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2026 Outlook State of the Market

U.S. MULTIFAMILY



2026 Outlook: The Apartment Market Shifts to a Higher Gear

Apartment fundamentals are solid. There's room for improvement. Still, rental demand should support occupancy and moderate rent growth. For institutional investors, though, after nearly three years of hesitation, it is now "go time." Capital flows into private real estate are on the rise again, though the pace of deployment is measured. Financing has become more accretive, and lenders more aggressive. Geographic and asset selection matter as the market recovers, but **the stage is set for a robust year of transactions.**

Demand backdrop is mixed but overall supportive of occupancy, rent growth.

Supply overhang is receding, and some overbuilt markets poised to outperform.

Capital appetite rebounds as real estate relative value outshines other asset classes.

Financing gets more accretive as lenders get more competitive.

Returns, pricing for apartments are still tight, but sellers have capital to deploy.

Already near average, transaction dollar volume can grow at a sustainable pace.

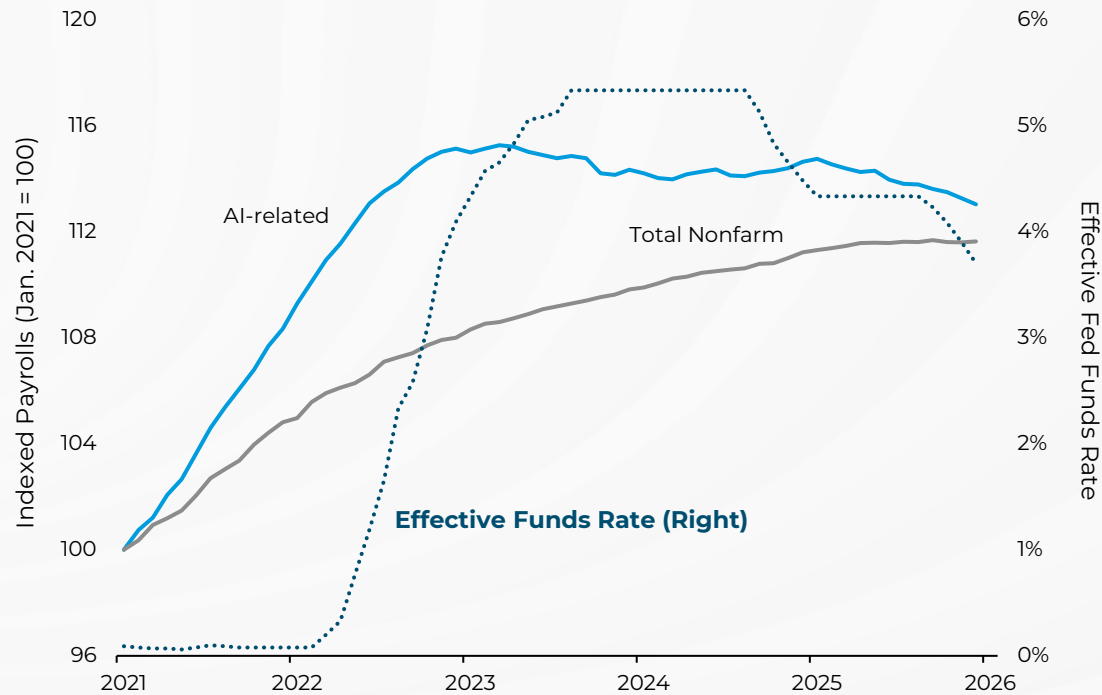


Economy & Fundamentals

January 2026

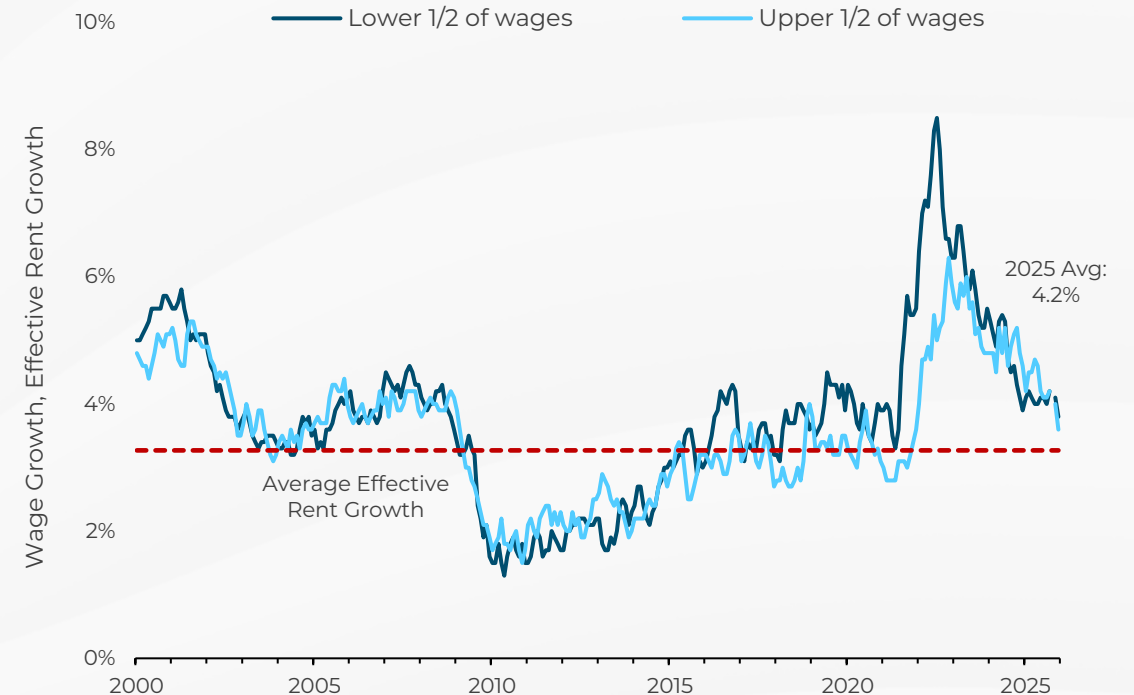
Labor Market Cooling, Not Collapsing and Supports Rent Growth

As Rates Rose, Labor Market Lost Its Dynamism



- The labor market cooled as Fed hiking began in 2022
- 2025 payrolls grew at a 49K monthly pace versus 168K pace in 2024
- AI sector employment has declined by 92K since 2022 peak

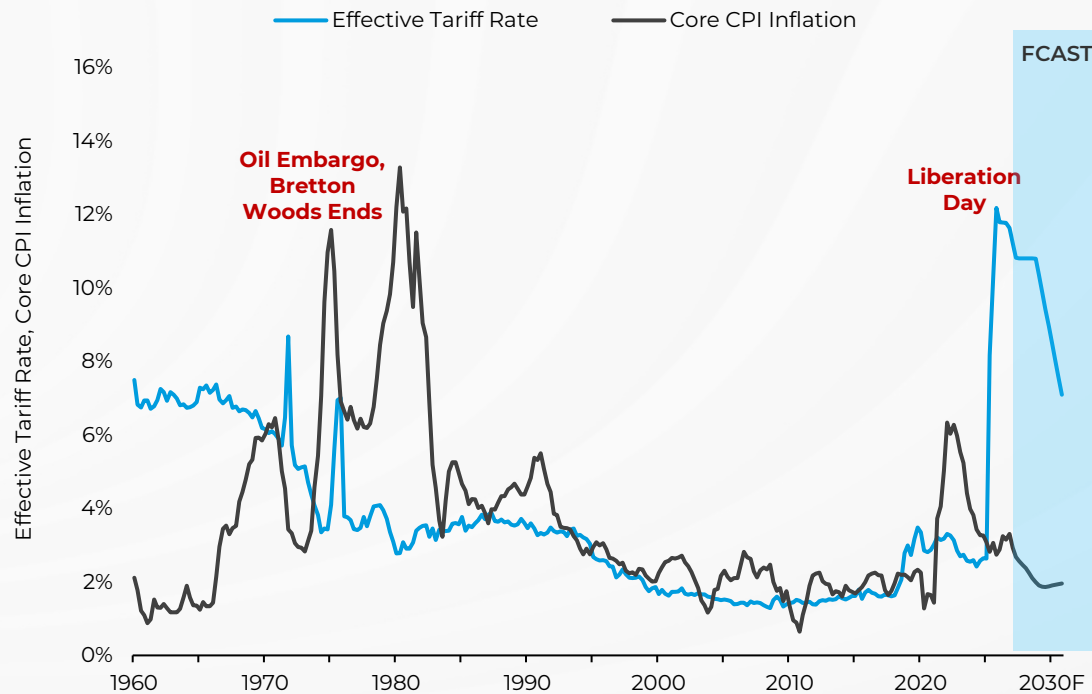
Wage Growth Still Accommodates Average Rent Growth



- Atlanta Fed's wage growth average 4.2% for 2025 versus 3.3% rent growth
- Wage growth of bottom half and top half now in parity
- Recent deceleration in wage growth to < 4.0% signals jobs weakness

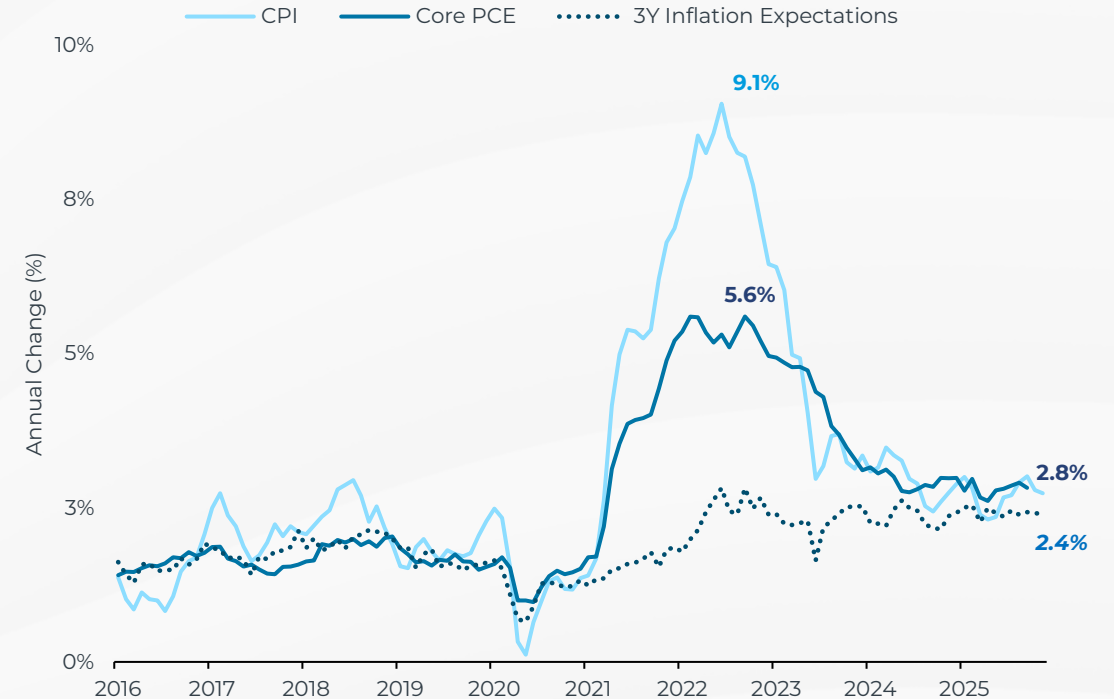
Inflation, Expectations Anchored as Likelihood of Stagflation Recedes

Supply Chains Absorbed “Liberation Day” Trade Shock



- Historic increase in tariff rates did not result in 1970-80s inflation spike
- Companies have been absorbing tariff costs, starting to pass through
- Tariff rates forecast to stay elevated, but decline in several years

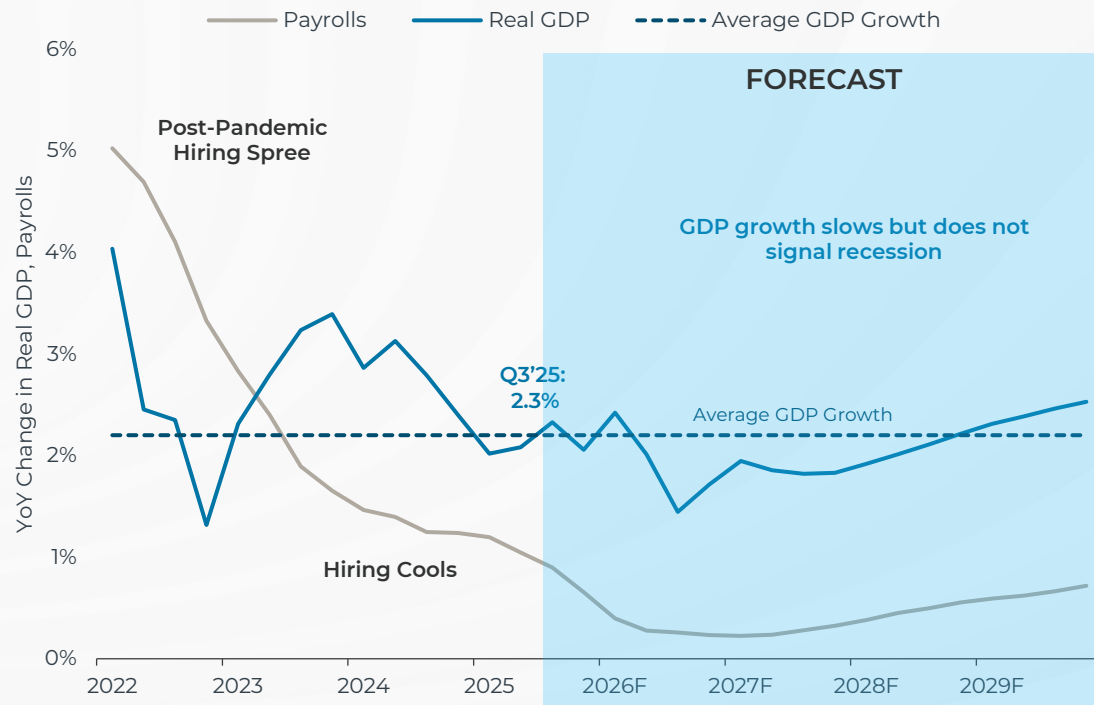
Inflation, Expectations Elevated But Stable



