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Special Report: Multifamily Rent Forecast Update

The main change to our forecast is a more tepid 2027, with a national asking rent growth of 2% vs. 3% in the June forecast. This is driven by an increased expectation of new-supply deliveries in 2027, back to pre-COVID levels, as well as a more modest trajectory of household formation as the labor market moderates and population growth returns to its pre-COVID decelerating trajectory. Continued decent GDP growth and high federal government financing needs do not warrant reduced long-term interest rates, which we expect will keep mortgage rates high and multifamily turnover at its current lower level.

The multifamily sector closed the summer leasing season with disparate results by market, reflecting the complex and uneven economic signals that have come further into focus. Payrolls and employment gains have slowed with data revisions, consumer spending remains but sentiment has weakened, and the policy to reduce short-term interest rates remains intact but not without some pushback. Slower growth on a longer timeline before rising to moderate growth remains our base case.

Seasonal advertised rent growth continues to flatten and underperform historical norms. On a national basis, the average month-over-month asking rent growth was in the 0.1% range, well below the previously reported 0.4% pace for 2010-19. San Francisco and the Northeast generally outperformed the national trend, buoyed by the tech and financial industries. Sun Belt and tourism-reliant metros continued to soften, and in some cases—like Denver, Phoenix, Austin and Las Vegas—outright decline on a year-over-year basis, with month-over-month performance either flat or negative from March 2025 to present.

While the headline first half 2025 net GDP growth at about 1.5% is not bad, Q3 is expected to show a marked deceleration—not yet in recession territory, but close. Real GDP growth has been strong, with 3.8% annualized quarter-over-quarter growth in Q2, according to the third BEA update. However, the upturn in GDP is largely a function of a fall in imports after businesses front-loaded in Q1 to get ahead of tariffs. There was also a significant downturn in investment, but consumer spending remains high. There is some worry that consumer spending has experienced out-size growth in higher income brackets while remaining stagnant for the bottom 80%.

Negative job creation numbers from restatements indicate the U.S. entered the year in a weaker state than previously thought, with higher-than-warranted short-term rates and tariff policy further muddying the waters. Restrictive immigration policy is reducing the supply of labor, while economic policy realignment has lowered the demand, leading to a precarious balance.

Additional pressures include inflation that has been moving back up and reasonable concerns that could increase as firms exhaust their built-up inventory from the beginning of the year and tariff policy comes more into focus. Additionally, food and energy prices that are generally excluded from the core official inflation statistic may rise, as farms may struggle to find workers and AI infrastructure requires more energy to grow, while potentially offset by declining oil and natural gas commodity prices. A potential silver lining in energy prices increasing is that higher energy prices tend to help the U.S. energy industry, as the shale oil that is drilled in the U.S. is expensive to extract and only economically feasible when prices are in the \$60/bbl range.

While we do anticipate economic growth will accelerate in 2026 as tax incentives kick in and AI adoption can serve as a "supply" shock and a disinflationary force, new multifamily supply continues to be delivered, leading to our view of tepid multifamily conditions.

We do anticipate continued short-term interest-rate reductions in 2026 as the Fed navigates a weakening labor market and an inflationary environment that is moving up to 3% and unlikely to fall back quickly.

High long-term interest rates, driven by large federal deficits and a large debt burden, are keeping mortgage rates high, and the lock-in effect is keeping single-family inventory modest and home prices elevated. A major exception to this

price trend is Florida and Texas, with nearly every market in those states seeing negative year-over-year single-family prices, and with Austin, Dallas and Miami all running around a negative 4%. This, along with general economic and labor market uncertainty as expressed in dour consumer expectations, results in much higher apartment retention, allowing up until now the absorption of new apartment supply and rent increases on renewal leases.

The government deficit and debt problems do need resolution before long-term rates can be expected to decline, and the risk of a rising 10-year rate (so pivotal to multifamily investors) is very much on the table. As of this writing, the U.S. government's operations are suspended, further clouding any reporting of economic conditions and disrupting the conditions themselves.

Nationally, the result of all these forces is a slowly recovering apartment market in areas of high supply, but one which is fragile. San Francisco is notable as a general exception. The Bay Area's San Francisco Peninsula asking rents compiled by Yardi Matrix grew 2.5% in last quarter's year-over-year rent growth, and San Jose and its surrounding counties grew 3.1%, as it is finally recovering on the back of AI investment.

Key takeaway: Different economic and policy headwinds reveal the U.S. in a more vulnerable position than previously reported, though the effects differ in severity by market. Nationally, the result of all these forces is a slowly recovering apartment market in areas of high supply, but one which is fragile. Year-over-year national rent growth for 2026 is expected in the mid to low 1.2% range, before a modest ramp-up in 2027 to 2% and then a stronger 2028 and beyond, with forecast increases of 3.4% to 3.8%.

—Andrew Semmes, Senior Research Analyst

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