

**IPA**

INSTITUTIONAL  
PROPERTY  
ADVISORS

*June 2026*  
*State of the Market*

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U.S. MULTIFAMILY



# Investors Find Ways Through Unprecedented Market Conditions

The macroeconomic and financial market backdrop is confounding. Public equity markets soar as consumer sentiment plunges to a record low. The Iran War persists but somehow stressed households are holding on. IPA still expects improving transaction activity for the year, but caution has slowed the first quarter pace. Capital is plentiful in principle, but the competition is fierce. Still, deals are closing because of ingenuity, persistence, and conviction that apartments matter even more in an age of technological and political upheaval.

Energy shock has further undermined demand and owner pricing power.

Supply overhang is receding with some overbuilt markets poised to outperform.

Capital appetite rebounds, but private return performance still lags other sectors.

Despite rate pressure, financing is still accretive given lender competition.

Merger of EQR, AVB points to still-tough operating and capital environment.

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



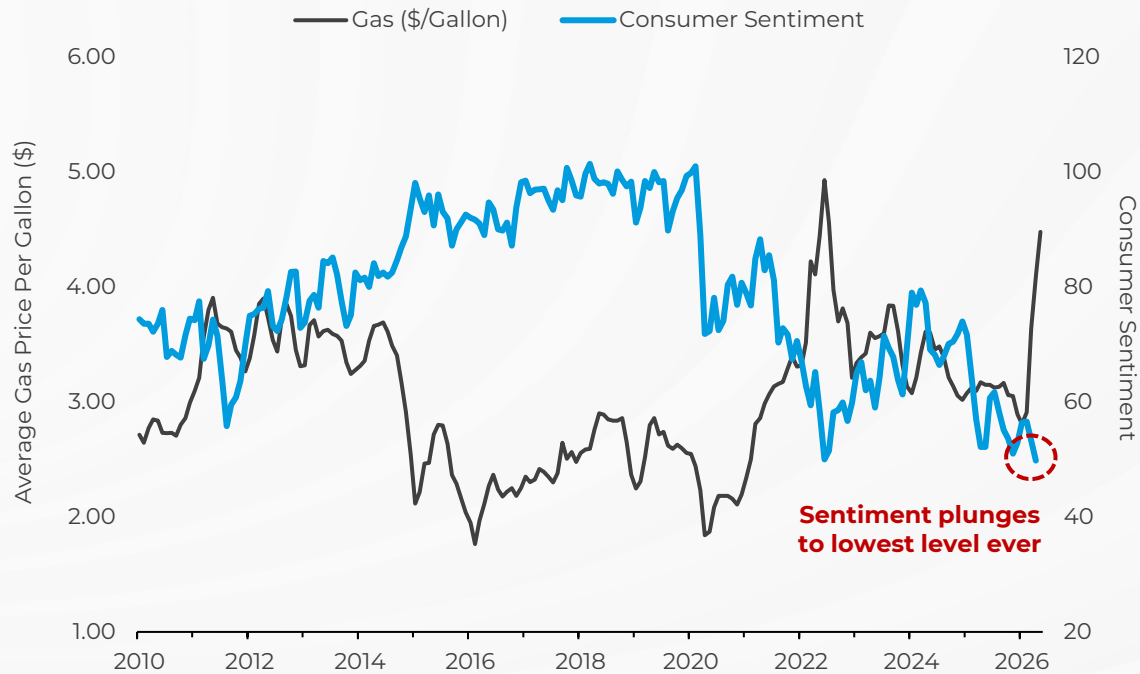
# *Economy & Fundamentals*

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June 2026

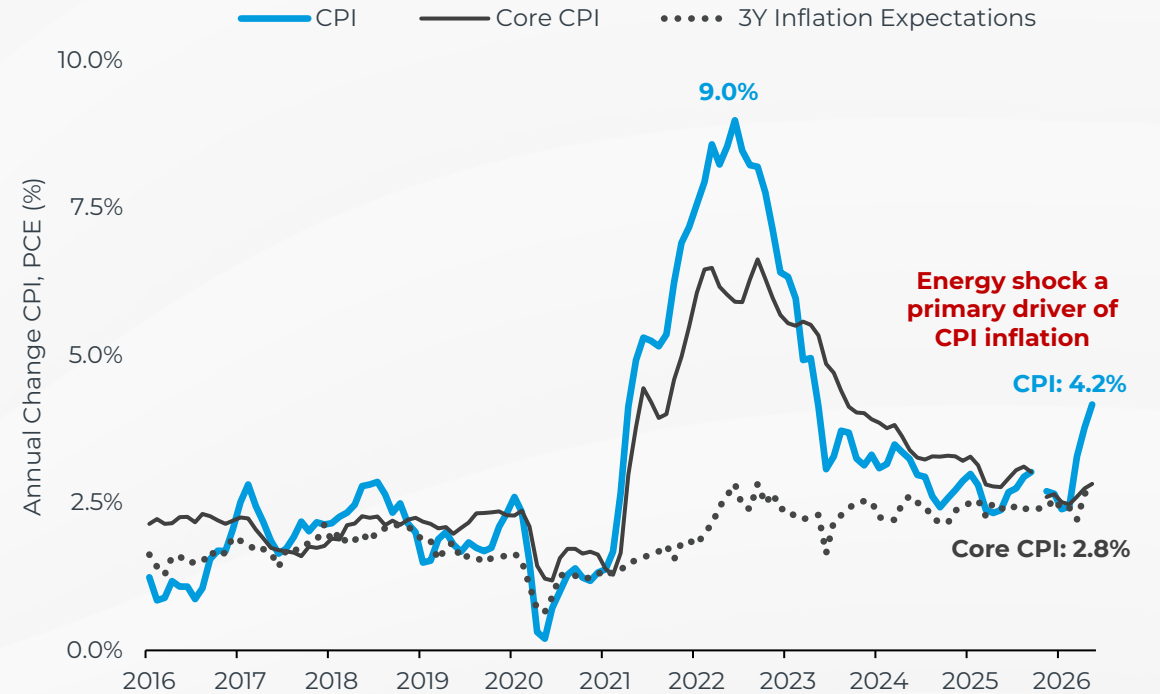
# Surging Energy Costs Feeding Headline Inflation, Less So Core Inflation

### Iran War Hits Consumers Hard and Fast



- Average gasoline prices rose 54% from start of March to end of May 2026
- March to April the fastest 3-month jump in 20+ years
- Consumer sentiment plunged to a 48+ year record low in April 2026

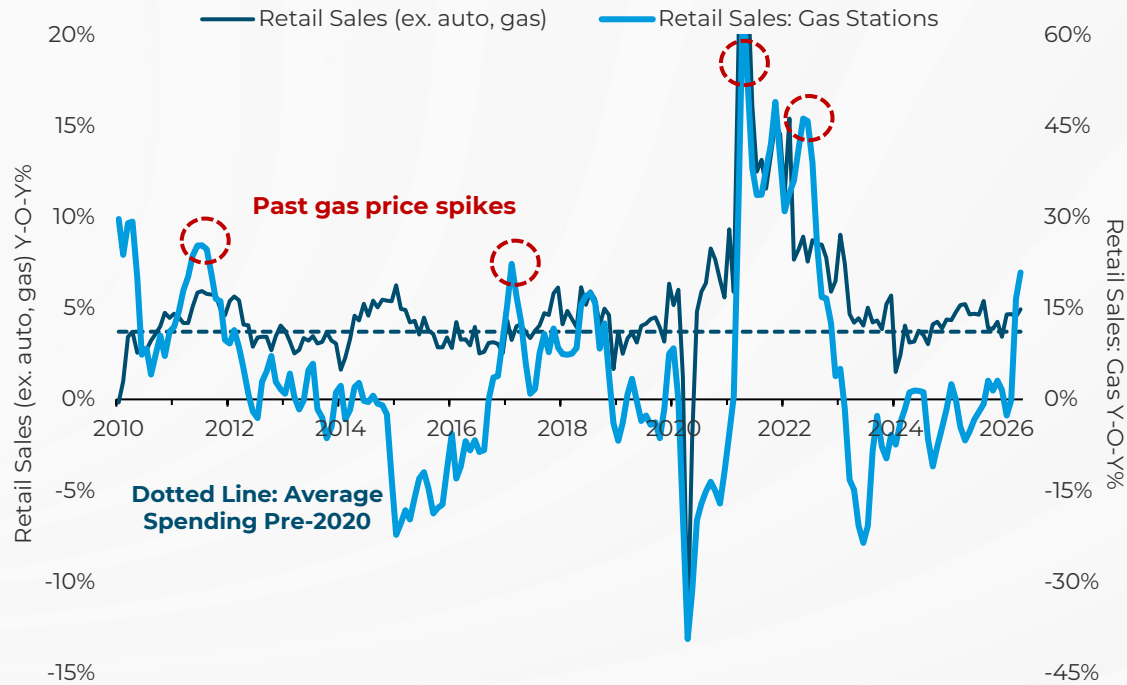
### So Far Limited Impact on Core Prices



- CPI inflation rose by 4.2% Y-O-Y, reflecting intensity of energy price inflation
- Broad-price pressures contained with Core CPI inflation level with last year
- [Risk matrix: Effect of prolonged Iran conflict on IPA outlook \(pg. 28\)](#)

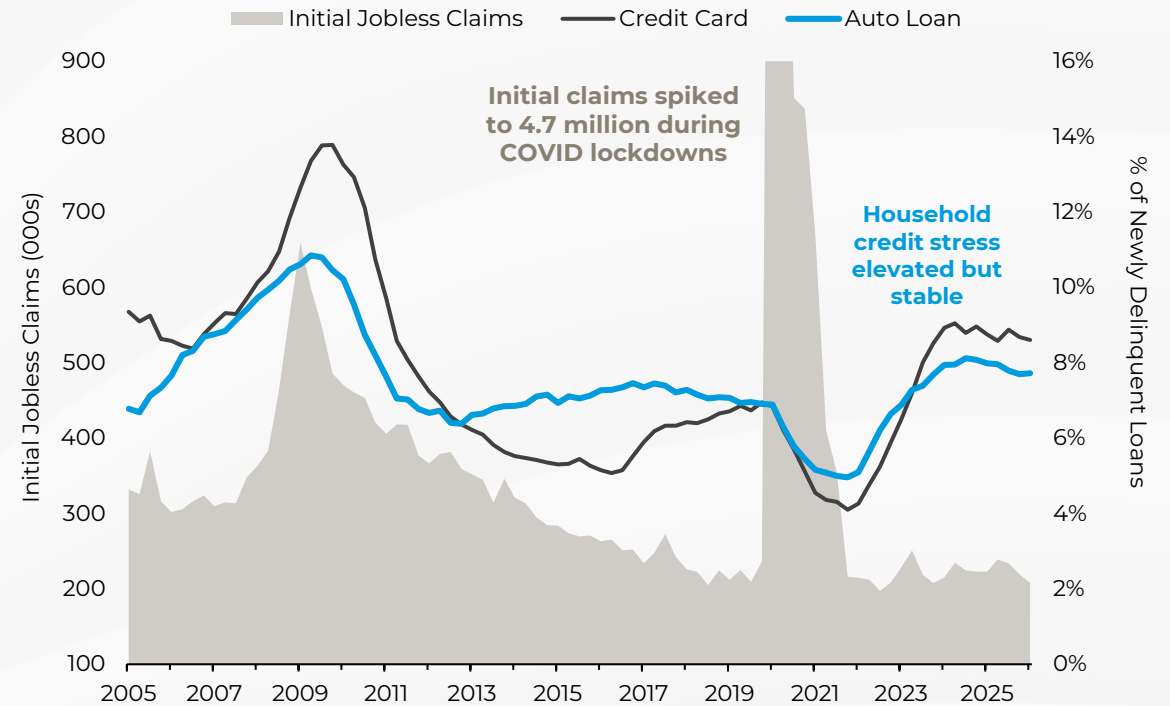
# Households Stressed, But Buoyed by Tight Labor Market

## Consumer Spending Steady, Gas Price Spikes Not Uncommon



- Retail sales growth ex auto, gas has been stable, above pre-pandemic average
- Consumers have weathered multiple gas price spikes in the past
- Energy cost pressures accrue disproportionately to lower-income households

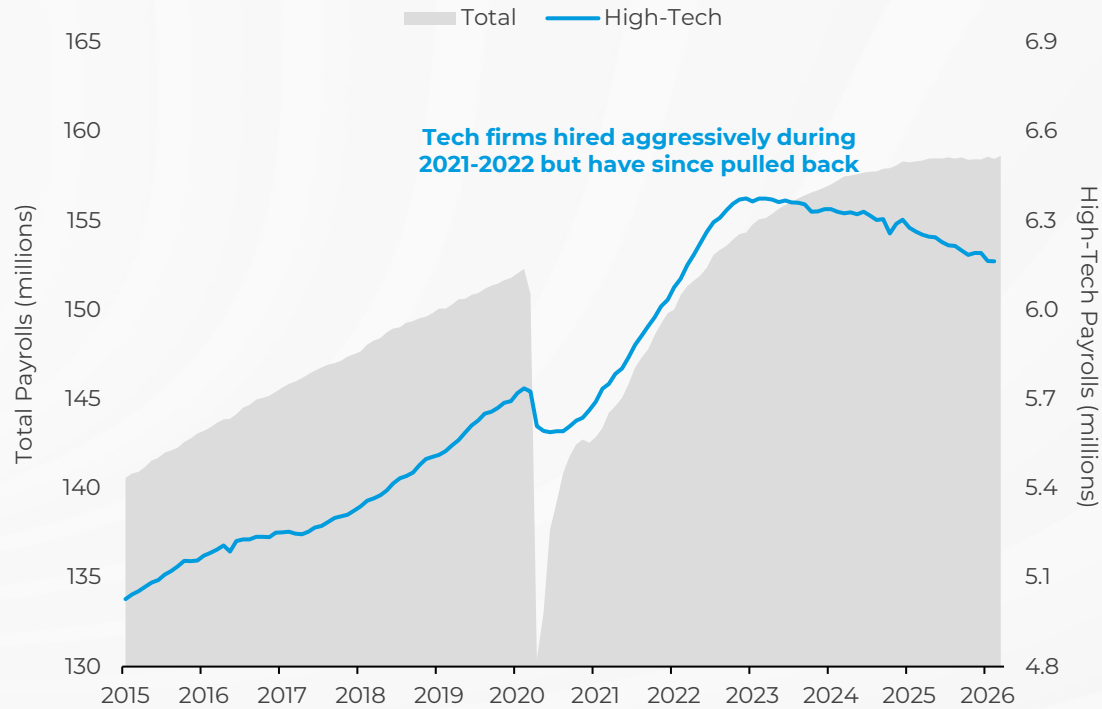
## Having a Job Keeps Credit Delinquencies in Check