- Thus far, CPI and Core PCE inflation are above target, but stable
- 3Y forward inflation expectations 2.4% versus pre-COVID average of 1.7%
- *What if inflation flares up again? See our outlook risk matrix on page 28*

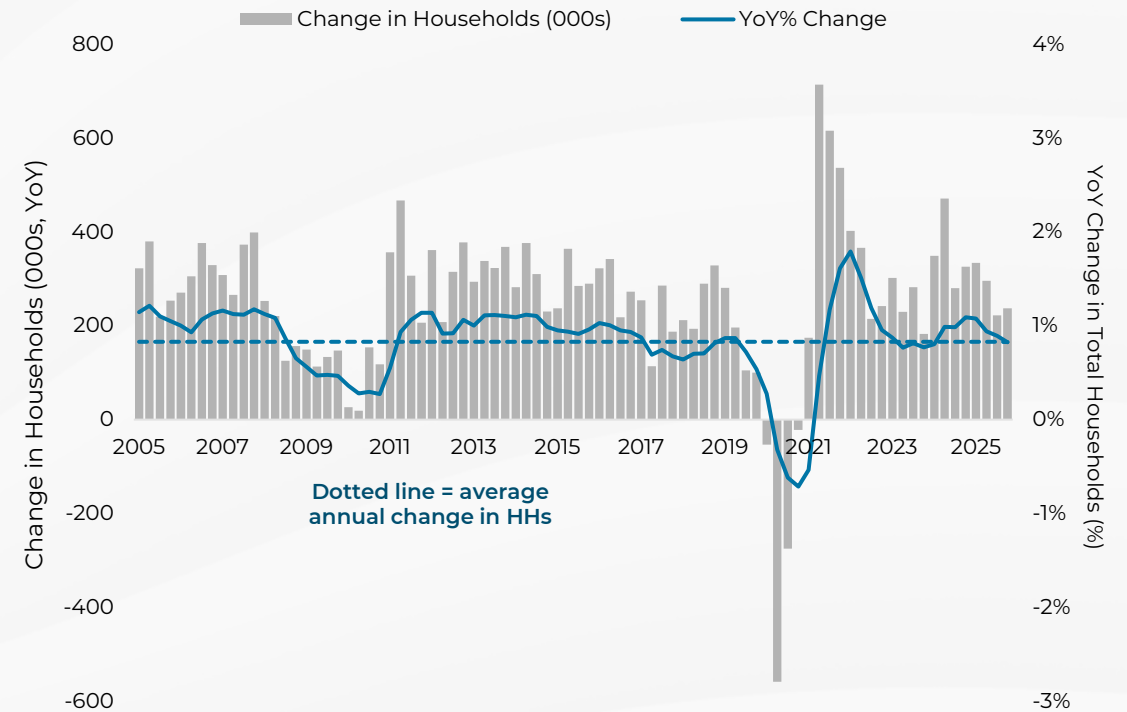
Productivity Sustains GDP Growth, Household Formation Normalizes

Hiring Slower, But Productivity Buoy's Real GDP Growth



- Labor market softens, but economic growth continues
- Despite slow hiring, productivity helped by AI sustained economic growth
- Q4 2025 real GDP growth above average, suggesting demand resilience

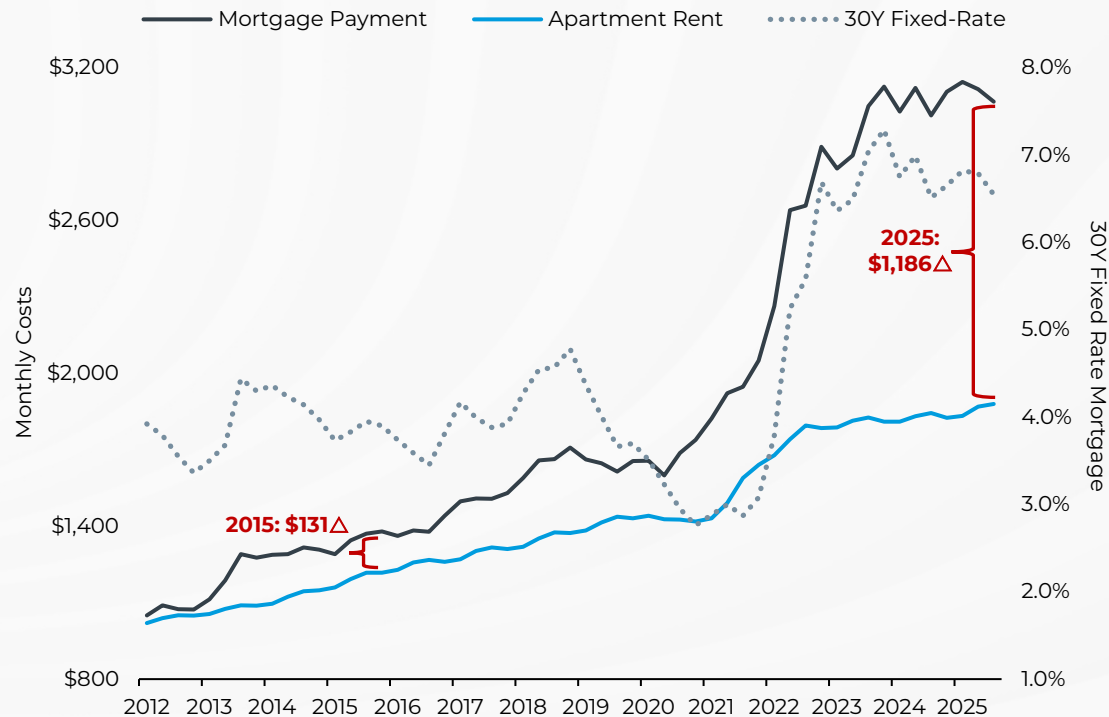
Household Formation Still Healthy, Returns to Average Pace



- Post-pandemic surge in household formations has slowed
- No indication of widespread recoupling as seen during pandemic, GFC
- Single-person households now the majority of new household formations

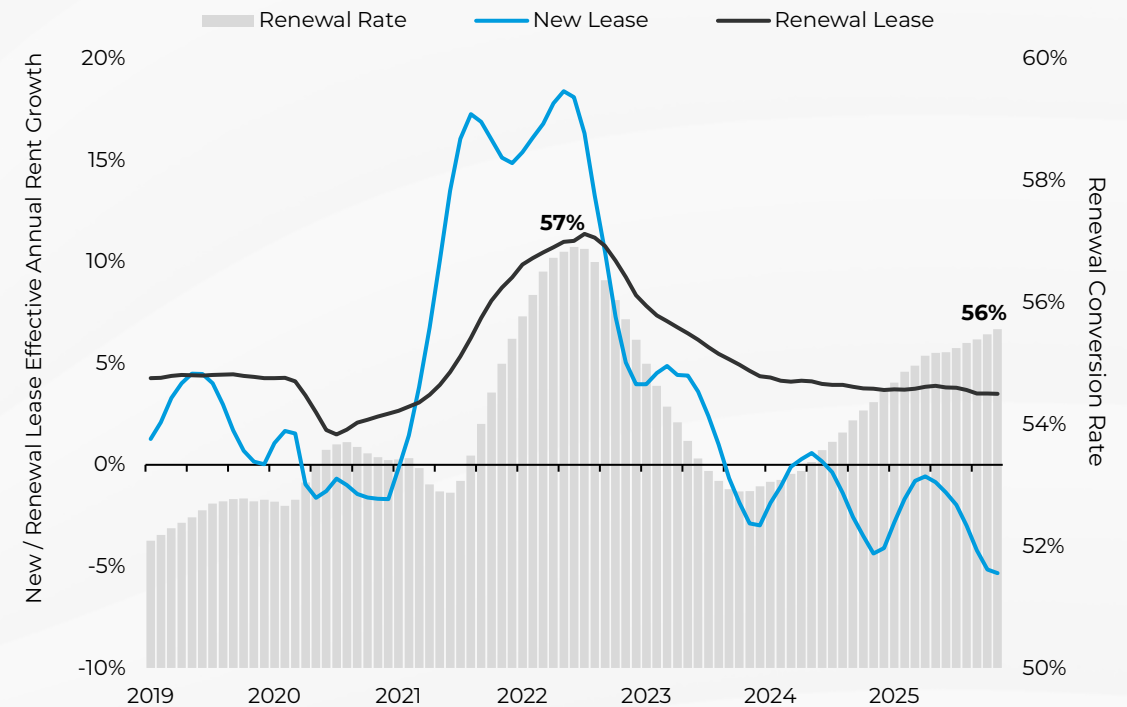
Home Affordability Driving Households to Rent Longer

Record Cost Gap Between Renting Versus Owning ...



- High mortgage rates, record home values lead to plummeting affordability
- Monthly homeownership versus rent gap more than 10x higher than in 2015
- Even with rate cuts, mortgage and housing costs likely to stay elevated

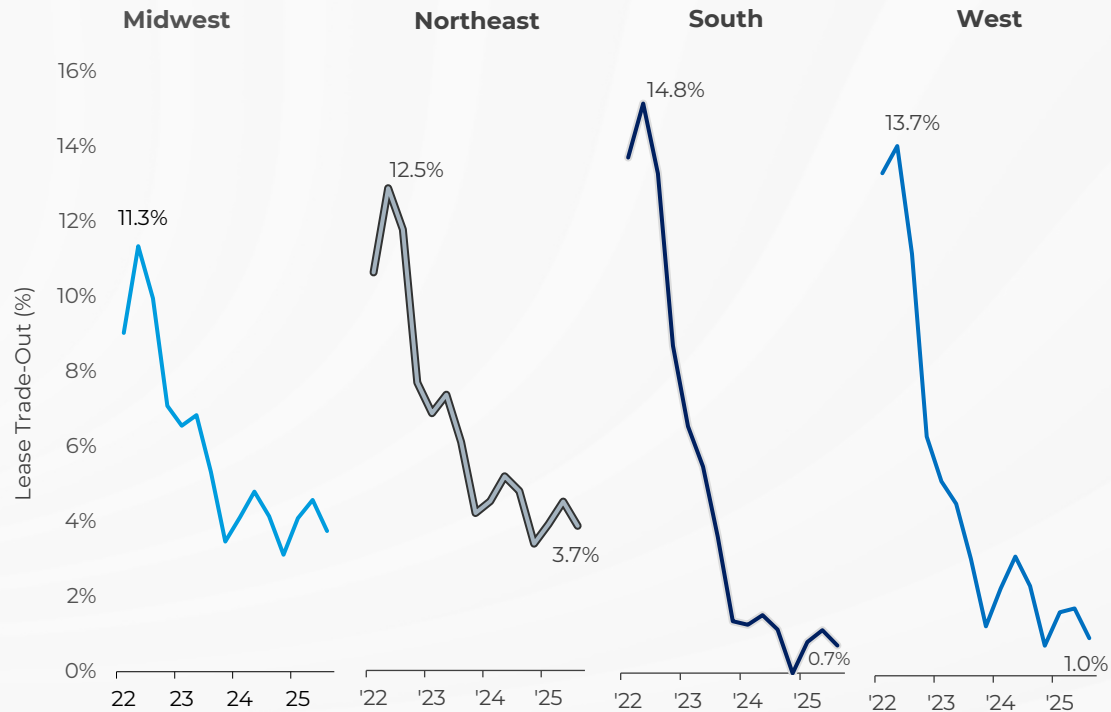
... Renter Households Staying Put



- Trade out on renewals 3.5% YoY% versus -5.0% for new leases
- National renewal conversion rate rises to 56%, approaching 2022 peak
- First-time homebuyers delay purchasing longer

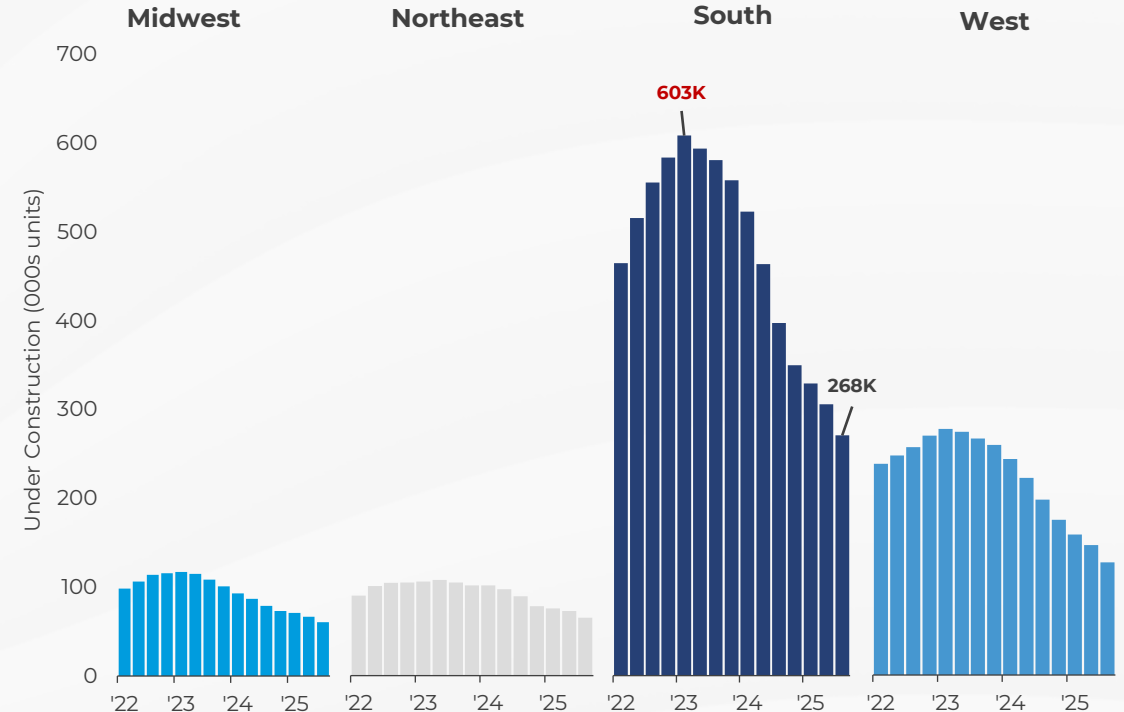
Supply Pressure on Lease Trade-Out Rates Has Subsided

Total Lease Trade-Outs Most Impacted in Southern U.S.



