

Multifamily

A trend of flight to quality among renter households and capital



Jay Parsons

The long-awaited multifamily rebound in the US may hinge upon supply pressures mitigating, led by higher income renters who, if solid wage growth holds, have been seeking quality properties.

► Interior of a luxury loft living room with city view





KEY TAKEAWAYS

SUPPLY AND RENT GROWTH RELATIONSHIP

Investors responded to the 2021 to 2022 rent surge by delivering the 2023 to 2025 supply surge. Where new apartments were built, rents fell, and where new supply was limited, rents grew.

DEMAND HAS SHIFTED UPMARKET

Higher income households, who form nearly all net new renter households, are leasing newly built and newly renovated quality properties as rent-to-income ratios are reverting to pre-pandemic norms.

LOCATION MATTERS MORE THAN EVER

Where high, mid and low submarkets used to move in lockstep, most apartment sales are now occurring in higher rent areas. Investors are also targeting specific locations that can attract middle-income workers.

The multifamily rebound in the US was supposed to arrive by now. ‘Survive ‘til ‘25,’ they said. 2025 came, but the rebound did not. Maybe the mantra should have been ‘survive through ‘25.’ When will that rebound finally arrive?

These days, the crystal ball is fuzzy and the unknowns are plenty. Predictions about when the market turns are not the point — rather, this article will make the case that multifamily may be at a critical inflection point due

to three big emerging realities: supply is slowing, the renter stage of life is elongating, and capital’s taste buds are evolving.

So, when the market finally finds its footing, what could that new normal look like — and what are the implications for apartment investors?

While we don’t have all the answers, this cycle is leaving clues hinting of what the road ahead might look like. To summarize concisely in industry-speak, it would be this: flight to quality.

Flight to quality among renter households.

Flight to quality among capital.

This might be expected in the early stages of a recovery period, but there might be more legs to this one. Let’s break down three clues, starting with a deeper look at the current moment.

Clue #1: The slowdown

How one thinks about US multifamily will heavily shape how one thinks about the road ahead for the sector.

It’s no secret that apartment rents and occupancies have been soft, dating back to 2023. But the reason for that softness is frequently misdiagnosed as an affordability problem or a demand problem. That’s an easy armchair conclusion, but it doesn’t seem that simple.

In 2023, job growth remained strong, even if moderating, by pre-COVID-19 norms and unemployment was near long-term lows below 4%.¹ And even as rent growth plunged, wage growth, which surged in 2021 to 2022, proved much stickier. As recently as March 2026, wage growth came in at 3.9%² — matching the high-watermark of the 2010s decade and consistently topping the rate of inflation.³ In apartment data, both CoStar and RealPage reported robust demand, with

Colorful new apartment buildings in Lansing, Michigan



iStock.com/benedek

Others — including the Minneapolis Fed and Harvard’s housing think tank — reached similar conclusions.⁷

In our research with RealPage data, a not-so-curious pattern in 2025 rent trends emerged. There were 20 US metros where class C rents rose at least 3%. In all but one of those 20 metros, total inventory growth tailed the US average of 2%. And there were 17 US metros where class C rents fell more than 6%. In all but one of those 17 metros, inventory growth exceeded the US average. Clearly it’s no coincidence. If the big headwind was affordability or demand, there wouldn’t be such a clean pattern — and that pattern could have real implications we’ll circle back to later.

Did other factors contribute on the margins? Absolutely. But in those cases (i.e., Washington, DC in 2025) the slowdown generally traced to uniquely localized demand challenges. Additionally, one could reasonably argue that further softening in the labor market combined with slowing household formation could weaken apartment demand and delay the rent rebound. That’s plausible, but nearly every investment type is beholden to the same macroeconomic cycles, and that doesn’t explain how we got where we are now.

A note of caution: Don’t fall into the trap of overcomplicating the story. The slowdown was, and largely still is, about supply. Now supply is normalizing around or below pre-COVID levels, and supply likely becomes more of a tailwind than a headwind once the last big wave of deliveries finally lease up and stabilize. If one believes that the slowdown is primarily about supply, it doesn’t take a huge leap of logic that the sector could look more favorable once supply pressures mitigate.