- Initial claims have fallen below 200K, indicating historical tightness
- Level of newly delinquent credit card and auto loans are elevated but stable
- 2025 tax refunds from “One Big Beautiful Bill” provided some HHs a cushion

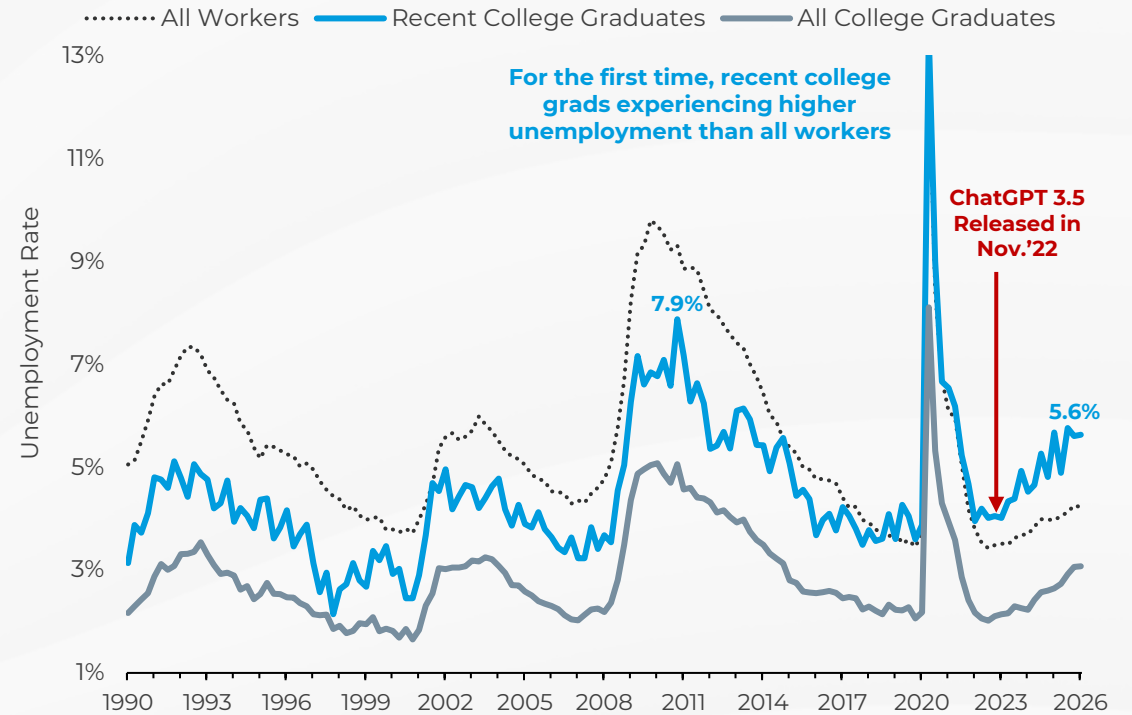
# AI Job Displacement Contained Thus Far

### AI-Related Layoffs Have Been Concentrated in Tech Sector



- Firings among tech firms have dominated headlines, layoff announcements
- Tech payrolls spiked by 12% over prior peak by March 2023 versus 2% for U.S.
- Declining tech employment coincided with Fed hiking campaign

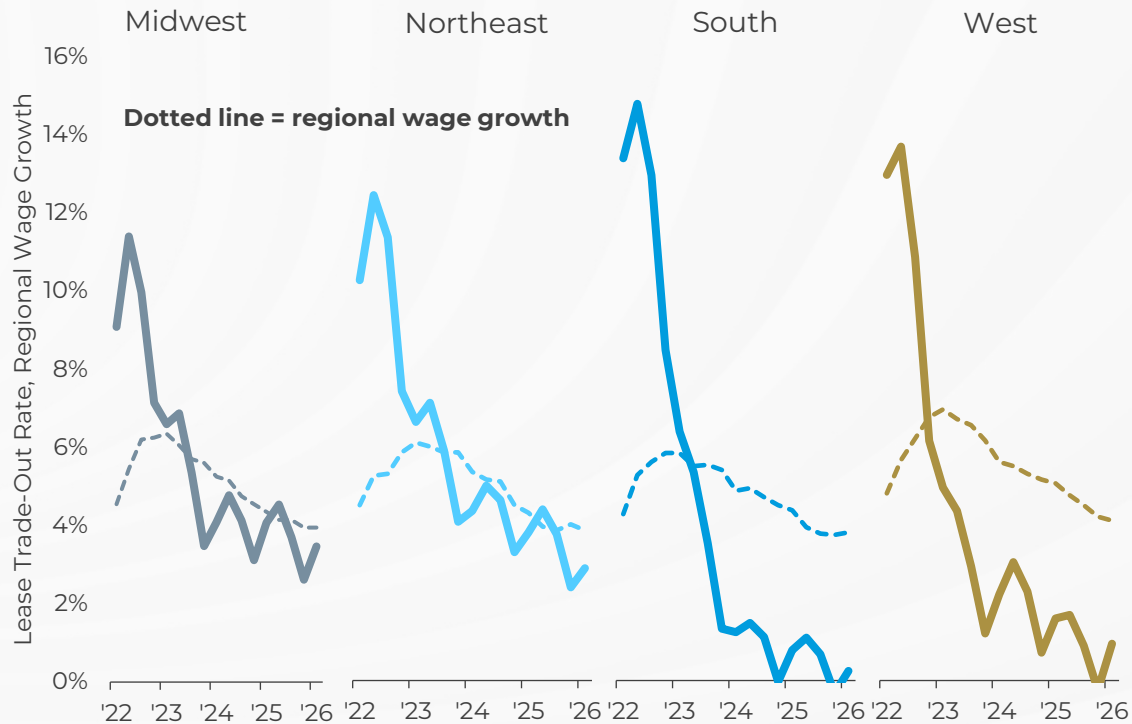
### Recent College Grads Face a Tougher Job Market



- U-3 unemployment has fallen below that of recent college grads
- Recent grads are facing elevated, but not unprecedented, unemployment
- *Risk matrix: Implications of reversal for AI-fueled stock rally (pg. 28)*

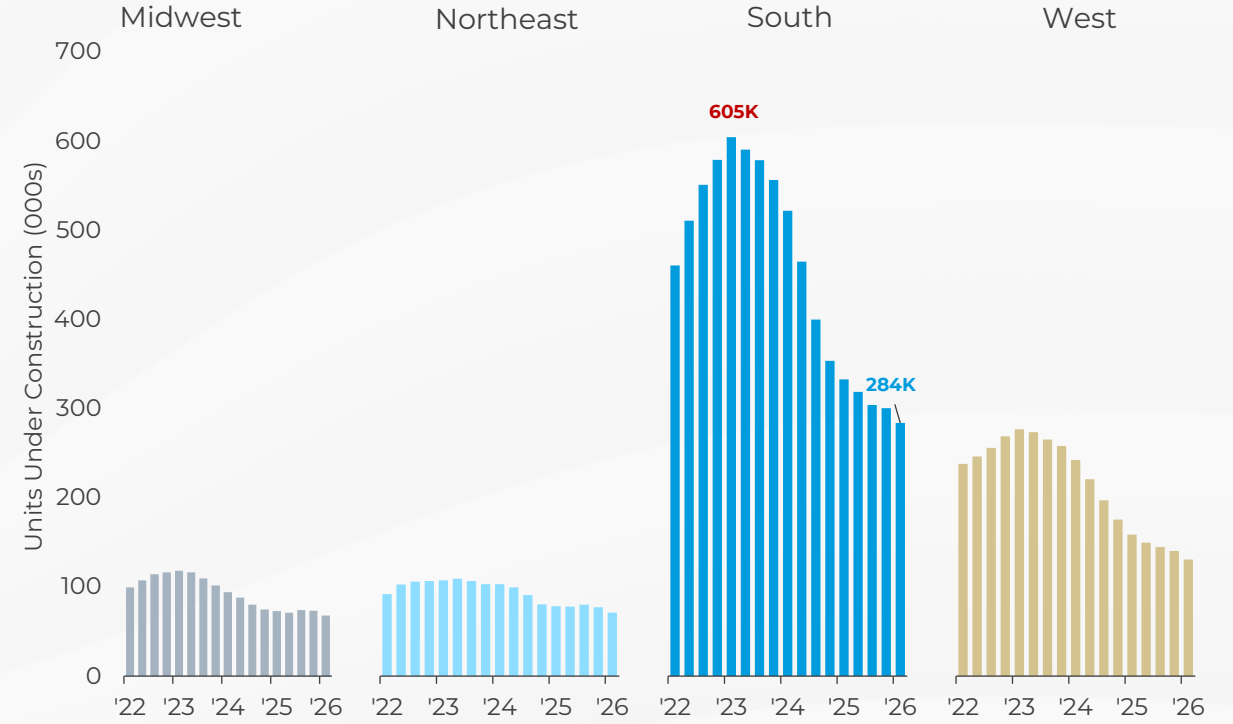
# Wage Growth Outpaces Lease Trade-Out Rates in High-Supply Markets

**South, West Trade-Out Rates Well Below Wage Growth**



- Oversupply in South and West have boosted rent affordability
- Lease trade-outs stabilizing as completions have slowed
- Midwest, Northeast wage growth premium over lease trade-outs narrower

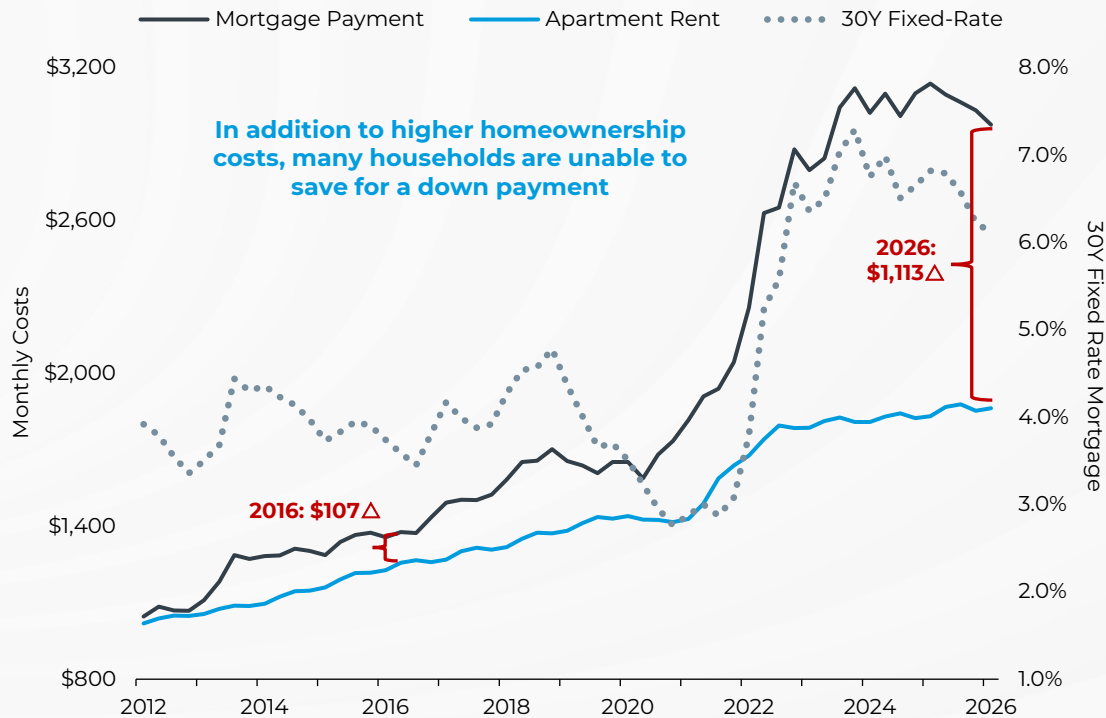
**Construction Activity Falling Across All Regions**



- Unprecedented supply wave in the South has passed
- Units underway by South region declined from 603K in 2023 to 284K in 2026
- Construction timelines have gotten longer following COVID

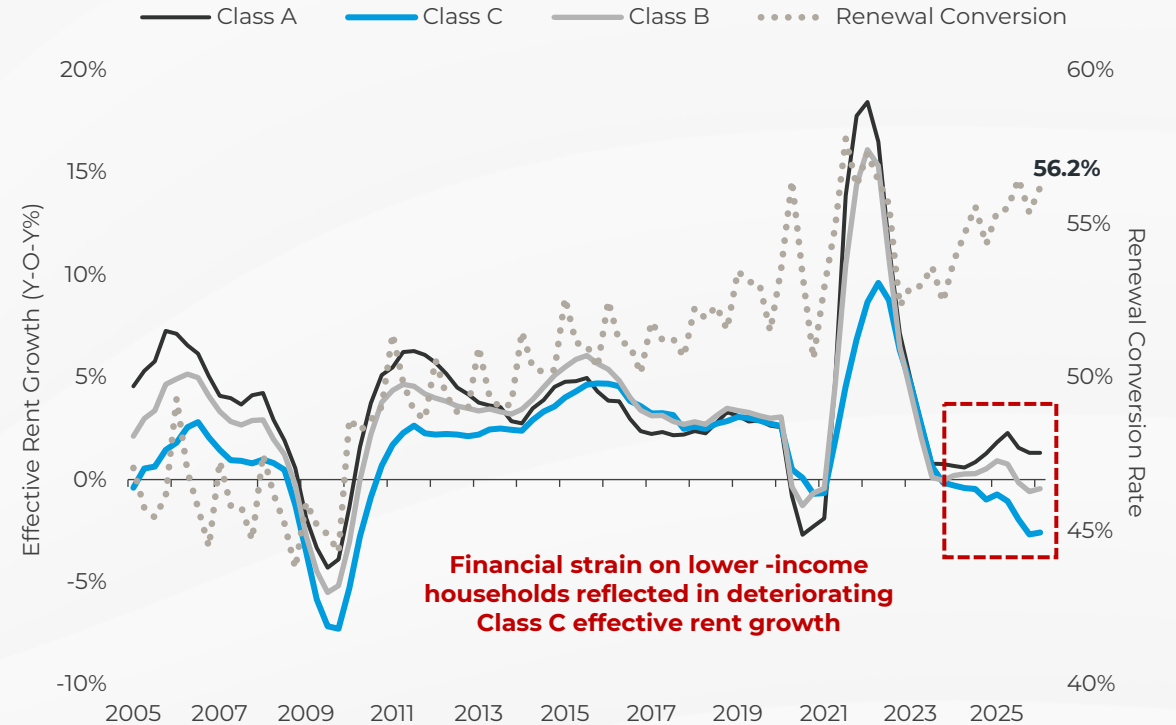
# Unaffordable Homeownership Lifts Renewals, But Not Rents