- Lease trade-out rates in Midwest, Northeast slowed, but still solid
- Surging rent growth in 2022 was unsustainable, inevitably decelerating
- South, West lease trade-outs now depressed due to supply

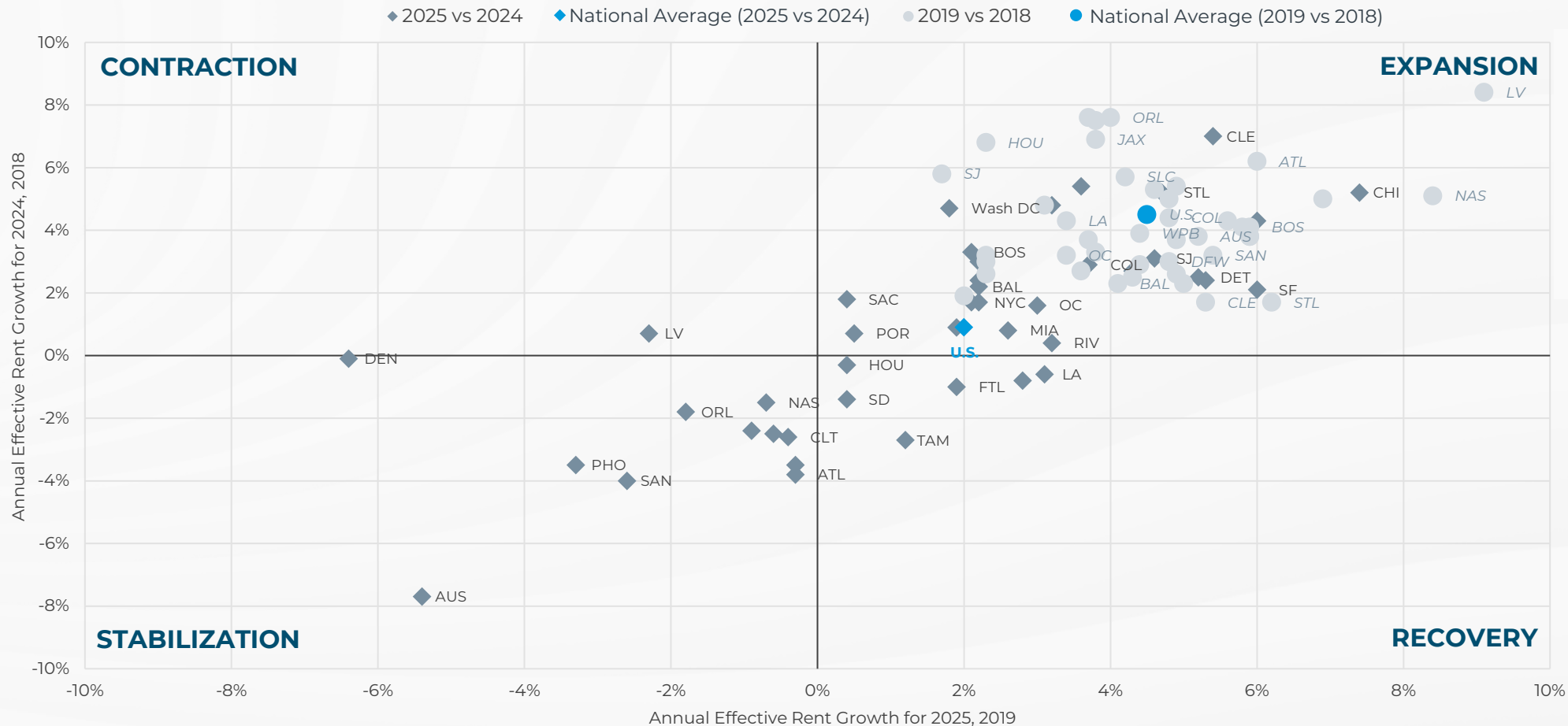
Construction Activity Falling Across All Regions



- Unprecedented supply activity concentrated in South
- Under-construction units down from 603K to 268K over past 2 years
- Construction has become more difficult, development timelines longer

Wide Variation in Market Property Performance This Cycle Versus Last

Prior Cycle Saw All Major Apartment Markets Performing Well, Current Cycle Shows Wide Variation in Effective Rent Growth



- Near end of last cycle, markets (dots) grouped top-right quadrant
- Current cycle shows markets (triangles) spread over quadrants
- Last cycle's growth leaders now working through historic oversupply

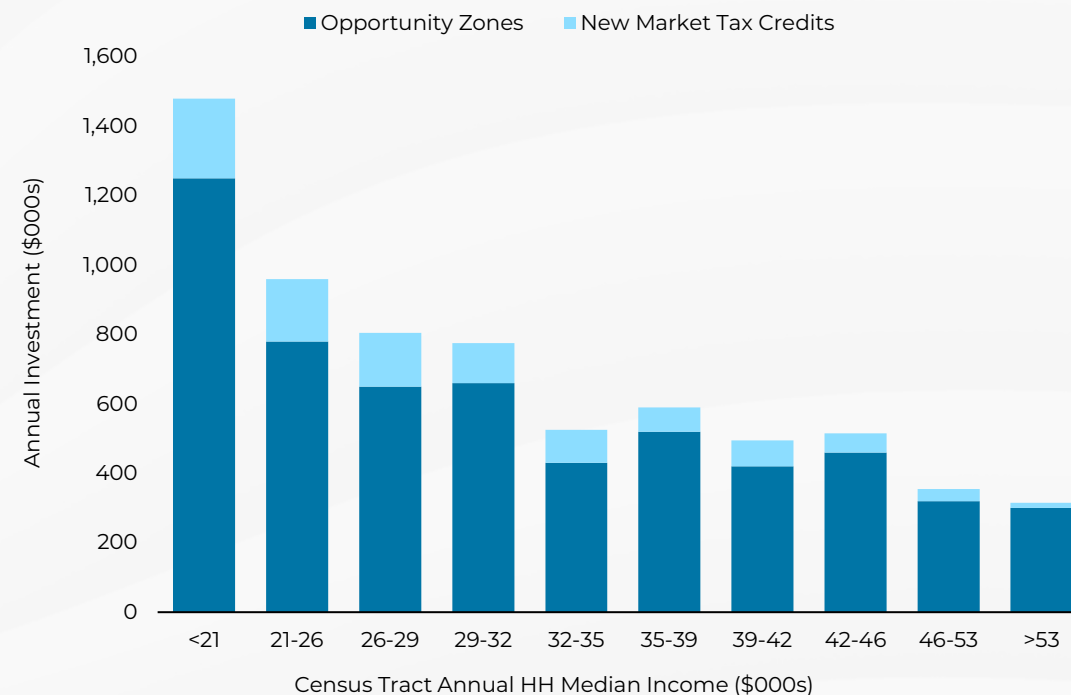
**Dots and diamonds represent individual metro markets*

“One Big Beautiful Bill” Directs Housing Investment To Low-Income Areas

Key Provisions for Commercial Real Estate

KEY OUTCOMES	“OB BB” SPECIFICS
Codifies Real Estate Tax Efficiencies	<ul style="list-style-type: none"> • Qualified Business Income Deduction 20% • 100% Bonus Depreciation restored • Carried interest and 1031 exchange rules preserved • Higher SALT deductions, exemptions for estate/gifts
Emphasizes Affordable Housing Development	<ul style="list-style-type: none"> • Permanent 12% increase in LIHTC allocation • Bond test lowered from 50% affordable units to 25% • Expands designation of Difficult Development Areas • 30% basis boost for tribal lands, rural areas
Expands Opportunity Zone Incentives Geographically	<ul style="list-style-type: none"> • Program returning in 2027 on 10-year recurring cycle • Standardizes 5-year window to defer capital gains • 10% basis step-up after 5 years, 30% in rural areas • OZ tract-selection criteria narrowed

2019-20 Average Annual Investment Per Census Tract



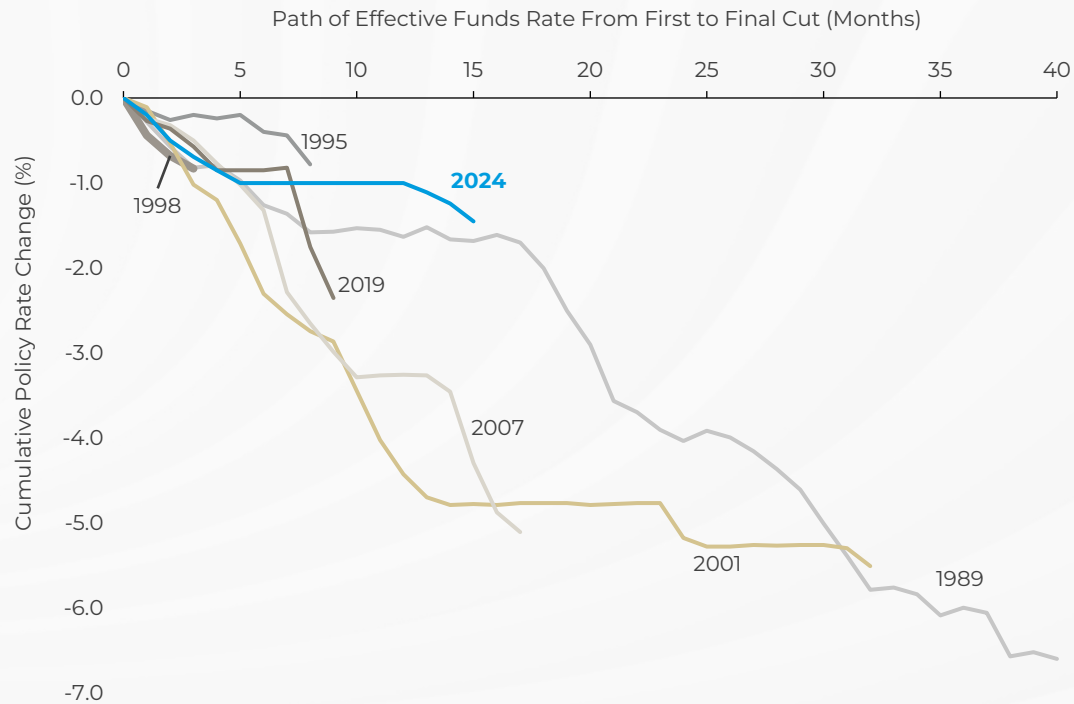
- Opportunity Zones (OZ) proven to target low-income census tracts
- OZ funding much greater than prior policies like New Market Tax Credits
- Most OZ capital has been directed to multifamily development

Financing

January 2026

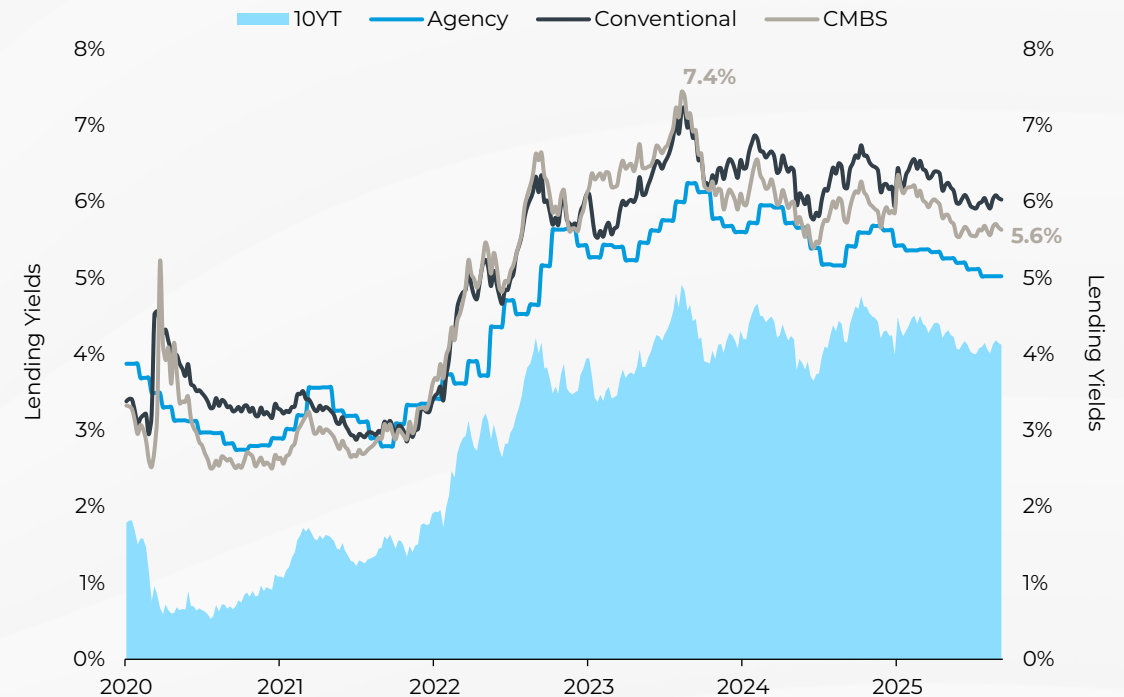
Fed Retains Ammo as Policy Cuts Ease Debt Costs

