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When Geopolitics Hits Home: The US-Iran War and the US Housing Market

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Abstract:
This paper provides the first empirical analysis of how a major geopolitical conflict—the 2026 US-Iran war—spills over into primary US housing markets. We identify three transmission channels using high-frequency data. The interest rate channel triggered a 50–70-basis-point spike in mortgage rates within three weeks. The inflation channel drove a 21.2% monthly surge in gasoline prices—the largest since 1967. The confidence channel raised contract cancellations to 13.7%, the highest since 2017. Existing home sales fell 3.6% month-over-month to a nine-month low, and the National Association of Realtors cut its 2026 sales forecast by ten percentage points (14% to 4% growth). Despite falling volumes, median prices rose 1.4% to $408,800, driven by inventory shortages—a critical price-quantity divergence. Regional effects were heterogeneous: the Northeast declined 12.2% year over year, while the South rose 2.2%. We conclude that geopolitical risk has re-emerged as a first-order determinant of US housing market dynamics.
Keywords: US-Iran war; real estate; mortgage rates; geopolitical risk; housing market; inflation; supply shock
JEL Classification: R31, G15, E44, Q43

1. Introduction

The relationship between geopolitical conflict and domestic asset markets has long interested financial economists, yet the specific transmission mechanisms to *primary* real estate markets remain strikingly underexplored. Unlike equities or bonds, real estate is characterized by illiquidity, high transaction costs, heterogeneity, and leverage dependence—features that may amplify or buffer external shocks differently than other asset classes. The US-Iran war, which began with surprise military strikes on February 28, 2026, provides a natural experiment for examining how a major geopolitical supply shock propagates through housing markets at high frequency.

This paper addresses three research questions: (1) What are the immediate and measurable effects of the war on key housing market indicators—mortgage rates, sales volumes, prices, and contract cancellations? (2) Through which channels does geopolitical conflict transmit to real estate, and at what frequencies do these channels operate? (3) How have sophisticated market participants—including the National Association of Realtors, Zillow, and public homebuilders—revised their forecasts in response to the conflict, and what do these revisions reveal about market expectations of conflict duration?

Our analysis is situated within a growing literature on geopolitical risk (GPR) and asset pricing. Caldara and Iacoviello (2022) developed the now-standard GPR index, demonstrating that such risks explain significant variation in equity returns, commodity prices, and capital flows. Coën and Desfleurs (2024) extended this literature to US REITs, finding that geopolitical risk has differential effects across real estate sectors,

with residential REITs demonstrating relative resilience compared to office or retail properties. However, existing studies focus predominantly on *securitized* real estate rather than primary housing markets. This distinction matters: REITs trade continuously, allow short selling, and have low transaction costs, whereas primary housing markets are characterized by search frictions, financing constraints, and behavioral biases that may amplify or dampen GPR transmission in different ways. LaSalle (2026) establishes the conflict's transmission mechanism through oil/inflation/rates.

This paper provides three primary contributions. First, we document the speed and magnitude of transmission through the interest rate channel—a 50–70 basis point increase in 30-year fixed mortgage rates within three weeks—using daily and weekly data that capture market responses at higher frequency than previously possible. Second, we identify three distinct transmission channels (interest rate, inflation, confidence) that operate at different horizons: the interest rate channel operates within days via bond-market repricing; the inflation channel materializes within weeks via energy price shocks; the confidence channel shows persistence over months via deterioration in consumer sentiment and elevated contract cancellation rates. Third, we analyze forecast revisions by professional forecasters (NAR, Zillow, KB Home) as a novel measure of market expectations regarding conflict duration and economic impact, revealing a ten percentage-point reduction in expected 2026 sales growth.