### Renting Vs. Owning Gap Eased, Stays Near Record



- High mortgage rates, record home values lead to worsening affordability
- Monthly homeownership vs. rent gap more than 10x higher than in 2016
- Average age of first-time homebuyer in 2025 is 40 years old, up from 30 in 2015

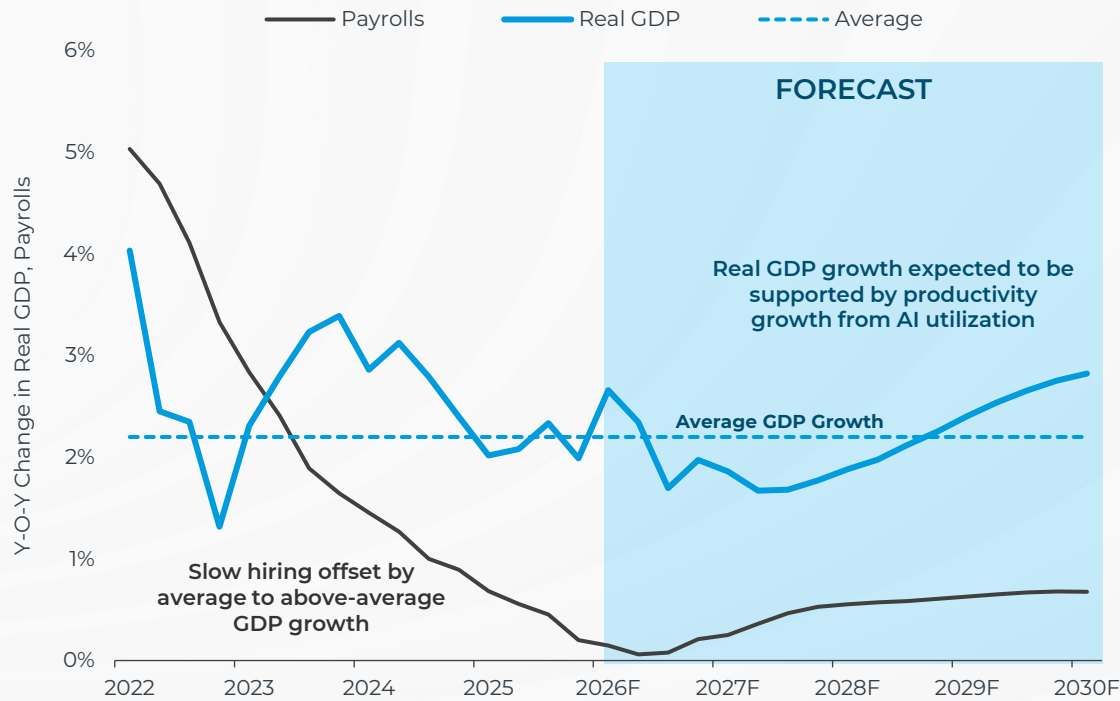
### Renewal Conversions Climb But Rent Growth Still Tepid



- U.S. renewal conversion rate rises to 56.2%, approaching 2022 peak of 57.8%
- Effective rent growth has been modest since 2023, even as renewals climb
- Class C rent declines point to financial strain on lower-income households

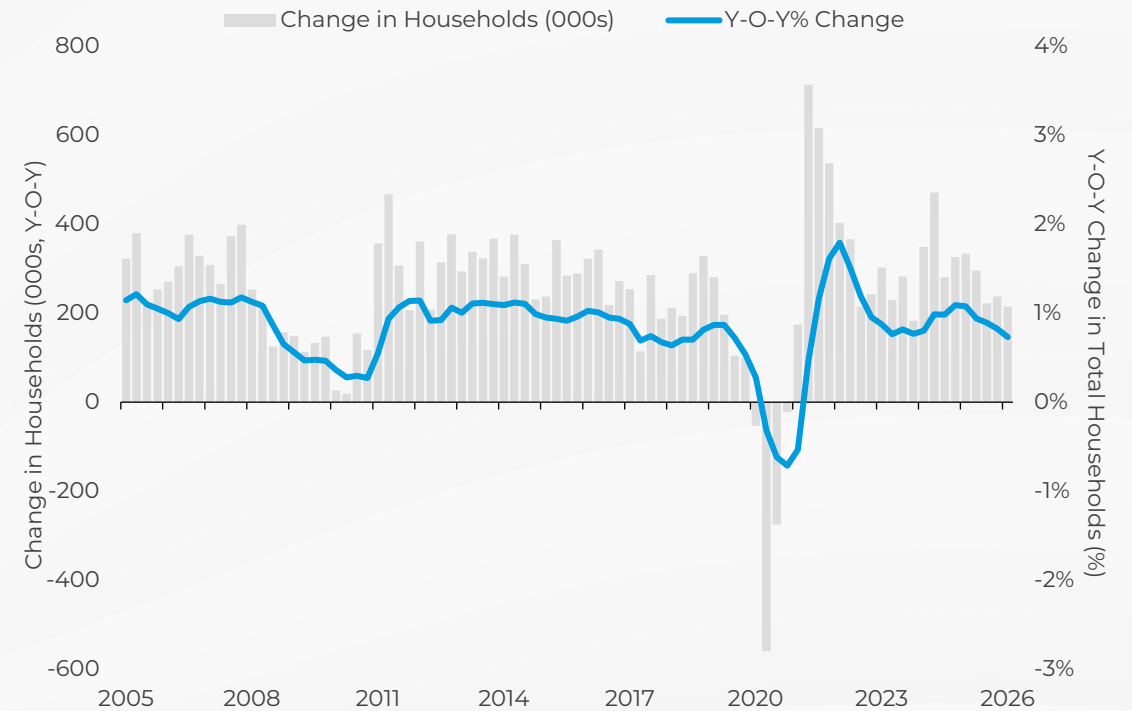
# Productivity Growth, Demographics Underpin Long-Term Rental Demand

## Hiring Slower, But Productivity Buoy Real GDP Growth



- Job growth expected to rebound modestly in 2026
- Despite slow hiring, AI productivity gains expected to sustain GDP growth
- Q1 2026 real GDP growth of 1.6% reflect headwinds from near-term uncertainty

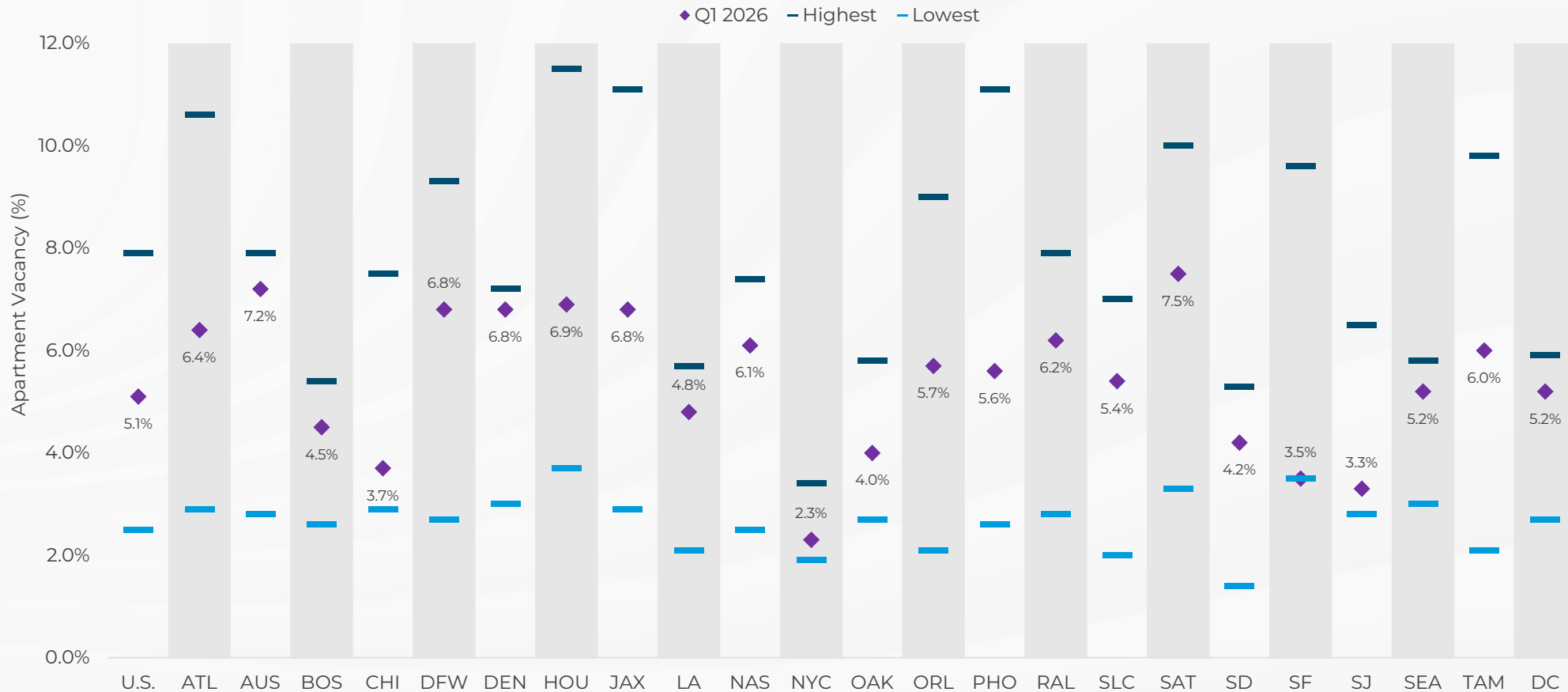
## Household Formation Pace At Historical Average



- Q1 2026 household formation pace at historical average: 0.8% annually
- No indication of widespread recoupling as seen during pandemic, GFC
- Single-person households now the majority of new household formations

# Wide Variation Between Geographies as National Apartment Vacancy Tightens

Highest, Lowest, and Current Stabilized Apartment Vacancy Rates by Major Market (since Q1 2010)



- Vacancies in most metros are off their recent cyclical highs, although some markets continue to work through record levels of new supply
- Some metros, including Chicago, New York, San Francisco, and San Jose, are at or near historic lows supporting Opportunistic strategies
- Most markets are at or approaching equilibrium vacancy (the rate at which rent growth is sustainable) supporting Core, Core+, and Value-Add strategies

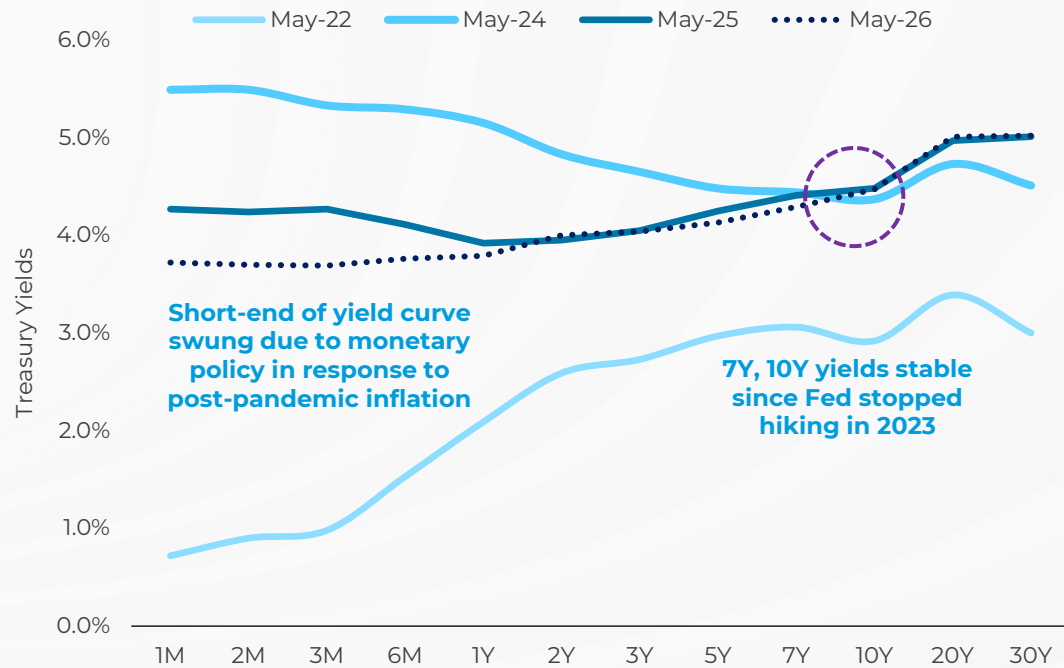
# *Financing*

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June 2026

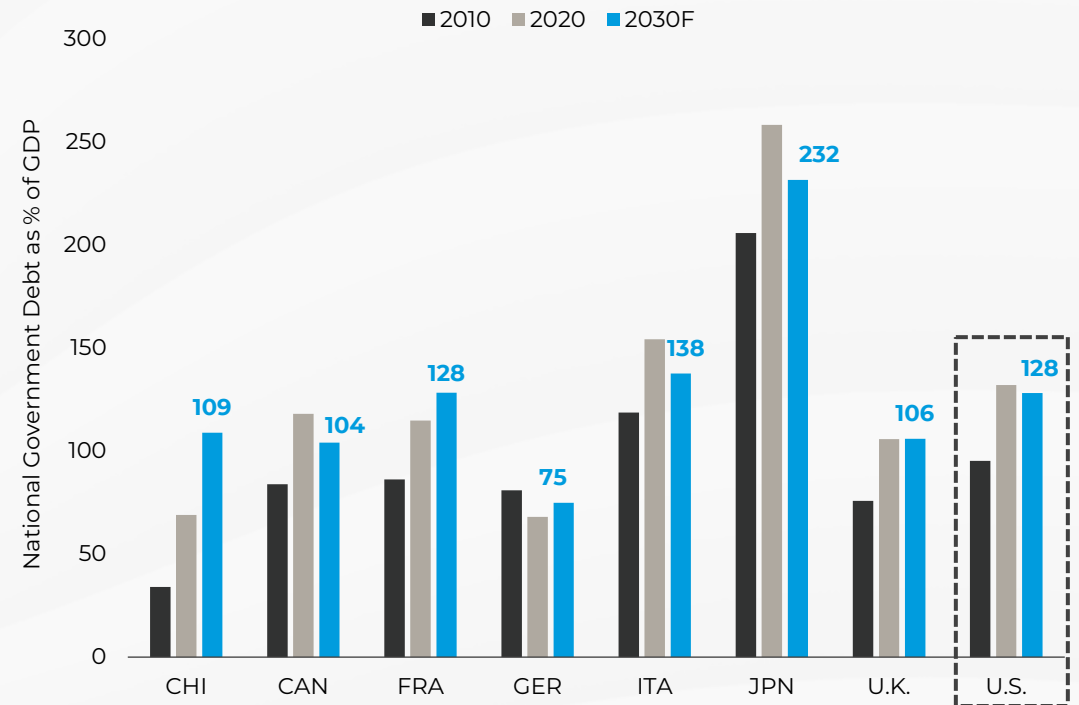
# U.S. Treasury Yields: Higher-for-Longer, but Long-End Has Been Stable

