2026-11-9

WSJ Print Edition

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The housing market is hitting what is typically a slow season. M. SCOTT BRAUER/ ZUMA PRESS

Some Investors See Opportunity in Home Builders

BUSINESS & FINANCE

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Amid a whiff of postelection optimism about the housing market, some investors are looking to the battered shares of home builders in a volatile stock market.

After Tuesday's election ushered in Democratic control of Congress, shares of **D.R. Horton, PulteGroup** and **Lennar** jumped 8.1%, 7.2% and 7.1%, respectively, on Wednesday. All three held roughly flat Thursday, while the S&P 500 fell 4.4%. On Friday, they gave up some of the recent gains: D.R. Horton fell 3.4%, while PulteGroup was down 2% and Lennar dropped 3.1%.

Democratic candidates who won last week have promised to slow data center construction, while municipalities in a variety of states approved measures to restrict new development. A slowdown in artificial-intelligence spending could ease inflationary pressures on the economy, helping bring down mortgage rates.

That would be a boon for home builders who have seen buyer interest plummet as mortgage rates have surged. Rates for a 30-year fixed-rate mortgage hit 7.4% last month, their highest point in almost three years, before slipping in recent weeks. Builders have slashed their production and offered significant rate buydowns to drive sales.

Additionally, the Democrats' dominance at the polls raised optimism that the Trump administration would face pressure to end the war with Iran—one driver of higher mortgage rates—and ease its immigration crack--down, which has caused sig nificant labor shortages for some builders.

"There's definitely more hope going into 2027 than there was a week ago," said Rick Palacios, director of research at John Burns Research & Consulting.

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Matt Risinger, a builder in Austin, Texas, thinks the change in political control could boost buyer confidence. "There is a little bit of a feeling in the marketplace amongst builders that maybe this would help change buyer sentiment," he said.

That is tempting some investors, especially with shares of companies looking cheap after years of a frozen housing market. "I'm strongly considering adding a new position in home builders," said George Kailas, founder of hedge fund Aethon Fund. He is keen on PulteGroup, which is less exposed than other builders to more-rate-sensitive, first-time home buyers.

Still, the rally was driven more by cautious optimism than a thawing of the frozen housing market, with home builders still in a difficult position, analysts say. There is "certainly nothing on the surface from the election results [indicating] that the direction of housing has meaningfully changed over the last 24 hours," said Alan Ratner, managing director at Zelman.

The AI industry may have too much momentum to slow, while a peace deal in Iran seems distant. "We are in wait-and-see territory as rate relief isn't guaranteed, and wanting the conflict to end and finding terms that work for all involved are two different things," said Hannah Jones, senior economist at Realtor.com.

Builders are reporting plummeting traffic and sales, while labor and materials costs are rising. The National Association of Home Builders' measure of builder sentiment has fallen to a 14-year low.

According to the John Burns home builder survey, unsold finished inventory rose to three homes per community in October, the highest since April 2010.

Facing stagnant demand, many are scaling back production to maintain margins. D.R. Horton's new starts for the most recent quarter fell 45% sequentially.

That is unlikely to change for the rest of the year, with the housing market hitting what is typically its slowest season. Any recovery will require meaningfully lower mortgage rates and greater buyer confidence, rather than just investor optimism.

"What will really be telling for builders is whether the phone rings in January," Risinger said.

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