Northmarq

Midyear National Multifamily Report

Property Fundamentals Improving, but
Investment Activity Struggles to Gain Momentum

SEP 2026

Foreword

At the beginning of this year, there was a level of optimism surrounding the national multifamily outlook. The pace of new deliveries was cooling across most major markets and construction starts were slowing, suggesting that the supply-side pressures that had dragged on property performance in recent years would be easing. This year was expected to be a bit of a transition year before fundamentals began to more fully gain momentum beginning in 2027.

The prospects of declining interest rates and a more accommodative Federal Reserve also supported early forecasts that called for a more vibrant capital markets environment. Investors had increased acquisition activity in 2025, lenders were offering more competitive terms, and the expectation was that interest rates were poised to decline as inflation showed signs of approaching the Fed's target of 2%.

To this point in the year, some of the actual performance has met or exceeded expectations, particularly those measurements that track multifamily property fundamentals and renter demand. This stands in contrast to the capital markets, which have proven to be more challenging than originally anticipated as rates have pushed higher.

It is against this backdrop that we assess the current state of the national multifamily market and shape our outlook for the remainder of 2026 and look ahead to 2027.

Elevated interest rates hindering activity despite continued renter demand

The national multifamily market is recording mixed performance. From an operational standpoint, most major markets are outperforming expectations from the beginning of the year. Job growth topped forecasts throughout much of the first half of the year, although recent readings have been inconsistent.

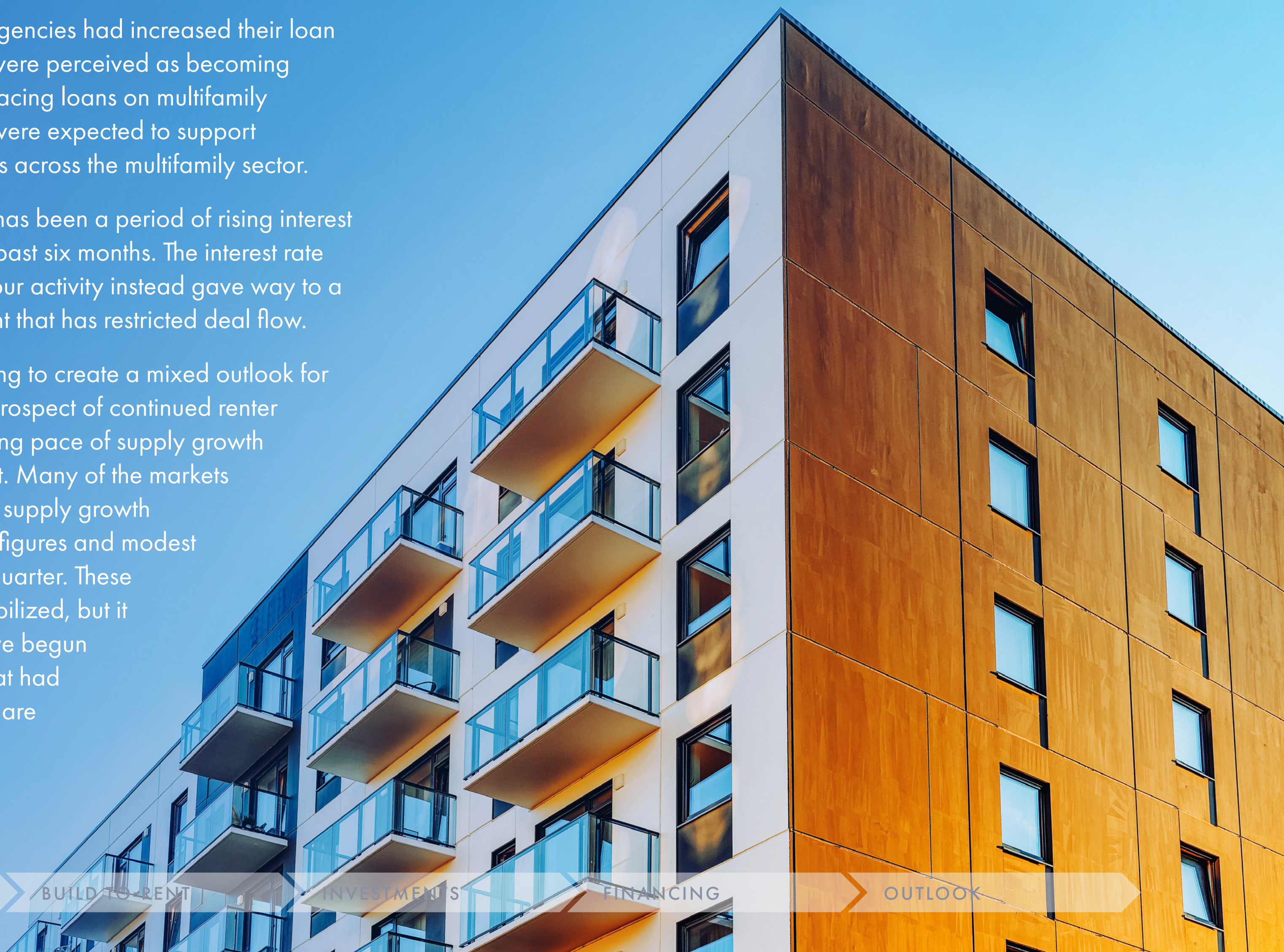
An improving labor market has supported renter demand for units. Net absorption totaled approximately 225,000 units in the first half, and several markets are beginning to work through supply overhangs. Net absorption outpaced new deliveries in the first half, and vacancies are on pace to post a second consecutive year of modest improvement.

Rents are gradually pushing higher, and concessions are slowly burning off. Low sales volumes in the for-sale housing market and elevated residential mortgage rates mean that a large share of new households that have been formed in recent years have been renters.

While these conditions would generally support a more robust capital markets environment, interest rate trends have restricted activity, particularly during the second quarter. At the beginning of this year, the expectation called for a more accommodative Federal Reserve and lower interest rates across maturities. Additionally, the agencies had increased their loan caps for 2026, and lenders were perceived as becoming increasingly competitive in placing loans on multifamily properties. These conditions were expected to support increased transaction volumes across the multifamily sector.

What has transpired instead has been a period of rising interest rates, particularly during the past six months. The interest rate relief that was supposed to spur activity instead gave way to a rising interest rate environment that has restricted deal flow.

These conditions are combining to create a mixed outlook for the remainder of 2026. The prospect of continued renter demand for units and a slowing pace of supply growth should buoy market sentiment. Many of the markets that have been hardest hit by supply growth showed very strong demand figures and modest rent increases in the second quarter. These markets have not yet fully stabilized, but it is fair to suggest that they have begun to turn the corner. Markets that had outperformed in recent years are showing signs of maintaining their earlier trajectories.



From a multifamily capital markets standpoint, the momentum that was anticipated to build at the beginning of the year has largely failed to materialize. Deals are still getting done, but increases in transaction volumes have been modest. Developers are acting more cautiously, as expected after a four-year period where more than 1.8 million units came online.

In this special report, we will identify a number of trends that will shape the performance of the multifamily market for the remainder of this year and into 2027. The outlook for the sector calls for some continued improvement at a modest pace. The pace of new supply growth is slowing, and the creation of new renter households continues to support demand. Rents gained some ground in the first half of the year, but it will likely take tighter overall vacancy levels to support rent growth that keeps pace with inflation. Investors are seeking opportunities, but current interest rate levels are restricting volumes.

Net absorption outpaced new deliveries in the first half of the year, and vacancies are on pace to post a second consecutive year of modest improvement.

