

Small Multifamily Investment Trends Report

Q2 2026

Topics

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- Lending Volume
- Loans by Purpose
- Arbor Small Multifamily Price Index
- Cap Rates & Spreads
- Expense Ratios
- Occupancy Rates
- Leverage & Debt Yields
- Outlook



Cap Rates and Valuations Rebound as Lending Remains Steady

Key Findings

- Small multifamily lending activity remained steady as first-quarter originations rose modestly above last year's pace.
- Cap rates retreated sharply while valuations rebounded.
- Underwriting conditions slightly eased, with higher leverage and lower debt yields supporting credit availability.





State of the Market

The small multifamily sector entered the second quarter of 2026 on firm ground as capital market conditions remained stable amid a mixed macroeconomic environment. Loan originations continued to rise last quarter as valuations rebounded and underwriting conditions eased modestly.

Across the rental housing market, conditions remain measured. The [April 2026 NMHC Quarterly Apartment Conditions Survey](#) showed modest improvement in sales volume and debt financing conditions, even as market tightness remained roughly balanced and respondents became slightly more cautious about full-year transaction expectations. This mix of conditions is another signal to commercial real estate investors that small multifamily has settled into a stabilizing, selective marketplace.

A recent sharp reversal in cap rates and a rebound in valuations are two key

developments that suggest some of the softness in late 2025 was shaped by a unique refinancing window, which appears to have shifted the composition of new loans, temporarily placing upward pressure on observed cap rates and downward pressure on valuations. Once these forces moderated in the first quarter, pricing measures moved back in a more constructive direction. At the same time, higher expense ratios and softer occupancy continued to weigh on net operating income, pointing to ongoing operating-cost pressure even as rent growth remained positive.

Overall, the small multifamily sector is in a gradual normalizing trend. Occupancy rates remain above the national rental average, credit availability has improved incrementally, and refinancing remains the primary force shaping market activity. While recoveries are not often linear, small multifamily has moved towards a more balanced phase of the cycle.

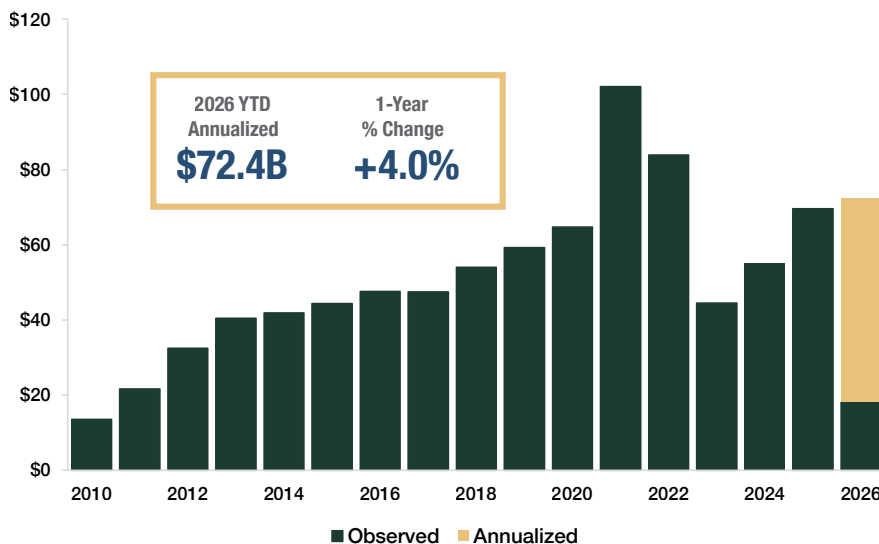


Lending Volume

Small multifamily lending activity remained solid at the start of 2026, recording growth for the second consecutive year. After an upward revision to 2025 originations, the finalized full-year estimate of new small multifamily lending volume on loans with original balances between¹ \$1 million and \$9 million reached \$69.6 billion, up 26.2% from 2024 (*Chart 1*).

Through the first quarter of 2026, originations were running at an annualized pace of \$72.4 billion, or 4.0% above the 2025 full-year total. While that pace suggests lending activity has continued to expand, the increase was modest relative to the stronger rebound recorded in 2025. However, origination volume remains below the elevated levels of 2021 and 2022 when the lower interest rate environment resulted in historically high lending activity.