Current Cutting Cycle Moderate Compared to Past Cycles



- Current Fed easing cycle (2024) moderate relative to historical cutting cycles
- Fed can further stimulate economy if labor malaise deepens
- FOMC divided over rate cuts, but likely to skew more dovish going forward

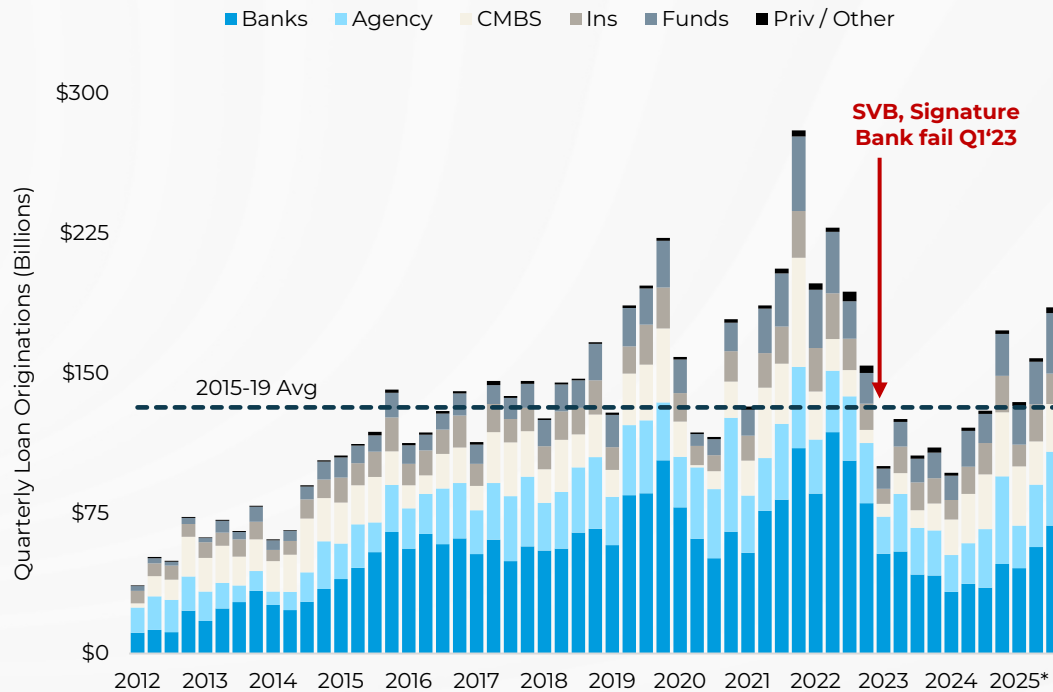
Rate Cuts Have Allowed More Deals to Pencil



- Rate cuts have brought down all-in rates significantly (see **CMBS peak to current**)
- All-in lending spreads have come in more than base rates since 2023
- Agency spreads tighter than pre-2020, reflecting ambitious lending goals

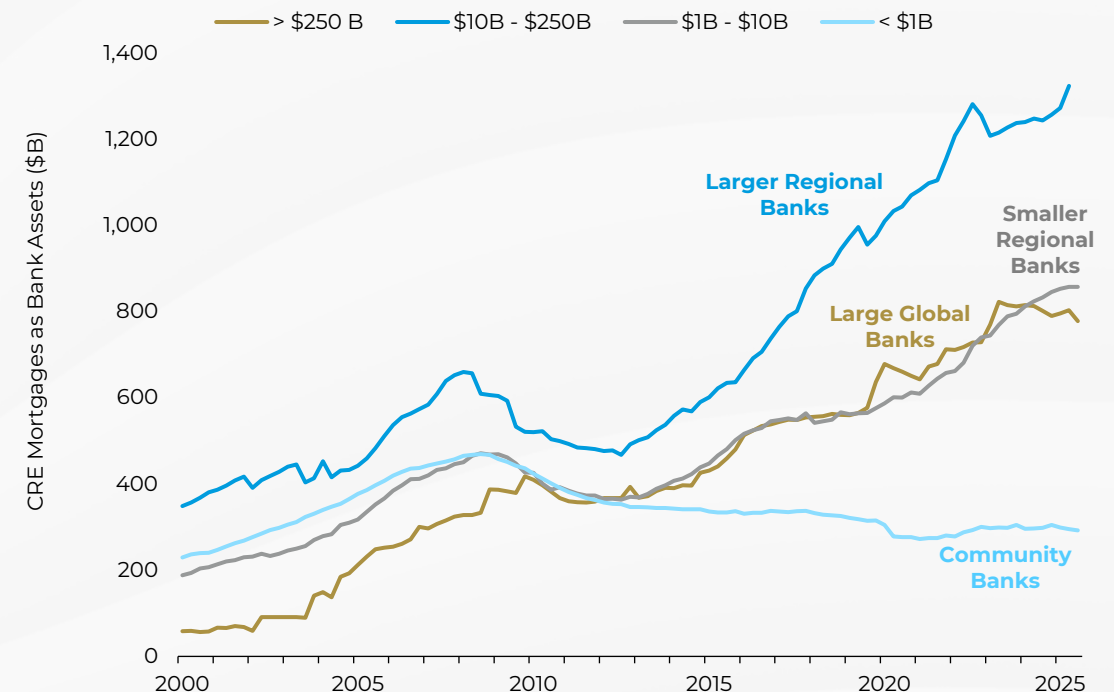
After a Pause, Regional Banks Return to CRE Lending

Following a Dip, Originations Pace Now Above Average



- After GFC, regional, community banks increased share of CRE lending
- Silicon Valley, Signature failures highlighted asset liability duration mismatch
- Other lenders pulled back as well, but banks are largest CRE lender

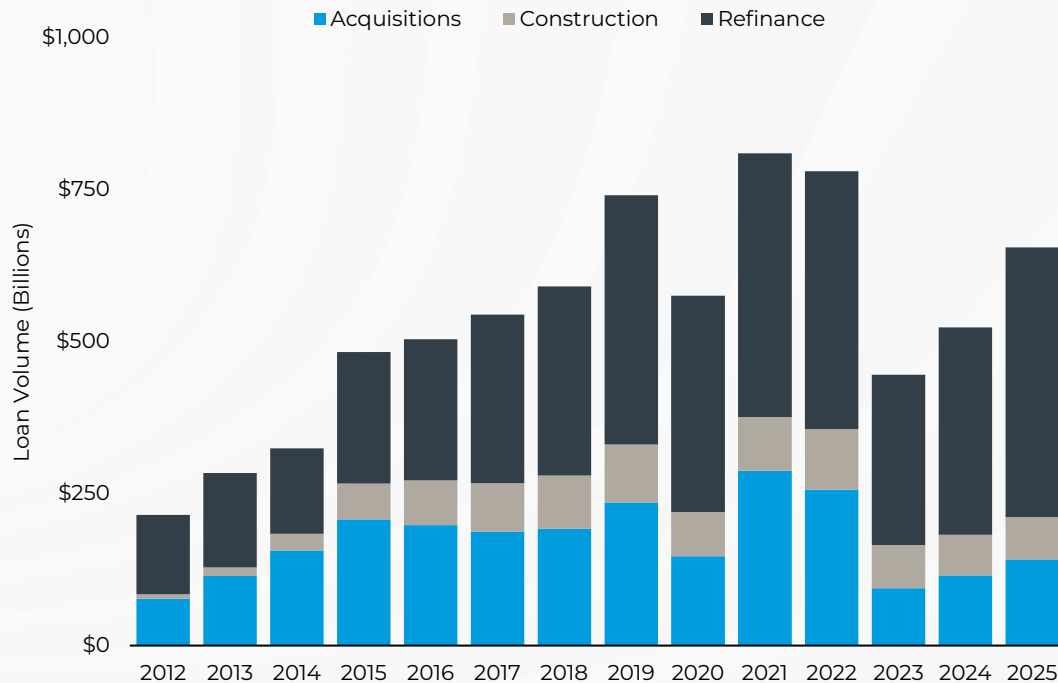
Large Regional Banks Lead All Other CRE Lenders



- Banks were 48% of CRE mortgage lending in 2022 but only 33% as of 1H'25
- Large regional bank loan portfolios total \$1.3T as of Q3'25
- CRE portfolios of community, money center banks have not expanded

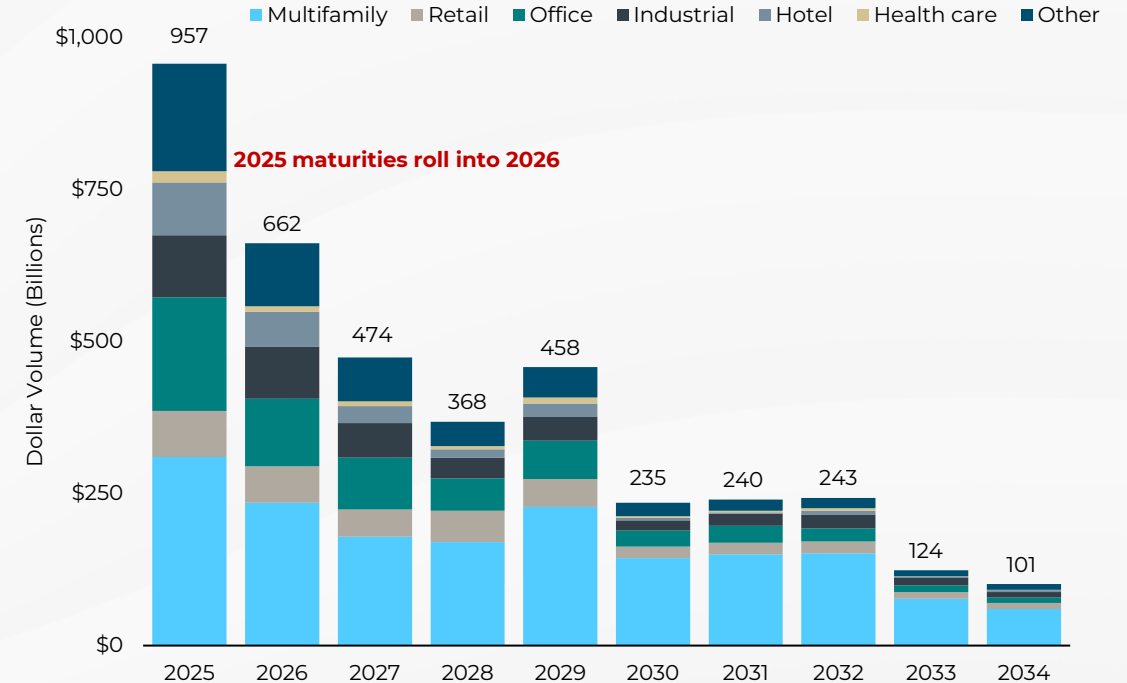
Originations Rise as Both Refinancings and Acquisitions Pick Up

Both Refinancings, Acquisitions Drive Originations



- Q3 2025 YTD originations volume 25% higher than full year 2024
- Refinancings are up 30%, while acquisition financing is up by 23%
- Originations activity now above 2015-19 average

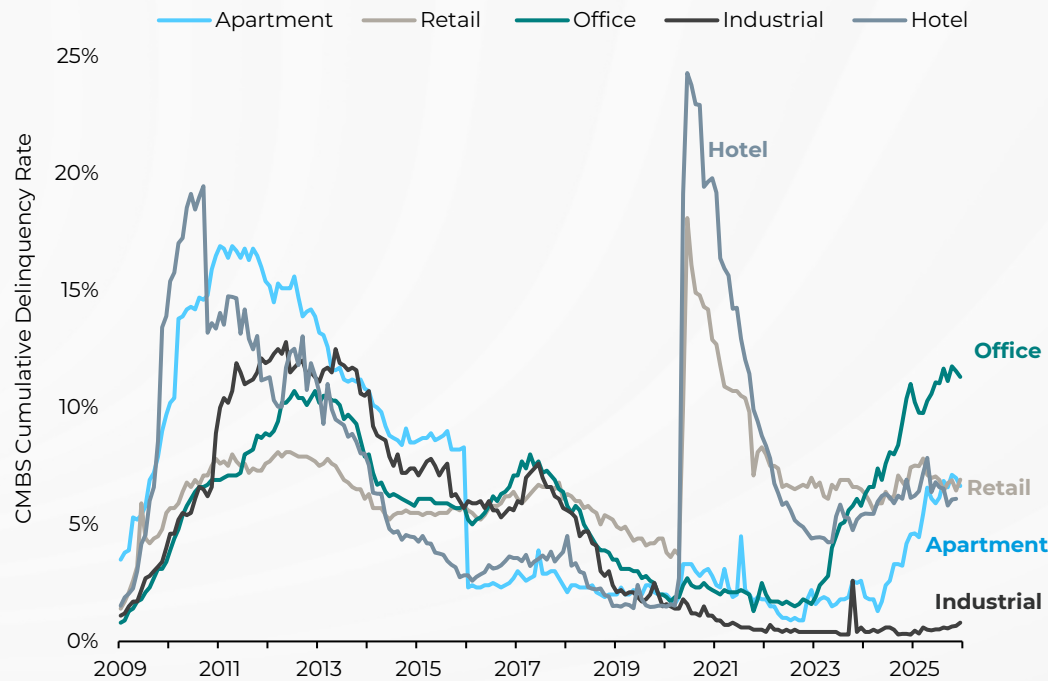
Maturities Roll Forward, But Lenders Push for Resolution



