# NATIONAL REPORT

Marcus & Millichap

## MULTIFAMILY 2Q/26

## Fundamentals Hold Firm Despite Headwinds, Keeping Investors Engaged but Selective

**Demand finds its footing as supply relief cushions lingering risks.** The multifamily market showed renewed signs of rebalancing at midyear 2026 as improving renter demand met a thinner construction pipeline. First-quarter net absorption was roughly 50 percent above the past-decade norm, rebounding from a sharper seasonal slowdown at the end of 2025. At the same time, preliminary second-quarter data indicates that leasing continues to improve. Stronger hiring activity has reinforced that shift, with monthly job gains averaging about 100,000 through the first five months of 2026, up from roughly 10,000 in 2025. Risks remain, however, as the oil shock tied to the Iran conflict could slow business activity and consumer spending if higher energy costs and geopolitical uncertainty persist. A pullback in second-half demand remains possible, but slowing construction should help limit downside pressure. CBD deliveries fell below 10,000 units in the first quarter for the first time since 2013, while suburban completions reached a three-year low, giving operators some relief from new-supply competition.

**Regional gaps shape class-cut trends.** Class-cut dynamics remain uneven, with recent improvement concentrated in Class A and B properties. Vacancy in both segments declined in early 2026, and early second-quarter data points to further tightening. Class C vacancy, meanwhile, has held stable rather than rising sharply, leaving all three segments with vacancy near 5 percent. Yet the national rates mask divergent regional trends. While Class A vacancy differs only slightly between Sun Belt and non-Sun Belt markets, the gap widens farther down the quality spectrum. In non-Sun Belt markets, Class B and C vacancy held in the low-4 percent and mid-3 percent ranges, respectively, while both rates climbed above 6 percent in the Sun Belt. This points to supply pressure weighing more heavily on lower-tier rentals in high-delivery markets, while supply-constrained metros continue to see resilient performance among older, lower-cost properties.

**Long-term tailwinds support liquidity despite uncertainty.** Multifamily investment activity continued to improve entering 2026, with sales volume up roughly 20 percent year-over-year through the first quarter. Early data since the start of the Iran conflict suggest trading has moderated, however, as some investors wait for greater clarity on energy prices, interest rates, and broader economic conditions. A faster resolution of the conflict could help unlock greater deal flow, while prolonged uncertainty may delay capital deployment, particularly for speculative deals. High-quality stabilized assets in strong locations are likely to remain the most liquid, supported by a necessity-oriented demand base and a national housing shortage that continues to keep many households renting. Falling construction starts also strengthen the outlook, as investors active in the current period may benefit from reduced future supply pressure and a more favorable cost basis.

## 2026 FORECAST

### EMPLOYMENT

**0.2%** increase Y-O-Y

Hiring improved to start 2026, but the outlook remains uneven. Job gains are still concentrated in the healthcare sector, while persistently elevated energy costs may weigh on consumer spending and business confidence. However, greater clarity on geopolitical conditions, inflation, and interest rates could help broaden hiring.

### CONSTRUCTION

**270,000** units completed

Completions are expected to fall about 34 percent year-over-year in 2026, marking the lowest total since 2014 and landing roughly one-third below the past-decade average. Among major markets, 42 of 50 are projected to record fewer deliveries, easing supply pressures and helping offset potential demand headwinds.

### VACANCY

**10** basis point increase Y-O-Y

After softer net absorption in late 2025 reversed the downward vacancy trend, the national rate is expected to edge slightly higher by year-end 2026 as the demand outlook remains uncertain. Nevertheless, at 5.3 percent, vacancy will remain 30 basis points below its long-term average, indicating still historically tight conditions.

### EFFECTIVE RENT

**1.8%** increase Y-O-Y

Rent growth is forecast to remain modest for a fourth consecutive year as fundamentals gradually rebalance, with the national average reaching $1,887 per unit. Conditions will likely remain highly bifurcated, however, as markets with elevated recent deliveries underperform areas where new supply has been more limited.

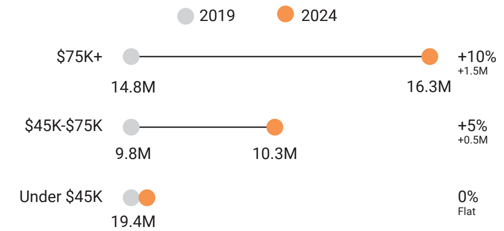
## Debt, Demographics, Down Payments Keep Households Renting

Several factors continue to reinforce renter household formation despite an uncertain economic backdrop. The most prominent is homeownership affordability, particularly as elevated interest rates keep mortgage costs high. Total home sales were 25 percent below the 2015-2019 average in April 2026, while the monthly cost gap between renting and owning has remained above $1,000, compared with a pre-pandemic norm of roughly $300. As a result, more higher-income households are staying in the renter pool longer. Households earning more than $75,000 per year have been the fastest-growing renter cohort since 2019, supporting resilient demand for Class A and B properties.