Clue #2: The renter shift

While the first clue may have been rather obvious to those paying attention, the second clue has drawn far less attention — and yet might be critical for understanding where multifamily goes from here.

Renter demand is consistently pushing *up* market to pricier apartments. This runs counter to many headline narratives around affordability, but this trend is playing out across multiple datasets.

The first one is Harvard’s Joint Center for Housing Studies, which has great data (from their analysis of



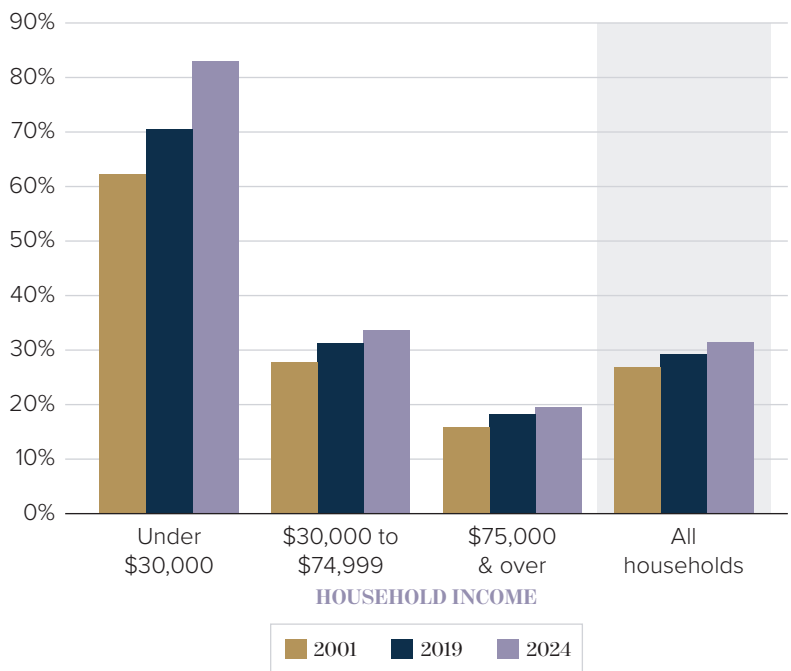
▲ Modern residential condominiums in a Florida suburban neighborhood

2

The average household spends 31% of income on rent and utilities

Housing has consumed a growing share of renters’ incomes, with the lowest earning households spending over 80% of their income on rent and utilities, while the highest earning households spend 20%.

MEDIAN SHARE OF INCOME SPENT ON RENT AND UTILITIES



Notes: Non-cash renters are excluded. Household incomes are adjusted for inflation using the CPI-U for all items. Shares are calculated at the household level.

Sources: JCHS tabulations of US Census Bureau, American Community Survey 1-year estimates.



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Multifamily credit

Dislocation, capital rotation, and underwriting implications

KEY TAKEAWAYS

INCREASING RISK DISPERSION

Strong demand, high occupancy, and affordability constraints support durable cash flows, but supply-driven divergence across markets is widening the gap between stable and riskier assets — making asset-level underwriting and market selection critical.

CHANGING OPPORTUNITY SET

A large maturity wall combined with lower property values and higher borrowing costs is constraining traditional refinancing, increasing demand for bridge capital and creating opportunities to originate loans at more attractive basis with stronger structures.

NEED FOR FLEXIBLE SOLUTIONS

As banks retrench and agency leverage tightens, private lenders are filling the gap, while underwriting is shifting toward conservative leverage, in-place cash flow, and structural protections over pro forma growth.

Multifamily fundamentals remain supportive as supply-driven dispersion across markets is creating more selective opportunities. However, a convergence of valuation resets and a looming maturity wall is intensifying refinancing pressure. As banks retrench and agency leverage tightens, private commercial real estate credit is stepping in to fill the lending gap as performance is increasingly driven by underwriting discipline, cash flow durability, and basis, rather than appreciation.