Hiring Outperforming Expectations, but Inflation Weighs on Outlook

The first half of 2026 proved to be a period of mixed economic performance. The year started with better-than-expected results, with monthly job readings beating estimates and inflation settling in around the mid-2% range. Significant capital expenditures surrounding artificial intelligence (AI) kept GDP growth from slowing too significantly, and consumers continued to spend despite lackluster sentiment readings.

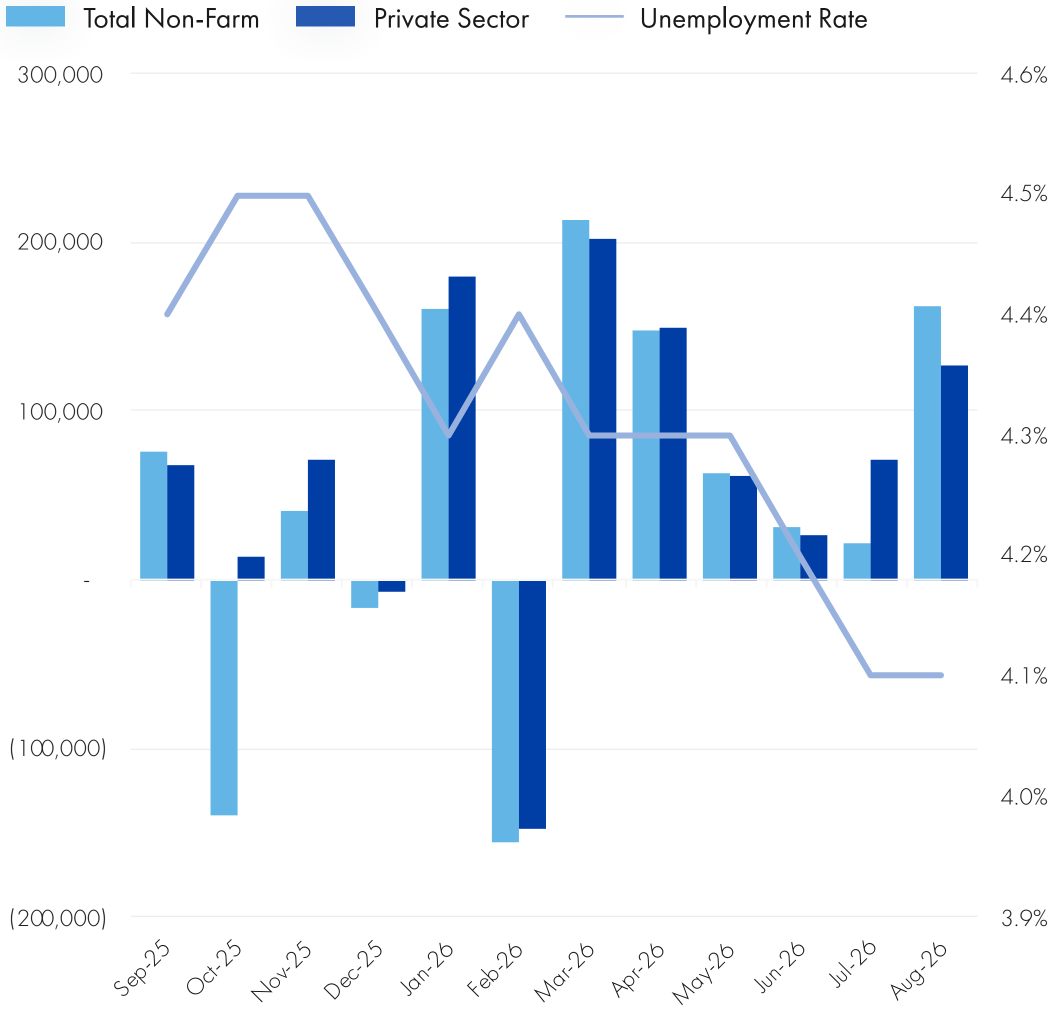
Economic conditions began to diverge from the earlier path in the months immediately following the military campaign in Iran during the first quarter. The slowing pace of inflation reversed course almost immediately, with fuel and energy costs posting double-digit percentage increases from February to March. Higher prices hindered purchasing power and dragged on consumer sentiment.

The AI boom, which had seemed like a likely source of continued business investment, began to show some signs of easing. While some of the largest companies in the world continue to allocate capital to the technology, dozens of municipalities across the country are showing increased resistance to data centers, potentially creating supply constraints for this emerging technology. Rising interest rates are also proving to make financing of large data center build-outs increasingly challenging.

Despite the introduction of these unexpected challenges on the economy, the labor market has continued to add workers. More than 200,000 jobs were added in the first quarter — outpacing the full-year total for 2025 — before an additional 242,000 jobs were added in the second quarter. The unemployment rate has hovered in the low- to mid-4% range for more than a year.

Private Sector Fueling Job Growth

Jobs Added/Lost (Monthly) & Unemployment Rate



Sources: Northmarq, Bureau of Labor Statistics

Economy on Pace to Add 900,000 Jobs in 2026

The labor market has supported multifamily property performance through the first half of 2026, surpassing many of the most optimistic forecasts following sluggish performance in the prior year. Employers added 460,000 jobs in the first half of this year, with the second quarter posting the fastest growth rate since late 2024. The private sector has accounted for 471,000 net new jobs in the first half. Government employment, which contracted by 180,000 jobs in 2025, posted a slight dip in the first half of 2026.

The education and health services sector has been the primary growth engine in the national labor market for the past few years and continues to lead the way. Since 2021, the sector has posted average annual job growth of 3.7%, expanding by more than 4 million workers. During the first half of this year, employment in the sector expanded by nearly 310,000 jobs.

TOTAL JOBS ADDED

460K

New jobs added in the first half of 2026.

PRIVATE SECTOR LED GROWTH

471K

Private sector jobs created, outpacing total gains.