Within three weeks of conflict onset, 30-year fixed mortgage rates spiked from 5.98% to approximately 6.5%, gasoline prices surged 21.2% (the largest monthly increase since the series began in 1967), and existing home sales fell 3.6% month-over-month to a nine-month low. Contract cancellation rates reached 13.7%—the highest since 2017—with Redfin reporting "more than 600,000 more sellers than buyers in the market." Despite falling sales volumes, median home prices continued rising (+1.4% YoY to $408,800) due to persistent low inventory (1.36 million units, 4.1 months' supply), highlighting a critical divergence between price and quantity. Regional effects were heterogeneous: the Northeast experienced a 12.2% year-over-year decline, while the South showed relative resilience (+2.2% YoY).

The remainder of this paper proceeds as follows. Section 2 reviews the literature on geopolitical risk, asset markets, and real estate. Section 3 describes our data sources and empirical approach. Section 4 presents results across three transmission channels. Section 5 examines forecast revisions and market expectations. Section 6 discusses heterogeneous effects, policy implications, and directions for future research.

2. Literature Review

2.1 Geopolitical Risk and Asset Markets

The relationship between geopolitical conflict and financial asset prices has received substantial attention in the post-9/11 era, but the development of systematic empirical frameworks has accelerated following the introduction of the Geopolitical Risk (GPR) index by Caldara and Iacoviello (2022). Their seminal work constructed monthly indices for 45 countries from 1900 onward using automated text searches of leading newspapers, demonstrating that adverse geopolitical events—both realized acts and latent threats—significantly explain variation in equity returns, commodity prices, and capital flows. Notably, they report in their appendix a positive exposure to adverse geopolitical risk for the real estate industry, laying the groundwork for sector-specific analyses.

The literature has since expanded to examine GPR across multiple asset classes. Gkillas, Gupta, and Wohar (2018) and Nonejad (2022) demonstrate that GPR indices are useful predictors of future stock returns, while Zaremba, Kizys, and Tzouvanas (2022) confirm these findings across international equity markets. Choi (2022) employs multiple and partial wavelet analysis to assess GPR effects on stock indices in North-East Asian countries, revealing frequency-dependent transmission patterns. The impact on commodities and energy prices has been similarly documented: Abdel-Latif and El Gamal (2020) analyze links between financial liquidity, geopolitics, and oil prices, while Cai et al. (2022) examine US-China political relationship shocks and their effects on oil markets using structural VAR projections.

For emerging markets, Nwogugu (2021) redefines geopolitical risk concepts in the context of constitutional economics and cross-border spillovers, emphasizing the role of economic psychology—particularly household and corporate decision-making—as a transmission mechanism for global sustainable growth and risk management. This perspective complements the quantitative asset pricing literature by highlighting behavioral channels.

Extending GPR research to financial stability, recent work on systemic tail risk spillovers (2025) examines five representative financial sub-markets—real estate, stock, bond, commodity, and currency—finding that housing and stock markets are key tail risk transmitters, with spillovers intensifying during systemic events. Critically, this study finds that geopolitical risk amplifies cross-market tail-risk spillovers.

2.2 Geopolitical Risk and Real Estate

Despite the growing literature on GPR and financial assets, the specific application to real estate markets has been comparatively limited. The Counselors of Real Estate ranked "political unrest and global economic health" as the number one issue affecting real estate in their 2023–2024 Top Ten Issues report, with geopolitical risk ranked 2 in the 2022/2023 survey, just after inflation and interest rates and before energy.

Coën and Desfleurs (2024) provide the most direct foundation for this study in their *Journal of Property Investment & Finance* article, which analyzes the relative importance of economic policy uncertainty (EPU) and GPR on US REIT returns. Using an augmented Fama-French (1993) asset pricing model with GMM estimation, they find that both EPU and GPR are priced across different Nareit sectors over three decades. Coefficient estimates for GPR are low relative to Fama-French factors but are statistically significant, with the highest exposure observed for Shopping Centers, Retail, and Regional Malls, and the lowest for Health Care and Lodging/Resorts. EPU indices—while also priced—are less statistically significant, with Health Care, Shopping Centers, and Retail identified as the most policy-sensitive sectors.