CHART 1
Estimated Small Multifamily Origination Volume
 In Billions \$, Through Q1 2026
 Source: Chandan Economics



¹ All data, unless otherwise stated, are based on Chandan Economics' analysis of a limited pool of loans with original balances of \$1 million to \$9.0 million and loan-to-value ratios above 50%.

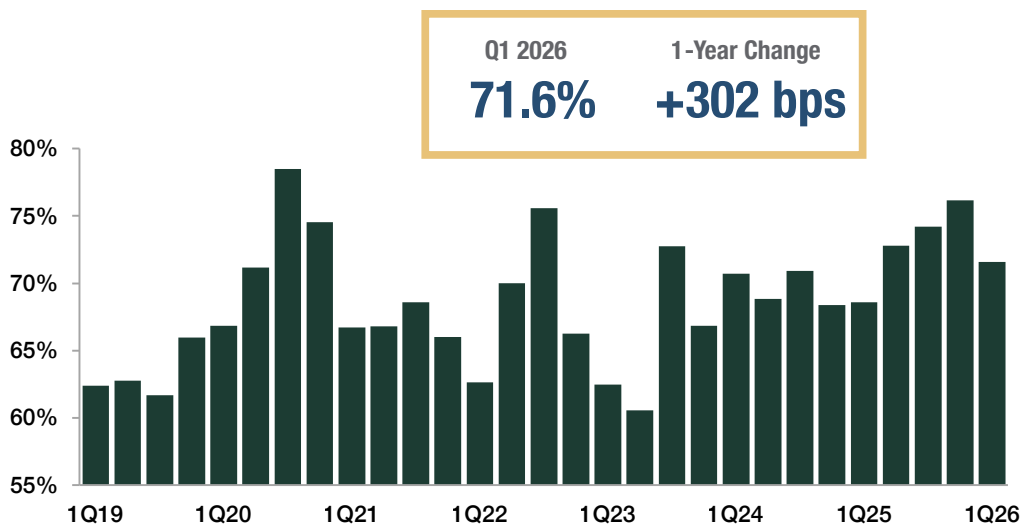


Loans by Purpose

Refinancing remained the dominant source of small multifamily lending activity, accounting for 71.6% of originations (*Chart 2*). While refinancings have slowed from a five-year high recorded in late 2025, they ended the first quarter above levels seen at the same time last year, underscoring the extent to which refinancings continued to support overall lending activity.

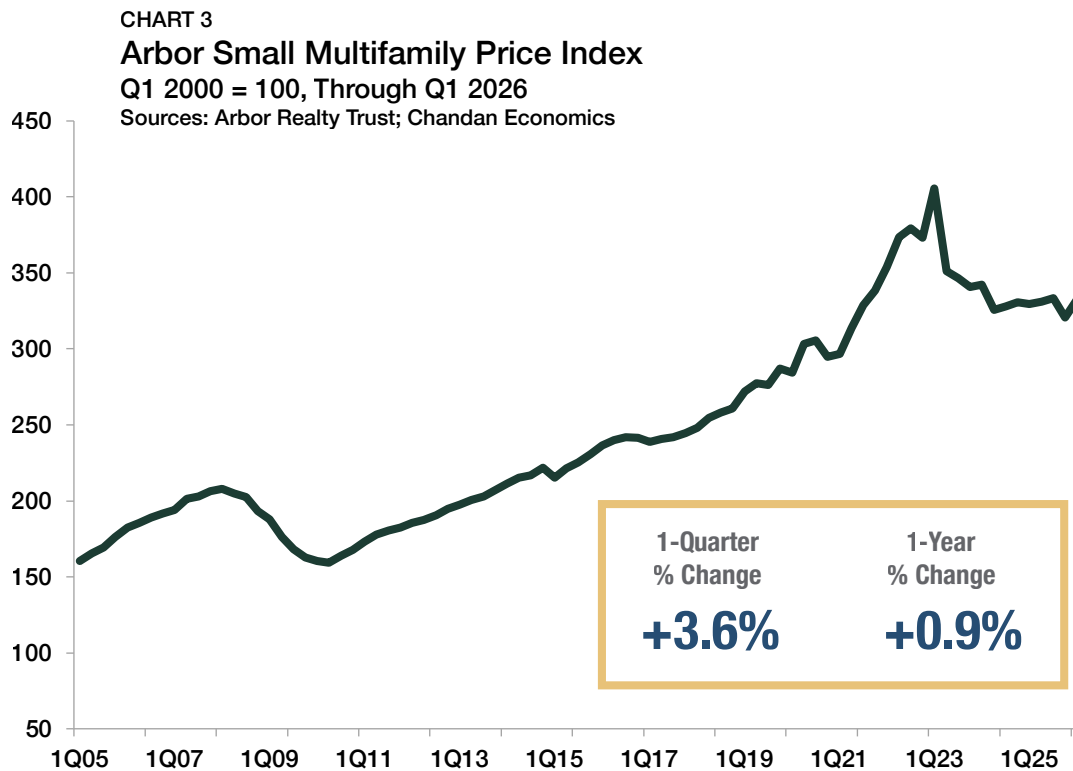
The first-quarter split of small multifamily lending is consistent with a market shaped by loan maturities and debt restructuring needs, with the acquisition share of activity improving only modestly from the prior quarter. As a result, originations remained tilted toward recapitalization rather than property sales.

