

State of the Rental Housing Market

Multifamily Advances Against Rate Pressures

FALL 2026

**SPECIAL
REPORT**



ARBOR

Key Findings

- Multifamily fundamentals have strengthened as supply pressures receded, rent growth broadened, and occupancy improved.
- Credit availability continued to normalize, but elevated Treasury yields and historically narrow cap-rate spreads remained constraints on apartment valuations.
- A valuation reset has improved entry pricing for long-term investors, while elevated capital costs continue to reward selective market and asset underwriting.



The Outlook

After several years of adjustment, the rental housing market entered the final stretch of 2026 with a clearer divide between improving property fundamentals and capital markets still adjusting to an elevated interest rate environment.

Improvements in absorption have begun to alleviate pressures from a recent multifamily supply wave; rent and occupancy conditions have been firming across a broader set of markets; and lending conditions have normalized considerably. At the same time, apartment valuations have come under renewed pressure as long-term rates remain elevated.

The broader economic backdrop remained resilient but has shifted to a slower growth trajectory. Hiring has cooled, labor force growth has moderated, and household spending continues to support economic activity. Taken together, the economy has lost some momentum, but there aren't clear signs of a broad contraction.

Interest rate headwinds have become more persistent. The Federal Reserve's September quarter-point rate hike reinforced expectations that short-term rates will remain elevated, while long-term Treasury yields have also remained high amid persistent inflation and concerns about the national fiscal outlook. For multifamily, elevated benchmark rates continue to weigh on financing economics and asset valuations, even as lenders have become more inclined to extend credit.

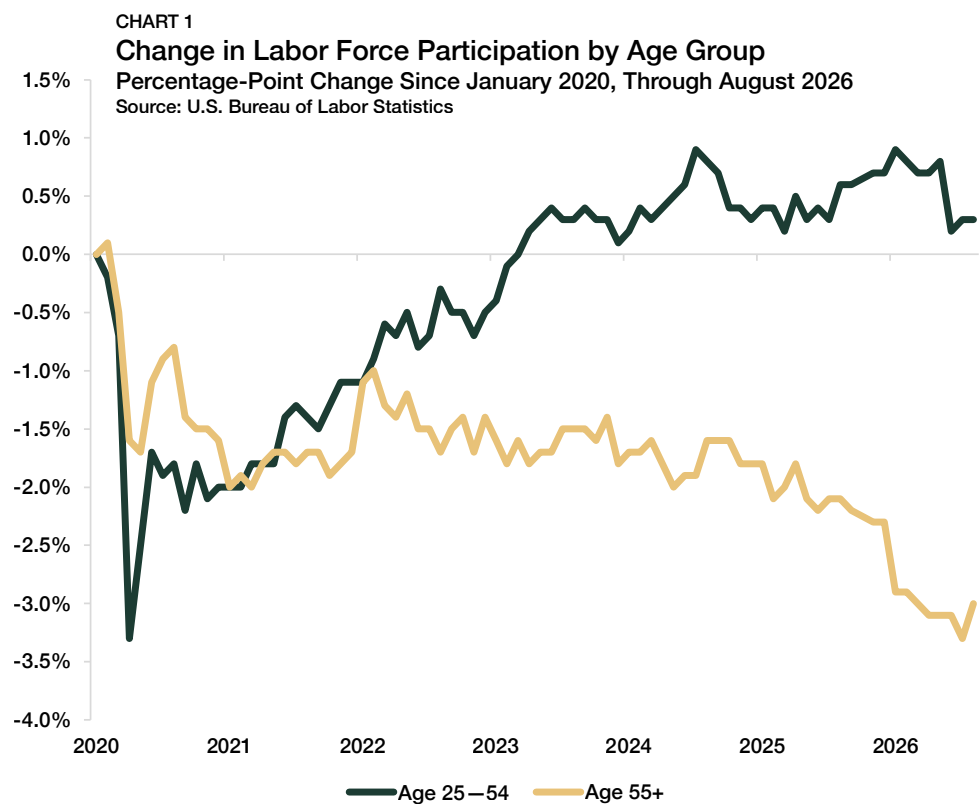
These crosscurrents have created a more selective investment environment. Right now, historically narrow yield spreads and elevated capital costs continue to favor disciplined underwriting and market selection. At the same time, improvements in the supply/demand balance continue to support operating fundamentals as valuations reset from recent peaks, creating new sets of attractive entry points for well-positioned investors.