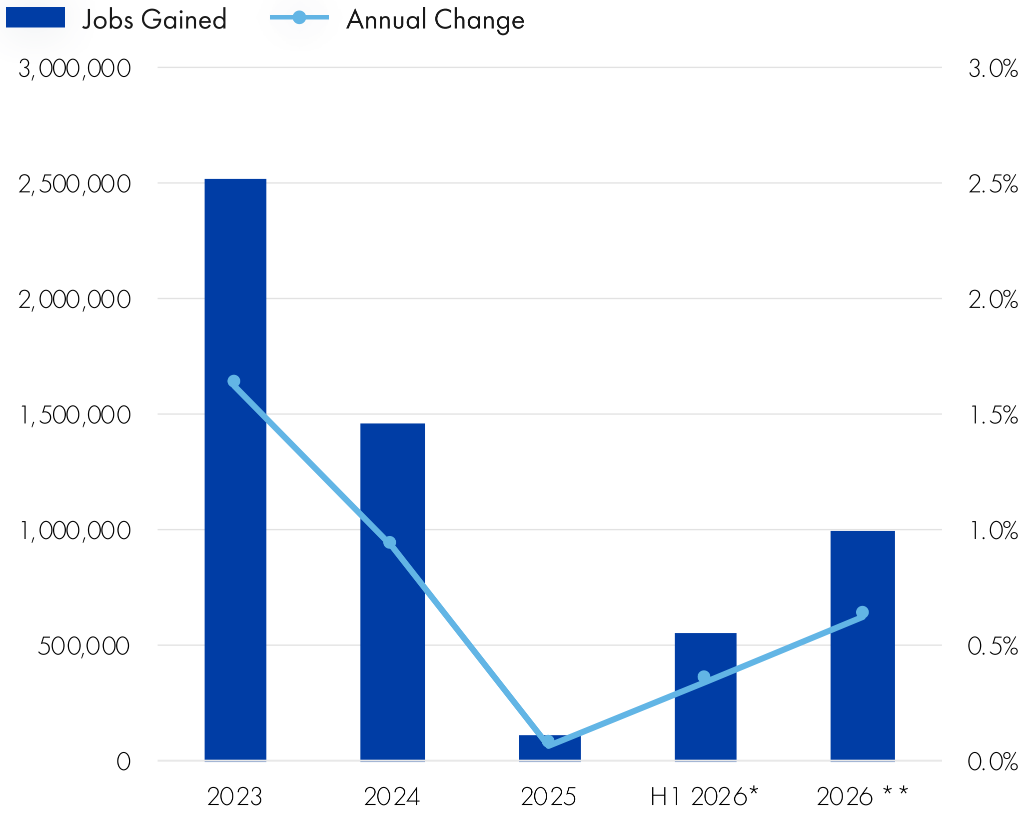
2026 JOB FORECAST

900K

New net jobs projected by year-end.

Job Growth Rebounding in 2026

Jobs Added & Year-Over-Year Growth (Percent)



* Year-to-Date Through June
**Year-End Forecast

Sources: Northmarq, Bureau of Labor Statistics

While the gains in the education and health services sector were a continuation of a long-term trend, some sectors have changed direction and these shifts have fueled the employment market's recent outperformance. The professional and business services sector is an example of this trend. This sector contracted each year from 2023 to 2025, shedding more than 400,000 jobs in that three-year period. Professional and business hiring posted steady gains in the first half, with 130,000 jobs added.

Another area where employment is picking up is construction. After slight net losses in 2025, more than 60,000 construction jobs have been added year to date. Some of this demand for construction labor is being fueled by AI and the construction of data centers. An estimated 3,000 data centers are either currently under construction or planned in the United States, supporting tens of thousands of construction jobs. Some of the top locations for data center construction include Virginia, Texas, Georgia, and Arizona. As the sector encounters greater scrutiny, these totals could slow in the coming quarters.

After sluggish performance in 2025, several of the country's high-growth Sun Belt markets have begun to add jobs in greater numbers. Dallas-Fort Worth has been the leader through the first half, with nearly 40,000 new jobs created. Other leading Sun Belt markets have included Houston and Phoenix, which each added approximately 25,000 jobs.

Gains have also been posted in markets that are outside of the Sun Belt. Local gains in the financial activities sector and professional and business services have supported growth in New York City totaling nearly 30,000 jobs. Minneapolis-St. Paul has been the top Midwest market, with 23,000 jobs being added to the local economy.

The current forecast calls for employers to add approximately 900,000 net new jobs at the national level. Growth should be recorded across most major markets, but not in all primary employment sectors. While financial activities employment has gained ground in some major markets, the sector has shed jobs nationally. Net losses have also been recorded in the information sector through the first half. Leisure and hospitality employment gained ground in the first quarter, but shed jobs during the subsequent months.

The 900,000 jobs that are likely to come online should allow the unemployment rate to hold steady in the low- to mid-4% range, where the rate has remained since the second half of 2024.

Inflation: Price Pressures Build in Response to Energy Disruptions

Going into 2026, inflationary pressures had eased, with CPI averaging a 2.7% annual increase at the end of the year. At the beginning of this year the pace of increase had begun to slow, approaching the 2% target rate set by the Federal Reserve.

The inflation outlook changed significantly beginning in March, when oil supply disruptions in the Middle East drove energy prices sharply higher. In the first CPI reading after the military action in Iran, gasoline prices spiked by approximately 20% and total CPI surged to a 3.3% annual gain. This marked the highest year-over-year inflation increase since May 2024, and an extended period of elevated oil costs has the potential to significantly disrupt prices across the larger economy.

CPI AVG. H1 2026

3.3%

Average annual inflation rate during the first half of 2026.

PEAK CPI RATE

4.2%

May 2026 peak, highest since early 2023.

GASOLINE PRICE SPIKE

20%

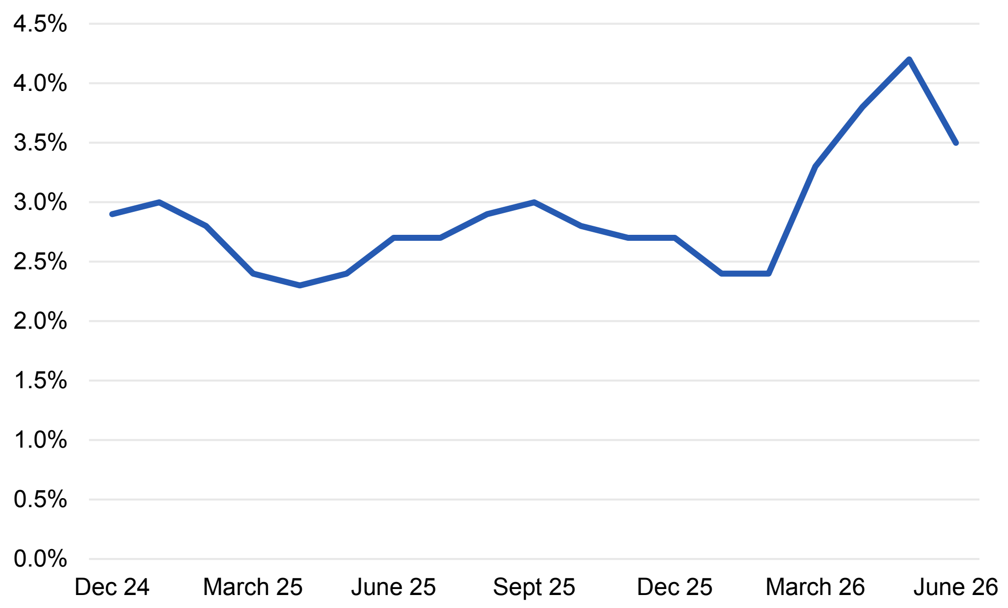
Increase following Middle East oil supply disruptions.

These trends persisted into April and May with the annual pace of inflation spiking to 3.8% and then 4.2%, the highest figure since the beginning of 2023. Conditions cooled slightly in June amid signs that the sides were negotiating with the intention of reaching a ceasefire and a reopening of the Strait of Hormuz. For the first half of 2026, consumer prices rose at an average annualized rate of 3.3%.

The potential for longer-term disruptions in the energy markets have broader implications for global inflation and economic growth. Rising fuel and transportation costs have direct impacts on gasoline and airfare, but also indirect impacts on food and finished goods. Additionally, higher prices for core goods that are difficult to substitute for end up restricting disposable income for other purchases. The net effect is cooling demand for other goods and services as consumers reallocate spending not due to demand, but in response to higher prices for necessities.

For the first half of 2026, consumer prices rose at an average annualized rate of 3.3%.

After Holding Steady, Inflation Surged in H1 2026
CPI 12-Month Percent Change



Sources: Northmarq, Bureau of Labor Statistics

Sharp Declines in Delivery Totals Expected in 2026

The pace of new multifamily supply growth slowed by about 15% in 2025 and is on pace to record a more significant annual decline in 2026. Developers are expected to deliver approximately 300,000 new units this year, after projects totaling roughly 430,000 units came online in 2025. Nearly 80% of the nation's largest multifamily markets are likely to record declines in annual deliveries from 2025 to 2026.