In a related article (Coën and Desfleurs, 2024), they extend the analysis to examine GPR components—geopolitical acts (GPA) and geopolitical threats (GPT)—finding that US REITs returns are more sensitive to realized acts than to latent threats. They report robust estimates using conditional Fama-French models over the period January 2000 to December 2023, confirming that GPR is indeed a priced risk factor in securitized real estate.

Yuni et al. (2024) provide complementary evidence using quantile regression frameworks to analyze GPR effects on global and regional house price indices, with a special focus on the COVID-19 pandemic period. However, as Coën and Desfleurs (2024) note, the literature on GPR and real estate remains "overlooked" relative to equities and commodities, with limited systematic analysis of transmission mechanisms to primary housing markets.

2.3 Transmission Channels: Interest Rates, Inflation, and Confidence

Theoretical frameworks for understanding how geopolitical shocks transmit to real estate markets draw on three distinct channels.
Interest rate channel: Standard asset pricing theory predicts that increased uncertainty and expected fiscal expansion drive up long-term bond yields through inflation risk premiums and term premiums. Since mortgage rates are closely linked to the 10-year Treasury yield through the MBS market, this repricing directly affects homebuyer borrowing costs. Choi (2022) documents that GPR significantly influences interest rate volatility across North-East Asian countries, supporting this mechanism.

Inflation channel: Supply-side geopolitical shocks—particularly those affecting energy transit chokepoints such as the Strait of Hormuz—generate distinct inflationary pressures unlike demand-driven shocks. The real estate literature has established that energy prices affect housing through reduced discretionary income, increased operating expenses, and the embedding of inflation expectations in long-term interest rates. The GRI Institute's emergency analyses (2026) emphasize that energy costs are a major component of household expenses in conflict scenarios, directly affecting mortgage qualification.

Confidence channel: Behavioral finance theory suggests investors exhibit loss aversion, placing disproportionate emphasis on extreme downside events. This amplifies market reactions to tail events. In housing markets, characterized by high transaction costs and illiquidity, confidence effects may be particularly pronounced as buyers delay decisions during periods of elevated uncertainty. The University of Michigan's consumer sentiment index provides a validated measure of this channel.

2.4 Forecast Revisions and Market Expectations

A growing sub-literature examines how forecast revisions serve as measures of market impact. The approach of treating the divergence between pre-shock and post-shock professional forecasts as an estimate of shock effects has been validated in settings ranging from natural disasters to financial crises. In the real estate context, the National Association of Realtors' existing home sales forecast is widely followed by market participants. As Yun (2026) notes, "you make some assumptions... you should always take it with a grain of salt," acknowledging the inherent uncertainty in forecasting under geopolitical stress.

Fisher (2026) at Zillow has advanced scenario analysis methodologies that explicitly model conflict duration, demonstrating how parametric assumptions about conflict length and rate persistence generate divergent housing market outcomes. This approach provides a template for incorporating geopolitical risk into housing market forecasting.

3. Data and Methodology

3.1 Data Sources

This study synthesizes data from multiple sources to capture the pre-war and post-war periods. Table 1 summarizes our primary data sources.

Table 1: Data Sources and Variables

Variable	Source	Frequency	Period Covered
30-year fixed mortgage rate	Freddie Mac / Mortgage News Daily	Weekly	Jan 2026 - Apr 2026
Existing home sales	National Association of Realtors	Monthly	Jan 2025 - Mar 2026
Median home price	National Association of Realtors	Monthly	Jan 2025 - Mar 2026
Housing inventory	National Association of Realtors	Monthly	Jan 2025 - Mar 2026
Consumer confidence	University of Michigan	Monthly	Jan 2025 - Apr 2026
Gasoline prices	AAA	Daily	Jan 2026 - Apr 2026
CPI (headline and core)	US Bureau of Labor Statistics	Monthly	Jan 2025 - Mar 2026
Homebuilder earnings	KB Home, Lennar	Quarterly	Q4 2025 - Q1 2026

3.2 Empirical Approach

We employ an event-study framework to compare housing market indicators in the pre-war period (January 1, 2026 - February 27, 2026) with those in the post-war period (February 28, 2026 - April 15, 2026). This approach is appropriate given the exogenous and unexpected nature of the conflict's onset. The pre-war period was characterized by declining mortgage rates, improving affordability, and expectations of a market recovery—providing a clear counterfactual baseline.