Labor Market Dynamics Shift with Demographics and Technology

The U.S. labor market picture remains consistent with a maturing cycle with a slower pace of growth than during its post-pandemic expansion.

Hiring has moderated, and wage gains have cooled, as average hourly earnings growth has not kept pace with inflation. Labor force participation has also trended lower, cutting into the nation’s available labor supply. The economy has been generating fewer jobs than earlier in the cycle, but the distinction between weaker labor demand and more limited labor supply has become increasingly important.

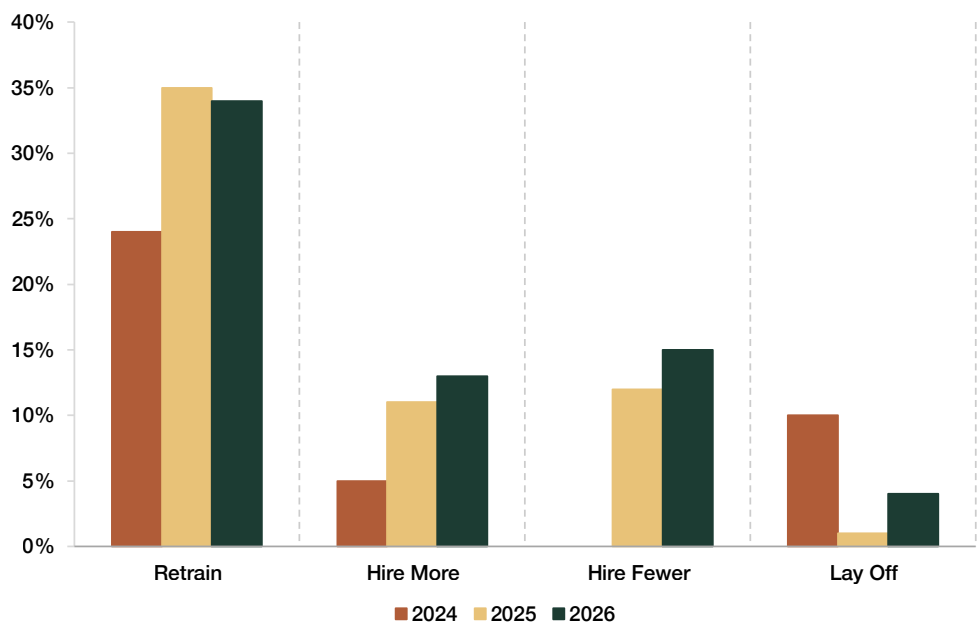
Demographics are a growing part of that distinction. Prime working-age (25-54) labor force participation has fully recovered from the pandemic shock and remains slightly above its pre-pandemic level, while Americans age 55 and older have been participating at a rate about three percentage points lower (*Chart 1*).



Recent employment reports tell a similar story. [Native-born](#) employment was roughly flat to slightly negative year over year, while the number of [seniors outside the labor force](#) continued to rise. At the same time, [foreign-born](#) employment, an important source of labor force growth earlier in the expansion, slowed sharply alongside the pullback in net international migration. Together, aging and reduced immigration have been increasingly limiting the economy’s capacity to add workers.

Artificial intelligence introduces another source of uncertainty, although its near-term labor market effects have so far been more modest than some displacement concerns imply. In the Federal Reserve Bank of New York’s latest [Regional Business Surveys](#), 34% of service firms using AI reported retraining workers, compared with 15% hiring fewer workers, 13% hiring more, and just 4% reporting AI-related layoffs (*Chart 2*). The findings do not resolve longer-term displacement concerns, but they suggest that workforce adaptation remains substantially more common than outright job elimination.

CHART 2
How AI-Using Service Firms Are Adjusting Their Workforces
Share of Service Firms Using AI Reporting Each Workforce Response, 2024–2026
Source: Federal Reserve Bank of New York’s Regional Business Surveys



Note: Responses are not mutually exclusive and do not total to 100%. “Hire fewer” was not reported in the 2024 survey.

