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Beyond the Storm:

Positioning for the Next Multifamily Investment Cycle

November 2026



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Multifamily investors have spent the past few years navigating interest rate volatility, inconsistent capital flows and uncertainty around asset values. Those challenges remain, but focusing too closely on near-term turbulence can obscure a larger shift taking place.

Strong property fundamentals combined with dislocated capital markets have historically set the stage for healthy recovery cycles. Over the past 25 years, these cycles have consistently ushered in new sources of capital and driven asset values to new highs, yet not all investors share in the rebound equally. The advantage goes to those who understand the cycle and act before the skies clear. In this market, waiting is not a strategy; timing is.

Telltale signs of a recovery cycle

There are three primary ingredients needed for a robust recovery cycle: captive capital, strong property fundamentals and room for rates to rebound.

Captive capital

Capital is not on the sidelines. Instead, investors have shifted the type and time horizon of opportunities they pursue. Open-ended core capital has migrated to equity and credit vehicles offering shorter-duration investments and higher risk-adjusted returns. As a byproduct, core investors have expanded into secondary markets, new sponsors and opportunities where their capital has never been before. This is critical because, unlike previous cycles where recessions drained capital from multifamily, much of the capital needed to fuel a robust recovery is already in place and ready to pivot.

Strong property fundamentals

Multifamily tends to undersupply the market and then dramatically oversupply it. We are on course to undersupply over the next three years, which will strengthen fundamentals that are already solid despite the last wave of new deliveries. Why does this matter? Investors view multifamily as an inflation-hedged alternative to bonds. The stronger the fundamentals, the better the "credit" of the investment, which drives pricing higher, especially when investors are seeking safe-harbor investments.

Room for rates to rebound

A robust recovery cycle does not need zero interest rates, but it does require room for short-term rates to fall. Over the past 25 years, multifamily values have closely tracked Fed funds rate movements: Every 1% increase has reduced values by about 5%, while every 1% cut has lifted them by about 8%. That 60% upside bias to rate reductions further fuels recovery cycles. Today's elevated rates create near-term pressure, but they also leave more room for that upside.

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Positioning for what comes next

Unfortunately, recovery cycles do not unfold overnight. Historically, it has taken several years for capital flows, property fundamentals and interest rates to align and for values to take flight. Short-term fixes, such as a six- or 12-month extension, may relieve immediate pressure, but they often push the problem into more turbulent conditions and leave owners negotiating from greater weakness. Investors who solve for a three- to five-year runway, rather than the next maturity date, are far better positioned to capture the recovery than to sell or refinance into the trough.

Cycles inevitably create uncertainty, but they also create opportunity for investors willing to look past current conditions. In today's multifamily market, positioning for where the cycle is headed will matter far more than taking shelter and waiting for the storm to pass.

> *"Short-term fixes may relieve immediate pressure, but they often push the problem into more turbulent conditions."*

Jamie Butler
Managing Director, Production



For more information, please contact:

Jamie Butler | *Managing Director, Production*
jbutler@northmarq.com | (202) 840-7773

Lanie Beck | *Senior Director, Content Strategy*
lbeck@northmarq.com | (918) 494-2690

Bianca Farrington | *Content Manager, Marketing*
bfarrington@northmarq.com | (972) 637-2159

Northmarq

3500 American Blvd W | Suite 500
Minneapolis, MN 55431
(952) 356-0100
www.northmarq.com

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