**Long-End of Yield Curve Has Been Anchored**



- Fed hiking, which began in 2022, pushed entire Treasury yield curve upward
- Whipsaw of yield curve's short-end reflects aggressive monetary policy
- Assumption of longer-term inflation stability being tested by energy shock

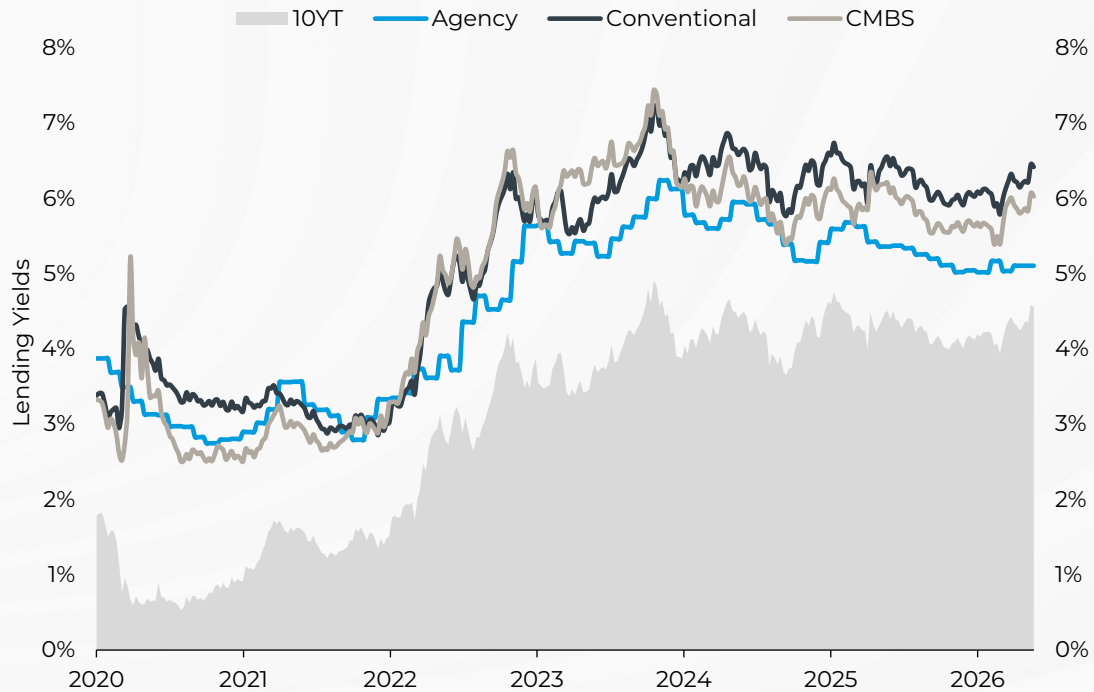
**Though Heavily Indebted, U.S. Still "Cleanest of the Dirty Shirts"**



- By 2030, China and 6 of G-7 countries could exceed 100% debt-to-GDP
- Despite debt load, U.S. remains largest, most dynamic economy globally
- *Impact of persistent inflation on borrowing costs? See pg. 28*

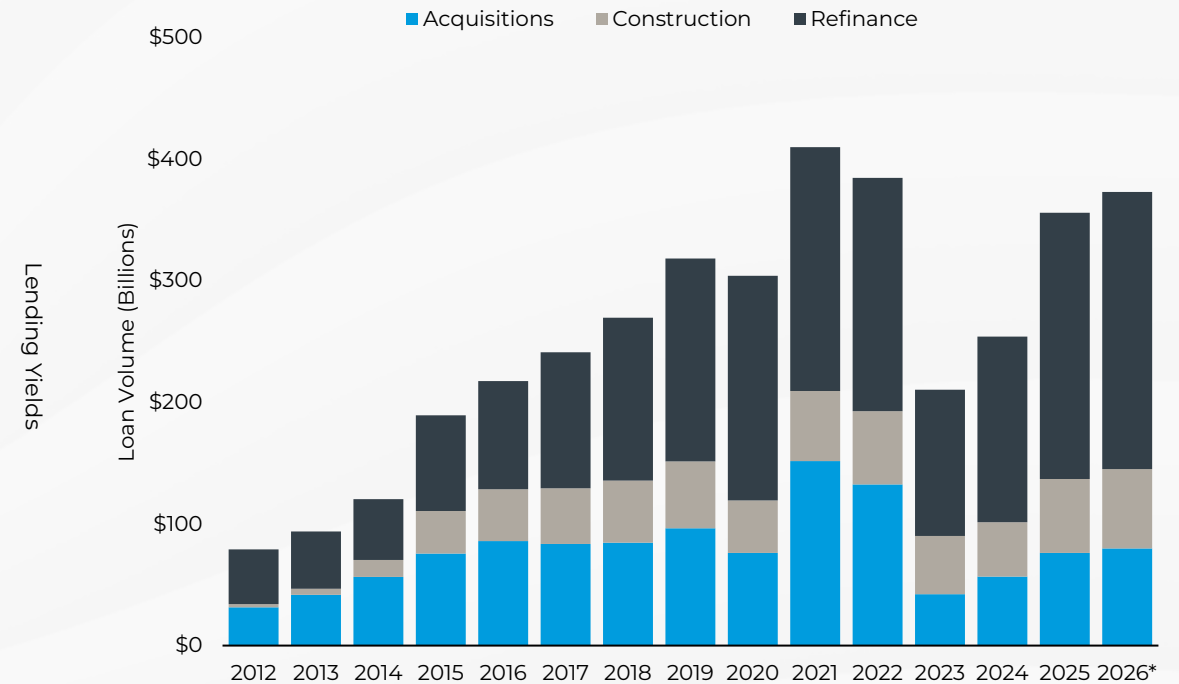
# Debt Costs Reset, and Originations Activity Accelerates

**Higher Borrowing Costs Persistent ...**



- 10YT yields have dipped below 4.0% only 16% of the time over past three years
- Agency debt spreads continue to be tighter than other lenders
- Debt capital availability is accommodating current maturity wave

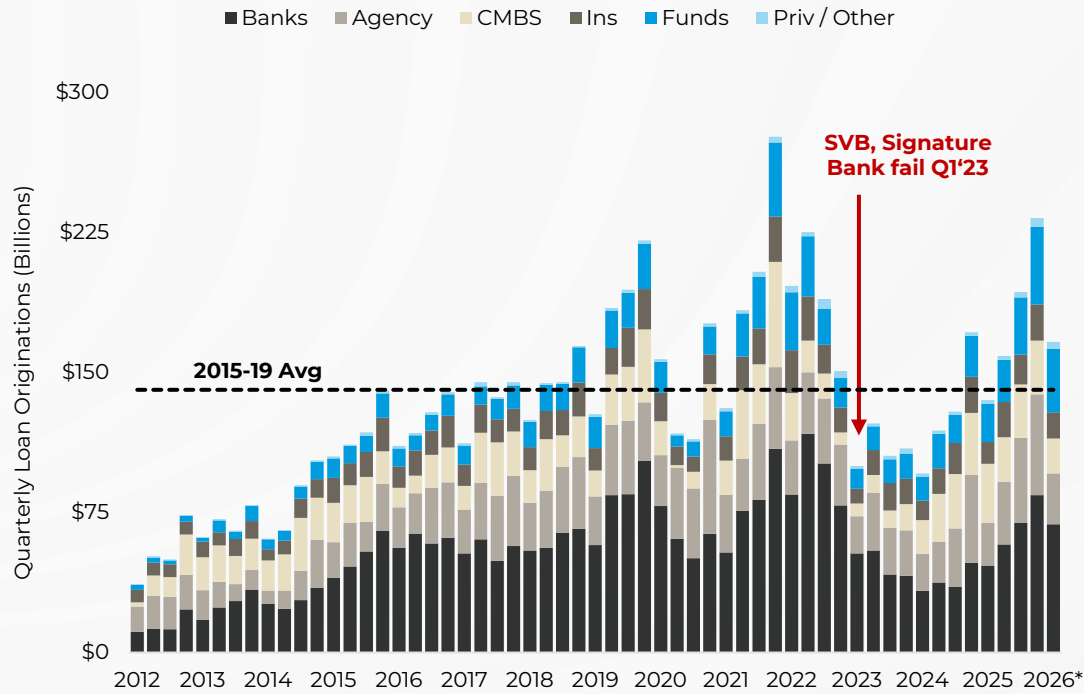
**Though Not Slowing Originations Activity**



- 2025 full-year originations volume 40% higher than full-year 2024
- Trailing 1-year originations activity as of Q1 2026 highest since 2022
- Originations activity above 2015-19 average as debt capital flows are ample

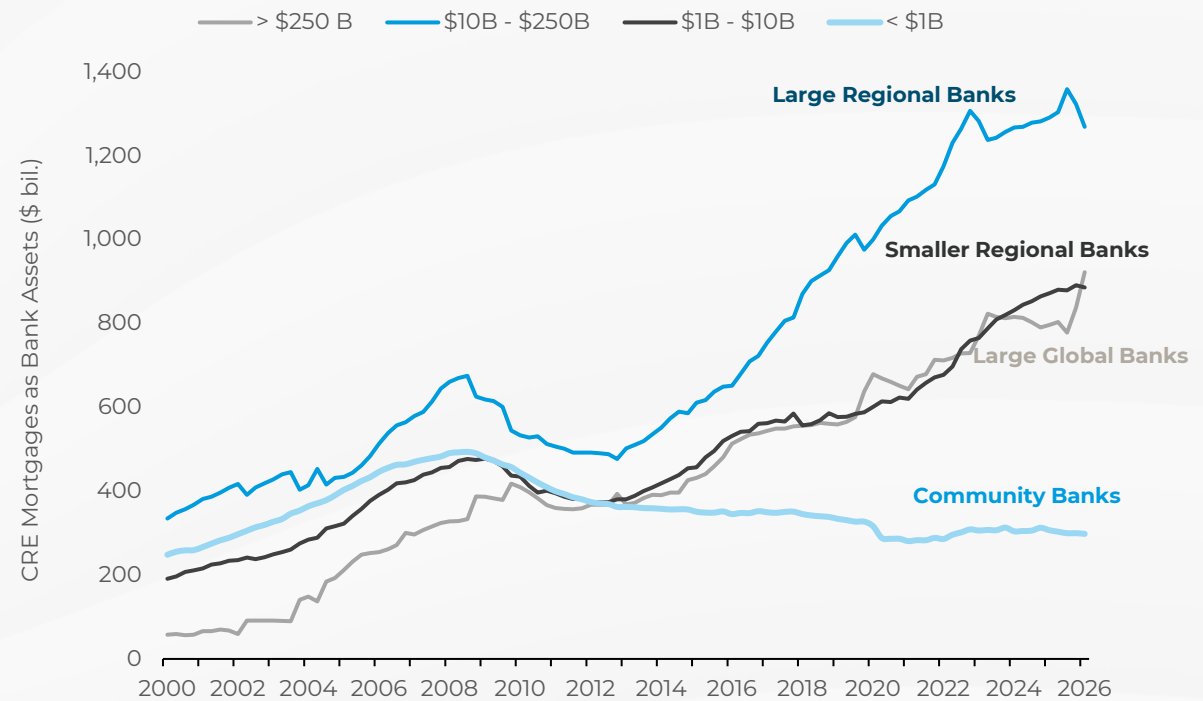
# Regional Banks Return to CRE Lending Following a Pause

## Following a Dip, Originations Pace Now Above Average



- Over the past year, bank lending pace has accelerated
- During early 2010s, large regional banks aggressively increased exposure to CRE
- SVB, Signature bank failures in 2023 highlight asset liability duration mismatch