Meanwhile, consumer spending has remained an important source of economic resilience. Inflation-adjusted consumption continues to grow, but the [personal saving rate](#) has fallen to roughly half the level typical of the 2010s. Households have therefore sustained spending while retaining a smaller share of disposable income, leaving less room in their budgets to maintain consumption by reducing saving further if income or employment conditions weaken.

Altogether, the macroeconomic picture has remained one of slow growth rather than broad retrenchment. Labor force expansion has been increasingly constrained by aging and reduced immigration, while available evidence has yet to show widespread AI-driven displacement and consumers are still spending. For the rental housing market, the backdrop remains broadly supportive of demand, even as elevated interest rates continue to weigh on the capital markets side of the multifamily recovery.



Multifamily Fundamentals Strengthen as Capital Markets Normalize

Multifamily fundamentals continued to improve as the sector moved beyond the recent supply surge. The market has absorbed new supply more effectively, while delivery volume has begun moderating.

Data from the [Federal Reserve Bank of Atlanta's](#) Commercial Real Estate Market Index showed that 50.1% of multifamily markets had improved absorption in the second quarter, the highest share since late 2024 and the second consecutive quarterly increase. National Multifamily Housing Council's [Market Tightness Index](#) also moved above neutral, reinforcing the view that the national market is moving toward balance.

Rent trends provided some of the clearest evidence that conditions are firming. Annual [multifamily rent growth](#) reached 1.8% in July, extending a four-month acceleration. More importantly, roughly three-quarters of metros recorded monthly rent gains and nearly 90% posted year-over-year increases.

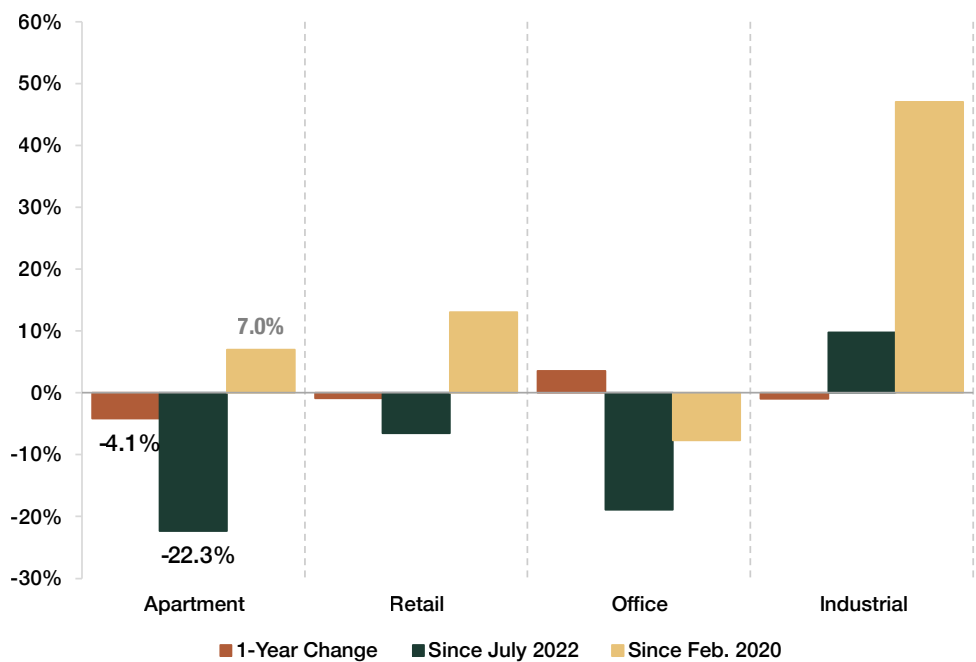
Occupancy conditions have also begun to improve at the margin, with [Apartment List's](#) national vacancy measure easing from its recent peak earlier in the year. The recovery, however, remains uneven, with supply-constrained markets generally outperforming metros still absorbing high amounts of recent deliveries.



