

April 2026

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Multifamily Absorption Report

The Absorption Report now includes projected net absorption in most markets. The projection uses the multifamily occupancy and supply forecast trends to move the historical absorption data forward.

Executive Summary

The historical portion of the Absorption Report uses one set of properties and assumptions that are intended to cover all multifamily properties Yardi Matrix covers. The Occupancy and Supply forecasts use a different property set and assumptions that can cause a mismatch in trend when going from the historical dates to projected.

The new Absorption Report projection resolves these issues by applying the growth rates from the Occupancy and Supply forecasts, along with additional adjustments to the historical absorption data. The larger methodology is detailed in the following sections.

Basic Design of Absorption Report

The Absorption Report calculates Net Absorption as the difference between total Occupied Units in one period compared to the prior period. Occupied Units are first calculated on a property level as $[\text{Occupancy Rate}] \times [\text{Total Number of Units}]$, which can then be aggregated up to market or national numbers.

The periods for absorption are not weighted averages. A quarter's Occupied Units are from March, June, September or December for each of the subsequent quarters. Likewise, the annual Occupied Units is set for December of each year. Reported absorption reflects point-in-time changes rather than average occupancy across the quarter.

All published multifamily properties covered by Yardi Matrix qualify for inclusion in the Absorption Report, as long as a property has a status of "completed." Market Rate properties, those with less than 40%

of the total units reserved for affordable housing, are in the monthly occupancy survey and comprise the bulk of the data.

Student Housing properties are surveyed separately and attempt to capture the lease-up of commitments for the next school year, not the physical occupancy month-to-month. For the purposes of the Absorption Report, the collected occupancy at the beginning of the school year is considered the "physical occupancy" that carries through until the start of the next school year. The Occupied Units is then calculated from this yearly anchor value.

There are cases where a Student Housing property's physical occupancy collection is lagged and is limited to dates since 2019, when Yardi Matrix started collection. In these cases, excluding these properties completely would reduce the covered units, which in turn would reduce the net absorption rate. To correct this gap, we substitute the Market Rate occupancy rate when a Student Housing property doesn't have a physical occupancy value recorded.

Affordable Housing is largely filtered out of the Occupancy surveys, so the occupancy rate is derived from internal estimates on a market level.

Differences Between Absorption Report and Forecasts

The assumptions in the Absorption Report history can differ significantly from both the Occupancy and Supply forecasts. The Absorption Report's history attempts to represent the entirety of the multifamily universe that Yardi Matrix covers, including the subtypes of Student Housing and Affordable Housing.

The Occupancy forecast only covers Market Rate properties that are considered stabilized, which is

when a property either is 18 months past its completion date or has reached 90% occupancy at least once.

The difference in property sets and how they perform can cause a 300 to 400 basis point (bp) increase when comparing properties with stabilized occupancy to the total estimated market. Solely using the Occupancy forecast to multiply against the total number of units can then cause unusual increases in Occupied Units and Net Absorption as the data moves from the history into the forecast.

The Supply forecast does cover all subtypes, but it is currently calculated for the annual value, so it presents a challenge when connected to the historical data. As the historical data approaches the end of the year, properties that are forecast to be completed but haven't yet been reflected into the database begin to accumulate at the end of the year into the first quarter of the next, which can cause a large increase in forecast Total Units from the historical units in the Absorption Report.

Both historical-to-projection data connection issues can cause large swings in the Net Absorption as the historical data goes from one level on Occupancy Rate and Total Units to something immediately higher in the forecasts.

Projection Methodology

As discussed above, Net Absorption needs the Occupancy Rate and Total Units to calculate Occupied Units. Directly taking the Occupancy Rate and Total Units from the forecast causes issues from having different assumptions and levels.

Instead, the Absorption Projection needs to use the forecast Occupancy Rate and Total Units to guide the historical data at its scale using the growth rates for each forecast. This growth rate

uses the history from the Occupancy and Supply forecasts to maintain the correct scale, before it's used to make estimated versions on the Absorption Report scale.

A quarter-over-quarter growth rate is calculated for Occupancy Rate and Total Units, and used to move forward the Absorption Report's history to create [Adjusted Occupancy Rate] and [Adjusted Total Units] per quarter.

The projected Occupied Units can then be calculated from [Adjusted Occupancy Rate] x [Adjusted Total Units], and that can be used to calculate a Net Absorption.

—Tara Jeffcoat, Matrix Client & Product Support

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