

The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client:

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Amid hopes for a strong spring season...

The Iran war hangs over the housing market.

While home buying is likely to improve modestly over the year, sales will still run at a sluggish pace on account of challenging affordability conditions.

HOUSING

Many buyers will stay on the sidelines

due to elevated mortgage rates, which are up as Treasury yields climb. The average mortgage rate for a 30-year fixed loan had finally dipped below 6% in late Feb., for the first time since 2022. But rates quickly rebounded in March to their highest level since Dec., after the U.S.-Israeli attack on Iran.

The Iran conflict will add volatility to rates

and could possibly push them higher if the fighting drags on. The spring selling season is shaping up to be modestly better than last year, when rates hovered near 7% and volatility in trade policy and financial markets dented buyer confidence. Still...

Home sales will remain tepid this year.

The slump in Jan. home sales and the small gain in Feb. show that affordability is still a problem.

Mortgage payments for first-time buyers are still near the highest level since the 1980s, adjusted for inflation. The share of first-time buyers in the housing market fell to a historic low of 21%. Meanwhile, the median age of first-time home buyers hit an all-time high of 40. As recently as 2020, it was 33.

Single-family inventory is increasing at a sluggish pace as many owners who feel locked in by their current, low mortgage rate opt to stay put. About 80% of outstanding mortgages carry rates below 6%. Nearly a third have a rate between 3% and 4%. The problem is particularly prevalent in pricey coastal housing markets.

Low affordability is likely to stop house prices from rising significantly.

The share of homes sold below asking price last year rose to the highest level since the pandemic, while the average discount was the highest since 2012. In 2025, home sellers exceeded prospective buyers by the largest margin in over a decade.

The conflict in Iran poses significant headwinds to the home building sector.

Sustained high oil prices would increase costs while weakening demand from buyers. Building permits have been flat or down over the past three years. Housing starts hit a five-year low in Oct. 2025. Meanwhile, slow sales have pushed inventories to 7.6 months at the current sales pace (six months is viewed as a healthy level). As a result, 37% of builders cut prices in March, giving buyers significant leverage.

Policymakers have begun rolling out some plans to improve affordability, such as the president's order to Fannie Mae and Freddie Mac to buy more MBS... mortgage-backed securities...to hike liquidity and bring mortgage rates down.

But there is only so much government can do when the market is so tight.

Housing Forecasts		
	2025	2026
Single-family starts	-7%	-2%
Multifamily starts	17%	-4%
New-home sales	-1%	2%
Existing-home sales	-1%	3%
Year-end 30-year mortgage rate	6.2%	6.2%
Year-end price change	1%	1%

MORE HOUSING

Regionally, home prices are reversing some trends from the pandemic. Places that saw the steepest appreciation then are seeing prices drop now, especially in formerly hot Sun Belt metros. Meanwhile, markets that saw an outflow of residents during the pandemic are now seeing prices pick up. Among them: N.J., Conn., Ill. and Wis. Specific cities where prices are rising briskly now: Chicago, New York, Cleveland and Minneapolis. By contrast, once-hot cities like Tampa, Miami, Dallas, Denver and Phoenix have been seeing prices decline. Some of this is likely a natural correction after the sharp run-up during and after COVID-19. Moreover, the markets seeing price declines are the ones with more construction. Those where prices are rising fastest tend to have little in the way of new building.

DATA CENTERS

Data center development is slowing down. The fourth quarter of last year saw only 25 gigawatts of new capacity, a 50% drop from the third quarter and the first quarterly drop since 2020. This follows big growth in the project pipeline, which has increased from 93 GW at the end of 2024 to 241 GW at the end of 2025.

Capex growth for data center projects is expected to decelerate in 2026 for the first time in three years, with the largest developers investing \$94 billion more than last year on the physical buildings and power, just 58% of 2025's growth.

New projects face many constraints, including limited electric grid capacity.

THE ECONOMY

Time is the crucial factor in gauging the economic fallout of the Iran war. The longer it lasts, the more danger the economy faces. Reduced exports of energy and other key commodities from the Persian Gulf won't cause a recession, *if* the disruption to shipping starts to fade soon. The spike in gas and diesel prices is painful, but bearable, and U.S. stockpiles of oil and refined fuels are fairly large.

Unfortunately, signs of a lengthy disruption are mounting. Even a deal to end the war quickly (*see p. 3 for more*) may not be enough to avoid serious impacts. Damage to energy facilities in the Middle East is growing. Restarting idled oil fields, repairing facilities damaged by the war and getting tanker traffic back up to normal will take weeks or months. Some damage may not be fully repaired for years. If the war drags on or intensifies further, the timeline for recovery gets even longer.