Delayed family formation is also extending rental demand, particularly as recent inflation pressures make marriage and childbearing more financially demanding. Higher costs for everyday goods, services, and family-related expenses are pushing major life milestones further into adulthood, keeping many households in rental housing longer. This trend should continue to support apartment demand, particularly in markets with strong employment bases, lifestyle amenities, and a larger share of young professionals.

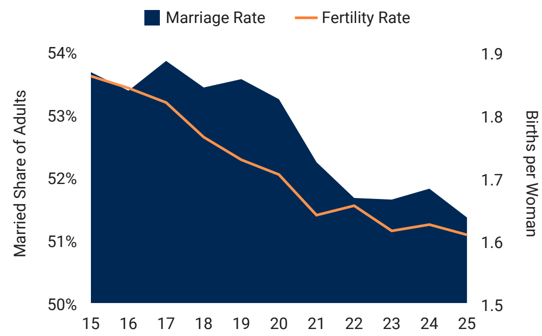
Broader college attendance and rising tuition costs are further delaying homeownership for some younger households by expanding exposure to student debt. Student loan balances stood near $1.7 trillion in early 2026, while 2.6 million borrowers defaulted in the first quarter after pandemic-era repayment protections ended. These debt pressures can limit savings, restrict access to credit, and keep college-educated households renting longer.

### RENTERS INCREASINGLY HIGHER-INCOME




U.S. renter households by income, 2019 vs. 2024*

### MARRIAGE, FERTILITY RATES DECLINE




* Income categories are inflation-adjusted to 2023 dollars.

Sources: American Community Survey; Harvard Joint Center for Housing Studies; U.S. Census Bureau


**Cap Rates Maintain Stability**

**6.2%**

+10 bp Y-O-Y

Average Multifamily Cap Rate


**Class B Trades Accelerate**

**+33%**

Y-O-Y

Increase in Class B Trades

**Primary Markets Led Liquidity**

**+25%**

Y-O-Y

Increase in Primary Market Sales


**Tertiary Markets Draw Larger Buyers**

**+25%**

Y-O-Y

Growth of $20M+ Deals

Note: Data as of 1Q 2026

Sources: CoStar Group, Inc.; Real Capital Analytics

## INVESTMENT HIGHLIGHTS

Multifamily pricing appears to be finding firmer footing as benchmark interest rates remain range-bound. The national average cap rate was 6.2 percent in the first quarter of 2026, roughly in line with levels since 2024. Greater pricing stability should help investors underwrite deals with more confidence and support sales activity, though buyers will likely favor assets with more defensible risk profiles. Class B properties align with that preference, offering a lower basis than premium Class A assets while serving renters who are less financially stretched than Class C households. As a result, Class B assets posted the sharpest increase in sales over the past year, with trading remaining more resilient during the Iran conflict.

Primary markets led overall investment activity over the past year, supported by deep renter demand, active lending markets, and stronger exit liquidity. Private investors should remain most active here, particularly for Class B and C assets in infill locations where limited new supply reinforces tight vacancy. Institutions, meanwhile, have shown greater willingness to pursue tertiary markets in a selective reach for yield. Core assets with durable local demand drivers may remain well positioned in these markets, while offering higher yields and a lower basis, which can support underwriting.

