong** Analyst