The US multifamily sector is shifting from an appreciation-driven market to a credit-driven one. Valuation resets, elevated borrowing costs, and a large maturity wall are forcing borrowers to refinance under tighter conditions. This is creating a compelling opportunity for private credit to originate loans with stronger structures, lower basis, and improved downside protection.

This article examines the key forces shaping today's multifamily market

and the resulting opportunities for creditors.

Strong fundamentals

Strong multifamily fundamentals continue to support stable cash flows and durable debt service coverage ratios (DSCRs), although supply conditions are increasingly shaping credit risk and creating wider dispersion in underwriting outcomes across markets.

Demand and occupancy resilience

Housing affordability constraints have

increased the economic friction of homeownership relative to renting in many markets, while higher borrowing costs and limited for-sale inventory are delaying homeownership. The national average monthly housing payment rose an estimated 80% between 2020 and 2023, making renting significantly cheaper than owning on average nationally.¹ (see **1**) With homeownership increasingly out of reach, rental demand is likely to stay strong. National multifamily occupancy has stayed above 94% since 2020,² supporting stable cash flows and DSCR durability and reinforcing multifamily as a compelling long-term credit strategy.

Credit risk dispersion

From a credit perspective, market-level supply dynamics are driving divergent risk profiles. In high supply Sunbelt

markets such as Nashville, Dallas, Austin, Phoenix, and Charlotte where inventory is projected to grow by more than 4% over the next two years,³ excess supply elevates lease-up risk, pressures rents, and increases the likelihood of near-term DSCR compression. These conditions extend stabilization timelines and increase sensitivity to operating assumptions, placing greater emphasis on sponsorship, basis, and asset quality.

By contrast, undersupplied markets such as New York City and Chicago, where inventory growth is expected to be limited at 1% to 2%, exhibit lower cash flow volatility, steadier occupancy, and more predictable DSCRs. As a result, credit performance is generally expected to be more resilient in undersupplied markets, while higher supply regions

offer selective opportunities with wider dispersion in outcomes.

Loan to value (LTV) dispersion is seen across geographies. Generally, higher cost and more supply constrained markets showcase lower weighted average securitized multifamily LTVs compared with lower cost and less supply constrained markets (see **2**). Some Midwestern and secondary markets like Cincinnati, Minneapolis, Columbus, and Chicago show notably higher LTVs. On the other hand, coastal markets such as Boston, Miami, and the San Francisco Bay Area tend to have lower LTVs.

Risks to multifamily lending

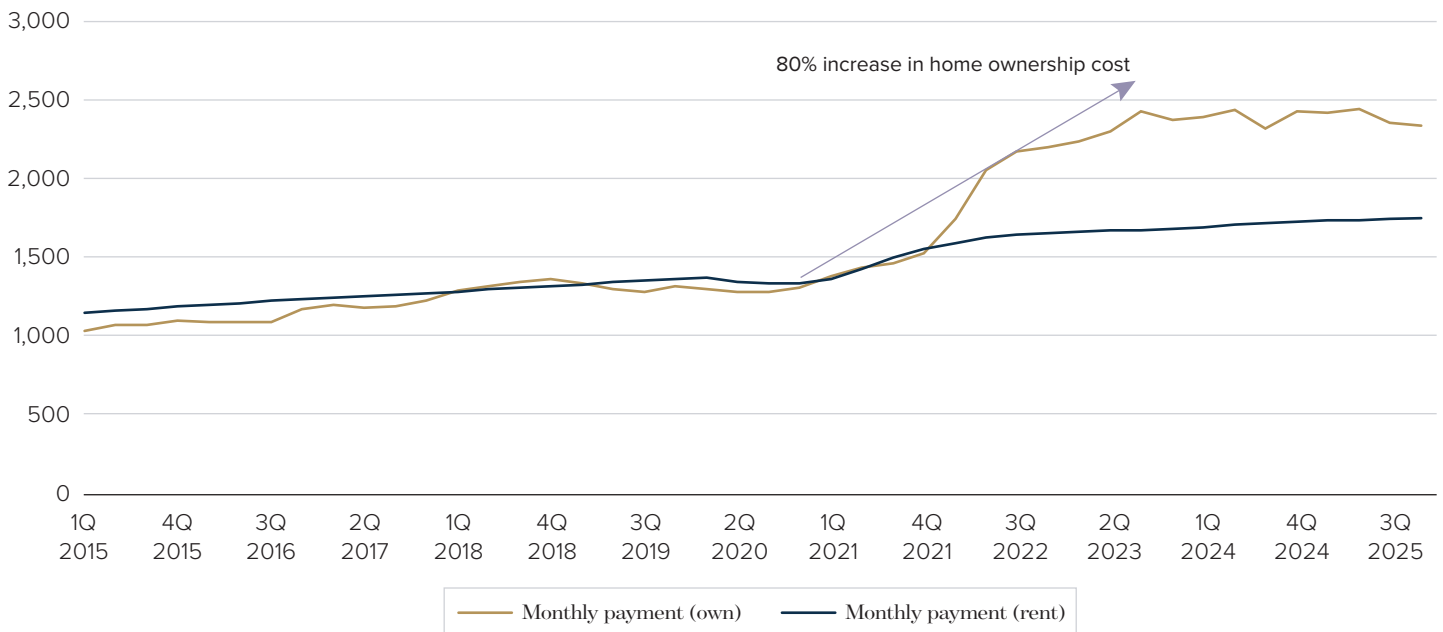
While multifamily benefits from durable demand and resilient occupancy, lenders must still underwrite key risks carefully.