- Fed explicitly encouraging borrower and lender “cooperation”
- CRE debt distress elevated for multifamily, but not a systemic threat
- Debt capital availability is accommodating current maturity wave

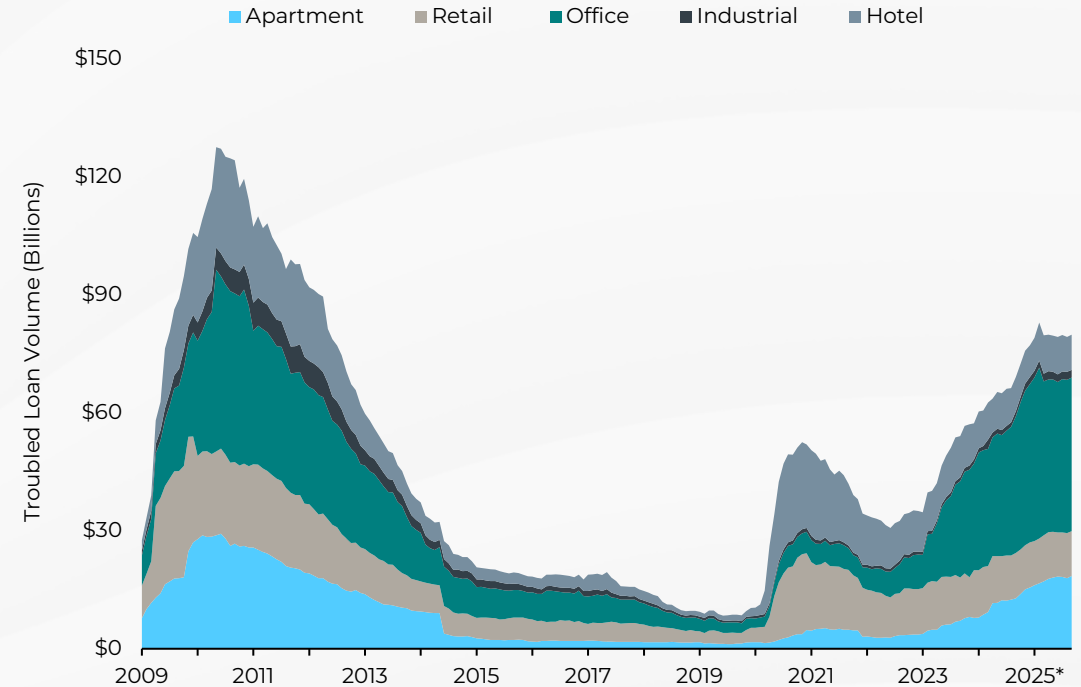
Delinquencies Still Elevated, But Distress Leveling Off

CMBS Cumulative Delinquency Rates Rising



- CMBS delinquency rate across all properties 7.3%, highest since Jan '21
- DQs still rising but pace of increase is decelerating
- Office has highest DQ (11.1%) of any sector, pulling overall distress higher

Office, Apartments Driving Troubled Loan Volume Higher



- Troubled loan volume trend, primarily non-securitized debt, has stabilized
- Apartment and Office drove total troubled loan volume higher since 2023
- Volume could recede in 2026 as sellers capitulate and/or lenders force a sale

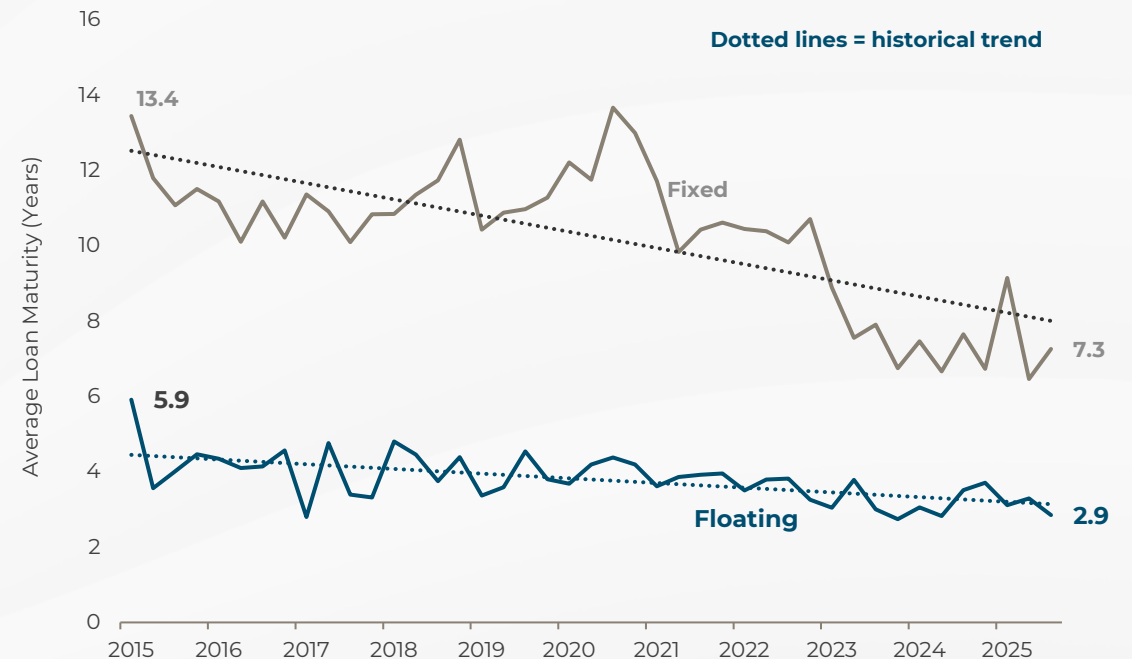
IPA Snapshot of Financing Market Terms (January 23, 2026)

IPA Capital Markets Stabilized Financing Market Terms

Lender Type	LTV	Rate	Term (Yrs)	Fixed / Floating (Index)	Recourse
Life Cos.	50-60%	5.15-6.00%	5-20	Fixed (Treasuries)	Non-Recourse
CMBS	60-70%	5.85-6.10%	5-10	Fixed (Treasuries)	Non-Recourse
Bank	60-70%	5.35-6.35%	3-10	Fixed / Floating (varies)	Varies
Credit Union	60-70%	5.40-6.50%	5-10	Fixed (varies)	Varies
Agency	55-65%	5.10-5.80%	5-30	Fixed / Floating (Treasuries)	Non-Recourse
Debt Fund	65-75%	6.00-8.00%	2-5	Floating (SOFR)	Non-Recourse

- GSE lending caps raised to \$88B each, a 20% increase over 2025
- Lending spreads tightened over 2025, especially for debt fund leverage
- [What could privatizing the GSEs mean for borrowers? See page 28](#)

Average Insurance Co. Loan Maturities Shortening



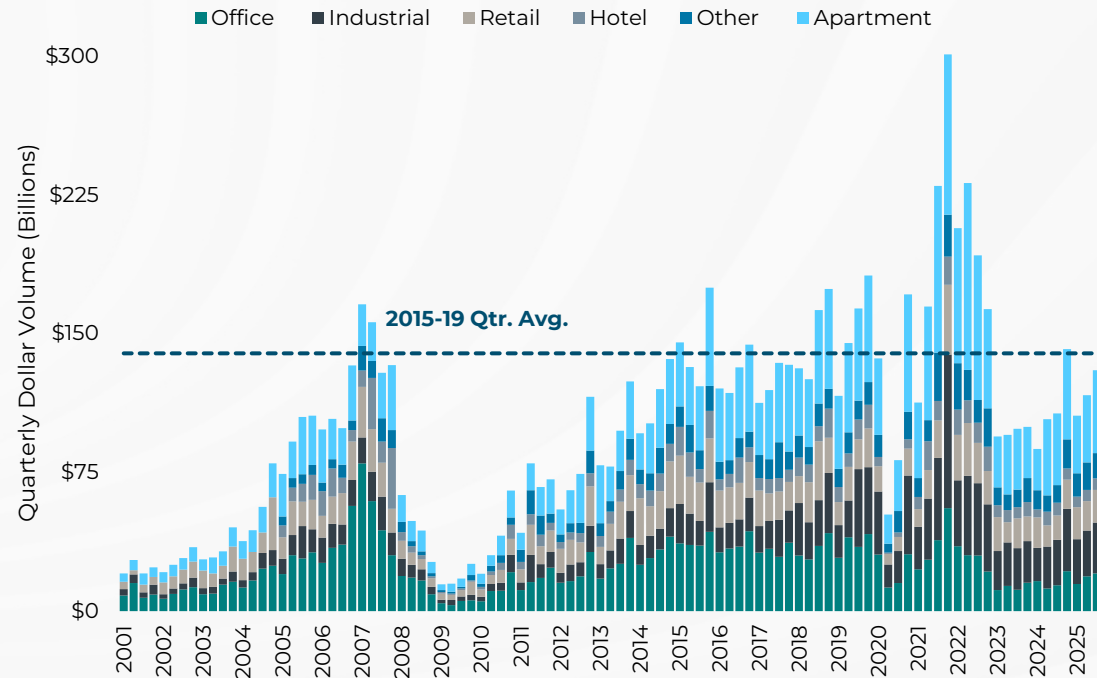
- Insurance lenders are quoting shorter loan maturities
- Borrowers seeking flexibility, given rate, macroeconomic uncertainty
- Fixed-rate loan maturities have decreased suggesting shorter hold periods

Transactions & Capital Sources

January 2026

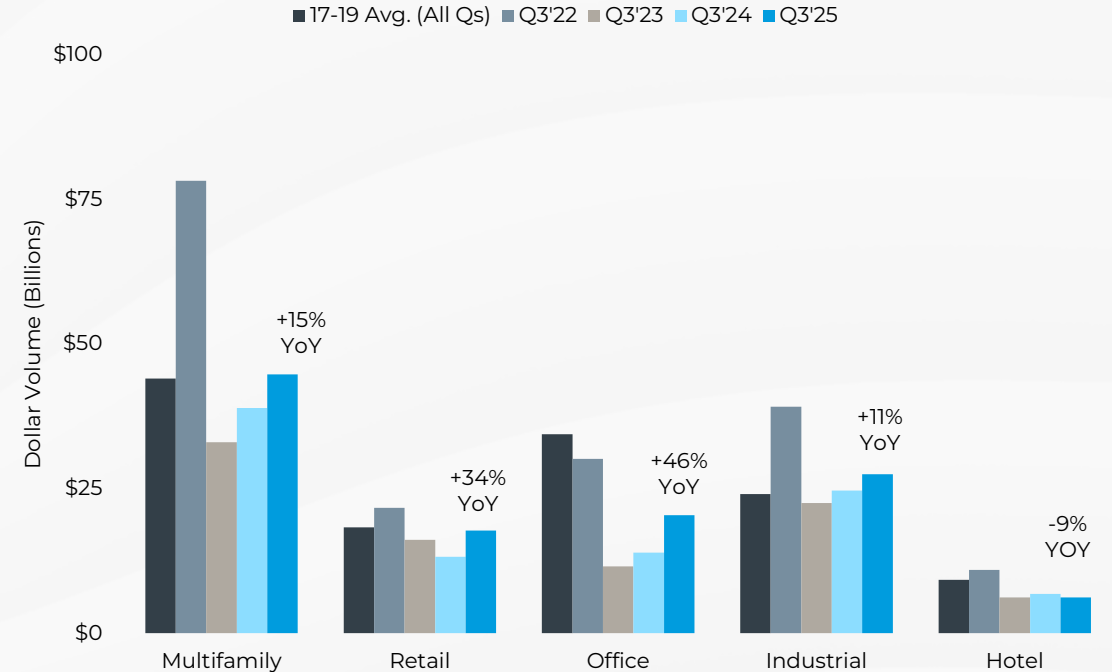
Sales Dollar Volume Close to Pre-Pandemic Historical Pace

Q3 Dollar Volume Only 7% Below Historic Pre-COVID pace



- Q3'25 sales dollar volume pace only 7% below 2015-2019 quarterly pace
- Volume decline for 7 quarters YoY ended Q1'24, longest stretch since GFC
- Average office transaction pace only 40% of 2015-2019 quarterly pace