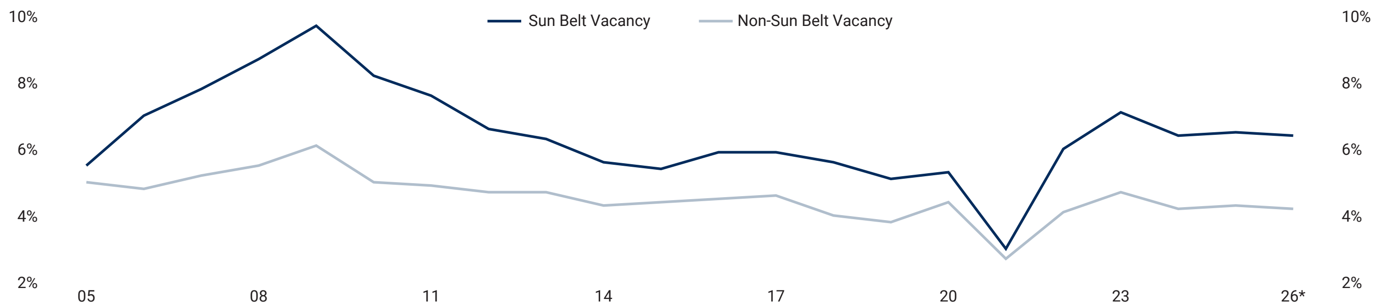
Delaware statutory trusts (DSTs) are seeing rapid growth as investors seek passive ownership, diversification, institutional-quality assets, and interests that can qualify for 1031 exchange treatment. DST fundraising totaled $2.4 billion in the first quarter of 2026, up 34 percent year-over-year, with full-year equity raised projected to reach a record $10 billion to $11 billion.

# Multifamily Market Divide Persists, Though Sun Belt Outlook Starting to Shift

**Sun Belt supply relief emerges as rent pressure lingers.** Many Sun Belt markets are rebalancing as construction slows, but recent completions may still weigh on near-term performance. Vacancy stood at 6.3 percent as of March 2026, keeping concession usage elevated and restraining rent growth. However, deliveries across these metros are set to fall 34 percent year-over-year in 2026, helping contain vacancy even if demand remains uneven. A growing number of higher-income renters should support Class A and B properties, as these segments posted the smallest rent declines over the past year, while Class C rentals may face continued drag. Nearly 50 percent of Class C units in the Sun Belt were offering concessions in March, reflecting competition from discounted new supply and budget constraints among cost-sensitive households.

**Non-Sun Belt markets benefit from limited development.** Minimal new supply kept vacancy in non-Sun Belt markets at just 4.1 percent in March, limiting the need for concessions and sustaining stronger rent growth than in the Sun Belt. Homeownership barriers are helping preserve upper-tier apartment demand, even in higher-cost coastal markets. Yet, unlike in Sun Belt markets, Class C properties recorded the fastest rent growth among quality tiers over the past year, despite the highest concession use. That suggests tight housing supply is supporting demand for lower-cost rentals as more households seek rent relief, while operators use incentives to manage stress among the lowest-income renters.

## VACANCY GAP HOLDS BETWEEN SUN BELT, NON-SUN BELT MARKETS




Note: Sun Belt markets include Atlanta, Austin, Charlotte, Dallas-Fort Worth, Fort Lauderdale, Houston, Jacksonville, Las Vegas, Miami, Nashville, Orlando, Phoenix, Raleigh-Durham, San Antonio, Tampa, West Palm Beach

### Sun Belt

**7.9%** Avg. Concession

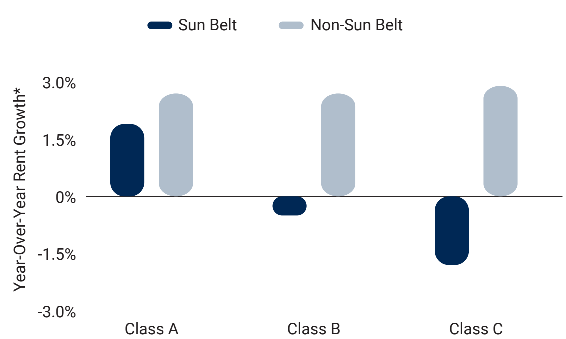
**35.4%** Units Offering Concessions

### Non-Sun Belt

**7.3%** Avg. Concession

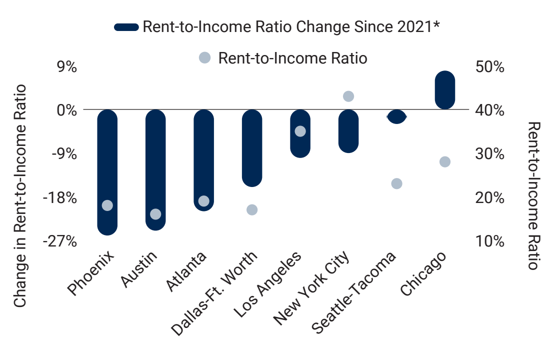
**17.9%** Units Offering Concessions

## RENT GROWTH DIVERGES




**Easing rent burdens support Sun Belt household formation.** While elevated construction activity has weighed on rents across much of the Sun Belt, the resulting decline in rent-to-income ratios may strengthen the region's affordability advantage. Through the first quarter of 2026, rent burdens in many Sun Belt metros had fallen sharply from their 2021 peaks, which could help the region convert future job growth and in-migration into stronger household formation. A lower starting point should also give rents more room to recover before affordability becomes restrictive. In contrast, higher-cost markets with constrained development activity have seen smaller improvements in rent-to-income ratios, keeping housing costs elevated and potentially reinforcing out-migration and suppressed household formation. Even so, tight housing supply in these metros should help keep vacancy low and support steady rent gains.