The first half highlighted the moderating pace of new development that is expected to persist throughout the remainder of this year. Projects totaling approximately 150,000 units came online in the first six months of the year, down approximately 30% from the number of units that were delivered during the same period in 2025.

Some of the markets where supply-side pressures have been greatest in recent years showed signs of a much more measured pace of new development at the start of 2026. Markets such as Atlanta, Austin, Denver and Phoenix recorded year-over-year completion declines ranging from 15% to 45% in the first half.

The development pipeline has not slowed completely, and there are still many markets where new projects are being delivered. Dallas-Fort Worth has been one of the nation's fastest growing regions for the past several years, and developers continue to bring new inventory online to keep pace with the region's expansion. Nearly 13,000 units came online in Dallas-Fort Worth during the first half, representing a healthy sum, but also a decline of nearly 20% compared to the same period in 2025. Developers are expected to reduce the number of annual deliveries in Dallas-Fort Worth by nearly 30% in 2026.

UNITS DELIVERED

150K

New multifamily units completed in H1 2026.

2026 FORECAST

300K

Units expected to deliver this year.

YEAR-OVER-YEAR

-30%

Decline in first-half deliveries versus 2025

One region where construction activity has shown no real sign of slowing is in Southern California. Approximately 11,700 units came online across the major Southern California markets in the first half, up more than 40% from one year earlier. San Diego led the way, with more than 3,800 units delivering, followed by approximately 3,600 units in Greater Los Angeles and 3,100 units in Orange County. The four largest Southern California markets are forecast to combine for about 22,500 units of new inventory in 2026, a 4% increase from 2025 levels.

The Midwest has been a top performing region in recent years, in part because development of new inventory maintained a largely measured pace. Last year, the largest Midwest markets combined for approximately 30,000 new units of inventory, and that figure should contract to about 25,000 units in 2026. The largest Midwest market is Chicago, and this is one of the few markets in the region where the pace of construction is poised to accelerate. Developers are forecast to complete approximately 4,500 units in Chicago in 2026, a 12% increase from the prior year.

In the Southeast, Charlotte is expected to be the most active market for new construction, with approximately 13,000 units on pace to be delivered this year. In most other markets in the Southeast, much of the wave of new development has already occurred. Annual completions in Raleigh-Durham are expected to decline by more than 50%, while Tampa, Orlando and Nashville are forecast to drop by between 15% and 30%.

Absorption Lagging the 2025 Pace, but Ahead of Completions

Renter demand for units has maintained a healthy pace across nearly all of the nation's largest multifamily markets. A labor market that has continued to expand has supported demand, and home prices and mortgage rates have combined to make transitioning from renting to owning cost prohibitive.

Even as residential mortgage rates have pushed higher, home prices have not retreated, resulting in higher monthly mortgage payments for new buyers. As of June, single-family home prices were up 1.8% compared to one year ago, the 36th consecutive month with a year-over-year price increase.

The result has been a first half where net absorption of rentals totaled nearly 225,000 units. The total for the first half of this year was somewhat slower than figures from 2024 and 2025, but more units were absorbed than were delivered, moving supply and demand conditions closer to equilibrium across several markets.

Dallas-Fort Worth was the clear leader in net absorption during the first half of this year, with renters moving into a net of nearly 20,000 units. This builds on the more than 26,000 units that were absorbed in the Metroplex in 2025.

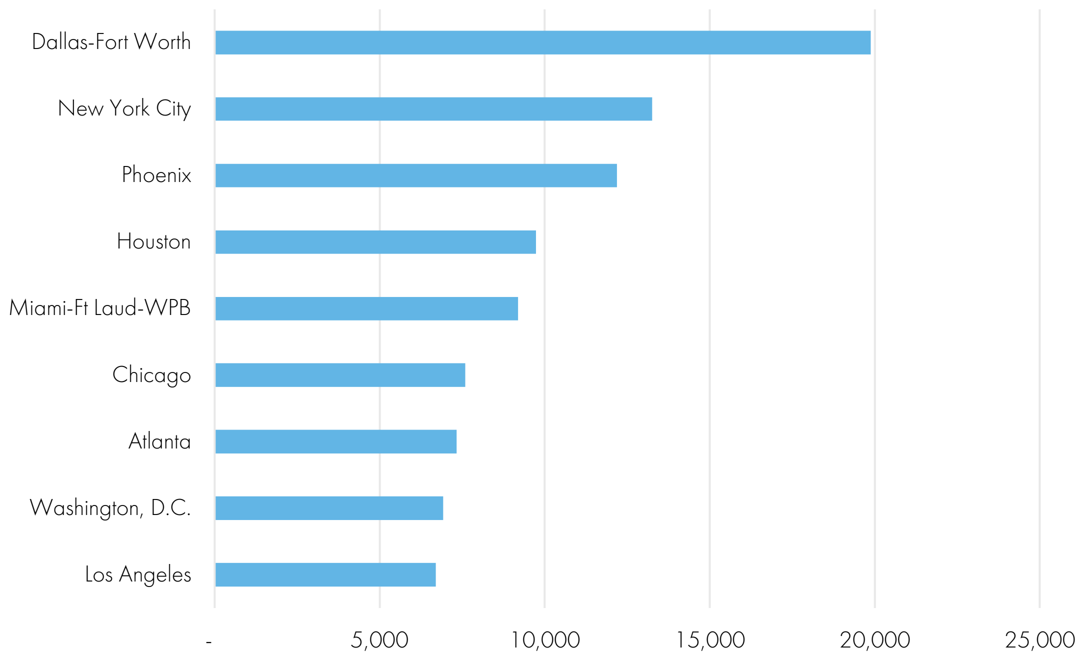
New York City was the second-leading market for net absorption during the first half, with a total of more than 13,000 units. While affordability in the city has garnered a great deal of attention, high costs do not appear to be stifling demand in any significant way.

The Phoenix market is recording a slight increase in net absorption compared to the first half of 2025, while deliveries are down approximately 13%. This has allowed vacancies to tighten in a market that has recorded some of the most significant supply growth in the country in recent years.

Absorption totals are expected to moderate somewhat following seasonal peaks in the second quarter. For the full year, absorption is expected to total approximately 325,000 units. This would bring the cumulative total net absorption to more than 1.4 million units since the beginning of 2023.

Net Absorption: Top Markets

Net Absorption First Half of 2026 (Units)



Sources: Northmarq, CoStar, RealPage, Reis

Vacancy

Q2 2026
5.7%
United States vacancy rate

YEAR-TO-DATE
-20 bps
United States vacancy change

Q2 2026
4.6%
Southern California vacancy rate

While multifamily vacancies are still about 100 basis points higher than historical averages, levels have been improving in recent quarters, even during a period where deliveries have remained more active than in prior years.

After a 40 basis point decline in 2025, the national vacancy rate dipped another 20 basis points during the first half of 2026, with the rate retreating to 5.7%. This marks the lowest average national vacancy rate since the middle of 2023.