CHART 2
Refinancing Share of Small Multifamily Lending
Through Q1 2026
Sources: Freddie Mac; Chandan Economics



Arbor Small Multifamily Price Index

Small multifamily asset valuations edged higher. According to the Arbor Small Multifamily Price Index (ASMPI), valuations rose 3.6% quarter-over-quarter and 0.9% year-over-year (*Chart 3*). The recent valuation growth points to improving pricing conditions at the start of the year, while the rebound appears to have been driven primarily by lower cap rates rather than stronger property-level income fundamentals.



The ASMPI relies on a direct capitalization approach to valuation, comparing prevailing net operating income (NOI) to cap rates. In the first quarter, the most significant shift was driven by cap rate compression that lifted implied values. By contrast, the income side of the equation was less supportive. Quarterly rents increased modestly, but those gains were more than offset by higher operating expenses and a decline in occupancy, which pushed NOI per unit lower on a quarterly basis.

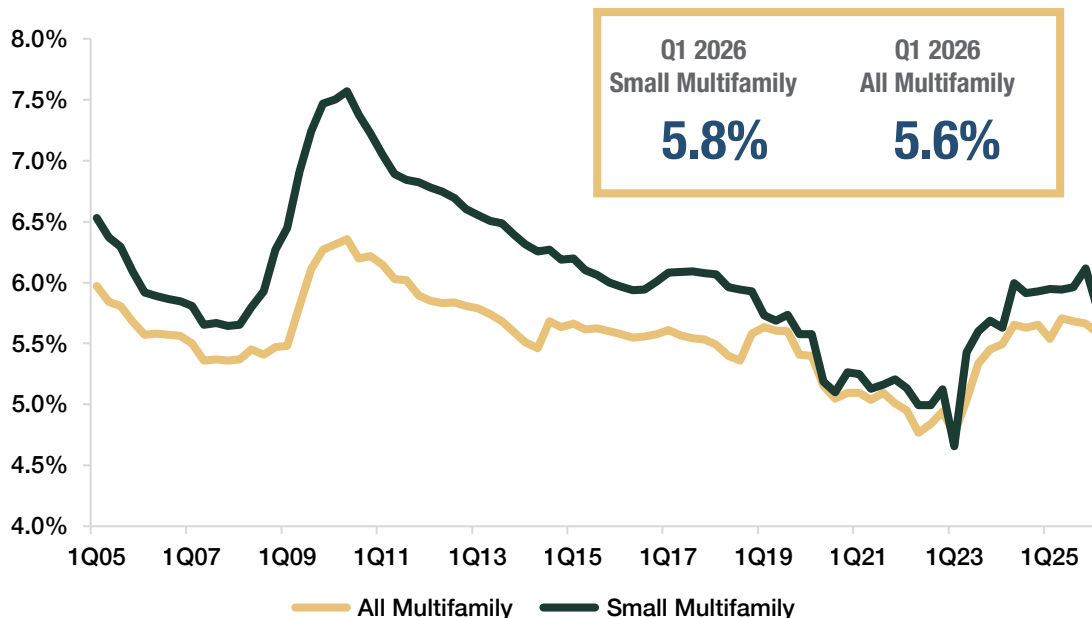


Cap Rates & Spreads

Small multifamily cap rates averaged 5.8% in the first quarter, down from 6.1% in the previous quarter (*Chart 4*). The decline was significant, bringing cap rates to their lowest level since the first quarter of 2024.

After a sharp rise at the end of 2025, the first-quarter reversal reinforces the view that much of the prior quarter's increase reflected refinance-driven composition effects.

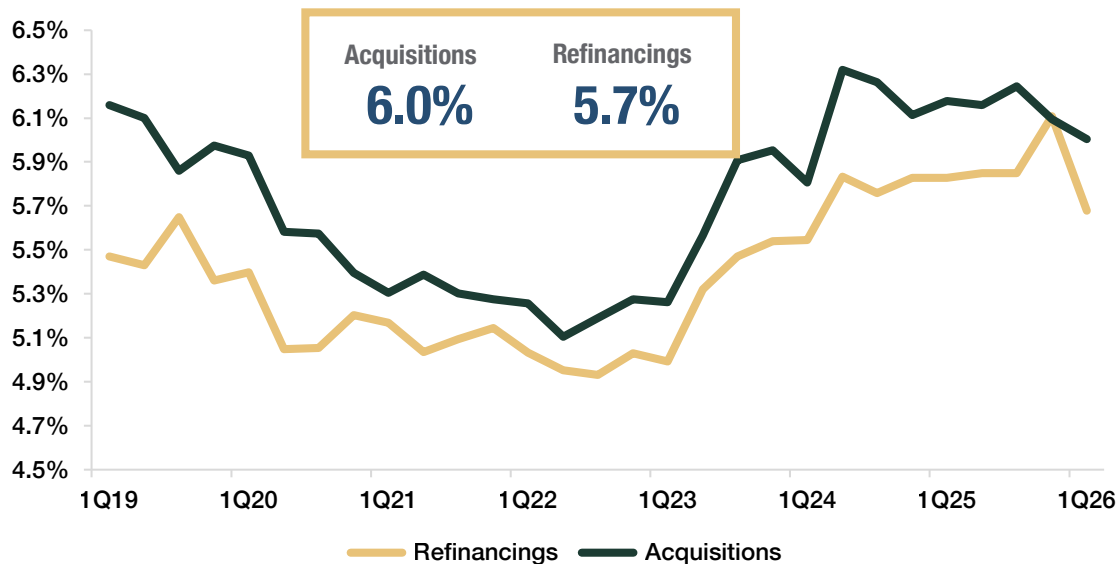
CHART 4
Small Multifamily Cap Rates
Through Q1 2026
Source: Chandan Economics