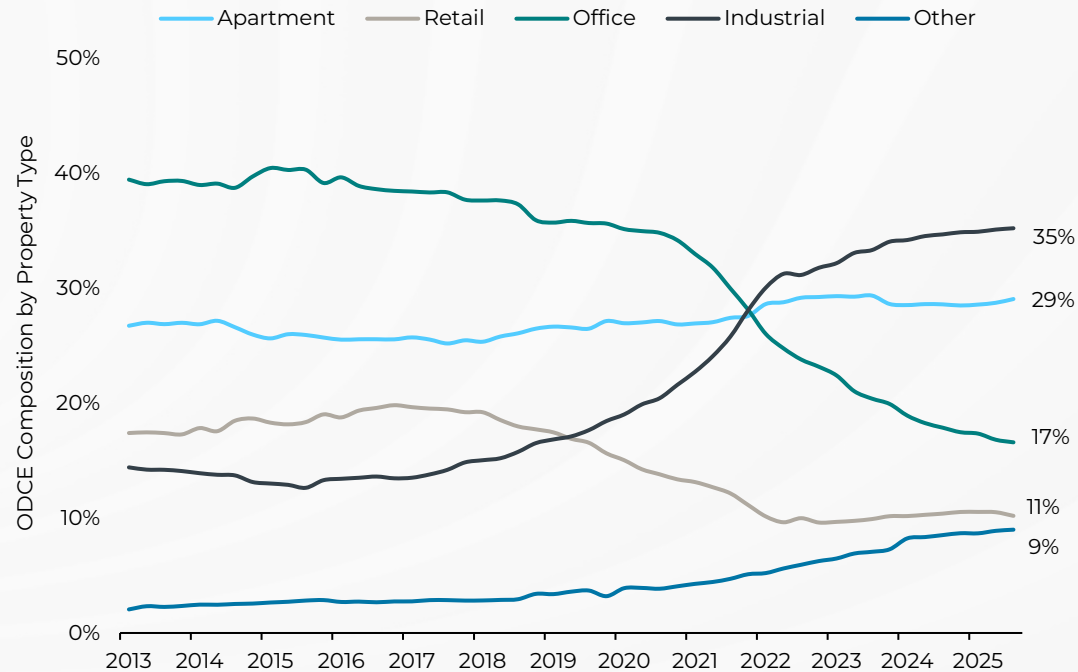
Quarterly Sales Volume by Property Type Generally Steady



- IPA research's proprietary transaction data shows marked improvement
- Retail, Office increase in sales activity led other sectors in Q3
- Modest rebound in transactions reflects absence of monetary stimulus

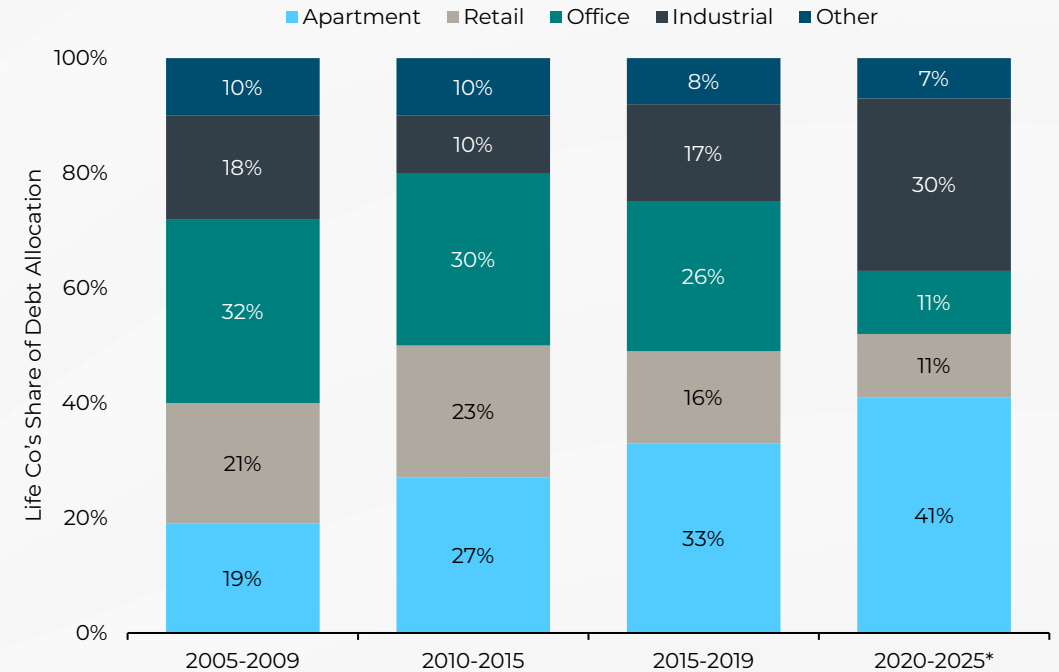
Institutional Investors Favor Apartments, Industrial, Niche Sectors

Q3 Dollar Volume Only 7% Below Historic Pre-COVID pace



- Major shift in institutional diversified CRE portfolios over past 10-15 years
- Office composition of ODCE declined from 39% to 17% from Q1'13 to Q1'25
- Industrial, Niche (Other) combined comprise almost half of ODCE index

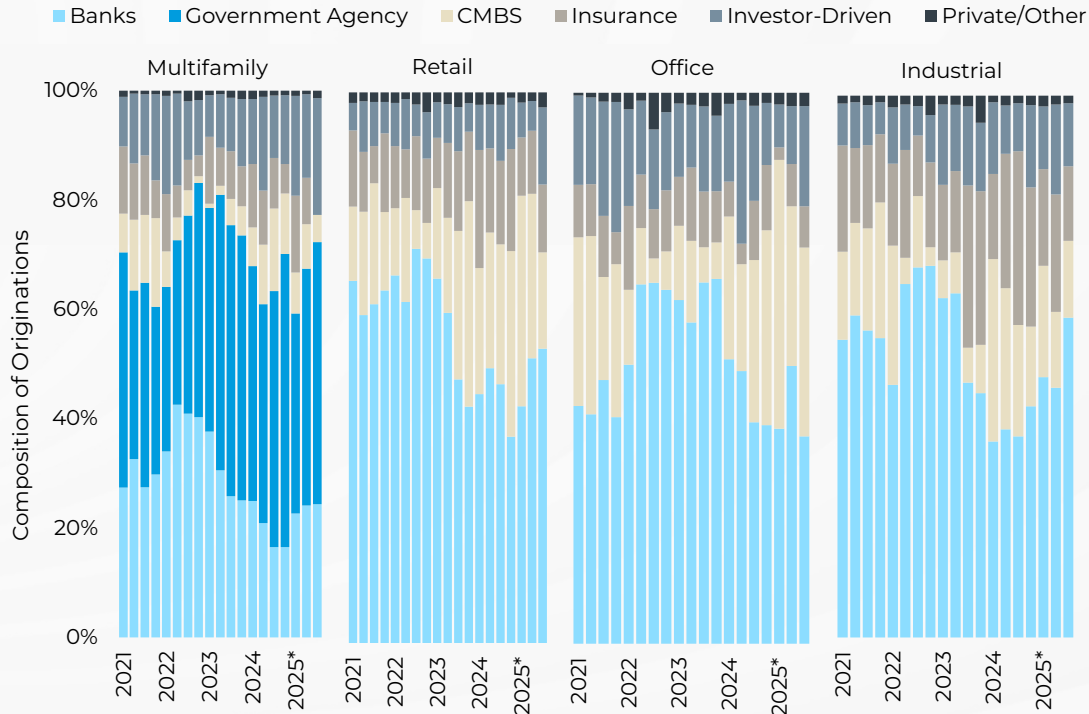
Quarterly Sales Volume by Property Type Generally Steady



- Institutional CRE debt holdings have also shifted, similar to equity
- Core / Core+ Apartment and Industrial debt originations competitive
- Nonbank lenders turning to Office, Retail, Hotel (Other) for higher spread

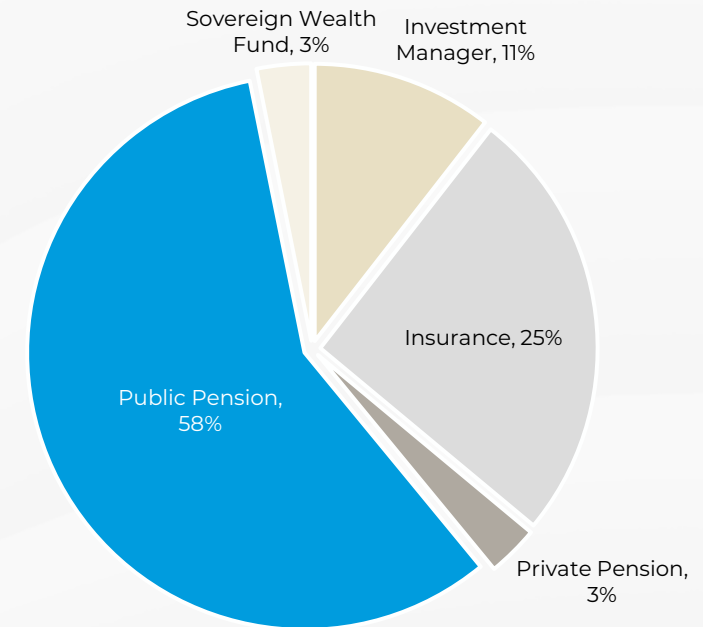
GSEs, Public Pensions Key Multifamily Capital Sources

Fannie, Freddie Provide Systemic Debt Liquidity



- Post-pandemic GSEs a critical backstop for Multifamily borrowers
- For Retail and Office, CMBS have filled in the gap left by banks
- More aggressive lending targets for GSEs suggest preparation for IPO

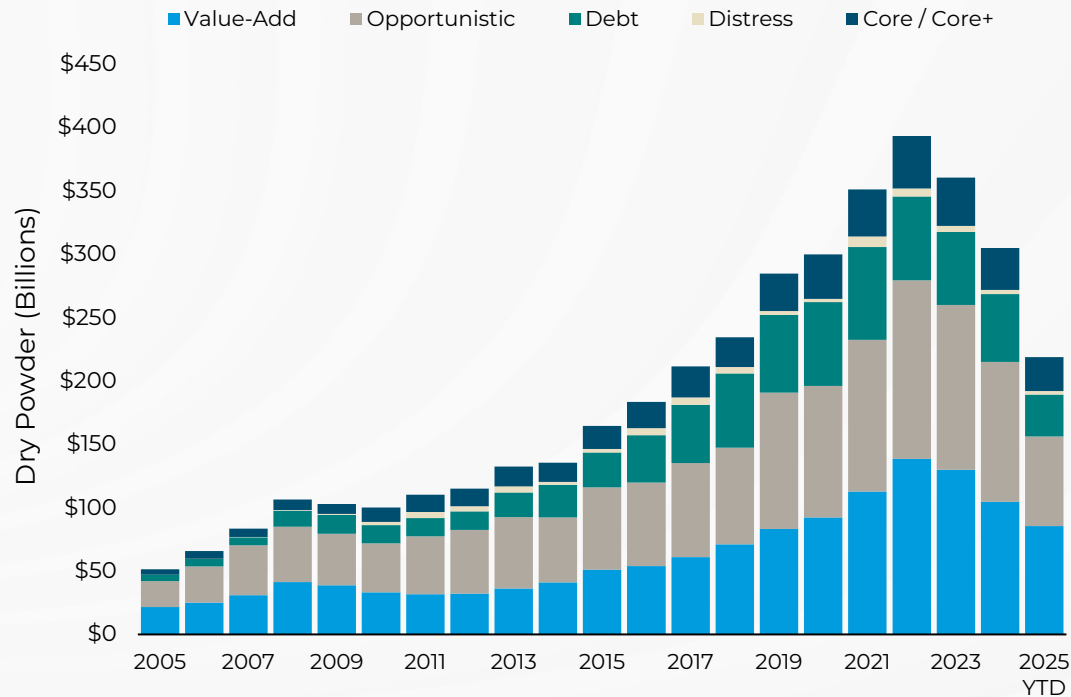
Institutional Investors by Aggregate Real Estate Allocation



- Global real estate allocation of Top 50 investors totals \$62 billion
- Public pensions' invested allocation (11.0%) below target allocation (12.6%)
- Relative value of certain CRE fund strategies increasingly attractive

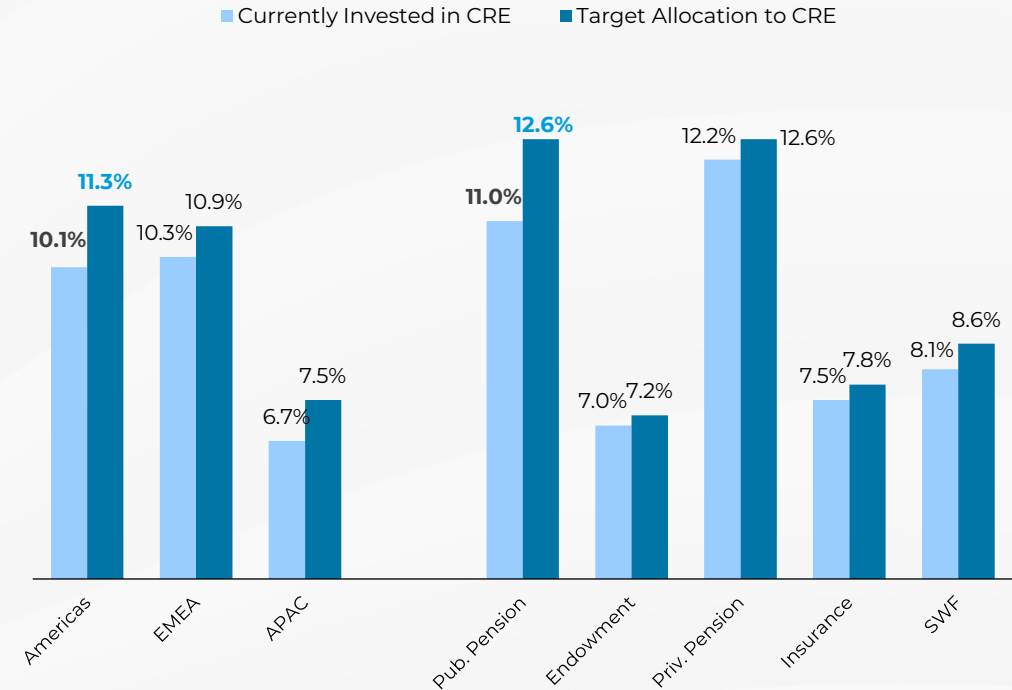
Dry Powder Off Peak, Institutional Investors Below Target Allocations

