

HOME SALES

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Contracts to purchase homes fell to a five-month low in December.

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WASHINGTON • Contracts to purchase previously owned U.S. homes unexpectedly fell in December, hitting a five-month low, likely as worries over the labor market and a persistent shortage of entry-level houses offset lower mortgage rates.



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Note

The sharp decline in pending home sales reported by the National Association of Realtors on Wednesday erased the gains notched since late summer and pointed to weak home resales at the start of the year. The housing market has been constrained by higher borrowing costs and tight inventory. The pending home sales index plunged 9.3% last month to 71.8, the lowest level since July, the NAR said. Economists polled by Reuters had forecast contracts, which become sales after a month or two, advancing 0.4%. Contracts fell in all four regions. Pending home sales dropped 3.0% from a year earlier. A sharp slowdown in job growth because of economic uncertainty is also hampering home sales. NAR chief economist Lawrence Yun said there were about 1.18 million previously owned homes on the market in December, matching the "lowest inventory level of 2025." Though there is an oversupply of new homes on the market, the inventory of previously owned houses has remained low because most homeowners have mortgage rates well below 5%, reducing the incentive to list their properties. Slowing house price growth is also discouraging some potential sellers. "Roughly 80% of mortgage holders still have a rate below 6%, making the prospect of trading in a low-rate mortgage for a higher one both costly and unappealing," said Hannah Jones, senior economic researcher at Realtor.com.

President Donald Trump on Tuesday signed an executive order restricting institutional investors from buying single-family homes. The Trump administration is also purchasing mortgage-backed securities, which have resulted in mortgage rates falling in recent weeks.

The decline could, however, be limited by renewed trade tensions between the U.S. and Europe after Trump threatened tariffs against nations that oppose his bid to acquire Greenland. The tensions helped to raise the yield on the 10-year U.S. Treasury note, which mortgage rates track.

“Geopolitical uncertainty related to the Trump administration’s desire to acquire Greenland triggered a backup in Treasury yields, which has translated into a rise in mortgage rates, reversing almost all the decline that followed the administration’s announcement that Fannie Mae and Freddie Mac would buy \$200 billion in mortgage-backed securities,” said Nancy Vanden Houten, lead U.S. economist at Oxford Economics.

Economists did not expect the average rate on the popular 30-year fixed-rate mortgage to break below 6.0%, arguing that Trump’s tax and spending policies were likely to drive up economic growth this year and boost Treasury yields.

Treasury yields retreated from multimonth highs on Wednesday after Trump told world leaders gathered in Davos, Switzerland, that he would not use force to acquire Greenland. Stocks on Wall Street were trading higher. The dollar was steady against a basket of currencies.

While a separate report from the Commerce Department’s Census Bureau showed investment in residential construction shot up 1.3% in October after slumping 1.4% in September, that likely reflected renovations. Spending on new single-family housing projects tumbled 1.3% while outlays on multi-family housing units slipped 0.2%.

In addition to higher mortgages and excess new single-family housing inventory, homebuilding has also been hamstrung by more expensive building materials because of tariffs on imports as well as labor shortages. Residential investment has been a drag on gross domestic product for three straight quarters. The strength in renovations helped overall construction spending to rebound 0.5% in October after falling 0.6% in September.

Investment in private nonresidential structures like offices and factories fell 0.2% in October. Overall spending on factory construction plunged 1.0% amid the fading stimulus from the CHIPS Act passed during the Biden administration to boost the U.S. chip manufacturing industry.

Investment in public construction projects edged up 0.1% after increasing 0.4% in September. State and local government construction spending rose 0.3% in October while outlays on federal government projects decreased 2.0%.

“While there are few sources of private nonresidential growth outside of the still surging data center category, much of the recent decline in construction spending is due to a precipitous drop in manufacturing investment,” said Anirban Basu, chief economist with the Associated Builders and Contractors.