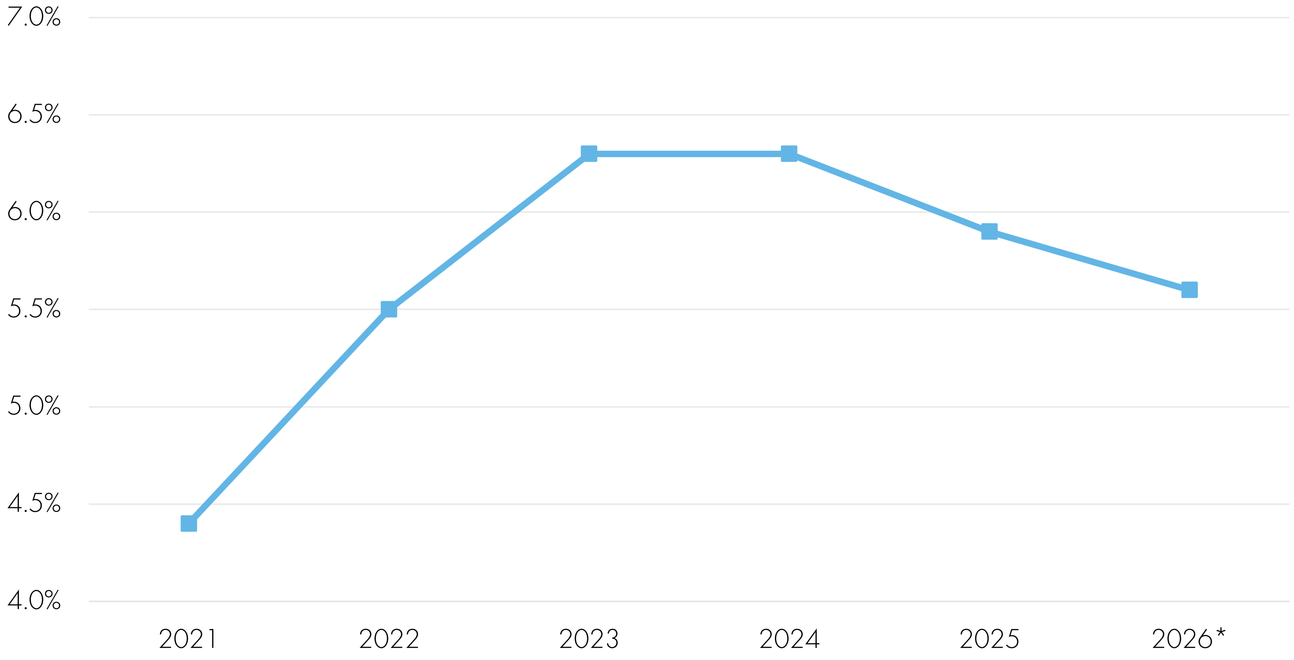
Outside of the Southeast and Southwest markets, which have felt the greatest competitive impacts of new supply, regional performance has been fairly consistent across much of the country. Southern California generally has some of the lowest average vacancies in the mid-4% range, but renter demand for units in the region is not gaining significant momentum.

The Midwest's largest markets generally have vacancy rates around 5%, particularly in Chicago and Minneapolis-St. Paul, where deliveries have been modest in recent years. Strong property performance will likely support additional development, particularly in Downtown Chicago, where several high-rise rental units are slated to come online by the end of 2027. A handful of other Midwest markets are earlier in their supply cycles and have vacancy rates closer to 7%.

Vacancy rates in some of the Sun Belt's largest markets have begun to retreat after a few consecutive years of increases. Still, current vacancy levels in the Sun Belt generally average between 6% and 7%, while a few markets where supply growth was most impactful have rates closer to 10%. Some of these markets such as Austin and Nashville will likely require at least another year before stabilizing.

Vacancy Trending Lower as Absorption Outpaces Construction

Vacancy Rate (Percentage)



* Year End Forecast

Sources: Northmarq, CoStar,RealPage, Reis, Yardi

Rents Inch Higher in First Half, a Flatter Second Half Likely

Multifamily rents rose at the national level in the first half of 2026. Rents gained 1.2% on average across the U.S., posting a stronger performance than was recorded during the same period in 2025.

Rents have generally remained in a fairly tight range for much of the past four years. After annual increases of more than 10% in 2021 and more than 5% in 2022, rents have been essentially unchanged since the beginning of 2023.

While overall rent trends have been pretty steady in recent years, not all regions have moved in lockstep with one another. In recent quarters, some of the strongest gains have been recorded in major markets that faced of the most significant pressures earlier in the decade, during and after Covid. San Francisco and New York City are two of the top performing markets for rent growth as of the second quarter, and current rents have more than offset any declines from a few years ago.

The Midwest has generally outperformed, with annual rent increases averaging between 1.5% and 2.5% across most major markets. Chicago, Minneapolis-St. Paul and Kansas City have been top performers in the region.

The Northeast region is posting modest gains that are slightly higher than the national average. Annual rent growth across most major Northeast markets has generally averaged between 1.5% and 2.0%.

Growth has been more modest across Southern California, where rents are largely unchanged from earlier periods. While most markets in the region have not faced the competitive impact of elevated levels of new construction that have impacted property performance across much of the country, population growth across the primary Southern California markets has been slow, limiting absorption and the ability to push rents higher.

Across the Sun Belt, rents are generally lower than they were at the beginning of 2025. Markets that were fueled by rapid population growth such as Phoenix and Austin now feature rents that are 10% to 20% lower than peak levels from a few years ago.

H1 2026

+1.2%

United States rent increase

YEAR-TO-DATE

+2.2%

Midwest Region rent growth

YEAR-TO-DATE

+2.0%

Northeast Region rent growth

A More Active Second Half Likely for BTR Sector After Housing Bill Uncertainty Resolved

The force that had the greatest impact to the build-to-rent (BTR) market during the first half of 2026 was the 21st Century ROAD to Housing Act that became law in early July. While BTR properties are unlikely to be significantly impacted by the provisions contained in the final version of the legislation, several provisions that were proposed during the first half of this year clouded the outlook for the sector and stifled activity.

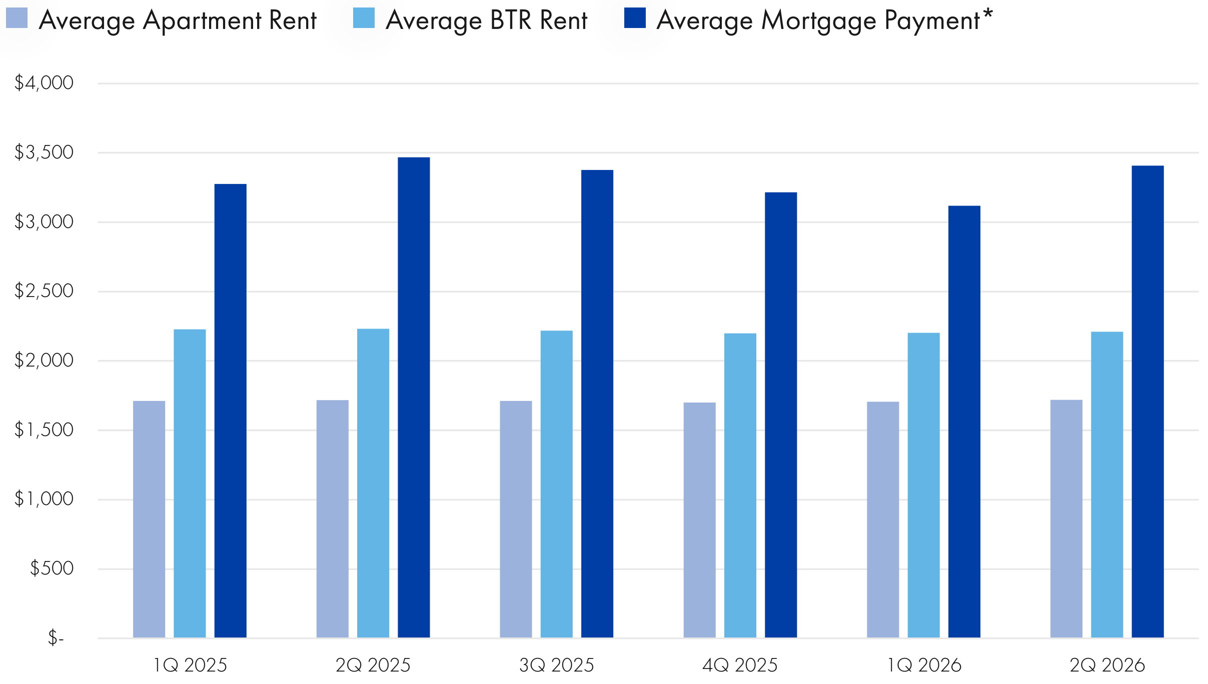
One element of the legislation was an effort to limit institutional ownership of single-family homes. As the legislation moved through Congress, a draft included a provision that would mandate the forced sale of single-family units to individuals within seven years of a project coming online. This provision was ultimately removed from the final legislation, but its proposal was enough to restrict capital flows into the BTR sector for much of the first half.

