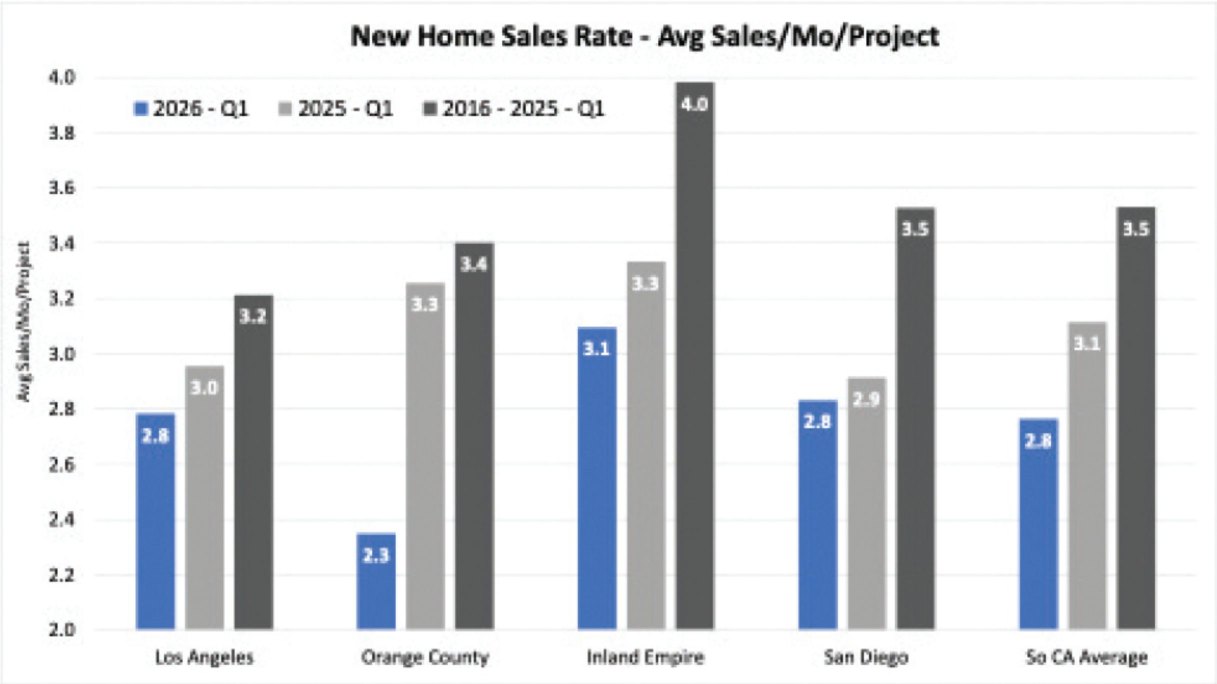
BIASC New Home Market Quarterly Report

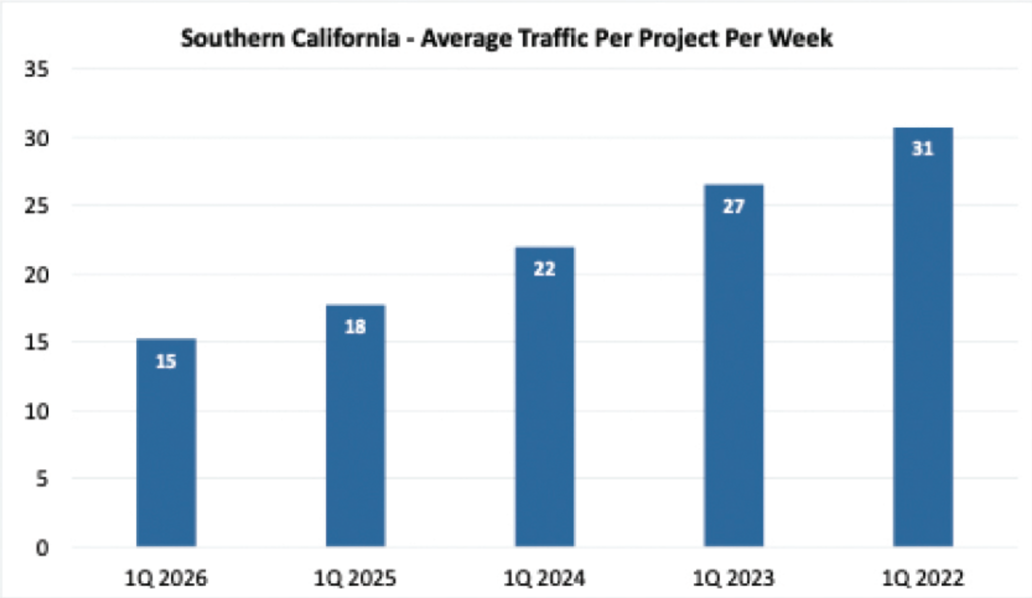
CLARITY REAL ESTATE ADVISORS

Q1 2026 Market Summary - Behind the Headlines



Headwinds persist in the housing market to start the year, resulting in weak shopper traffic and sluggish sales. Many potential home buyers remain wary about the economy and have little urgency to move. In Q1, new home sales in all of the major Southern CA markets averaged 2.8/mo/project, below Q1 2025 (3.1/mo) and well below the 2016 – 2025 average (3.5/mo). Historically, 3.0/mo is typically the dividing line between builders having pricing strength (over 3.0/mo) or weakness (under 3.0/mo). Sales were strongest in the Inland Empire (3.1) which continues to benefit from demand coming out of coastal markets in search of lower home prices. Orange County trailed all markets with sales at just 2.3/mo in the quarter, down 28% year-over-year.

Largely the result of higher mortgage rates, new home project traffic in Q1 (15/week) was less than half of levels in Q1 2022 (31). In addition, traffic is down moderately from Q1 2025 (18) and well below Q1 2024 (22). In comparison, new home shopper traffic averaged 38/week in the pre-COVID years of 2016 – 2019 for Q1. Along with poor affordability, the mortgage rate lock-in effect has contributed greatly to fewer buyers in the market.



Although shopper traffic is down sharply, the buyers that remain are generally qualified and serious. Cancellation rates in all of the So CA markets averaged just 9% in Q1, and 8% in the coastal markets. In comparison, cancellations averaged 15% in the first quarter of 2016 – 2019. A low level of cancellations can be attributed to limited new home competition and attractive homebuilder-offered mortgage rates. Among other incentives, many builders continue to offer rates under 5% or even 4% (with the use of a preferred lender).