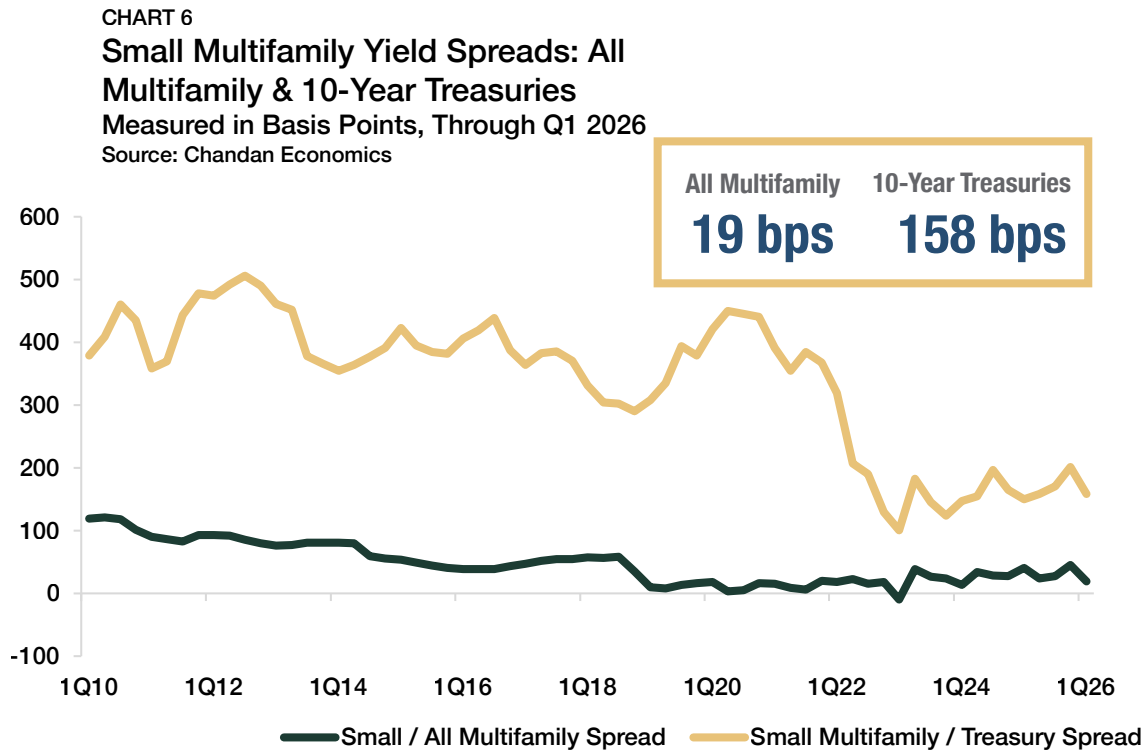
Downward movement in acquisition cap rates reinforces the view that much of the market momentum is currently driven by refinancings. While refinancings have eased from a multi-year high in the fourth quarter of 2025, lower long-term yields appear to have temporarily expanded refinancing activity in late 2025 among properties that had previously been less able to reset their debt, adding upward pressure to observed cap rates through loan mix.

However, expanded refinancing activity appears to have faded in the first quarter. Small multifamily acquisition cap rates declined to 6.0% in the first quarter of the year, while refinance cap rates fell to 5.7% (Chart 5). Taken together, these findings point to greater stability in transaction pricing than the overall small multifamily average suggested in late 2025.

CHART 5
Small Multifamily Cap Rates: Acquisitions & Refinancings
 Through Q1 2026
 Source: Chandan Economics



The small multifamily risk premium, measured by comparing cap rates to the yield on the 10-year Treasury, narrowed to 158 basis points in the first quarter of 2026 (Chart 6). The decline reflects the combination of lower cap rates and higher Treasury yields. At the same time, the cap rate spread between small multifamily assets and the broader multifamily sector narrowed to 19 basis points, down from 45 basis points in the prior quarter. This measurement is broadly in line with the post-2020 average spread of 20 basis points and remains well below the wider pre-2020 norm. In that context, the latest quarter suggests that small multifamily pricing has moved back toward a tighter spread environment.