1

Average monthly homeownership costs rose 80% in three years

Rising homeownership costs and housing affordability constraints are making renting significantly cheaper. Rental demand should stay strong.

NATIONAL TOTAL HOUSING COST (\$)



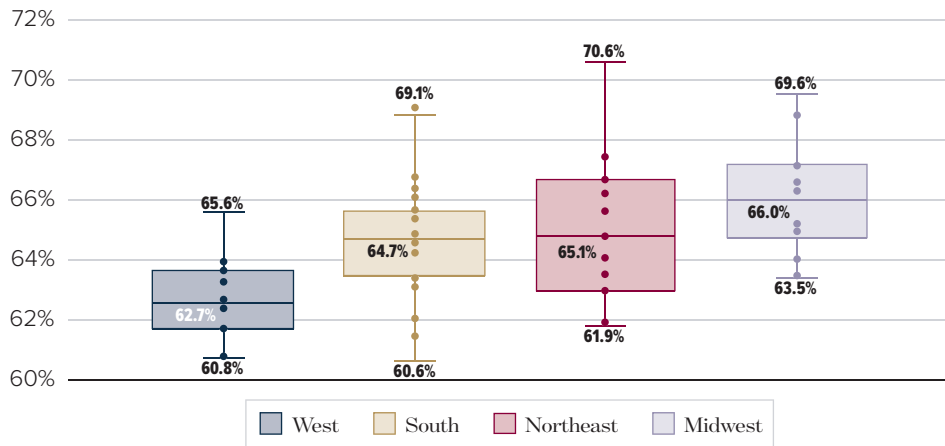
Source: Zillow Research housing data through November 2025.

2

LTV dispersion across markets is associated with cost and supply

Markets with higher LTVs like Cincinnati, Minneapolis, Columbus, and Chicago are generally lower cost with more excess supply, which means lender risk is higher and outcomes are more widely dispersed. In contrast, West and coastal markets are higher cost and more supply constrained with generally lower LTVs.

WEIGHTED AVERAGE LTV AT SECURITIZATION BY CENSUS REGION (ORDERED BY MEAN)



Source: Trepp, weighted-average securitized LTV by MSA for loans originated in 2025.

Rising operating costs, shifting demand fundamentals, and efforts to expand housing supply could pressure cash flows and temper rent growth, reinforcing the need for disciplined underwriting and structural protection.

Rising operating costs

Rising operating expenses are reshaping lender economics, by pressuring borrower cash flows and compressing DSCRs across multifamily.

Since 2015, expenses have grown at a 4.3% compound annual growth rate (CAGR) compared with net operating income (NOI) growth of 5.6%,⁴ with significant local variation highlighting the need for granular, asset-level expense underwriting.