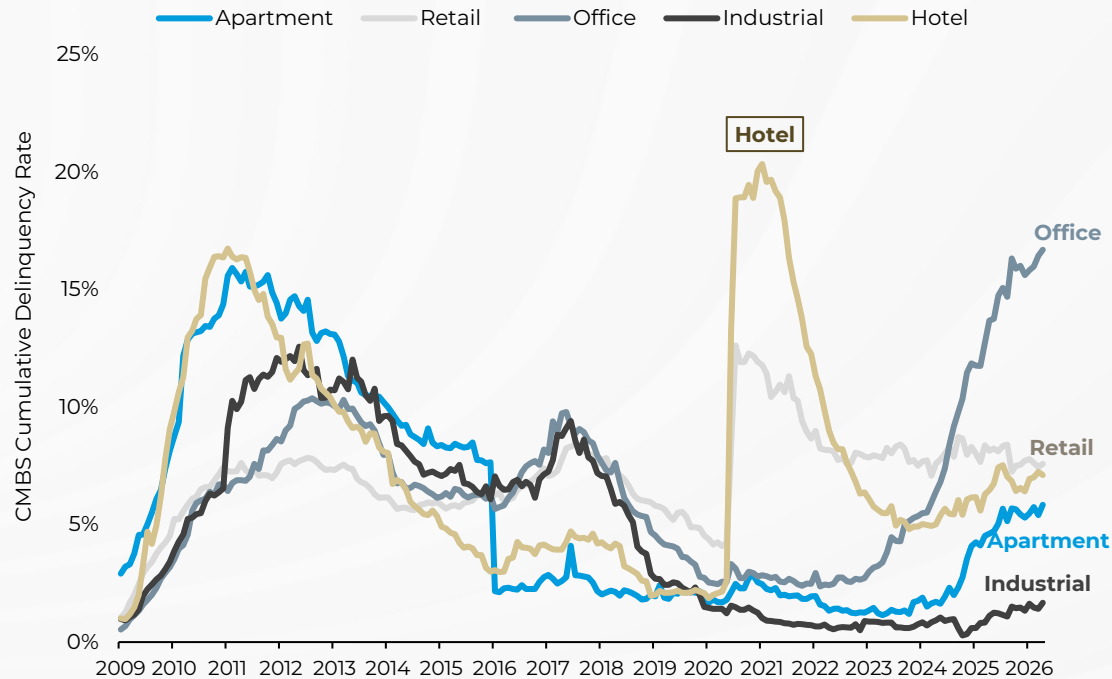
## Large Regional Bank Exposure Leads Other Bank Lenders



- Banks half of CRE lending in 2022 but only a third during 2023-2025
- Large regional bank loan portfolios total ~\$1.3T as of Q1'26
- Spikes in CRE loan levels often attributable to bank mergers, acquisitions

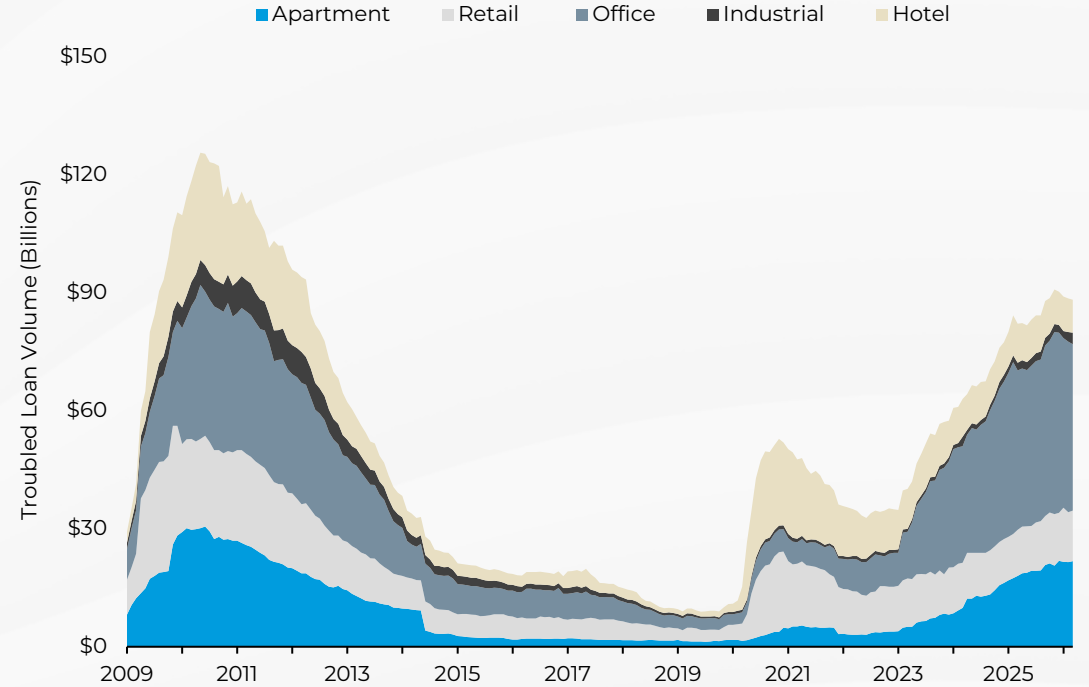
# Delinquencies Elevated, But Distress Plateauing

### Moody's Delinquency Rates Stabilizing, Except for Office



- CMBS delinquency rate across all properties 9.1%, highest since March 2013
- DQs show indications of stabilization, except for office
- Office has highest DQ (16.7%) of any sector

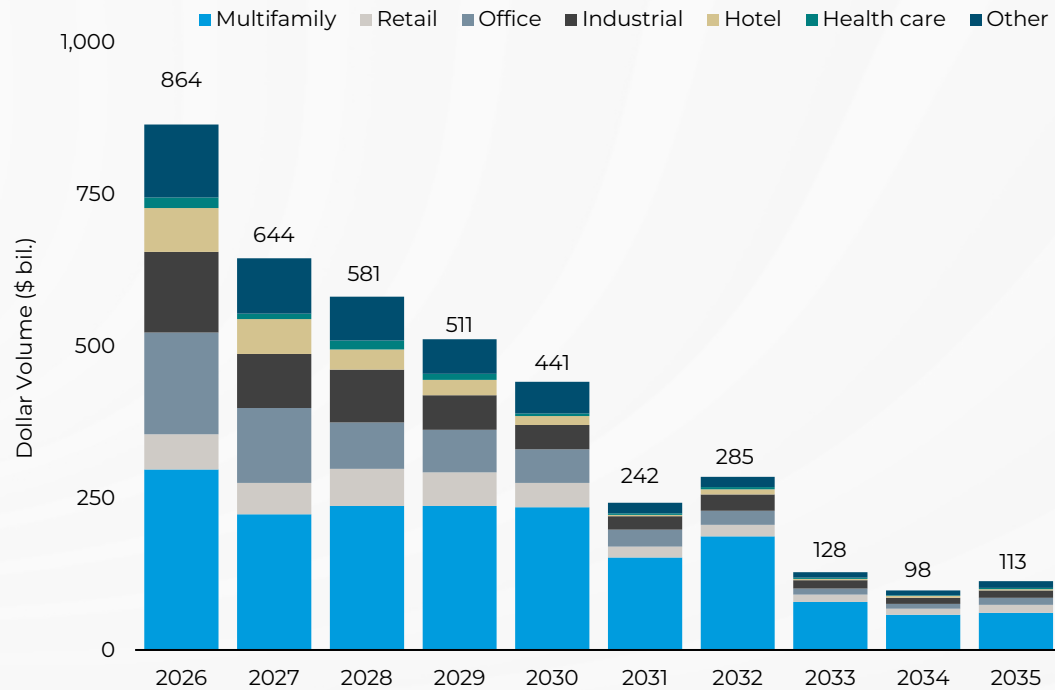
### Office, Apartments Make Up Majority of Troubled Loan Volume



- 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

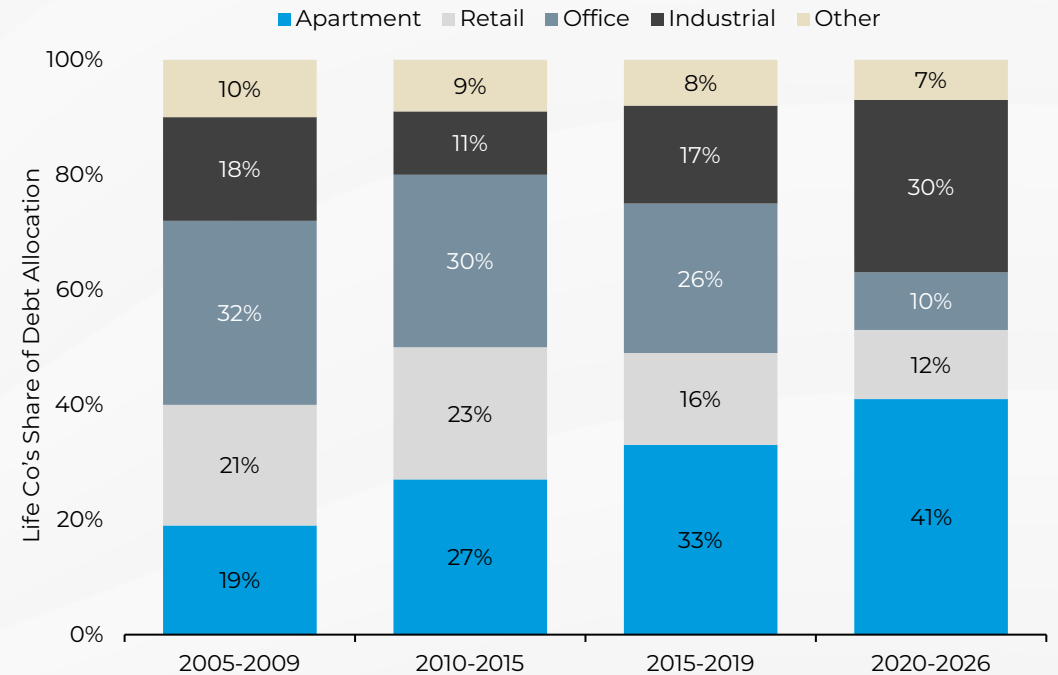
# Maturity Wave Eased by Institutional Investor Debt Appetite

**Maturity Wave Rolls On**



- Debt capital not “cheap” but it is available and accommodates maturity wave
- Lending spreads under pressure with increased probability of rate hike in 2026
- Upcoming multifamily debt maturities outpace other property sectors

**Life Companies Have Increased Allocations to MF Debt**



- Life insurance companies serve as a primary source of long-term debt capital
- Borrower demand shifting towards shorter fixed-rate terms
- Allocation to multifamily debt has more than doubled over past 10 years

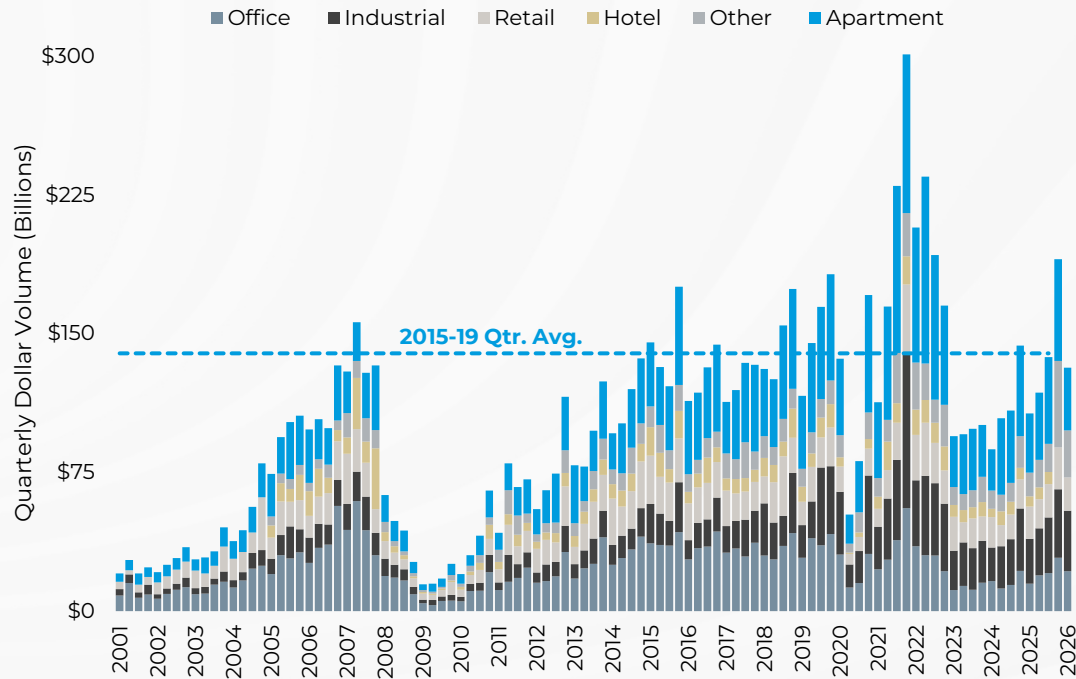
# *Transactions & Capital Sources*

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June 2026

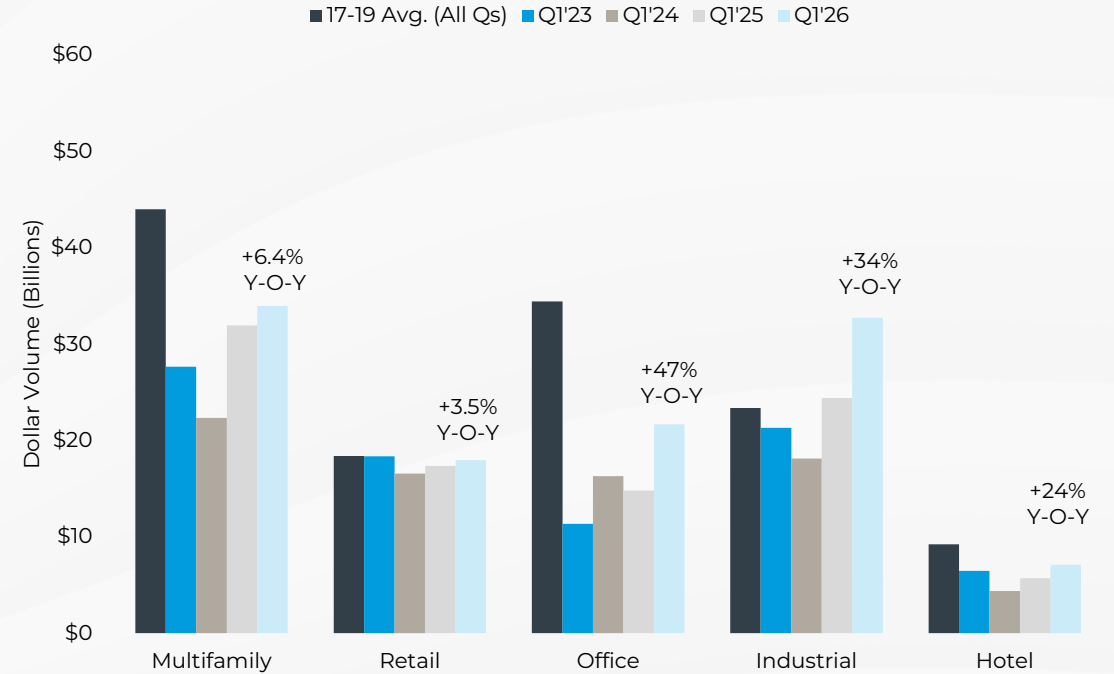
# Q1 2026 Sales Volume Returns to Pre-Pandemic Pace