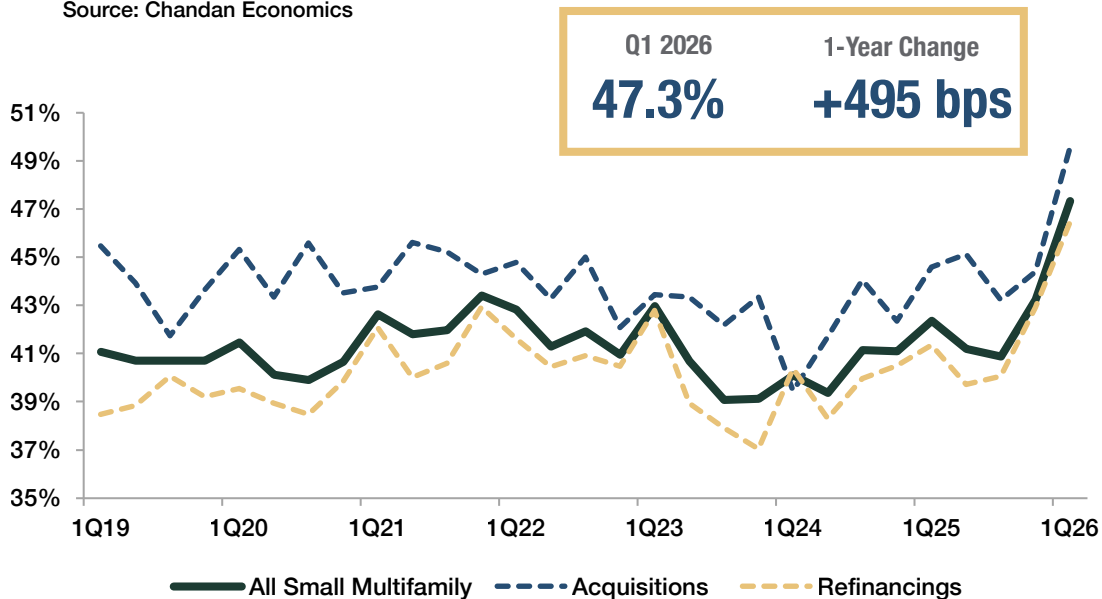


Expense Ratios

Small multifamily expense ratios rose to 47.3%, up 410 basis points from the prior quarter and the highest reading in the current series (*Chart 7*). The increase was broad-based, with acquisition expense ratios climbing to 49.5% and refinance expense ratios rising to 46.4%. The sharp increase

is consistent with broader operating-cost pressures across multifamily properties, particularly rising insurance costs, which doubled between 2019 and 2024, according to the Harvard Joint Center for Housing Studies' [America's Rental Housing](#) report.

CHART 7
Small Multifamily Expense Ratios
 Through Q1 2026
 Source: Chandan Economics

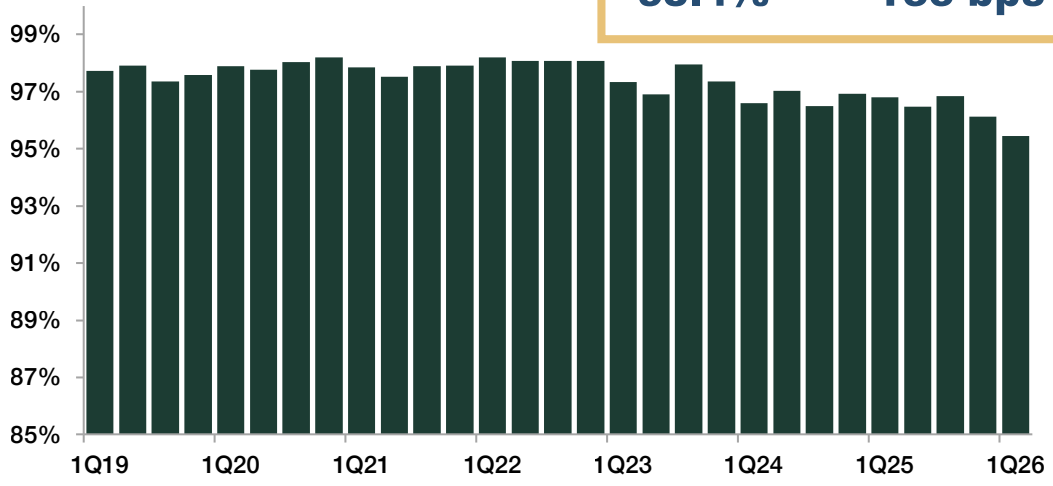


Occupancy Rates

Occupancy rates in small multifamily properties that received financing in the first quarter fell to 95.4% (Chart 8). Compared with the previous quarter, occupancy fell by 0.7 percentage points and was down 1.4 percentage points from one year earlier. These data points are directionally consistent with broader rental market trends reported by the [U.S. Census Bureau](#) that imply a national rental occupancy rate of 92.8% in the fourth quarter of 2025, down from 93.1% one year earlier. However, occupancy among financed small multifamily properties remained well above the national rental average.