Insurance costs are the primary driver, up 171.1% nationally since 2015 (10.5% annually) (see **3**), with sharper increases in high risk markets like Florida and California.⁵ Ongoing climate risk, reinsurer retrenchment, and inflation across labor, taxes, and utilities continue to cloud forward cash flows, while higher material and construction costs are raising maintenance costs. For older vintage assets, adequate replacement reserves are critical to capture inflationary pressure and protect long-term cash flow durability. Shorter duration credit strategies can also help limit long-term cost fluctuations and mitigate sustained expense volatility.

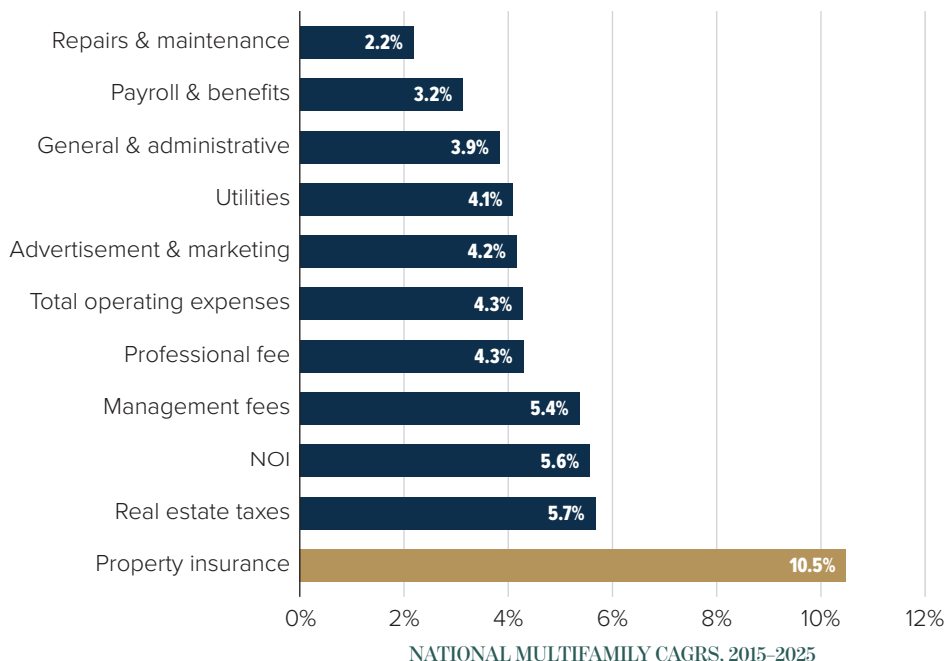
Shifting demand fundamentals

Slowing international immigration is expected to curb US household formation, with a Harvard study estimating 1.7 million fewer households by 2035 under a sustained low immigration scenario relative to historical patterns.⁶ Combined with record low birth rates, these dynamics imply slower and more uneven population growth, increasing volatility in housing demand across markets. Underwriting assumptions

3

Property insurance costs have increased 171% since 2015

At an average annual increase of 10.5%, property insurance costs are the primary driver of rising multifamily operating expenses, particularly in markets like Florida and California.



Source: Trepp, December 2025.

should reflect softer absorption, longer lease-up periods, and additional buffers to mitigate downside risk.

Simultaneously, household financial health is weakening. Aggregate nominal household debt reached a record high in 4Q2025, up 33% since 4Q2019,⁷ intensifying renter pressure amid elevated living costs. Affordability constraints are likely to push migration toward lower cost markets, reinforcing growth in outer suburbs, satellite cities, and tertiary markets. Together, these trends further differentiate demand profiles and reshape where multifamily lending opportunities could emerge.

Bipartisan support to tackle the affordability crisis

The National Multifamily Housing Council and National Apartment Association estimates a need for 4.3 million more apartment units by 2035.⁸ To avoid becoming unaffordable, cities are pursuing bipartisan strategies to increase housing supply, including tax abatements, adaptive reuse, zoning reform, opening public land for development, streamlined permitting, by-right development, and one-stop housing approval processes. Expanded supply should temper rent growth and cash flow assumptions, reinforcing the need for disciplined underwriting and structural protection.