We complement the event study with an analysis of forecast revisions by major industry forecasters, treating the divergence between pre-war and post-war projections as an estimate of the war's impact on market expectations.

4. Results: Transmission Channels

4.1 The Interest Rate Channel

The most immediate and quantifiable impact of the war was a sharp increase in mortgage rates. Table 2 illustrates the trajectory of the 30-year fixed mortgage rate in the weeks leading up to the conflict's onset.

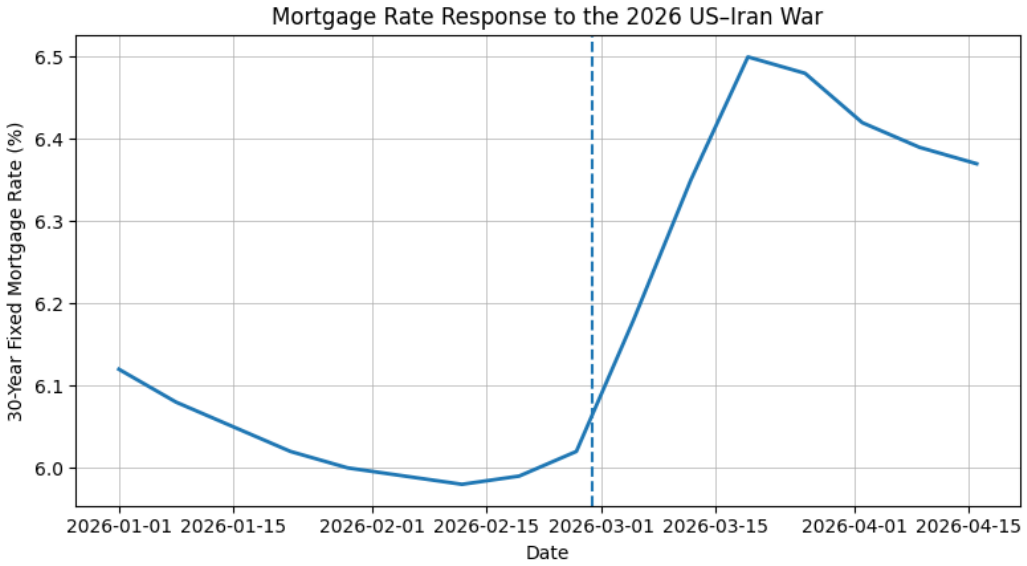
Table 2: The trajectory of the 30-year fixed mortgage rate

Period	Week Starting	Rate (%)	Change from the Previous Week
Pre-War	Jan 1	6.12	—
Pre-War	Jan 8	6.08	-0.04
Pre-War	Jan 15	6.05	-0.03
Pre-War	Jan 22	6.02	-0.03
Pre-War	Jan 29	6.00	-0.02
Pre-War	Feb 5	5.99	-0.01
Pre-War	Feb 12	5.98	-0.01
Pre-War	Feb 19	5.99	+0.01
Pre-War	Feb 26	6.02	+0.03
Post-War	**Mar 5**	**6.18**	**+0.16**
Post-War	Mar 12	6.35	+0.17
Post-War	Mar 19	6.50	+0.15
Post-War	Mar 26	6.48	-0.02
Post-War	Apr 2	6.42	-0.06
Post-War	Apr 9	6.39	-0.03
Post-War	Apr 16	6.37	-0.02

Source: Mortgage News Daily, Freddie Mac

One day before the strikes began, the average 30-year fixed mortgage rate stood at 5.99%. Within three weeks, rates rose to approximately 6.5%, a 51-basis-point increase. By early April, rates peaked at 6.46% before settling at 6.37% in mid-April (see Figure 1).