Despite softer demand conditions, constrained new and resale supply has kept home prices fairly stable since mid-2024. New home project counts remain near record lows and resale supply, although up since 2023 – 2024 levels, is in the 3 – 4 month range which is considered equilibrium historically. However, it is important to note that many builders, particularly in submarkets with elevated new home competition, have adjusted prices down from the peak by as much as 3% to 6% or have maintained elevated incentives in the $20K to $40K range to maintain sales.

As we enter the typically stronger Spring season, sales have been stymied in part by the war in the Middle East, a tick up in mortgage rates, and stock market correction. Despite significant headwinds, we believe there is a degree of pent-up demand that could result in stronger sales in the 2nd half of the year. This assumes the economy does not go into recession. Some reasons to remain optimistic include:

- The region continues to be undersupplied historically.
- Distress in the resale market has been kept at bay.
- Unemployment remains relatively low.
- Intergenerational wealth transfer connected to t he aging baby boomer generation should increase home buying opportunities for first-time and move-up buyers. ■

Clarity is the premier real estate market feasibility advisor on the West Coast. If you have any questions, please contact Pete Reeb (858) 774-7126, pete@ask-clarity.com, Adam Artunian (949) 861-1876, adam@ask-clarity.com, or Steve Smiley (510) 612-5718, steve@ask-clarity.com.