The pace of new BTR development was slowing even before proposals in the housing legislation sidelined developers and investors. BTR construction starts slowed by 23% in 2025, and deliveries are expected to decline by 25% in 2026.

The national vacancy rate is beginning to trend lower after rising during the past few years. The vacancy rate for BTR properties fell 30 basis points in the first half to 8.5%.

Rents fell by 1.8% in 2025 and recovered some of those losses during the first half. The average BTR rent rose 0.5% in the first half, reaching approximately $2,210 per month. The gap between a monthly mortgage payment on a median-priced home and the average rent on a BTR has expanded to approximately $1,200 per month, similar to levels from one year ago.

Gap Between Renting and Owning More than $1,000 per Month



*Assumes 10 percent down payment on median-priced existing home

Sources: Northmarq, CoStar, Freddie Mac, National Association of Realtors

Residential mortgage rates have been volatile during the past year, particularly in recent months. The average 30-year fixed-rate mortgage briefly dipped below 6% at the end of February. This was the first time since September 2022 that the average mortgage rate on new loans had fallen below 6%. The trend reversed course almost immediately, and the average 30-year fixed-rate mortgage had surged to approximately 6.7% by the beginning of August.

Sales velocity in communities for BTR communities slowed in the first half, with investors sidelined by the uncertainty surrounding legislation that was working its way through Congress. Investment activity dropped nearly 20% from the first half of 2025, which was also a light period for transaction volumes. The number of BTR communities that traded in the first half of 2026 was down approximately 45% from the total sales in the second half of the prior year.

Townhome properties accounted for approximately 70% of the total transaction count in the first half of this year, up from 53% in 2025. While townhome communities have been accounting for a greater share of the BTR investment landscape in recent years, part of the shift in the first half was related to the exemption townhomes were going to be given in the early versions of the housing bill, which was going to treat townhome communities similar to traditional apartment complexes.

While activity levels dropped, pricing for BTR properties has proven to be resilient from 2025 to this point in 2026. The median price in BTR sales transactions was $273,200 per unit, nearly identical to the median price in 2025. Cap rates were also essentially unchanged from 2025 levels, averaging 5.5%.

Sales ahead of 2025 pace, but struggling to sustain momentum

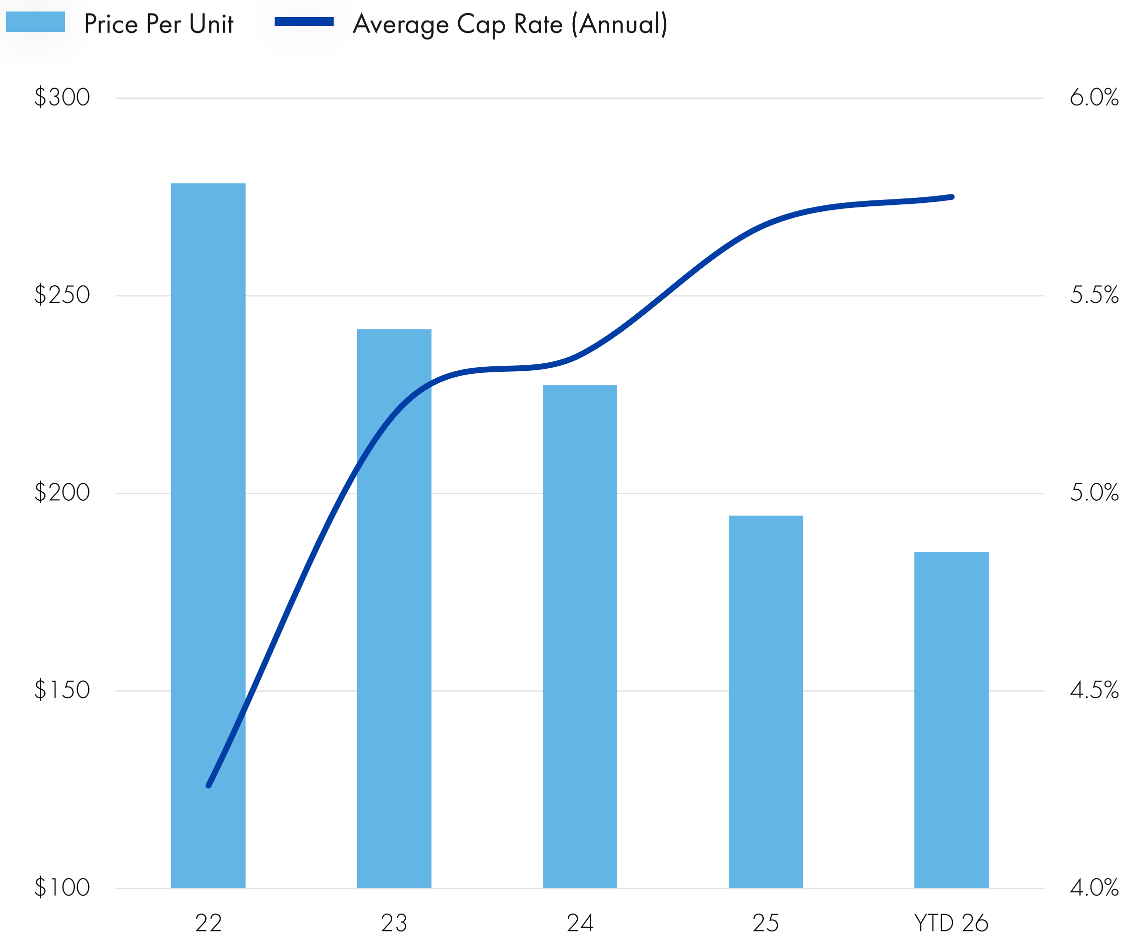
The multifamily investment market has gained ground in recent periods, despite some operational challenges stemming from new supply growth. National transaction activity surged by 20% from 2024 to 2025, with markets including New York City, Dallas-Fort Worth, Atlanta, Los Angeles and the Bay Area leading the way. Sales velocity gained momentum throughout the year, and each quarter of 2025 recorded more transaction activity than during the corresponding period one year earlier.

Through the first half of this year, investors have continued to close deals, but the number of transactions is not increasing as quickly as in the prior year. The number of sales in the first quarter was 14% higher than the number of transactions posted in the same period in 2025. Sales velocity gained momentum despite no significant downward movement in interest rates and before traditional property performance metrics showed significant signs of improvement.

During the second quarter, however, momentum did not build as it had in 2025 and in prior years. Transaction counts and dollar volumes in the second quarter closely tracked levels from the beginning of the year and slightly lagged levels from the second quarter of 2025. The interest rate environment hindered transaction activity. The expectation at the beginning of the year was for some interest rate relief, but when rates rose in response to higher inflation, it made it harder for some acquisitions to pencil. On average, transaction activity in the first half of 2026 was up just 8% when compared to the first half of 2025.