## SUN BELT MARKETS REGAIN AFFORDABILITY EDGE




* Data as of 1Q 2026

Sources: CoStar Group, Inc.; Moody's Analytics; RealPage, Inc.

# Lender Appetite Improves Cautiously, Keeping Alternative Capital in Focus

**Lending momentum returns, but credit standards stay firm.** Debt availability has improved as more lenders reenter the market, though financing remains sensitive to asset quality, sponsor strength, and benchmark-rate movements. The 10-year Treasury briefly approached 4.7 percent in May before settling back into the mid-4 percent range, a level that remains elevated but should support selective deal flow. A de-escalation of the Iran conflict could reduce concerns about energy-driven inflation and ease the risk premium embedded in rates. However, the broader outlook still depends on labor market and inflation data. With job growth still positive and inflation uncertainty elevated, the Federal Reserve is unlikely to materially adjust policy in the near term. Even so, senior multifamily spreads have stayed narrow despite broader uncertainty, with stabilized, lower-leverage assets generally pricing near 140 to 150 basis points over Treasurys. That signals lender appetite for clean executions, but disciplined underwriting should continue to favor high-quality assets with

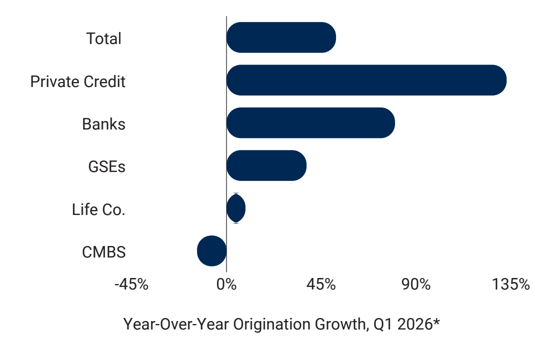
| ASSET TYPE | LTV BIN | CURRENT RISK WEIGHT | | PROPOSED RISK WEIGHT |
|---|---|---|---|---|
| Transitional or construction | N/A | 150% | ➡ | 150% |
| Income-producing based on property cash flow | ≤ 60% | 100% | ➡ | 70% |
| Income-producing based on property cash flow | 60%-80% | 100% | ➡ | 90% |
| Income-producing based on property cash flow | > 80% | 100% | ➡ | 110% |
| Income-producing based on borrower's cash flow (owner-occupied) | ≤ 60% | 100% | ➡ | Lower of the borrower's risk weight or 60% |
| Income-producing based on borrower's cash flow (owner-occupied) | > 60% | 100% | ➡ | Borrower's risk weight |

Source: Federal Reserve, March 2026 regulatory capital proposal

**Flexible capital stack helps deals pencil.** Amid selective lending and elevated cap rates, buyers may continue to rely on a broader capital mix to close financing gaps. Private credit should be a key source of funds for transitional assets and higher-leverage requests where traditional lenders are cautious, while preferred equity and mezzanine debt may also help borrowers secure additional proceeds. Other structures, including interest-only periods, earn-out provisions, participation agreements, and recapitalizations, can help deals pencil by reducing debt service, sharing risk, or bridging valuation gaps. While these tools should support deal flow, they also require disciplined assumptions for exits and refinancings.

**Capital rules may aid bank lending.** Proposed changes to bank-capital rules could lift multifamily credit availability if finalized. Under the revised standardized approach, CRE exposures would generally receive a 95 percent risk weight, down from 100 percent. Under the expanded approach for required or opting-in banks, income-producing CRE loans would receive LTV-based risk weights, lowering capital charges for lower-leverage, stabilized assets and raising them for higher-leverage loans. These changes could give banks more capacity to pursue conservative apartment loans.

CRE LENDING ACTIVITY PICKS UP




* Includes originations across all commercial real estate property types.
Source: Mortgage Bankers Association

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Sources: Marcus & Millichap Research Services; American Community Survey; CoStar Group, Inc.; Federal Reserve; Freddie Mac; Harvard Joint Center for Housing Studies; Moody's Analytics; Mortgage Bankers Association; Real Capital Analytics; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau

Price: $250