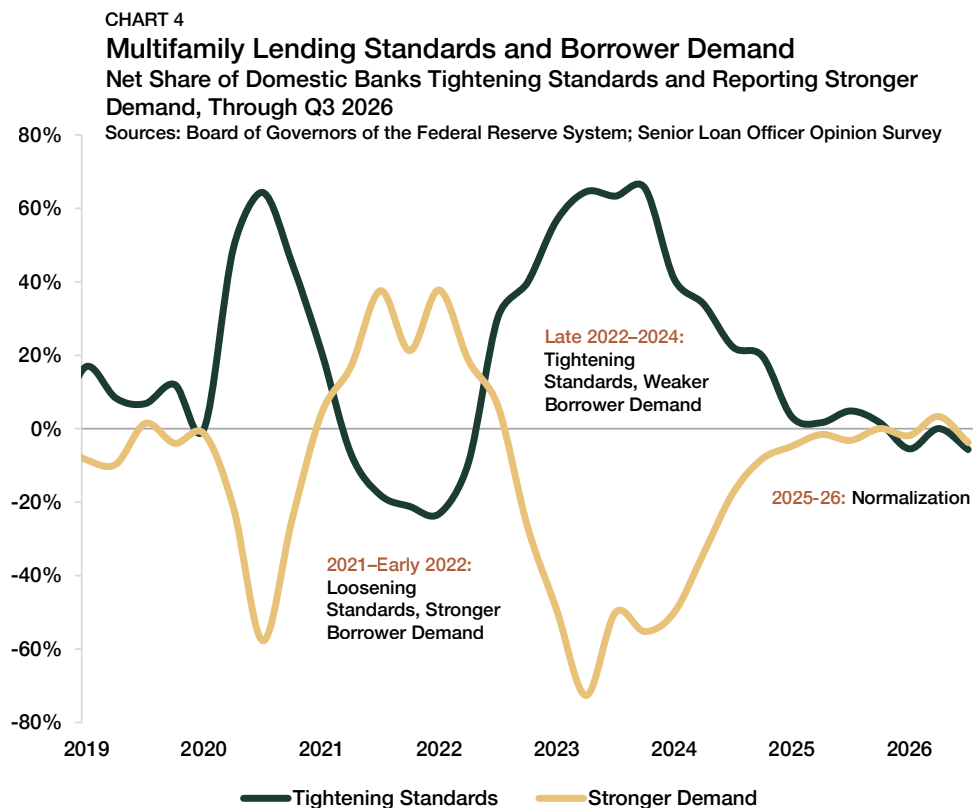
Asset pricing, however, continued to lag the improvement seen in operating fundamentals. Apartment values were 22.3% below their July 2022 level, a larger correction than office, retail, or industrial over the same period, while still standing 7.0% above February 2020 levels (*Chart 3*).

This contrast points to a substantial cyclical repricing, rather than the structural impairment felt in parts of the office sector. Recent softness has kept apartment valuations from fully participating in the operating recovery. However, the depth of the reset has given apartments a more attractive entry point for long-term capital.

CHART 3
Commercial Real Estate Price Performance by Property Type
Percent Change From Select Benchmarks, Through July 2026
Source: MSCI Real Capital Analytics