War is always uncertain. But you should plan on higher energy prices this spring, if not deeper into the year. Even in the best-case scenario, fuel prices won't return to their prewar levels. In the worst scenarios, they have the potential to revive inflation to a degree that could see the economy flirting with recession.

The American consumer has weathered a lot lately. This is one more test. So far, households have proved resilient and willing to spend, despite surveys showing consumers are in a dour mood. But if rising gas prices lead to a new surge of general inflation, that may finally force a lot of folks to spend less and save more, especially if the recent weakness in the job market prompts fears of more layoffs.

Shippers, prepare for steeper fuel surcharges as diesel prices keep rising. A potential recovery in manufacturing was already pushing up demand for trucking, while the recent burst of data center construction has lifted rates for flat-bed trucks in particular. The run-up in diesel prices has added about 16¢ per mile on average, with fuel costs likely to rise further. In 2022, diesel prices rose 52%, but surcharges charged by trucking fleets jumped 68%. Such hikes filter into countless products.

Farmers, meanwhile, are bracing for the fallout from higher fertilizer prices. One index of nutrient prices is up by 22.6% since the war began, but prices of urea... the world's most widely used nitrogen-based fertilizer...have grown by more than 40%. Roughly 1 in 4 U.S. farmers have yet to secure their supplies ahead of spring planting. The current supply disruption will almost certainly fuel higher food prices this year, even if the conflict is resolved, with consumers seeing costs rise 6-12 months later.

IRAN

With talks to end America's war with Iran still in flux as we went to press... The Pentagon is readying another big military action. Thousands of troops are on their way to the Middle East, upping the likelihood of boots on the ground in Iran, although the Trump administration's war aims remain somewhat unclear.

The president may hope a final show of force allows him to declare victory, as he did after bombing Iran's nuclear facilities last year, or ups American leverage in future talks with Tehran. The fate of the Strait of Hormuz hangs in the balance. The U.S. wants shipping restored to its prewar status quo. At the same time, Iran is readying plans to charge ships for safe passage through the vital waterway.

Either way, the White House is running out of time. The president's efforts to soothe oil markets are running up against the physical reality of lost supply. Plus, he faces growing pushback from Congress, including many Republicans, who are skeptical about the war's rising price tag and America's path to victory.

CONGRESS

Gaining momentum: Bipartisan legislation to improve weather forecasting and disaster response systems. The bill addresses hurricane, tornado and river flood forecasting; wildfire and landslide preparedness; drought monitoring; and more by way of radar and satellite modernization, commercial data sharing, etc.

The measure comes on the heels of several recent staffing and funding cuts at the National Oceanic and Atmospheric Admin. and the National Weather Service. Sens. Ted Cruz (R-TX) and Maria Cantwell (D-WA) are leading the effort. The bill recently cleared a key Senate committee and now heads to the full chamber.

Meteorological groups have criticized the weather-related spending cuts, warning that they pose far-reaching consequences for public safety nationwide.

TRAVEL

Hoteliers are cautiously optimistic about 2026. 39% expect demand this year to remain relatively stable compared with 2025, while 29% expect bookings to be somewhat stronger and 6% expect them to be much stronger, per a survey of 246 hoteliers by the American Hotel & Lodging Assn., conducted in late Feb.

Hotel owners say operating costs remain their biggest challenge this year. Among the most frequently cited industry pressures: Cost of goods and supplies (71%), labor costs (65%), fluctuating room demand and occupancy (59%), utility and energy costs (50%), insurance premiums (43%) and workforce shortages (42%).

Staffing shortages persist across the industry. More than half of respondents report that their properties are either somewhat or severely understaffed. To recruit and retain employees, hotels are offering a range of incentives, including higher wages (70%), flexible scheduling (54%), hotel discounts (54%) and enhanced benefits (31%).

Hotels in host cities for soccer's 2026 men's World Cup hope for a windfall during the tournament, which kicks off in June in 11 U.S. cities, as well as cities in Canada and Mexico. Yet 20% have reported 2026 bookings below expectations.

Canadians continue to shun the U.S. amid political and trade tensions between Ottawa and Washington. The number of Canadians returning from trips to the U.S. in Feb. was down 14.5% compared with Feb. 2025, according to data from the Canadian government. Compared with Feb. 2024, the decline was 31.5%.

The drop in Canadians visiting the U.S. has a significant economic impact. In 2024, Canadians generated \$20.5 billion in spending and supported 140,000 jobs in the U.S. A 10% drop in visits could result in more than \$2 billion in lost spending and 14,000 job losses. Fla., Calif., Nev., N.Y. and Texas are most at risk economically.

Don't expect Canadians to return to the U.S. in droves anytime soon. A Jan. survey of 1,000 Canadians showed that 59% say U.S. government policies, trade practices and political statements make them less likely to travel to the U.S. this year, an increase of 53% from last Oct. but down from a peak of 63% in July 2025.