Price and Cap Rate Trends

Median Price Per Unit (000s) & Average Cap Rate (Percentage)



Sources: Northmarq, CoStar, Real Capital Analytics

Per-unit prices have fallen, a trend that may ultimately move some buyers off of the sidelines and could force some additional sales volumes. The median price fell by nearly 15% to approximately $195,000 per unit in 2025, and the median price through the first half of this year was $185,200 per unit.

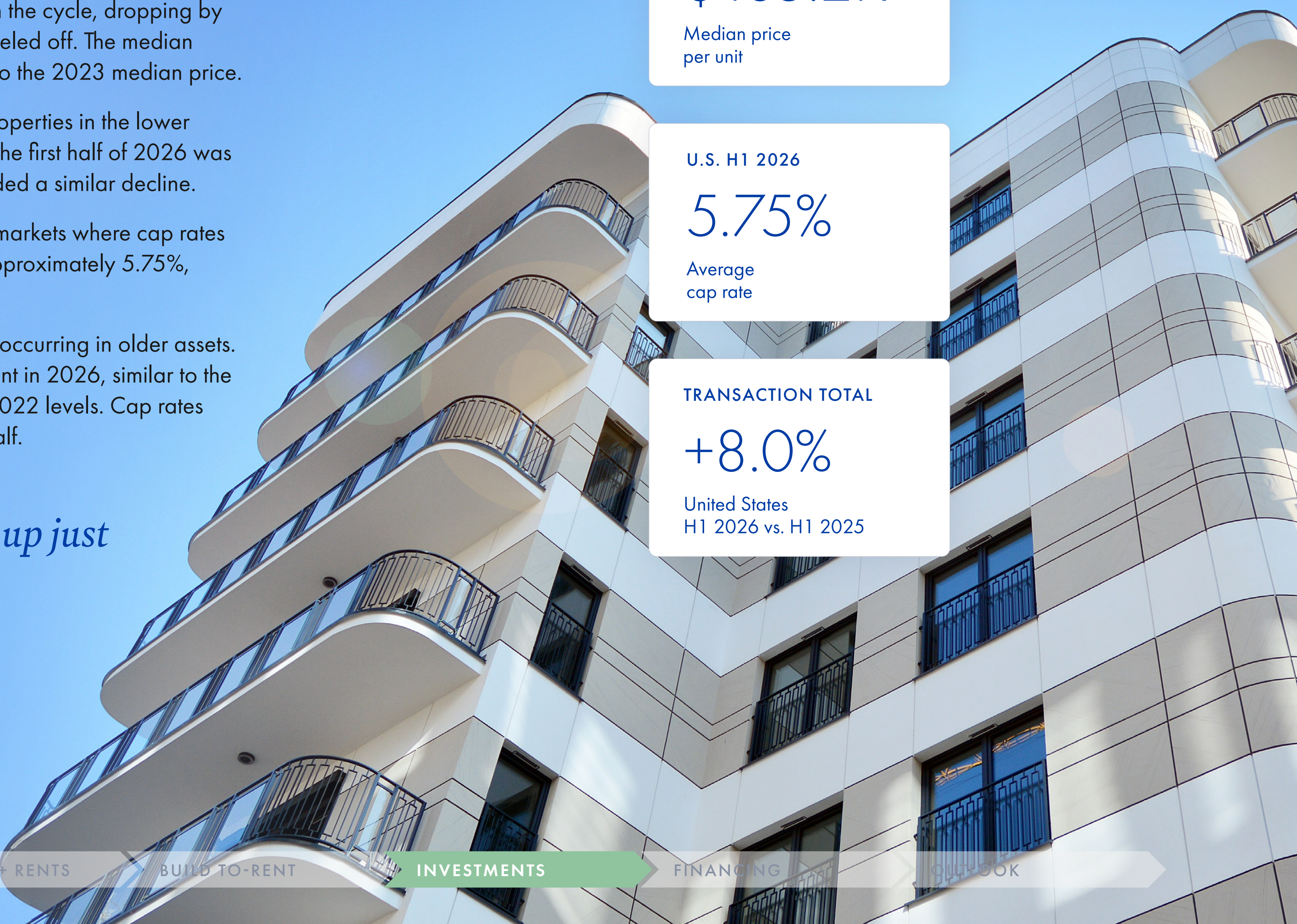
Price trends have varied by property class. Class A prices declined fairly early in the cycle, dropping by approximately 12% from 2022 to 2023. In recent years, Class A prices have leveled off. The median price in the first half of this year for Class A assets was down just 2% compared to the 2023 median price.

While Class A properties are generally showing comparatively steady prices, properties in the lower tiers continue to record price declines. The median price for Class B buildings in the first half of 2026 was down approximately 25% from the 2022 peak. Class C sales prices have recorded a similar decline.

Cap rates have crept higher at the national level, although there are many core markets where cap rates have been mostly flat to this point in 2026. The average cap rate nationally is approximately 5.75%, about 25 basis points higher than averages that prevailed for much of last year.

While cap rates have increased in recent years, the largest increases have been occurring in older assets. Cap rates for Class A properties have averaged approximately 5.15% to this point in 2026, similar to the 2025 average across the top tier and only about 100 basis points higher than 2022 levels. Cap rates for Class B properties have crept higher, reaching 5.9% on average in the first half.

Transaction activity in the first half of 2026 was up just 8% when compared to the first half of 2025.