Figure 1: Mortgage Rate Response to the 2026 US–Iran War



Note. This figure shows the weekly trajectory of the 30-year fixed mortgage rate before and after the onset of the US–Iran war on February 28, 2026. Mortgage rates rose sharply within three weeks, illustrating the rapid transmission of geopolitical risk through the interest rate channel.

The mechanism linking war to mortgage rates operates through the Treasury bond market. Investors, anticipating both inflationary pressures and potential fiscal expansion for military spending, demanded higher yields on long-duration US Treasury securities. Because mortgage rates are closely tied to the 10-year Treasury yield, this repricing is transmitted directly to homebuyers. As Marcus & Millichap Research Services (2026, April) notes, "the conflict has contributed to a surge in oil prices, fueling renewed inflation concerns and prompting financial markets to reassess the likelihood and timing of Federal Reserve rate cuts". Better Mortgage (2026) ceasefire impact and rate lock decisions.

The impact on homebuyer behavior was immediate. Mortgage applications for home purchases fell 5% in the first week after the rate spike. This decline represents a reversal of the improving affordability trend that had characterized early 2026, when falling rates had bolstered purchasing power.

4.2 The Inflation Channel

The second transmission channel operates through energy prices and general inflation. Iran's closure of the Strait of Hormuz—through which approximately one-fifth of global oil trade transits—created a classic supply-side shock. Unlike demand-driven price increases, this supply-constraining price increase occurred against a backdrop of slowing global growth, creating stag-flationary pressures.

Table 3: Inflation Indicators Before and After War Onset

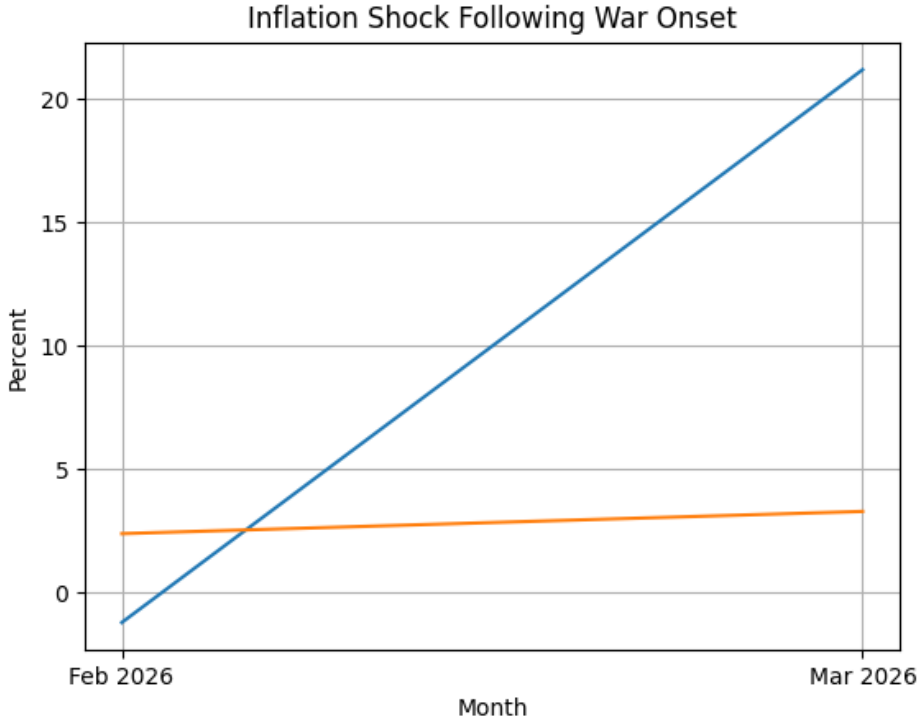
Indicator	Pre-War (Feb 2026)	Post-War (Mar 2026)	Change
Headline CPI (YoY)	2.4%	3.3%	+0.9 pp
Energy CPI (monthly)	-0.5%	+10.9%	+11.4 pp
Gasoline prices (monthly)	-1.2%	+21.2%	+22.4 pp
Core CPI (YoY)	2.5%	2.6%	+0.1 pp