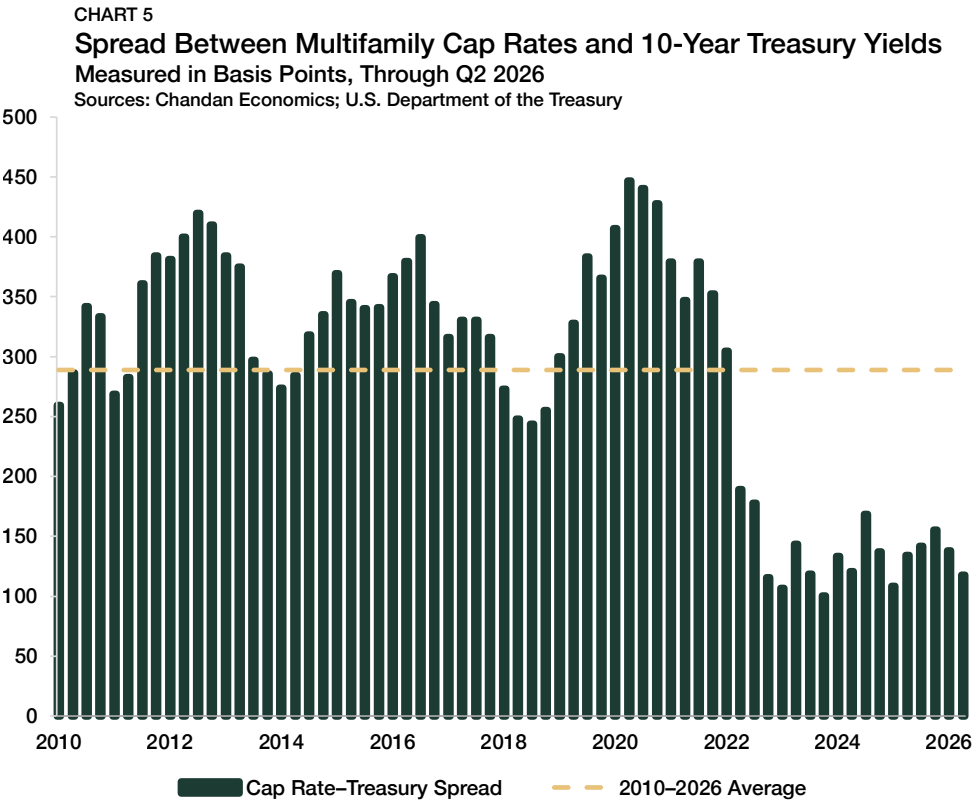


Credit conditions also moved closer to balance. The [Federal Reserve's Senior Loan Officer Opinion Survey](#) shows that multifamily lending standards and borrower demand converged toward neutral after several years of unusually large swings (*Chart 4*). The latest readings indicate a modest net easing in standards and slightly weaker demand, but the broader signal is of deepening normalization, consistent with a market where lender competition is intensifying as borrowers remain selective.



Today’s interest rate environment helps explain why improving credit availability has not translated into a stronger valuation recovery. The spread between multifamily cap rates and the 10-year Treasury yield measured about 118 basis points in the second quarter, compared with an average of roughly 290 basis points since 2010 (*Chart 5*).

Multifamily cap rates have adjusted higher since the tightening cycle began, but Treasury yields have remained elevated enough to keep the relative investment premium historically narrow. As a result, limited room is left for meaningful cap rate compression without more favorable long-term interest rates.



Property cash flow remains another important consideration. Operating expense growth has moderated, but costs continue to limit how quickly improving rents and occupancy translate into stronger net operating income (NOI).

At the same time, technology is creating additional avenues for efficiency. Recent industry research from [NAA, NMHC, and RETTC](#) points to growing AI use across customer service, maintenance, document processing, forecasting, and administrative functions. [Buildium's 2026 research](#) found that AI adoption among surveyed property management companies rose from 20% to 58%. These tools will not eliminate broader expense pressures, but they can help operators streamline workflows, contain costs, and support margins over time.

Taken together, multifamily has moved further into recovery at the property level while capital markets have become more stable. The combination has broadened the opportunity set, though transaction economics remain selective.



The Road Ahead

Looking ahead, normalizing deliveries should provide a more supportive backdrop for multifamily operations. As the development pipeline moderates, broader rent growth and easing vacancy pressures suggest the market is moving toward a healthier balance. While slower population and labor force growth may temper the pace of demand expansion, current conditions increasingly favor continued normalization of sector fundamentals.

On the capital markets side, the pace of improvement will remain sensitive to the interest rate environment. Lending conditions have normalized and competition among capital providers has increased, but historically narrow cap rate spreads continue to limit the potential for rapid valuation appreciation. Apartment pricing has also remained substantially below its 2022 peak even as property fundamentals improved, creating a more compelling basis for targeted investment.

The next phase of the cycle need not depend on a return to unusually low financing costs or outsized rent growth. Instead, improving operations, greater credit availability, and reset valuations will favor disciplined investors who can identify multifamily markets and assets where fundamentals are strengthening fastest. ■



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