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3% CHANGES EVERYTHING

WHY PREDICTABLE RENT GROWTH WILL REVITALIZE U.S. MULTIFAMILY REAL ESTATE

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KEY TAKEAWAYS

- The magic number - predictable rent growth is the crucial catalyst needed to restart transaction activity.
- The market is approaching an attractive investment window before consensus recognizes the recovery.

The U.S. multifamily real estate market isn’t broken…but it certainly feels stuck lately.

Transaction volume during the first half of 2026 was noticeably light, an environment populated by sellers reluctant to accept today’s valuations and buyers solving for return metrics 200-300 basis points higher than in past cycles. The end result is an all-too-familiar sense of frustration, the one thing buyers and sellers seem to agree on these days.

The causes are not a mystery at this point: a pandemic-era construction boom that flooded the Sun Belt with more new units than even record-high demand could absorb; rental rates that flattened and even backtracked in some MSAs; a sharp rise in the cost of capital; and geopolitical uncertainty. Relief on any of these fronts would certainly help reawaken a stagnant marketplace. However, one factor clearly stands out among the rest as the potential Grand Revitalizer: predictable rent growth.

CHART 1

U.S. Multifamily Annual Rent Growth vs. Long-Run Average (3%)

The post-pandemic surge has normalized — and is poised to recover toward the historical mean.

Sources: CoStar Group, RealPage. Illustrative representation of historical trends. 2026–2028 represents consensus market forecast.

What Transactions Actually Require

When speaking to investment sales teams across the U.S., the strongest deals of the past 18 months have a few common attributes. Most prominently, they possess compelling locations coupled with demonstrated leasing momentum.

That second factor is the critical one. When a buyer underwrites a multifamily acquisition, they are asked to make a forward-looking bet – projecting rent and expense growth, modeling an exit, and constructing a return profile that meets their internal hurdles. In a market where rent growth has been flat or negative, that requires signing off on a story about the future rather than one based on the present. A buyer must believe that a market will soon turn and conditions will cooperate. They must rely on intangibles like hope, gut and instinct – each one a notoriously weak underwriting assumption. This is precisely what makes it so difficult to price assets in today's market, creating a valuation gap between the competing narratives of seller and buyer, one desperately hoping to place the focus on the future and the other often rooted solely in the realities of the present.

The deals that commonly clear this gap are the ones where the tale is already being told at the property level; where lease trade outs are strong, occupancy is stable and the local supply pipeline is thinning. Here, buyers are not asked to project and pray, they are merely asked to carry forward current trends. This requires a far lower risk tolerance and leads to more harmony at the negotiating table.

The Magic Number

So when do we begin to see the dynamic shift at a meaningful level? The answer is relatively simple. The answer, in fact, is 3%. Over the past four and a half decades, the average annual rent growth for apartments in the U.S. has been approximately 3%. Something you could put into a financial model and feel confident about achieving over the life of an investment.

The return of 3% annual rent growth – the return of a single, long-standing measure of predictability – will likely engender a cascade of events. Buyers will be able to project forward NOI with reasonable confidence. Exit values will become more defensible. Acceptable investment returns will be reached without heroic assumptions. Valuations will be easier to predict, leading more buyers and sellers to re-enter the fray. All of these factors will bring a sense of normalcy back to the market. All predicated upon the reappearance of 3%.

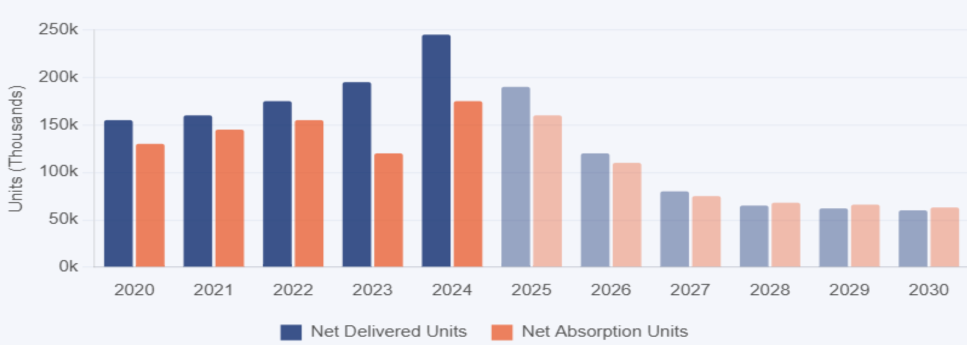
Yes, world peace and lower interest rates would help, but a prospective investment with genuine rent growth is often far more justifiable than one with flat rents and overly optimistic assumptions. Supply tapering creates the conditions for rent growth, but it is the rent growth itself that will change buyer behavior.

The Setup Is Already In Progress

The conditions for a return to 3% rent growth are assembling now. Construction starts collapsed in 2023 and have not recovered. Delivery pressure will contract substantially in most major markets by 2027.

CHART 2

U.S. Multifamily Net New Deliveries (Units, Thousands)
The supply wave is receding. Deliveries drop sharply from 2026 onward as the construction start collapse works through the pipeline.



Source: CoStar Group. 2026–2030 represents forward pipeline based on current starts data. Illustrative.

At the same time, demand has not weakened. The homeownership affordability gap remains near historic highs and the median age of first-time buyers has reached 40, a 12-year increase since 2014. Wage growth has also outpaced rent growth for over three years, meaning renter affordability has improved as nominal rents stalled. That purchasing power has not yet been reflected in lease rates. When supply normalizes, it will be.

Why Timing Matters

In every real estate cycle, the most attractive entry points arrive before the thesis is obvious, before consensus has formed, and before pricing reflects the improving outlook. That window is open now. Assets are trading at or below replacement cost in many areas. The institutional capital that drove 2021 pricing has largely stepped back. The supply correction needed to restore pricing power is underway. It simply has not yet shown up clearly enough to change broad buyer behavior, but it should do so soon.

The assets already demonstrating strong leasing trends are attracting the most competitive pricing today. When those conditions become widespread rather than exceptional, aggressive pricing will follow. The investors best positioned to take advantage will be those who are entering the arena now; those with the conviction to act before consensus catches up to conditions.

CONTACT

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