### Q1 Dollar Volume Approaches 2015-2019 Average



- Q1'26 volume reaches 2015-2019 quarterly pace ...
- Even though Q1 tends to be the slowest transaction quarter in a given year
- Q4'25 activity jumped as tariff concerns subsided

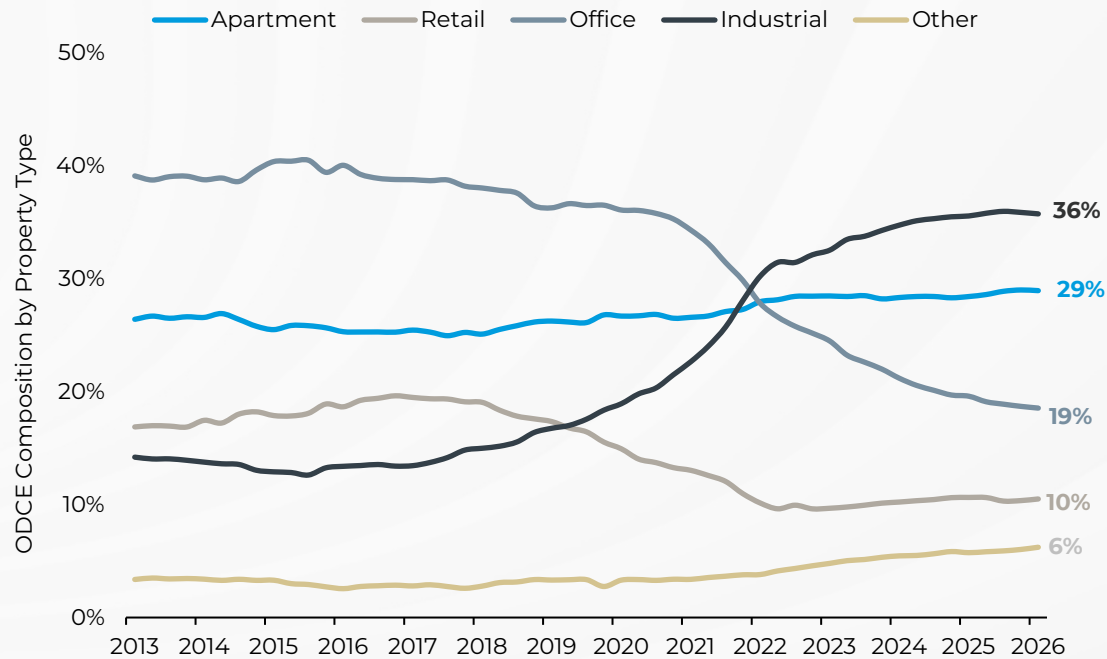
### Quarterly Sales Volume Rebound for Multifamily, Industrial



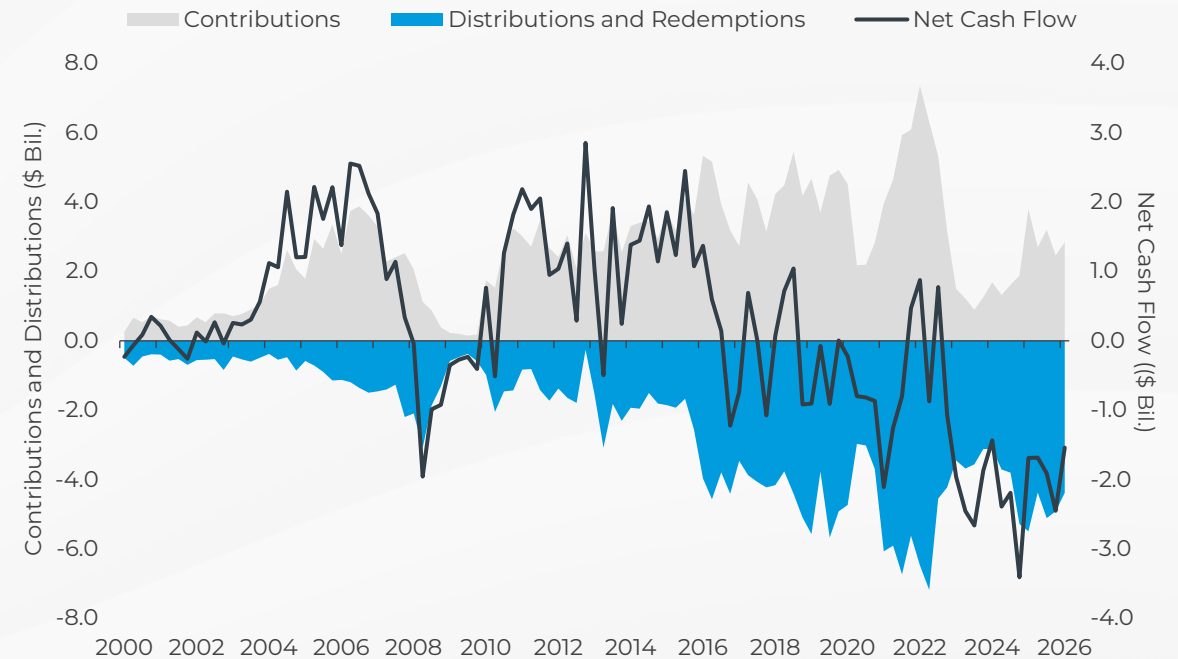
- IPA research's proprietary transaction data shows recent trends by sector
- Multifamily, Industrial rebounds notch a second year
- Middle East conflict stalled what was a promising quarter for sales activity

# Diversified Core Funds Reposition as Outflows Deepen

## ODCE Property Allocation Shifted to Industrial, Niche



## Open-End Core Funds Challenged by Redemptions

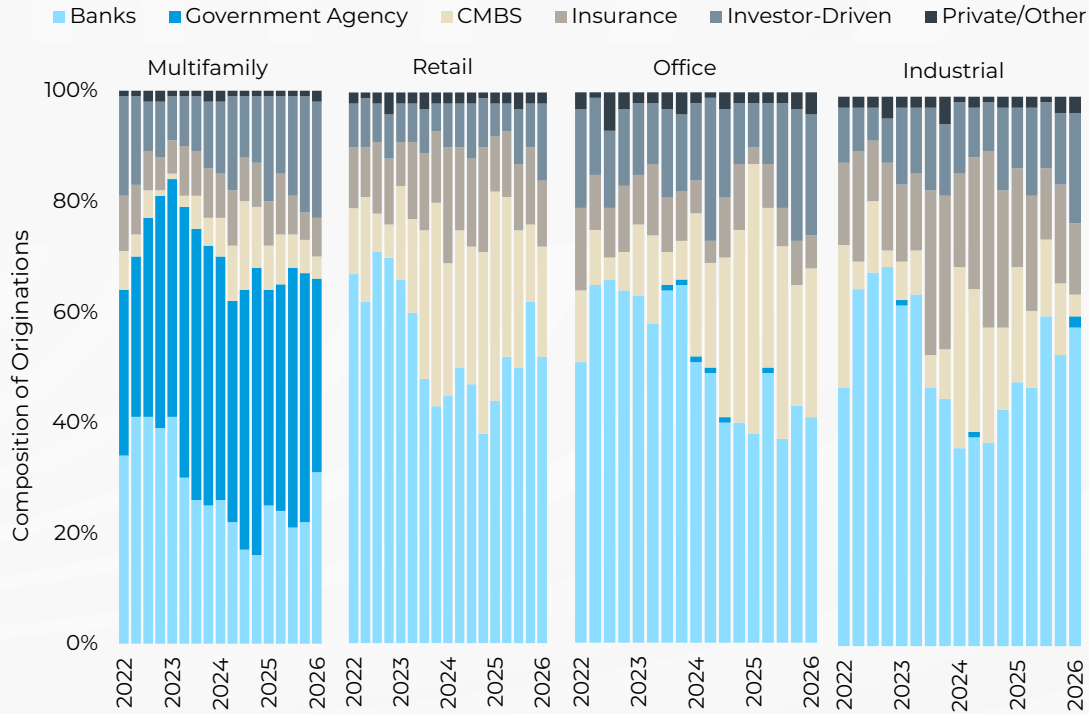


- Major shift in institutional diversified CRE portfolios over past 10-15 years
- Office composition of ODCE declined from 39% to 19% from Q1'13 to Q1'26
- Niche sectors exposure has increased, still only represents 6% of ODCE

- ODCE net cash *outflow* is \$33.4 billion in aggregate since the 2020
- Slow appraised valuation adjustment post-pandemic spur redemptions
- Entrants into ODCE deterred by below-average performance

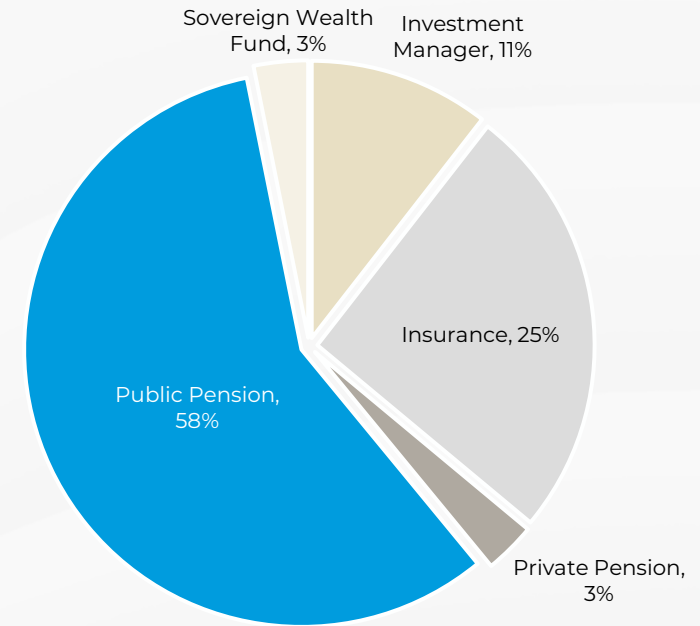
# GSEs and Public Pensions Anchor Multifamily Capital

### 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
- GSE Privatization push on hold due to changing cabinet leadership

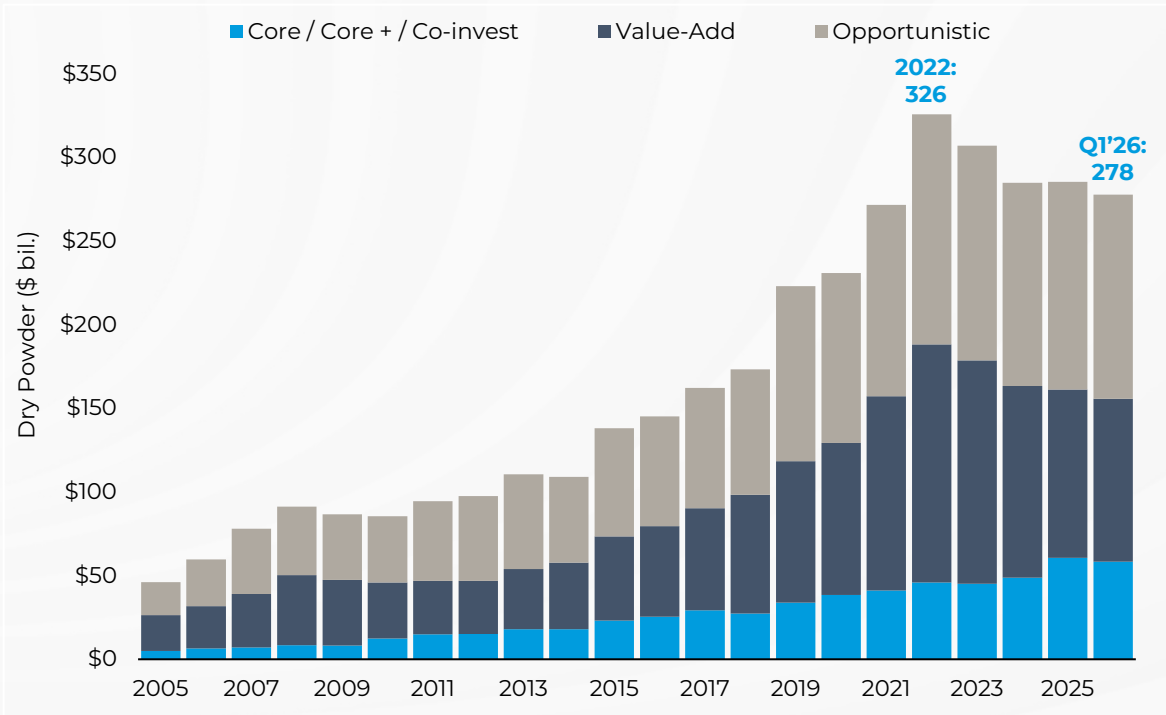
### Institutional Investors by Aggregate Real Estate Allocation



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

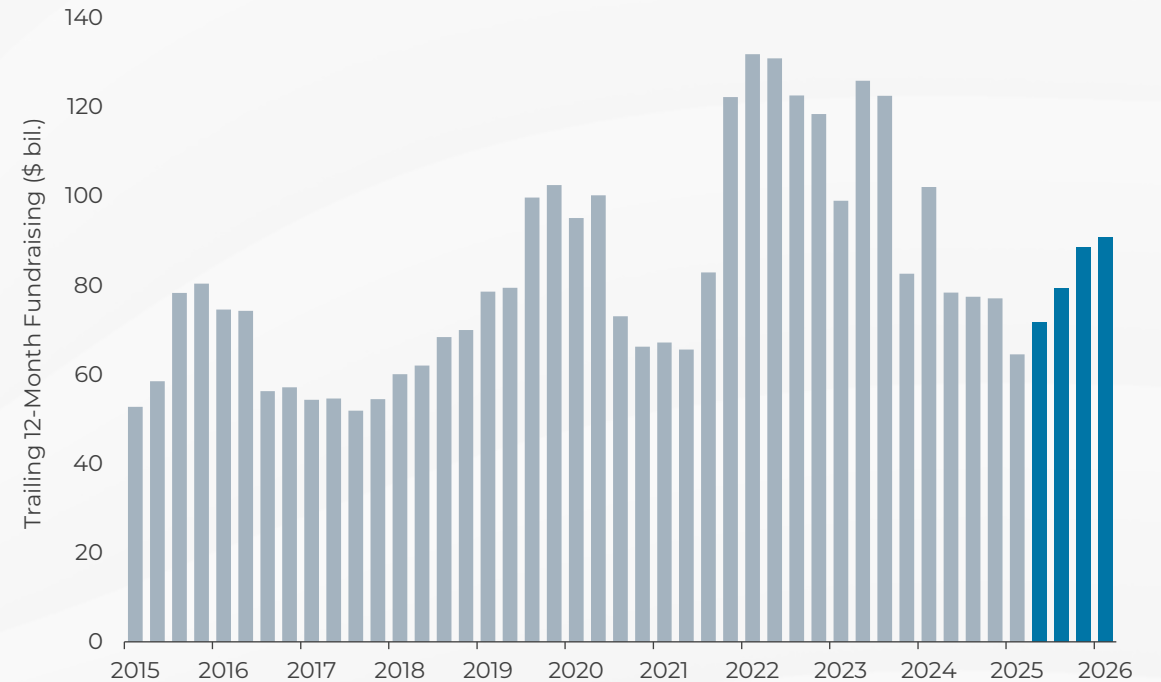
# Dry Powder Recedes as Equity Real Estate Fundraising Rebounding