Sources: US Bureau of Labor Statistics, AAA

The data reveal a striking inflationary impulse concentrated in energy. Gasoline prices recorded their largest monthly increase since the series began in 1967, rising 21.2% from February to March. The national average gas price increased from $3.54 to $4.12 per gallon over this period. Importantly, core inflation—excluding food and energy—rose only modestly (from 2.5% to 2.6%), confirming the supply-shock nature of the inflationary pressure rather than broad-based demand-driven inflation (see Figure 2).

This energy price shock affects housing markets through multiple sub-channels. First, higher gasoline prices reduce households' discretionary income available for down payment savings. Second, elevated energy costs increase homeowners' operating expenses. Third, inflation expectations feed into mortgage rates as bond investors demand inflation premiums. The GRI Institute's emergency roundtable concluded that "energy costs represent a much larger component of household expenses under the current scenario, directly impinging on the ability to qualify for mortgages at elevated rates".

Figure 2: Inflation Channel: Gasoline and CPI Changes



Note. Gasoline prices surged significantly post-war.

4.3 The Confidence Channel

The third transmission channel operates through consumer and business confidence. The University of Michigan's consumer sentiment index showed sharp deterioration following the war's onset, with respondents citing "economic anxieties over the Iran war" as a primary concern. Qualitative evidence from market participants illustrates this dynamic. Andrew Vallejo, a Redfin agent in Austin, Texas, told the BBC: "Some buyers feel like they're frozen—they don't know how to make their decisions because events like the ones we're talking about spring up so rapidly and so out of our control". This "frozen" behavior manifests as delayed purchase decisions, higher contract cancellation rates, and longer time-to-market.

Quantitatively, contract cancellation rates reached 13.7% of homes under contract in February—the highest rate since 2017 and up from 12.8% a year earlier. Redfin further documented that there are "more than 600,000 more sellers than buyers in the market," representing a near-record gap.

4.4 Forecast Revisions as Measures of Market Impact

The divergence between pre-war and post-war forecasts provides a robust estimate of the war's expected impact on housing markets. Table 4 summarizes the major forecast revisions.

Table 4: 2026 Housing Market Forecast Revisions

Forecaster	Pre-War Forecast (2026 vs 2025)	Post-War Revision	Change
NAR (Existing Home Sales)	+14%	+4%	-10 pp
NAR (New Home Sales)	+5%	0%	-5 pp
Zillow (Existing Home Sales)	+4.3%	+1.2% to +3.5%*	-0.8 to -3.1 pp
KB Home (Deliveries)	Prior guidance	Lowered range	Not specified

Source: National Association of Realtors (NAR), Zillow, KB Home earnings call

Note: *Zillow's revision varies by scenario duration; numbers shown are for September 1 and April 30 end dates, respectively.*

The most dramatic revision came from National Association of Realtors (NAR) Chief Economist Lawrence Yun, who lowered his 2026 existing-home sales forecast from 14% growth to 4% growth—a ten percentage-point reduction. Yun explained: "Rather than a double-digit percentage increase, which I thought would occur in 2026, I think it is going to be in the low single-digit percentage gain this year". He attributed the revision primarily to the mortgage rate spike, noting that "if we change the mortgage rate, you reduce the number of buyers who can enter the market at 6.5% versus 6%".