CHART 8
Small Multifamily Occupancy Rates
Through Q1 2026
Source: Chandan Economics

Q1 2026	1-Year Change
95.4%	-136 bps

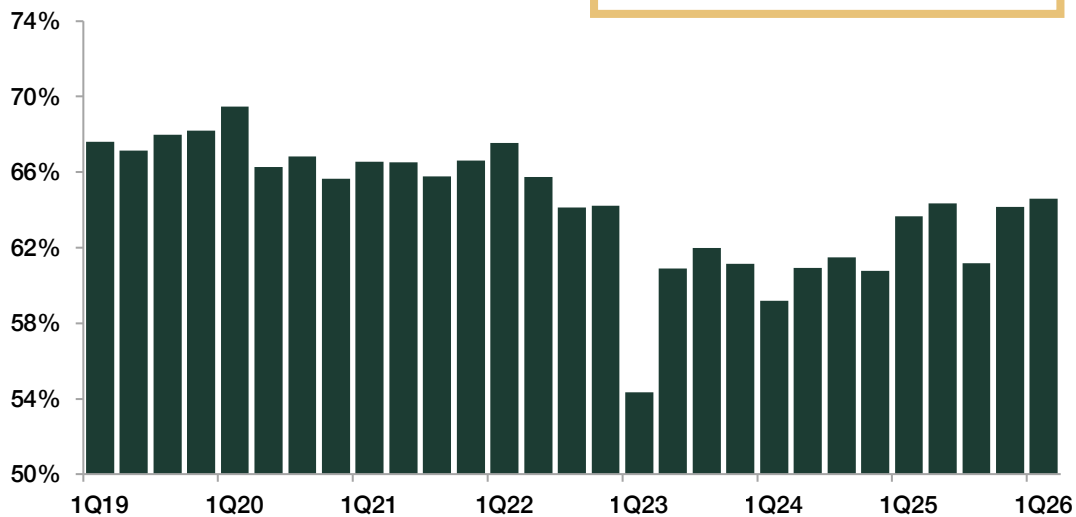


Leverage & Debt Yields

Small multifamily underwriting trends continued to improve. Loan-to-value ratios (LTVs) edged up to 64.6% (Chart 9), extending the recovery from a recent low point of 54.4% in early 2023. Although the quarterly increase was modest, the broader trend points to a gradual easing in underwriting conditions.

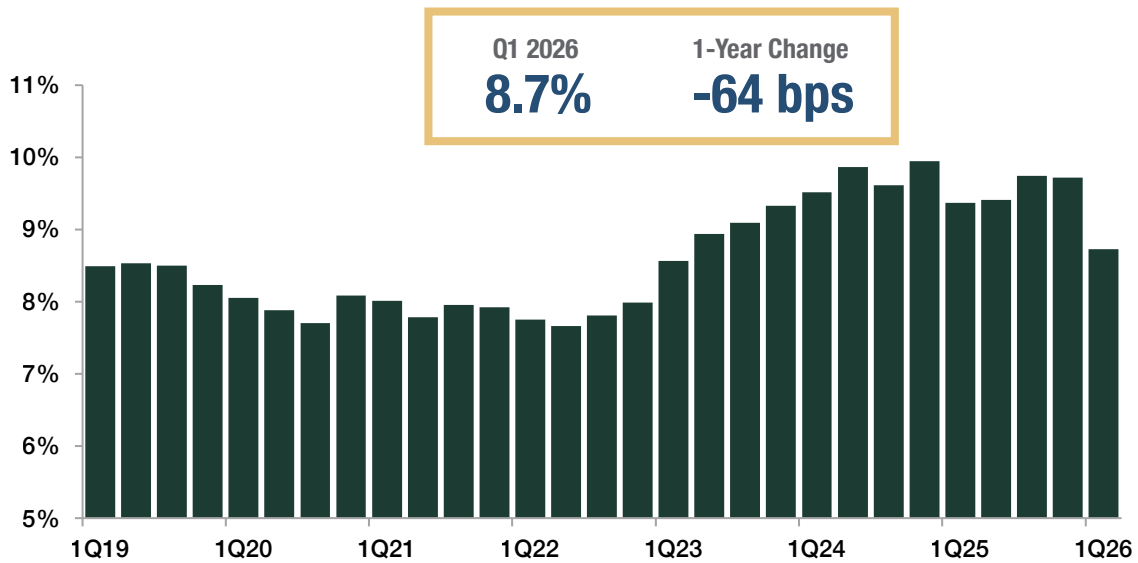
CHART 9
Small Multifamily LTVs
Through Q1 2026
Source: Chandan Economics