Dry Powder Down from 2022 Peak



- Dry powder off its 2022 peak, reflecting tough fundraising environment
- Capital appetite focused on Opportunistic, Value-Add, Debt strategies
- Opportunistic and Debt ↓ 50%, Value-Add ↓ 38%, Core / Core+ ↓ 35%

Pension Funds, Institutional Investors Underallocated



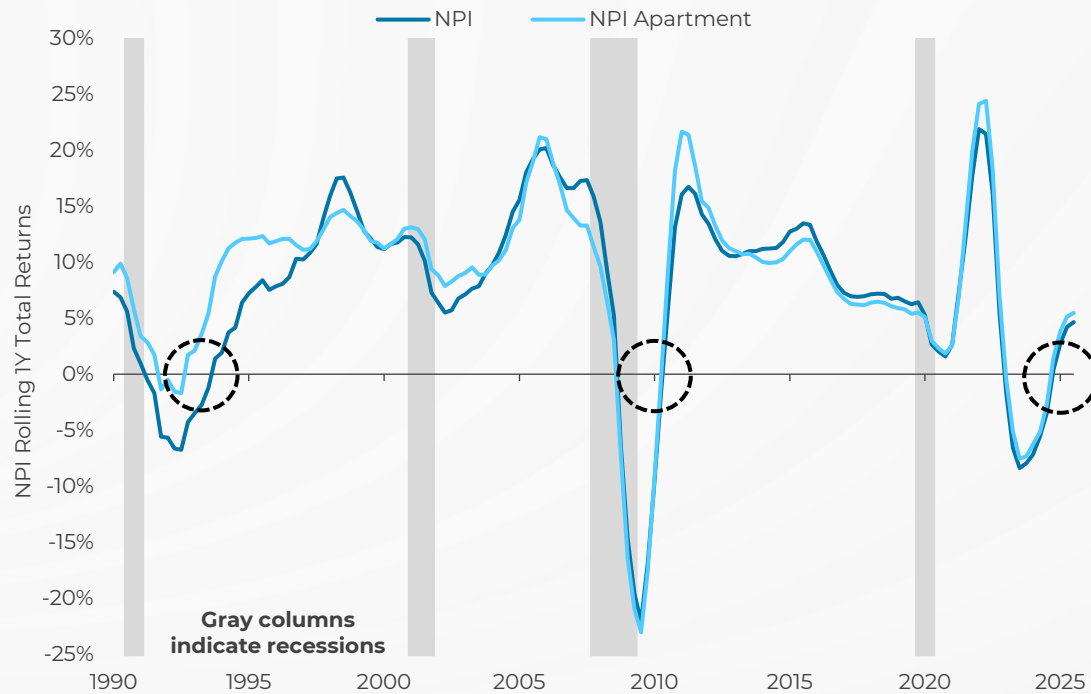
- Closing the gap between current, target allocations increases capital flows
- Global institutional real estate investors below target allocation to U.S.
- Public pension funds, largest of institutions, under target allocation

Returns & Pricing

January 2026

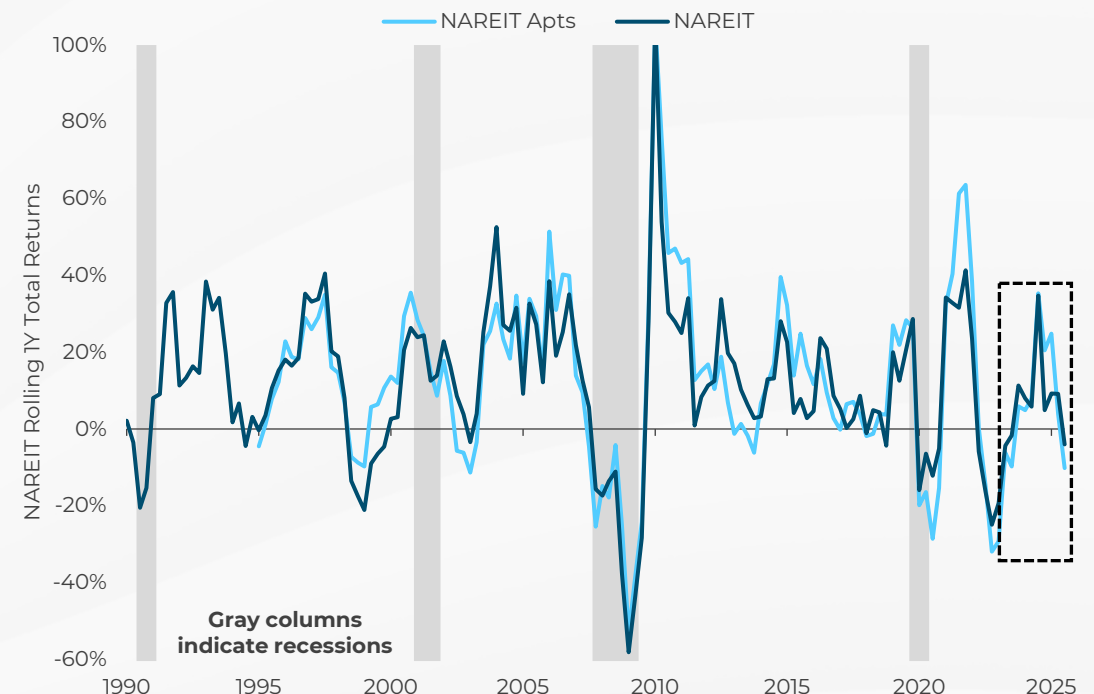
Private Total Returns Accelerate While Public Returns Recalibrate

Total Core Returns Continue to Trend Positively



- CRE recovers an investment window to achieve outsized returns
- 1Y NPI total return 4.6% for Q3'25 versus 8.5% since inception annualized
- Total quarterly returns positive for the last 5 quarters as of Q3'25

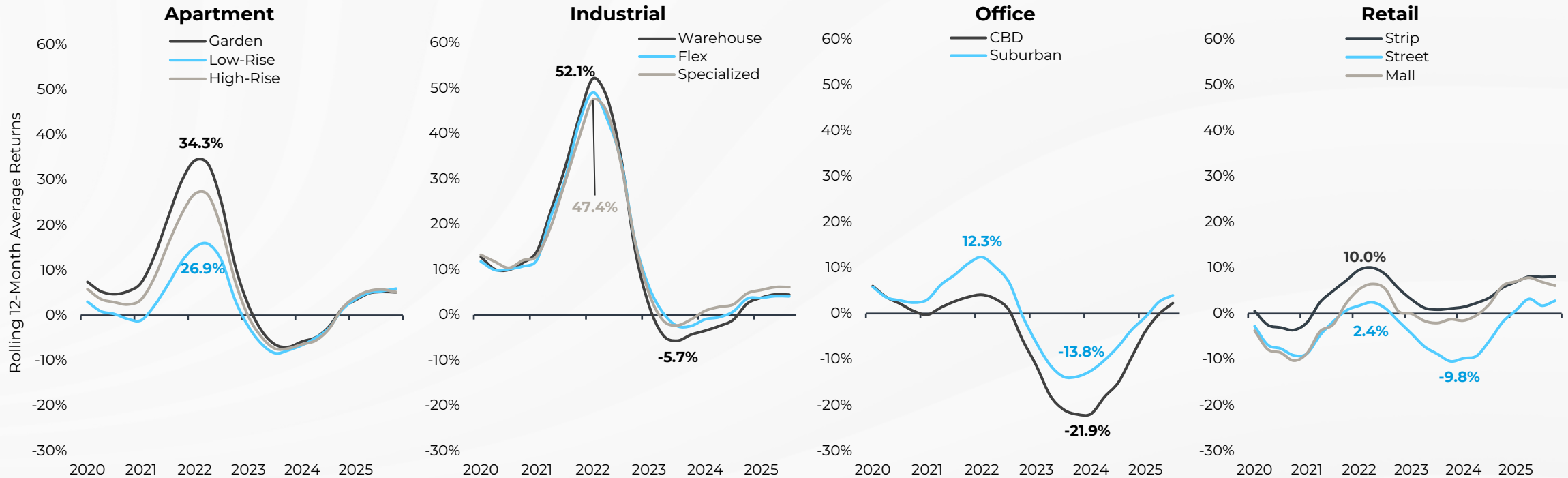
Public REITs Correct Following Run-Up In Pricing



- Public REIT all properties total 1Y return -4.0% as of Q3'25
- Apartment REITs total 1Y return -10.2% as of Q3'25. versus 35.2% as of Q3'24
- Apartment REITs share price flagging on labor market, supply concerns

Stabilization, Recovery Evident Across Sub-Property Types

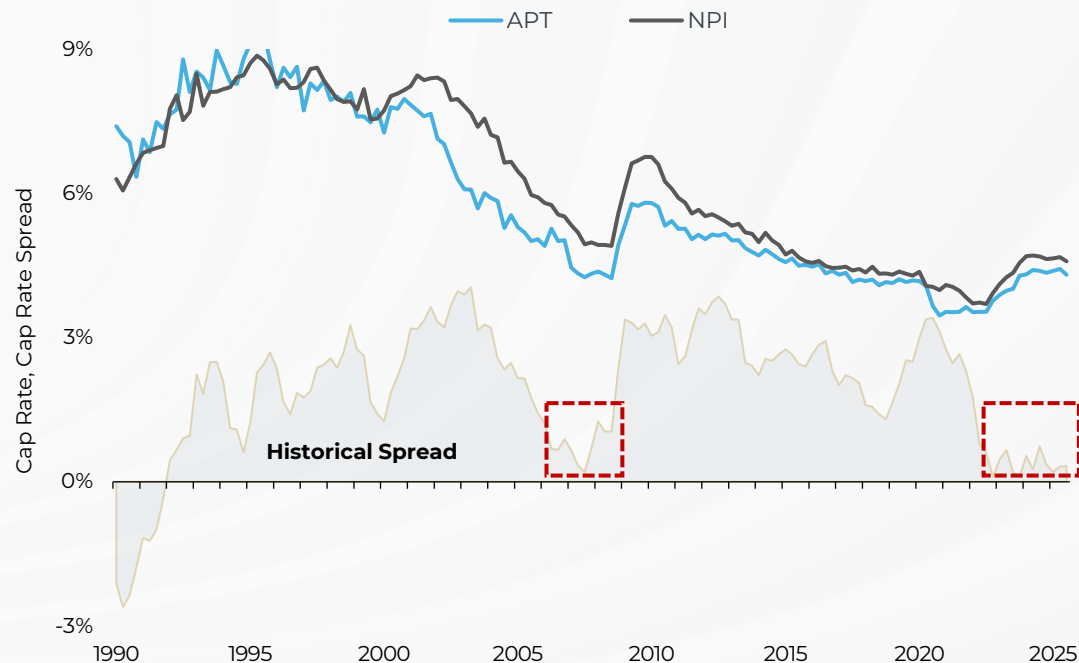
Rolling 1-Year Total Returns by Sub-Property Type



- Sub-property type total returns varied widely coming out of COVID pandemic
- As recovery materializes, sub-property-type returns are converging and turning positive
- Apartment sub-type returns trending together, reflecting breadth of investor demand

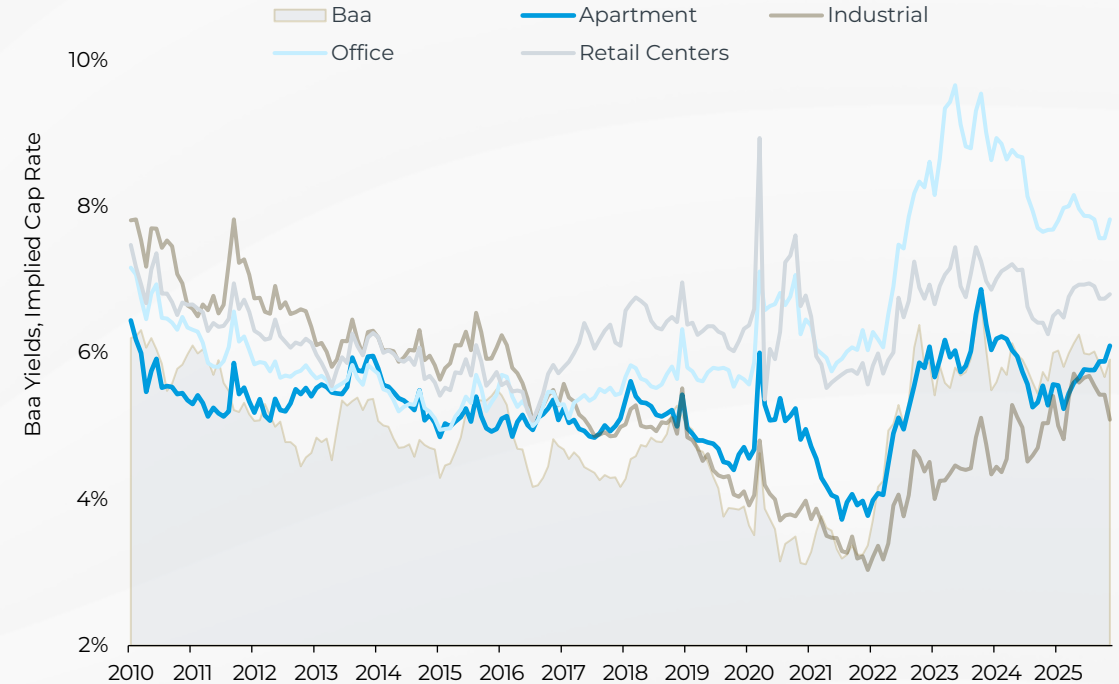
New Normal: Cap Rate Risk Premium Compressed Versus Historical