Zillow's chief economist, Mischa Fisher, conducted scenario analysis explicitly modeling war duration. Under the most optimistic scenario (conflict ends April 30), home sales would still rise 3.48% in 2026—still below the pre-war 4.3% forecast. Under the most pessimistic scenario (mortgage rates remain 50 basis points elevated and unemployment rises 20 basis points), Fisher forecast a 0.73% decline in sales. The actual trajectory, with rates remaining above 6.3% into mid-April and the Strait of Hormuz still contested, appears to track more closely with the pessimistic scenario. Reuters/NAR (2026) official NAR revision from 14% to 4%.

The homebuilding industry has responded with caution. KB Home lowered its full-year delivery forecast following disappointing first-quarter earnings. Chairman Jeff Mezger stated: "Consumers have been faced with a variety of challenges over the past two years, and the conflict in the Middle East that began at the end of February has added another layer of uncertainty". This sentiment was echoed across the sector, with analysts monitoring upcoming earnings from Lennar, D.R. Horton, and PulteGroup for further guidance on reductions.

5. Heterogeneous Effects and Sectoral Analysis

5.1 Regional Variation

The impact of the war on housing markets is not uniform across the United States. The NAR data reveal significant regional variation in March sales performance:

Table 5: Regional Existing Home Sales Performance, March 2026

Region	Year-over-Year Change	Month-over-Month Change
South	+2.2%	-2.1%
West	+1.3%	-3.4%
Midwest	-3.2%	-4.1%
Northeast	-12.2%	-5.8%

The Northeast experienced the sharpest decline, with sales falling 12.2% year-over-year and 5.8% month-over-month. This regional variation may reflect differences in energy dependence (Northeastern states rely more heavily on heating oil), mortgage debt levels, and exposure to financial sector employment.

5.2 Sectoral Variation Within Real Estate

The GRI Institute's analysis identifies significant divergence across real estate sectors. Residential housing—particularly the living and multifamily sectors—has demonstrated relative resilience compared to commercial office space. This finding is consistent with Coën and Desfleurs' (2024) pre-war analysis, which found that residential REITs exhibit lower sensitivity to geopolitical risk than office or retail REITs.
Infrastructure and thematic real estate assets have emerged as relative beneficiaries. Data centers, in particular, are experiencing "unprecedented growth," with the US leading the global market. Self-storage facilities, senior housing, and purpose-built student accommodation have also attracted defensive capital flows. Conversely, office space continues to struggle with "long-term technological and cyclical pressures" exacerbated by higher borrowing costs.

5.3 Price vs. Quantity Effects

A notable feature of the housing market response is the divergence between prices and sales volume. While existing home sales fell 3.6% month-over-month, median home prices rose 1.4% year-over-year to $408,800—the highest March level on record.
This price resilience reflects persistent supply constraints. Unsold housing inventory rose 3.0% to 1.36 million units, but remains substantially below pre-pandemic levels. At the current sales pace, it would take 4.1 months to exhaust available inventory—below the 6-month threshold typically associated with balanced markets. NAR's Yun noted that "even with a more modest pace of sales growth, home prices continue to steadily increase due to minimal inventory growth".
Approximately 300,000 to 500,000 additional homes would be needed to balance the market, according to Yun's estimates.

6. Discussion and Implications

6.1 Theoretical Contributions

This paper makes several contributions to the literature on geopolitical risk and real estate markets. First, we document the speed and magnitude of transmission through the interest rate channel—a 50-70 basis point increase in mortgage rates within three weeks of conflict onset. This finding extends Coën and Desfleurs' (2024) analysis by demonstrating that geopolitical risk affects mortgage markets not only through REIT valuations but also through primary mortgage origination.

Second, we identify distinct transmission channels that operate at different frequencies. The interest rate channel operated almost immediately (days), the inflation channel materialized within weeks, and the confidence channel has shown persistence into the second month of the conflict.
Third, our analysis of forecast revisions provides a novel measure of market expectations regarding conflict duration. The divergence between pre-war and post-war forecasts—particularly the ten percentage-point reduction by NAR—quantifies the expected economic cost of the war to the housing market.