U.S. H1 2026

$185.2K

Median price per unit

U.S. H1 2026

5.75%

Average cap rate

TRANSACTION TOTAL

+8.0%

United States H1 2026 vs. H1 2025

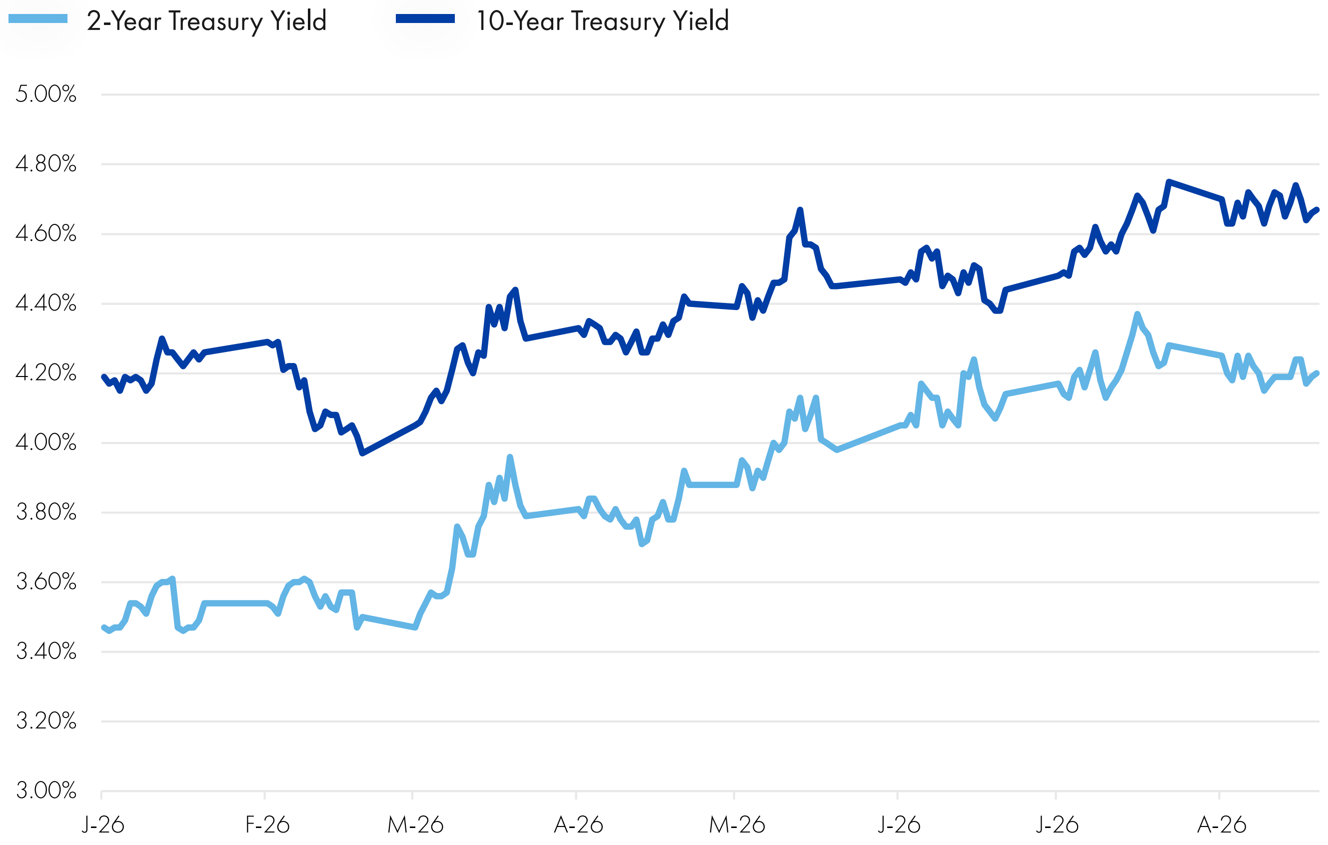
Higher interest rates slowing deal flow

The capital markets environment has been mixed through the first half of 2026. Lenders are active in the multifamily space, and transactions are getting done. Volumes are down from projections from the beginning of the year, as there are fewer sales transactions occurring than expected and refinance activity has come in lower than anticipated due to higher interest rates.

Looking ahead to the remainder of this year, the interest rate environment will likely be the dominant force determining volumes. Construction financing is winding down after several consecutive years of elevated development activity, and current costs and achievable rents are expected to curtail additional development deals.

Treasury Yields on the Rise in 2026

Treasury Yield (Percentage)



Sources: Northmarq, U.S. Treasury

Multifamily Debt Climate

Lenders were expected to increase multifamily origination volumes in 2026. The agencies had increased their loan caps to a combined total of $176 billion for 2026. Both Fannie Mae and Freddie Mac had purchase caps of $88 billion for 2026, or 20% higher than the 2025 limits, after just a 4% increase during the prior year.

Through the first half, loan volumes at the agencies were up compared to one year earlier. Freddie Mac posted $31.2 billion in new business origination in the first half, up more than 42% compared to the same period in 2025. The second quarter was more active than the first quarter for Freddie Mac.

At Fannie Mae, total volumes were similar, reaching $31.3 billion in the first half. Activity was concentrated in the first quarter, however. Origination volumes for Fannie Mae reached their highest first-quarter levels in five years in 2026, topping $17 billion. In the second quarter, the pace slowed to approximately $14.2 billion.

Origination volumes are on pace to rise slightly from 2025 levels, although if rates remain elevated there could be some lower levels of activity among acquisitions and refinance activity.

2026 AGENCY CAPS

$176B

Combined 2026 Fannie Mae and Freddie Mac loan caps.

FREDDIE MAC VOLUME

+42%

YOY increase in first-half originations, reaching $31.2B.

FANNIE MAE VOLUME

$31.3B

Multifamily origination volume during the first half of 2026.

Investors acting cautiously even as property performance shows signs of improvement

From an operational standpoint, the national multifamily market has generally outperformed expectations to this point in 2026. Absorption has been active, despite an economy that is growing fairly slowly and a labor market that is expanding at a much slower pace than was recorded from 2022-2024.

This outperformance is occurring across several markets where operations were originally forecast to remain soft for much of 2026. Many high-growth markets across the Sun Belt were expected to maintain elevated vacancies and post additional rent declines throughout 2026 and into 2027, as operators worked though supply overhangs. During the first half, several of these markets posted net absorption totals that surpassed forecasts by 20% or more.

The relative strength in the first half allows for a slight recalibration of forecasts for the remainder of the year, but not a wholesale change in the outlook. Vacancies will likely inch lower an additional 10 or 20 basis points in the second half, ending the year at approximately 5.5%. Average rents could advance slightly, but it may prove difficult for operators to implement rent increases during a seasonal period where leasing momentum often slows and renters have choices.

There are external forces that could also shape the forecast. During the first half of this year, geopolitical events unexpectedly impacted the costs consumers pay and the interest rate environment. While the volume of military actions has decreased and negotiations to increase oil flows have started and stopped a few times, there is a greater degree of uncertainty surrounding the global economy now than there was at the beginning of the year.

Further, there seem to be several factors combining to support a higher-for-longer interest rate outlook. The initial rise in rates was driven by rising fuel prices that caused a spike in the overall rate of inflation. In later months, the price of oil appeared to have settled into a range, but bond investors continued to drive interest rates higher across maturities. Early in the third quarter, persistent deficits pushed the national debt over $40 trillion, a figure that gained a significant amount of attention.

With interest rates elevated, transaction activity may come in lower than might otherwise be expected during a period where fundamentals are outpacing earlier forecasts. Investors who might be open to allocating greater capital into the multifamily market are adjusting their pricing expectations to the current interest rate environment.

This leaves potential buyers and sellers in the uncomfortable position of trying to forecast the future interest rate environment when making decisions about when and whether to act. At the beginning of this year, the general consensus was that rates would creep lower in a period of declining inflation and modest growth. That has not materialized to date, and the outlook for the rest of this year is somewhat uncertain.

While some groups may take a wait-and-see approach, other investors could take advantage of a less crowded transaction market to add to portfolios. For all the volatility in the interest rate environment, cap rates have remained in a fairly tight range across most markets since 2024.

To date, the opportunities that have generally attracted the greatest attention have been Class A assets, particularly among properties that have been completed during the past few years. These properties are generally being acquired at prices that are near replacement cost and are priced lower than comparable assets delivered between 2021 and 2023.

In the Class B and Class C segments, sales activity volumes are down between 20% and 40% from peak levels a few years ago. Distressed or forced sales are accounting for a small share of total transactions in older assets, but there has not been a wave of deeply discounted REO transactions to hit the market. Capital was raised in recent years in anticipation of acquiring distressed assets, and some of those opportunities may materialize in the coming periods, which could spark additional transaction volumes.

Traditionally, the fourth quarter has proven to be an active period of transaction volumes. Given the current trajectory in the economy and the capital markets, that pattern may not hold in 2026. A lighter close to the year would likely result in some pent-up investor demand and set the stage for a more active 2027.

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About Northmarq

Northmarq is a full-service capital markets resource for commercial real estate investors, offering seamless collaboration with top experts in debt, equity, investment sales, loan servicing and fund management. The company combines industry-leading capabilities with a flexible structure, enabling its national team of experienced professionals to create innovative solutions for clients. Northmarq's solid foundation and entrepreneurial approach have built a loan servicing portfolio of more than 80 billion and a two-year transaction volume of $91.3 billion.

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