**North American Equity Fund Dry Powder 15% Below 2022 Peak**



- Fund dry powder off peak, but deployment challenges persist
- Opportunistic funds contend with higher construction debt costs
- Value-add funds seeing a slower rebound in demand relative to past cycles

**U.S. Equity Real Estate Fundraising Rebounds After Slump**



- Strategies include core, core+, value-add, opportunistic, and co-investment
- Quarterly trend for North American fundraising bottomed in Q4 2024
- Mega CRE funds accounted for most of the capital raised in recent quarters

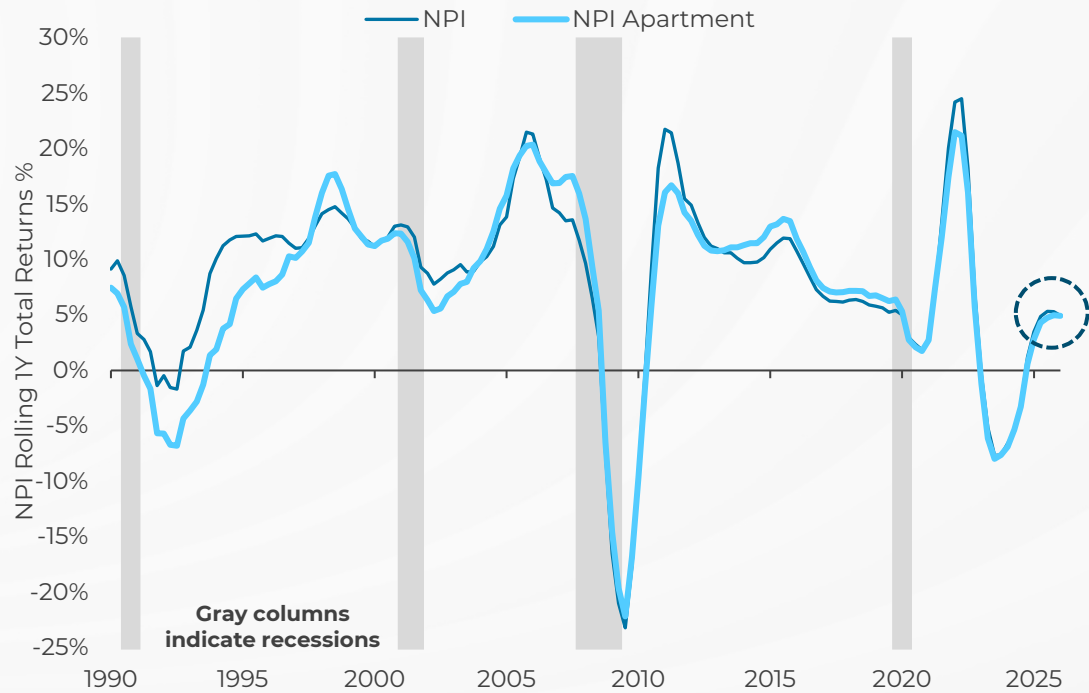
# *Returns & Pricing*

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June 2026

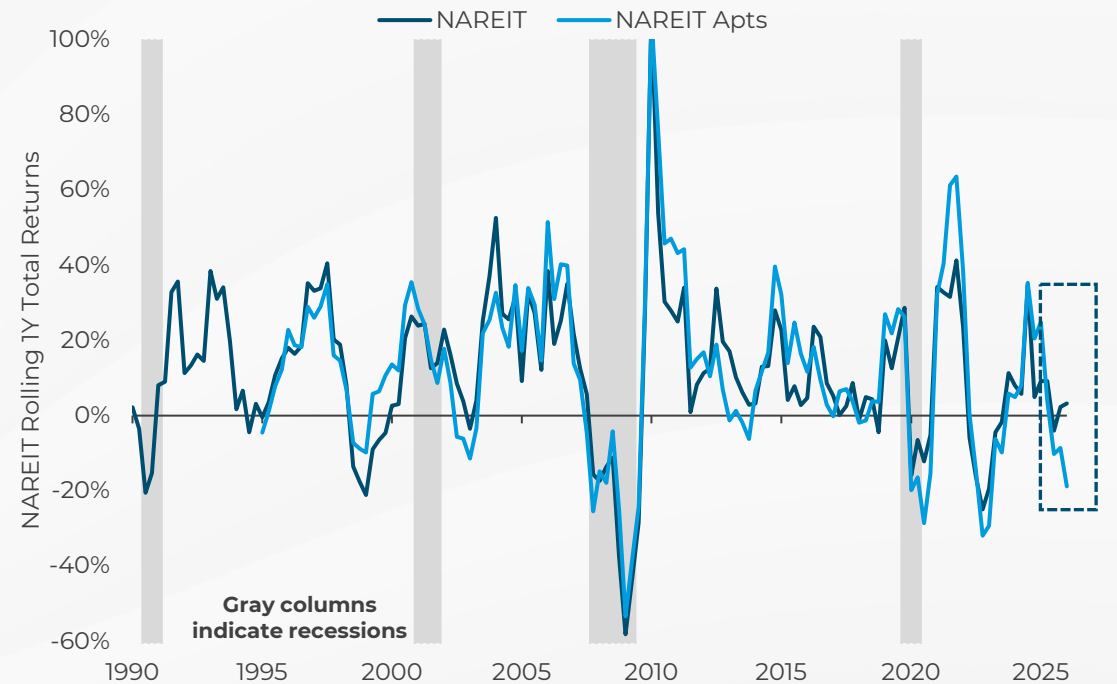
# Public Apartment Return Performance Lagging Private

**Total Core Returns Continue to Trend Positively**



- Past recoveries have presented a window to achieve outsized returns
- 1Y NPI Apartment total return 5.0% for Q1'26 versus 8.0% since inception return
- Total quarterly returns positive for the last 10 quarters as of Q1'26

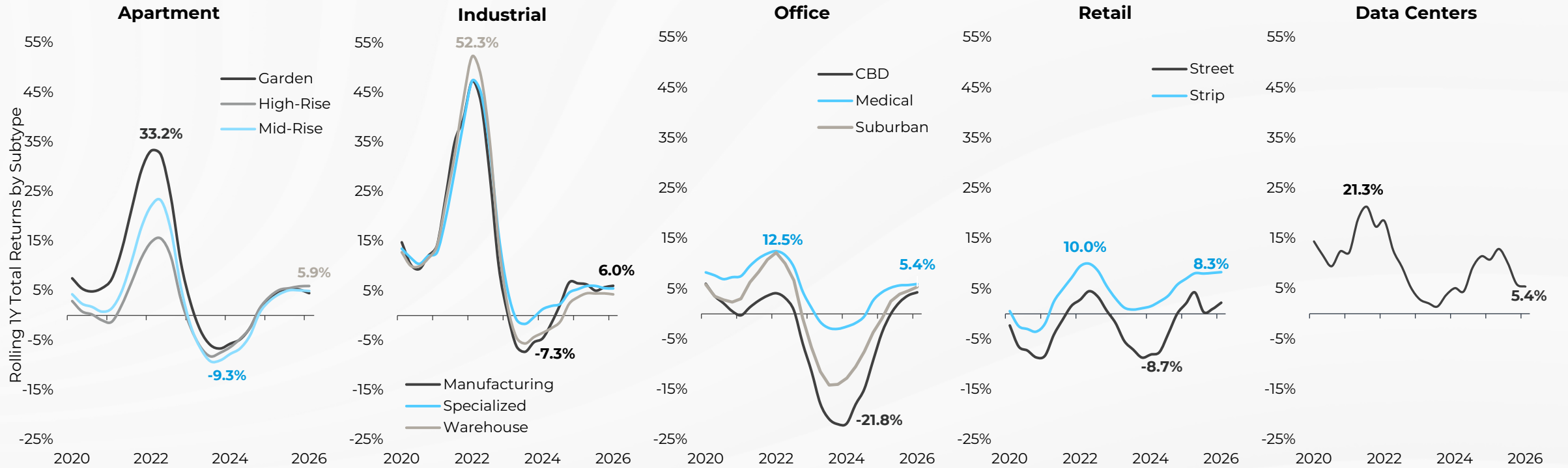
**Apartment REITs Increasingly Undervalued**



- Public REIT all properties total 1Y return 3.8% as of Q1'26
- Apartment REITs total 1Y return -18.8% as of Q1'26 versus 24.9% in Q1'25
- Tough capital raising environment for Apartment REITs

# Sub-Property Type Returns Converge Following Correction

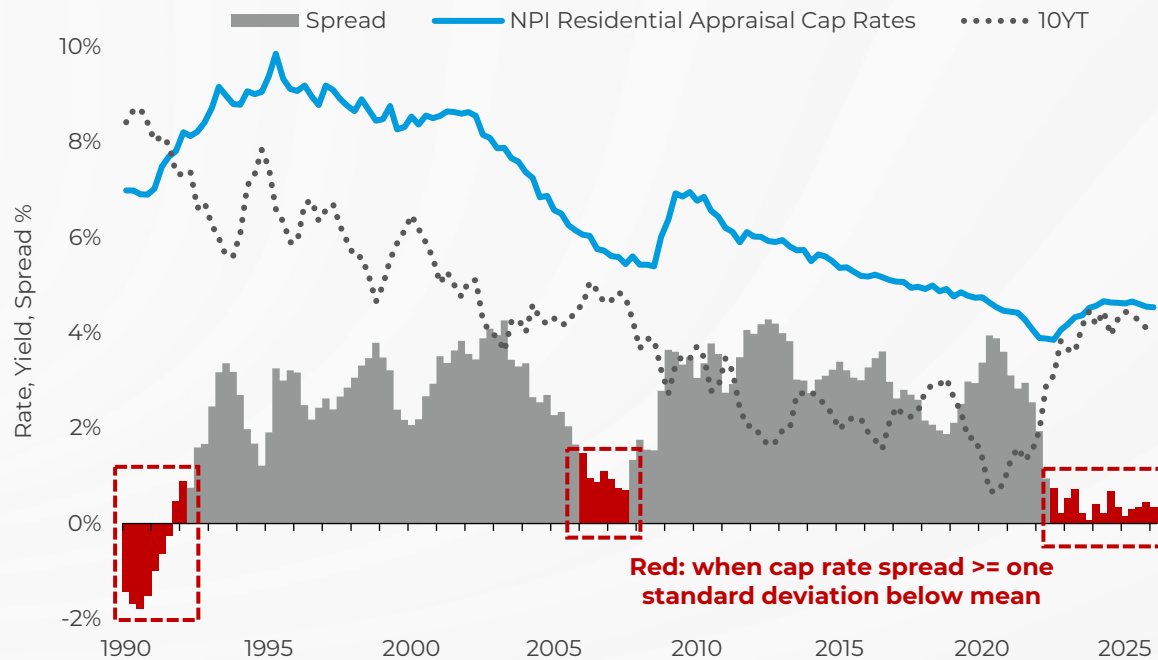
Rolling 1-Year Total Returns by Sub-Property Type



- Sub-property type total returns varied widely 2021-2022
- As recovery materialized, subtype returns converged for Apartments, Industrial
- Q1'26 Data Center 1Y trailing returns have also slowed to 5.4% versus 4.9% for NPI

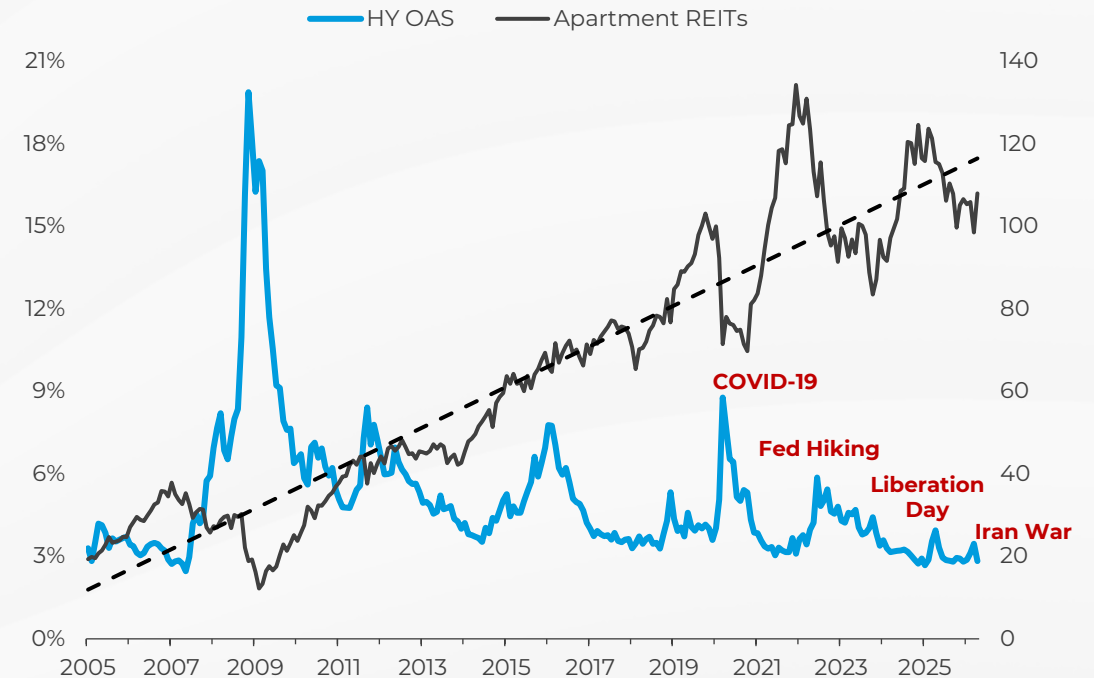
# Risk Premiums Stay Compressed as Markets Absorb Shocks

