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Image



Profit margins have taken a hit, so builders have decided to slow construction and wait for demand to recover. DAVID PAUL MORRIS/BLOOMBERG NEWS

## Mortgage Discounts Don't Tempt Buyers

Even with price cuts and offers of 4% financing, builders are struggling to sell homes

America's biggest builders are struggling to sell homes even when they offer buyers a 4% mortgage. Their experience suggests rate cuts alone won't be enough to boost weak sales in the wider housing market.

The number of completed but unsold new homes has reached levels last seen in the summer of 2009, data from the Federal Reserve Bank of St. Louis shows. At the end of last year, builders were confident that sales would recover in 2025 and built tens of thousands of units to have enough supply for the spring-buying season. But demand didn't pick up, and more homes sat unsold.

They have tried to use sweeteners to shift inventory. **D.R. Horton**, which builds roughly one in every seven new homes in the U.S. and has its own financing arm, is offering 3.99% mortgages to buyers. The company has also knocked 3% off its average selling price over the past 12 months and expects to cut prices further in its 2026 fiscal year, which runs through September.

America's second-largest builder, **Lennar**, said it offered buyers incentives worth \$64,000 on its average home sale last quarter to meet its sales target. A combination of subsidized mortgages and price cuts on offer from Lennar was equivalent to a 14.3% price reduction. The last time it had to offer home buyers such a deep discount was during the global financial crisis.

Profit margins have taken a hit from the rising cost of these incentives, so builders have decided to slow construction and wait for demand to recover. D.R. Horton only started building 14,600 homes over the three months through September, down 21% from its pace a year ago.

Sales of new homes are roughly a fifth of all U.S. housing transactions, so they aren't the full picture. But they can give a more revealing read of underlying demand than the resale market in parts of the country. Builders have to price homes in line with demand if they want to sell finished inventory.

Regular homeowners by contrast can delist or rent their homes when they don't like the price they are offered. Unless people are under pressure to sell, delistings can keep a lid on the supply of existing homes for sale. This seller reluctance is one reason U.S. home prices remain high, even though underlying demand is weak.

The number of unsold homes on builders' sites varies a lot by region. The Midwest has no issue. But there is a glut in Texas and Florida, where looser building codes and strong population growth led to a burst of home construction. Markets where builders are struggling tend to be the ones where competition from existing homes is rising and everyone is competing for a small pool of cautious buyers.

But the problem is spreading to surprising places. The average number of finished, unsold new homes per building development in Southern California is five, double the rate this time last year, based on data from John Burns Research & Consulting. A rate of two unsold units per development is considered healthy.

New homes are becoming harder to sell in California for several reasons. Resale inventory is rising, and there has been a sharp pullback by foreign buyers—partly because changes to visa rules are making overseas workers wary of spending big sums of money on a home. The job market, especially for wellpaid roles, has also slowed in California, Rick Palacios, director of research at John Burns, adds.

Unsold inventory of new homes is up 130% in Washington, D.C., compared with a year ago. Builders say the government shutdown and federal job losses are making buyers cautious and having an impact on housing demand.

Housing investors don't look eager to step in to help home builders any time soon. Large singlefamily landlords have become fussier about where they want to own property and how much they pay. Buying activity by investors in the housing market overall is at the lowest level in 15 years.

Institutional buyers usually demand a discount of 20% or more on what a regular buyer is charged for a home. Builders aren't ready to cut this deep yet. And for now, a large landlord like American Homes 4 Rent can build homes through its own construction arm and make a better return than they would make if they bought inventory from a builder.

New homes aren't a perfect proxy for the wider housing market. They tend to be in less desirable locations than established neighborhoods, and big builders are exposed to first-time buyers who are struggling the most.

But signals from builders' lots aren't good: Supply is rising in the U.S. housing market, and demand isn't there to meet it.

—Carol Ryan

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