

June 20, 2026 – The housing market continues to face a mixed economic backdrop, with elevated mortgage rates, affordability constraints, and softer construction activity still weighing on momentum. Rate movements could remain volatile in the near term as markets respond to inflation concerns, Fed policy expectations, and geopolitical developments. Despite these challenges, recent gains in California home sales, firm home prices, and resilient consumer spending suggest that underlying demand has not disappeared. If mortgage rates gradually ease and economic conditions remain stable, housing activity should regain some traction, with the overall market outlook looking generally positive and likely improving in the second half of the year.

Fed leaves policy rate unchanged but edges closer to rate hikes: With inflation projected to stay elevated in the coming months, the Federal Reserve unanimously decided to keep the fed funds rate unchanged after the latest Federal Open Market Committee (FOMC) meeting. As the labor market holds steady while inflation remains hot, the central bank will focus its attention on their price stability objective in the second half of the year. Projections released by the central bank indicate that more Fed voting members now see the policy rate being higher at the end of 2026, which prompted immediate spikes in bond yields and mortgage rates before they moderated somewhat in the following day. With the US-Iran peace talks being delayed and details on key elements of the agreement yet to be specified, mortgage rate will likely remain volatile in the weeks to come.

California home sales increase year-over-year for the second straight month: Home sales in California posted their second year-over-year gain of 2026 in May, with the back-to-back annual increase marking the strongest growth in eight months. Existing single-family home sales dipped 3.1% to 268,810 from April's 277,360 units but increased 5.1% from 255,760 recorded in May 2025. The annual gain was the largest since last September, but statewide sales remained below the 300k benchmark for the 44th consecutive month. While closed sales improved from last May, pending sales showed signs that buyer momentum could be slowing, as annual growth rate dropped below zero for the first time in 2026. Pending sales declined 2.2% from the same month last year, ending a four-month streak of annual gains that began at the start of the year. Despite a slowdown in housing activity in May and early June, recent progress toward a diplomatic resolution between the U.S. and Iran has helped ease geopolitical tensions in the past week. Mortgage rates could gradually come down in the second half of 2026, and housing demand could regain momentum in the third and fourth quarters.

Median home price set a new high in the Golden State in May: California's median home price reached a new record high in May after posting modest gains on both monthly and annual basis. The statewide median price increased 2.3% from April's downwardly revised \$909,410, with the monthly gain more than double the historical average increase typically observed between April and May over the past 30 years. On a year-over-year basis, the median price rose 3.1%, marking the strongest annual gain since March 2025. The increase was enough to push the statewide median above \$900,000 for the second time in 2026, setting a new high of \$930,260 for existing single-family homes sold in California. While seasonal factors could continue to support prices in the near term, elevated mortgage rates and growing affordability constraints may limit the pace of growth during the remainder of the summer buying season.

Retail sales growth exceeds expectations as consumer spending accelerates: U.S. retail sales jumped more than expected in May as shoppers continued to spend despite rising gasoline prices, according to the latest report released by the Commerce Department. On a year-over-year basis, non-inflation adjusted sales for retail trade and food services went up by 6.9% from May 2025, the highest since January 2023. The surge in sales was partly due to higher gasoline prices as the figures are not inflation adjusted. However, excluding spending at gas stations,



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retail sales were still up 5.4% from a year ago and experienced the largest gain in nine months. Sales generally increased across major sectors, with auto sales showing a notable rebound in May after dipping in April. Higher tax refunds likely boosted consumer spending, but that cushion is starting to fade away. The World Cup could keep retail spending up though and hopefully extend the economic boost for couple more months.

Construction activity declines as builder sentiment remains subdued: May's total housing starts at the national level fell sharply by 15.4% from April to a seasonally adjusted annual rate of 1.18 M, sinking to the weakest pace in six years. On a year-over-year basis, housing starts were down 8.7% amid rising construction costs and higher interest rates. Multifamily starts plummeted 40.2% from April and declined 14.2% from 12 months ago. Single-family starts also dipped but at more moderate paces of -1.9% and -6.7%, respectively. Soft permitting activity suggests that residential construction will likely remain weak in the near term as total permits fell 0.2% from last year while single-family registered a 1.8% decline from a year ago. Builder sentiment released by NAHB/Wells Fargo also moderated with the index sliding two points to 35 in June and remained below 40 for the 14th straight month, a streak not seen since 2011-2012. More builders are cutting prices in June, with the share climbing to 35% from 32% in May. As mortgage rates remain elevated, the market for newly built homes could continue to see slow housing demand at the start of the third quarter. Rising material costs and continuing construction labor shortage will also post challenges for builders in at least the short and the medium terms.

Note: *This summary report gets updated every Monday by 6:00 pm PST. Feel free to email us at research@car.org if you have any questions and/or feedback.*