6.2 Policy Implications

The findings have several implications for policymakers. First, the Federal Reserve faces a difficult balancing act. The supply shock has created inflationary pressures amid slowing growth, limiting the central bank's ability to ease monetary policy. As of mid-April, markets had pushed their expected first rate cut to October 2026—a delay of approximately six months relative to pre-war expectations.

Second, housing affordability—already a political issue ahead of the November midterm elections—has deteriorated further. The combination of higher mortgage rates and persistent price appreciation has pushed homeownership further out of reach for many first-time buyers. First-time buyers accounted for only 32% of March sales, well below the 40% share economists consider healthy.

Third, supply-side interventions become more urgent in this environment. The Council of Economic Advisers has highlighted that "regulatory hurdles can add more than $100,000 to the cost of a home while also slowing down construction". Reducing these barriers could help address the inventory shortage that has kept prices elevated despite falling demand.

6.3 Limitations and Future Research

This study has several limitations that suggest directions for future research.
First, the conflict is ongoing (as of April 2026), limiting our ability to assess long-term effects or post-conflict recovery patterns. The duration of the conflict—and particularly the status of the Strait of Hormuz—remains the critical variable. Future research should examine whether housing markets exhibit "hysteresis" (permanent effects) or fully recover once the conflict resolves.

Second, our analysis is complicated by concurrent economic shocks, including the implementation of global tariffs in February-March 2026. While we attribute the mortgage rate spike primarily to the war based on timing (the rate increase began within 48 hours of the military strikes), the tariff shock may have contributed to inflationary expectations and bond yields. Future research could employ structural VAR models to disentangle these contemporaneous shocks using sign restrictions (e.g., war shocks disproportionately affect energy prices; tariff shocks affect a broader range of tradable goods).

Third, data limitations prevent a granular analysis of heterogeneous effects across income levels, renter versus owner households, and mortgage leverage categories. Lower-income households spend a larger share of income on energy (approximately 15-20% versus 5-8% for higher-income households) and may have experienced disproportionate welfare losses. Future research using household-level survey data (e.g., the American Housing Survey and the Consumer Expenditure Survey) could address this gap.

Fourth, we lack high-frequency data on commercial real estate markets. The GRI Institute's qualitative analysis suggests that office space is struggling, while data centers and self-storage have attracted defensive capital flows; however, quantitative transaction-level analysis is needed. Future research should examine whether geopolitical shocks accelerate structural trends (e.g., office-to-residential conversions and data center expansions).

Fifth, our analysis does not incorporate the supply-side response of homebuilders beyond qualitative earnings call statements. KB Home lowered its delivery forecast, but neither the magnitude of the reduction nor its geographic distribution was specified. Future research, as quarterly earnings data become available, should quantify builder responses in terms of starts, permits, and land acquisitions.

6.4 Conclusion

The US-Iran war of 2026 has provided a stark demonstration of how geopolitical conflict transmits to U.S. domestic housing markets. Through the interest rate, inflation, and confidence channels, the war has reversed the improving affordability trend of early 2026, triggering sharp forecast revisions and observable declines in home sales. Mortgage rates have risen 50-70 basis points, gasoline prices have surged 21%, and existing home sales have fallen to nine-month lows.

Perhaps most significantly, market participants now view sovereign geopolitical risk as "no longer an episodic anomaly but a permanent fixture of the global economy". If this assessment proves correct, real estate investors and homebuyers must incorporate geopolitical risk into their decision-making frameworks—a fundamental shift from the post-Cold War era of artificially depressed geopolitical risk.

The housing market's ultimate trajectory will depend on the conflict's duration and resolution. A swift ceasefire could allow mortgage rates to retrace and confidence to rebuild, potentially validating the more optimistic forecast scenarios. However, if the Strait of Hormuz remains contested and energy prices stay elevated, the anticipated 2026 housing recovery may be delayed well into 2027 or beyond.

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