Q1 2026
64.6% 1-Year Change
+92 bps



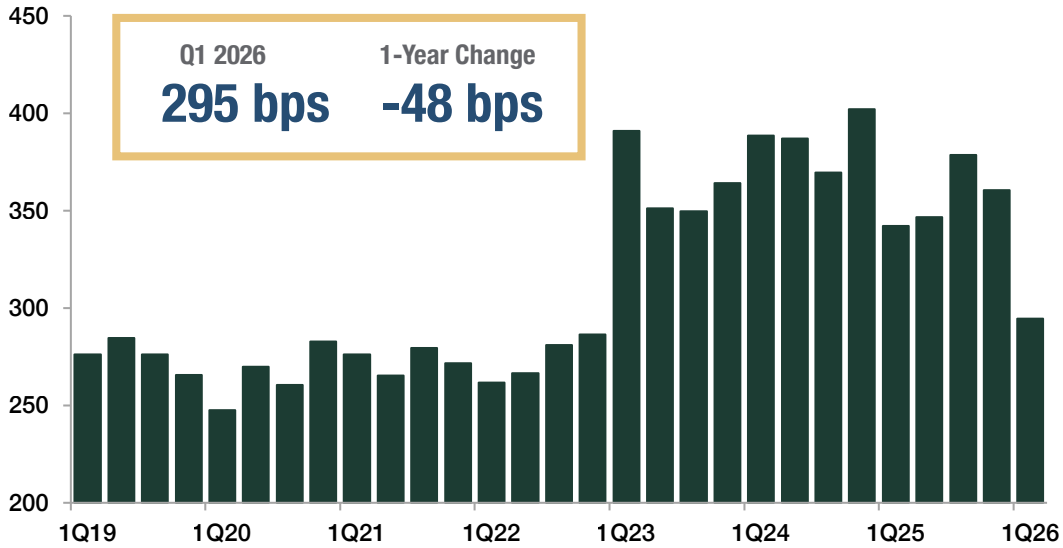
Debt yields, which consider the relationship between net operating income (NOI) and loan balance, declined in the first quarter to 8.7% (Chart 10). It is the lowest reading since early 2023 and pushed debt per dollar of NOI up to \$11.46, from \$10.29 in the previous quarter, indicating higher leverage relative to income. Taken together, higher leverage and lower debt yields suggest that underwriting standards have eased, consistent with a moderate improvement in credit availability.

CHART 10
Small Multifamily Debt Yields
 Through Q1 2026
 Source: Chandan Economics



With cap rates falling to 5.8% and debt yields rising sharply in the first quarter, their spread narrowed to 295 basis points (*Chart 11*). Although still above the tighter range that prevailed before the Federal Reserve's tightening cycle, the latest compression reflects a moderate easing from the higher risk cushions that underwriters required over the past two years.

CHART 11
Spread Between Small Multifamily Debt Yields and Cap Rates
Measured in Basis Points, Through Q1 2026
Source: Chandan Economics





Outlook

Looking ahead, the small multifamily sector is positioned for continued stability, even as near-term conditions remain shaped by selective capital availability and elevated operating costs. First-quarter data pointed to a modest easing in financing conditions and renewed price growth. Refinancing is likely to remain a primary driver of lending activity as borrowers continue to work through maturities. At the same time, slightly easier underwriting and improving valuations could support a broader mix of lending activity as 2026 unfolds.

Current market dynamics indicate that normal, steady growth will likely continue amid ongoing volatility in the broader economy. As credit conditions ease incrementally, small multifamily is well positioned to remain stable even while the housing market remains in flux. Its trajectory will depend less on demand expansion and more on how quickly refinancing pressures ease and operating margins stabilize. ▲

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