## Real Estate Risk Premiums Compressed for 4 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 past 16 consecutive quarters

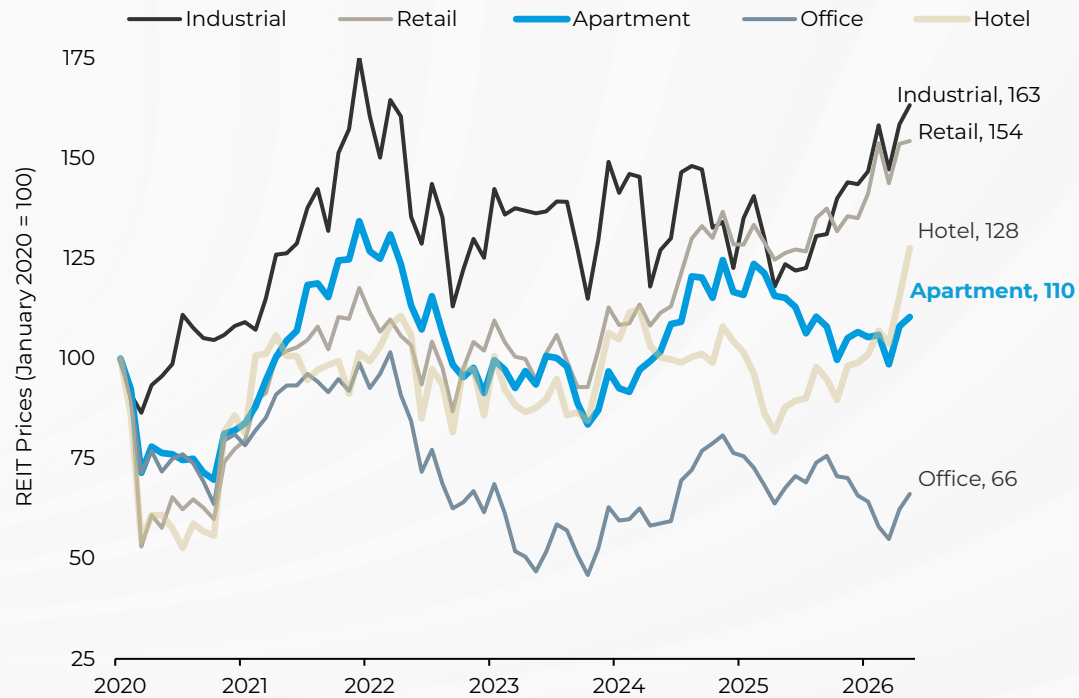
## Bond Market Shrugs Off Iran War



- High yield option-adjusted spread a proxy for quantifying market shocks
- Despite consumer stress, bond market views energy shock as momentary
- Apartment REIT total return index fluctuates around long-term trendline

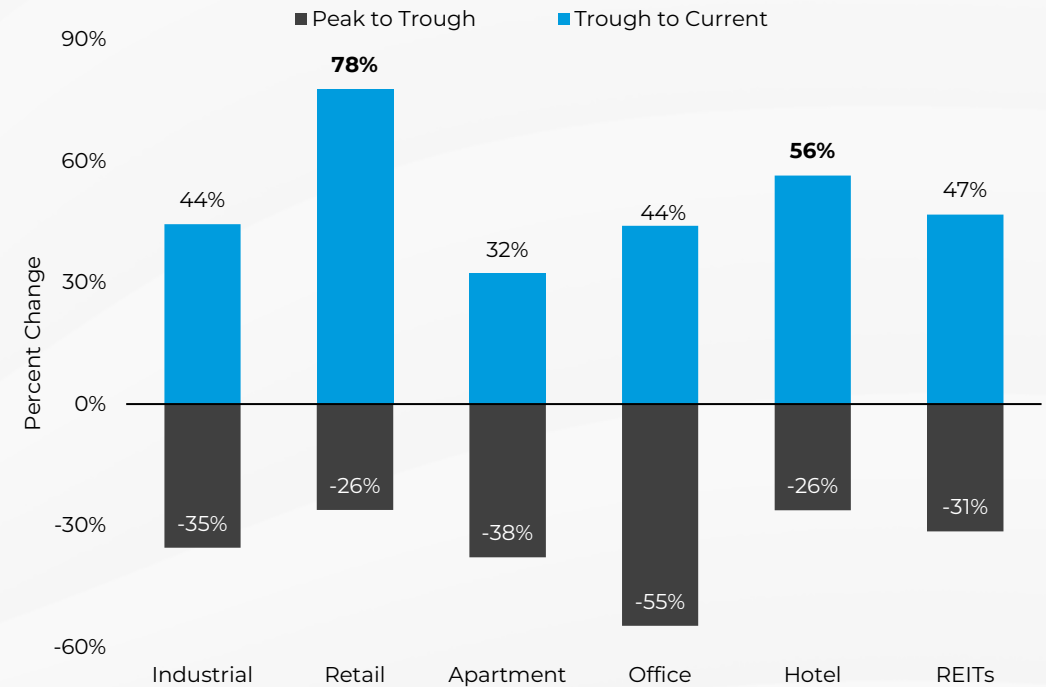
# Sector Narratives Diverge with Hotel, Retail Gaining Traction

**Public Price Trends Diverge by Property Type**



- REIT prices surged after lockdowns lifted, helped by public stimulus ...
- Then aggressive Fed hiking resulted in deep value resets
- Among types, different demand narratives are driving divergent price trends

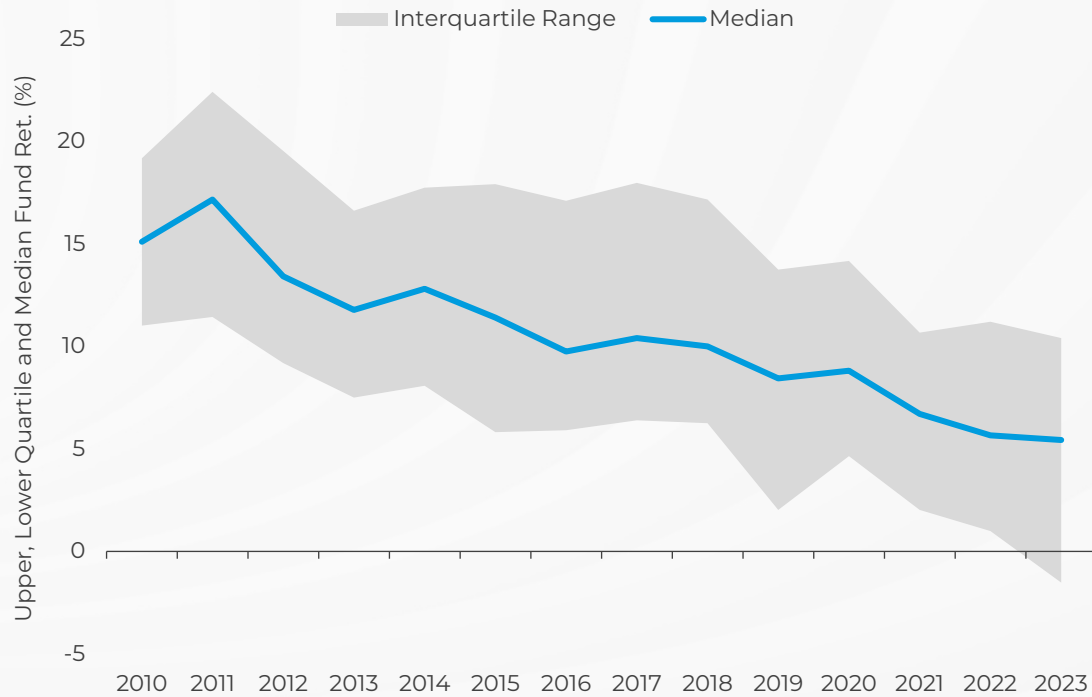
**Hotel, Retail Surge Past Prior Peaks**



- Retail and, more recently, Hotel have exceeded prior peak
- Other property types remain below their prior peaks
- Uncertainty, macro headwinds, volatility weigh on traditional sectors

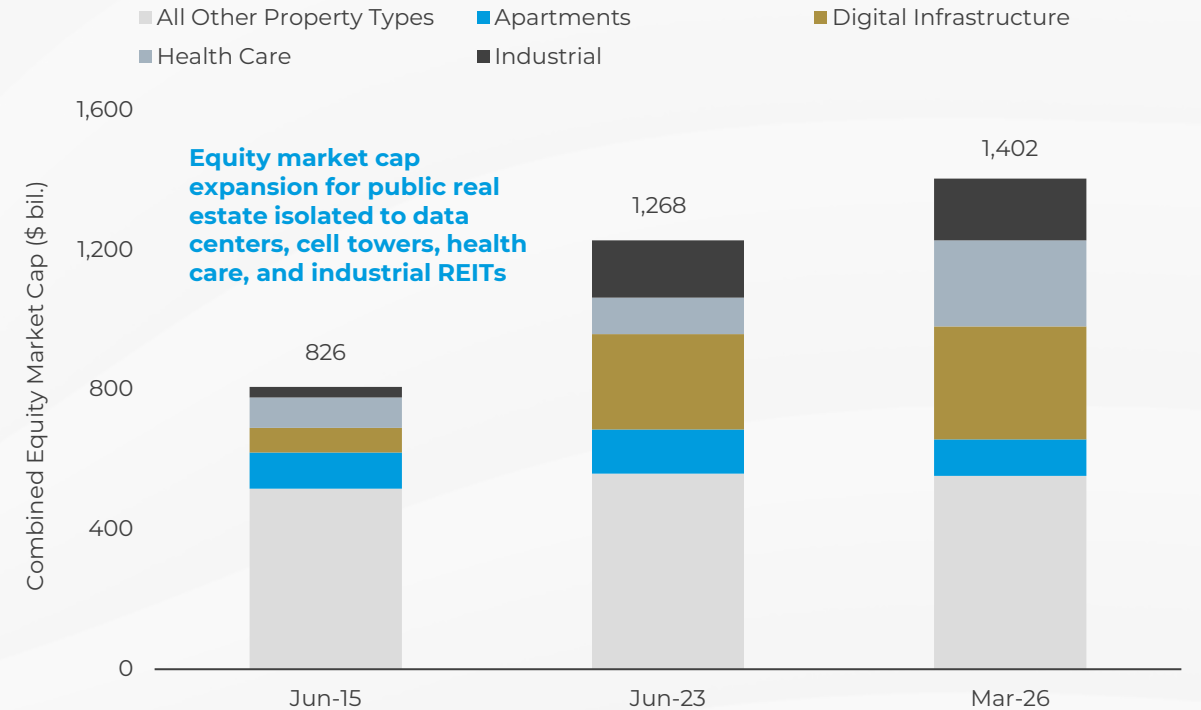
# Capital Competition Intensifies Within Traditional Sectors

## North American Private Real Estate Fund Return Performance



- Median total return performance of private real estate has declined over time
- Dispersion of top and bottom performers (shaded area) has widened
- Competition for capital may lead to further consolidation among managers

## Public Real Estate Capital Flocks to Industrial, Alternatives



- Expansion of Public REIT universe has come from alternative sectors
- Market cap of traditional sectors, including apartments, has been flat
- AVB, EQR merger suggest capital scarcity increased competitive pressures

# Consideration of Major Risk to Outlook

RISK	MITIGANTS	OPPORTUNITIES
<p><b>Iran War Drags On</b></p>	<ul style="list-style-type: none"> <li>• U.S. is world's leading crude and LNG exporter</li> <li>• Apartments insulated from technological, trade uncertainty</li> <li>• Higher oil prices boost nominal rent growth</li> <li>• Private buyers likely to look through near-term volatility</li> </ul>	<ul style="list-style-type: none"> <li>• Sun Belt metros with high-energy industry exposure</li> <li>• Flight-to-safety raises inflows to core, necessity-based CRE</li> <li>• Higher NOI growth could ease investor concern over yields</li> <li>• Public, private apartment values have reset post-pandemic</li> </ul>
<p><b>Persistent Inflation Keeps Base Rates Elevated</b></p>	<ul style="list-style-type: none"> <li>• Inflation lifts nominal rent growth outlooks</li> <li>• Long-horizon investors can underwrite strong rent growth</li> <li>• Risk premium does not need to return historical average</li> <li>• Only a prolonged inflationary cycle would prove problematic</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure to deploy encourages GPs to liquidate</li> <li>• Play the differences between property types, geographies</li> <li>• Asset allocators seek more inflation-correlated investments</li> <li>• Debt capital flows likely to reaccelerate</li> </ul>
<p><b>Labor Market Weakness Deepens and Spreads</b></p>	<ul style="list-style-type: none"> <li>• Slower demand growth offsets price pressures</li> <li>• Productivity increases for job-stayers</li> <li>• Fed lowers rates further, debt costs decline further</li> <li>• Wage growth holds positive even as hiring slows</li> </ul>	<ul style="list-style-type: none"> <li>• CRE debt costs decline, favorable for refinancing</li> <li>• Construction slowdown extends, exacerbating undersupply</li> <li>• Demand for creative structuring solutions still required</li> <li>• Capital flows into secondaries, debt increases</li> </ul>
<p><b>AI Bubble Bursts, Equity Markets Sink</b></p>	<ul style="list-style-type: none"> <li>• Rate hikes have given Fed ammo to be accommodative</li> <li>• AI compute costs have risen rapidly, slowing adoption</li> <li>• Private real estate has weathered equity volatility</li> <li>• Apartments in tech markets below peak pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Core / Core+ open-end funds could see additional inflows</li> <li>• Lower rates combined with slow growth positive for values</li> <li>• Capital chasing data centers could divert to multifamily</li> <li>• Pause in breakneck pace of AI adoption could firm hiring</li> </ul>

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