Real Estate Risk Premiums Compressed for 3+ Years



- Private real estate has historically traded at a premium to the risk-free rate
- Comparing a cap rate to a yield-to-maturity (10YT) is not apples-to-apples
- Cap rate risk premium has been compressed for 14 consecutive quarters

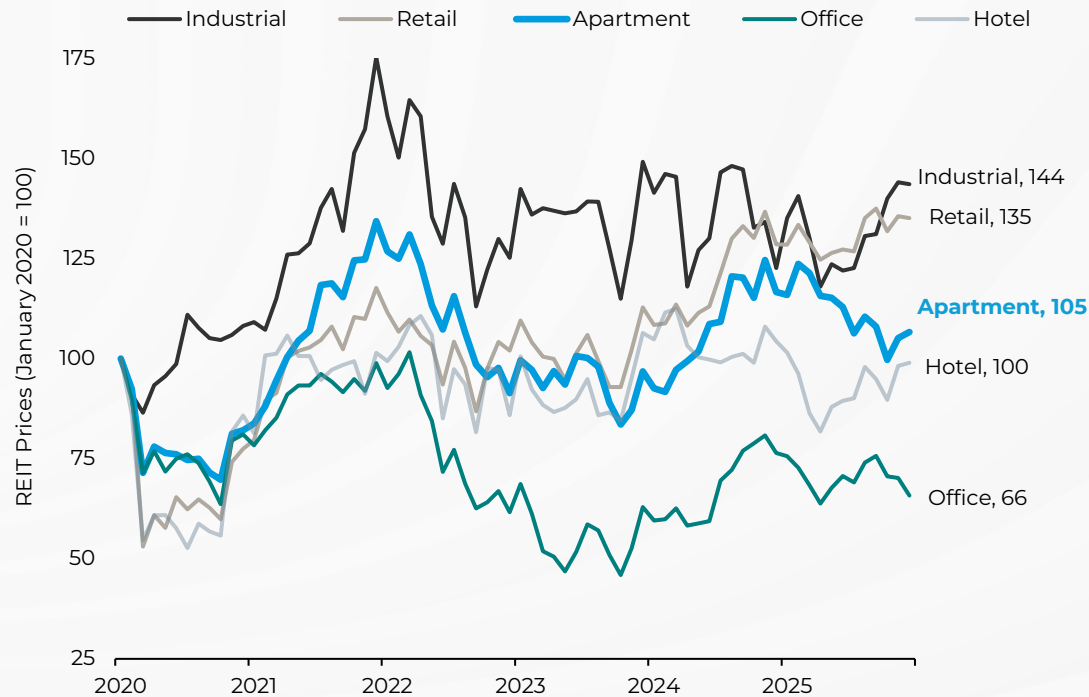
Implied Apartment Cap Rates Continue to Climb



- Baa corporate yields proxy for tenant credit risk
- Implied Apartment cap rates higher on stable values, higher NOI
- Tightening cap rates reflect improved prospects for Industrial, Office

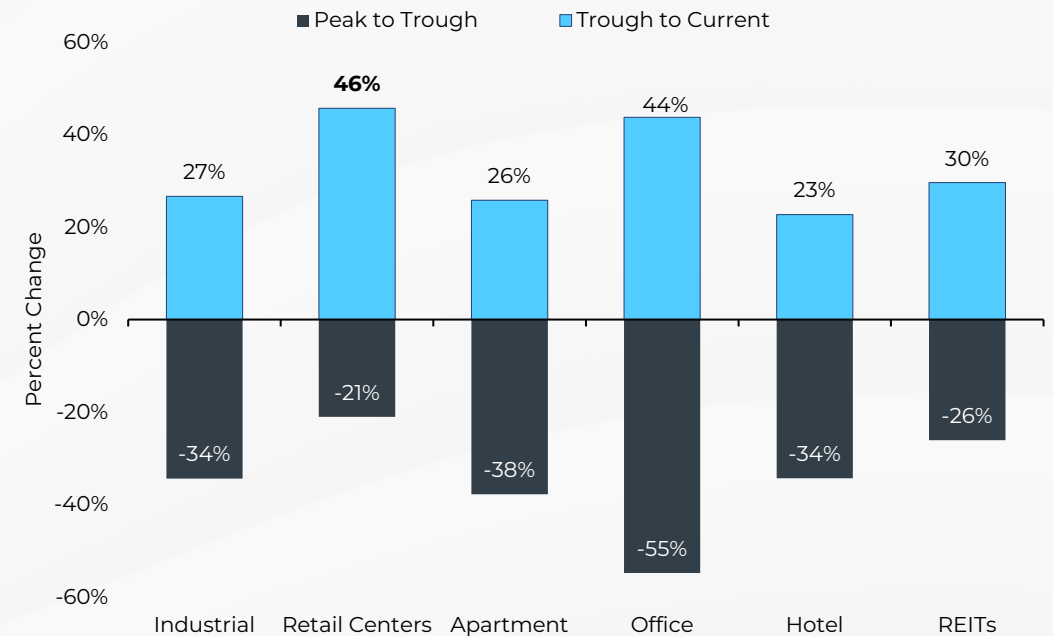
Post-COVID, REIT Price Trends Have Been Volatile and Sideways

Public Real Estate Share Price Volatility



- REIT prices surged after lockdowns lifted, helped by public stimulus ...
- Then aggressive Fed hiking caused pricing to drop
- Public Real Estate price trends were directionless for much of 2024-2025

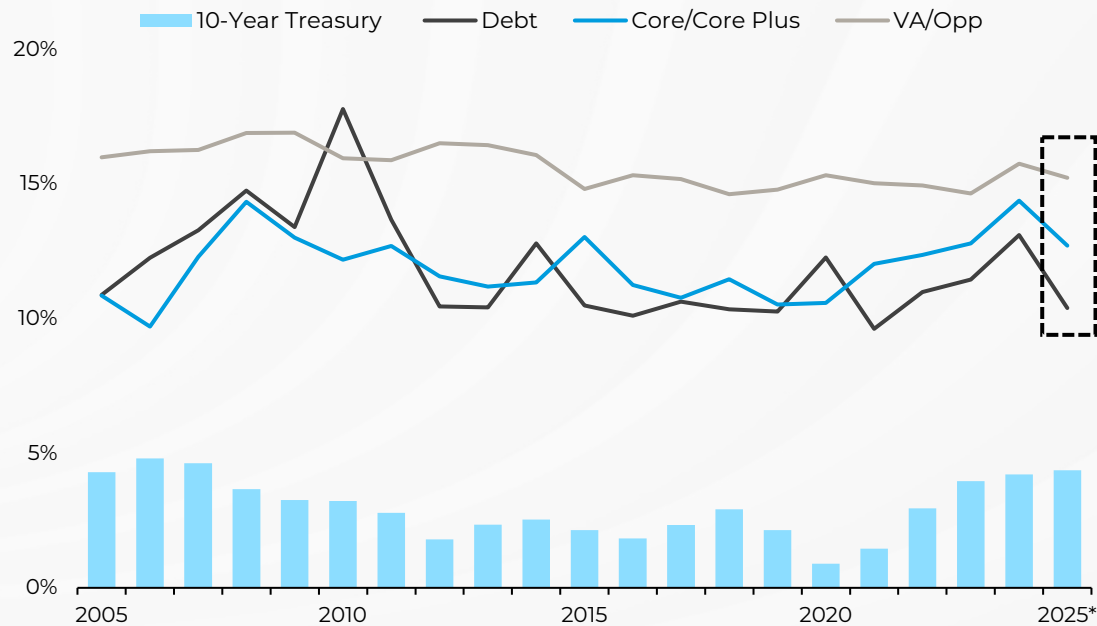
Retail Only Sector Currently Above Recent Peak



- Values must rise by 2x their decline to fully recover; only retail centers have
- Other property types have remained below their most recent peak
- 2024 partial rally in REIT prices reversed in 2025 for apartments, office

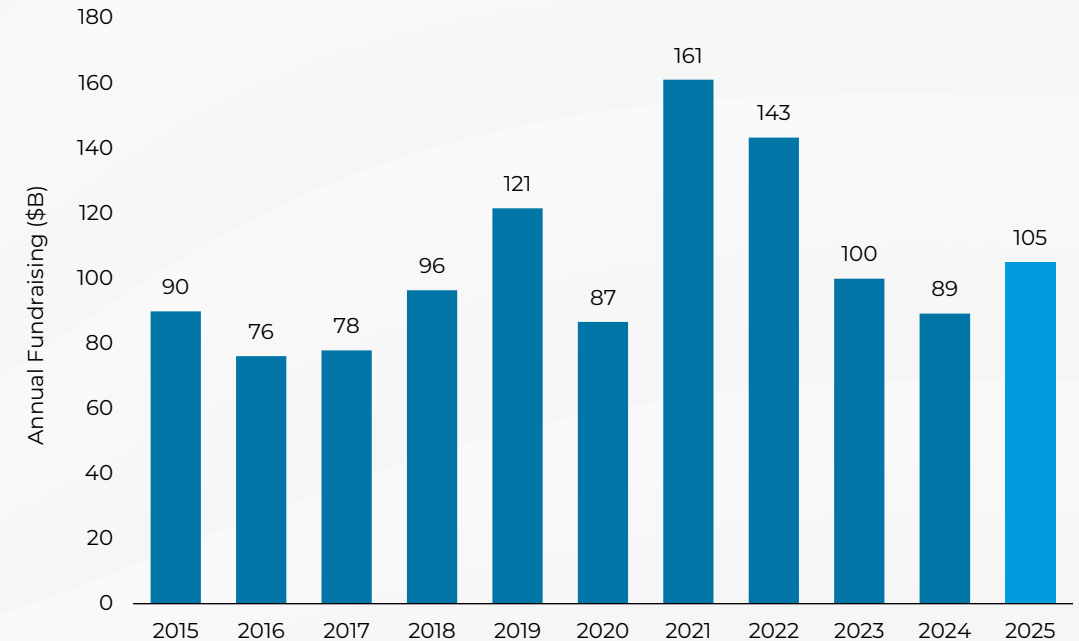
Target Returns Lowered, Rebound in CRE Fundraising

Average Target Net IRR by Fund Strategy



- Fund managers adjusting target returns lower as debt costs stay elevated
- Debt funds face greater competition, tighter spreads
- Value-add, opportunistic return profiles tempered by macro uncertainty

U.S. CRE Strategies Fundraising Rebounds in 2025



- Strategies include debt, core/core+, value-add, opportunistic, distress
- Quarterly trend for North American fundraising bottomed in Q4 2024
- Equity returns have lagged other asset classes, now poised to accelerate

Consideration of Major Outlook Risks

RISK	MITIGANTS	OPPORTUNITIES
Labor Market Weakness Deepens and Spreads	<ul style="list-style-type: none">• Slower demand growth offsets price pressures• Productivity increases for job-stayers• Fed lowers rates further, debt costs decline further• Wage growth tailwinds increase over the midterm	<ul style="list-style-type: none">• CRE debt costs decline, favorable for refinancing• Construction activity slows further• Demand for creative structuring solutions• Capital inflows into secondaries, debt increases
Persistent Inflation Keeps Base Rates Elevated	<ul style="list-style-type: none">• Inflation benefits nominal rent growth• Pressure to deploy encourages capital recycling• Opportunity to redeploy capital for higher returns• Inflationary spike would be highly problematic	<ul style="list-style-type: none">• Long-horizon investors can acquire at discount to peak• Play to differences between geographies, property types• Fund managers rejiggering investment strategies• Risk premium does not need to return historical average
AI Bubble Bursts, Equity Markets Sink	<ul style="list-style-type: none">• Fed could cut rates aggressively to fight contagion• AI has not created very many jobs• Private real estate has weathered equity volatility• Apartments in tech markets still discounted versus peak	<ul style="list-style-type: none">• Core / Core+ strategies attract more capital• Lower rates likely mitigate distress• Capital pivots to value-add and some opportunistic• Apartments benefit from “defensive” trade
Privatization of Fannie, Freddie	<ul style="list-style-type: none">• Both GSEs face Tier 1 shortfalls of ~\$330B combined• Issuing equity to cover massive undertaking• GSEs integration into housing financing highly complex• The role government will play post-IPO unclear	<ul style="list-style-type: none">• Other sectors’ cost of capital improves relative to multi• Non-agency CMBS lending within multi gains share• New types of home lending emerge• Affordability ultimately improves from market innovation

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The background features a light gray, semi-transparent image of a modern multi-story building with many windows and balconies. Two large, solid blue circles are overlaid on the right side of the image, partially obscuring the building. The top circle is positioned higher and further to the right than the bottom circle.

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