Capitalizing on credit shifts

A reset in multifamily property values is colliding with a large maturity wall, creating strong demand and attractive yields for private commercial real estate (CRE) lenders. As traditional financing sources become more constrained, private credit is playing a larger role in providing capital across refinance and transitional situations, particularly for well-positioned assets where conservative structures and durable in-place cash flow can provide stronger downside

protection. For lenders able to navigate the complexity, the next 18 months present a unique window of opportunity.

Refinancing amid valuation resets

A significant volume of loans is expected to mature at higher rates and, in many cases, lower valuations than at origination. Trepp estimates that approximately \$45 billion of multifamily debt with DSCRs below 1.2x will mature over the next 18 months.⁹ From 2022 to 2025, multifamily values declined about 19%.¹⁰

For private lenders, refinancing-driven opportunities are increasingly characterized by lower LTV ratios and stronger equity contributions. As a result, lenders can originate loans with enhanced downside protection while still achieving attractive risk-adjusted returns, particularly in situations where sponsors are motivated to recapitalize assets and preserve long-term ownership.

Value declines and softer multifamily fundamentals in oversupplied markets are limiting borrowers' ability to qualify for agency or life company loans without meaningful equity, while borrowers pursuing near-term sales are seeking short-term capital that preserves prepayment flexibility.

Together, this is fueling demand for bridge financing and creating more favorable entry points for private credit lenders. After the valuation reset, some assets are trading below replacement cost, improving the risk-adjusted profile of select opportunities, particularly lease-up loans.¹¹ Increasingly, refinancings are also 'cash-in,' with borrowers paying down principal to match lower valuations, creating larger equity cushions, lowering LTV risk, and expanding high yield opportunities.

This environment should mean more deals with motivated sponsors, attractive pricing, and opportunities for enhanced

risk-adjusted returns through structured solutions. The risk premiums priced on refinance-driven loans are typically lower compared with other loan types given the propensity for stronger credit borrowers, generally higher equity cushions, and attractive market fundamentals.

Private CRE credit fills the lending gap

The Mortgage Bankers Association projects a 21% rebound in multifamily origination volume in 2026 from the prior year, driven largely by the wall of maturities.¹² However, the refinancing environment differs significantly from when many of these loans were originated. The weighted average coupon on fixed rate multifamily K-series deals rose from 3.2% in 2020 to 5.3% in 2025,¹³ sharply increasing borrowing costs, compressing cash flow, and lowering DSCRs. As a result, many owners face a narrower set of viable refinancing options and must increasingly rely on alternative capital sources to bridge valuation and leverage gaps.

These dynamics are accelerating a reordering of the multifamily capital stack. Banks have retrenched amid balance sheet constraints, regulatory scrutiny, and reduced appetite for CRE exposure, particularly for transitional assets or markets facing supply pressure. By contrast, agencies like Fannie Mae, Freddie Mac, and Ginnie Mae remain the backbone of multifamily financing, maintaining liquidity, and pricing leadership as underwriting tightens. At the same time, higher interest rates pushed agencies to require more borrower equity, limiting proceeds for some sponsors because their DSCR requirements capped proceeds.

Private CRE credit firms have stepped in to fill the gap, offering flexible structures and transitional capital without relying on increased leverage in the senior capital stack. As a result, private lender market share has almost doubled since

the pandemic, accounting for just 4.6% of total US CRE loan originations from 2010 to 2020, compared with 8.6% post-pandemic.¹⁴

While the reversal of the Basel III Endgame could increase competition for private CRE credit lenders,¹⁵ private lending is expected to remain above pre-pandemic levels as it is now structurally embedded in the lending system. Private CRE credit can offer speed, execution certainty, and flexible structures, along with high touch asset management capabilities that many traditional lenders may not offer.

This shift is not solely cyclical. Regulatory capital requirements, balance sheet constraints, and heightened scrutiny of CRE exposure are reducing banks' willingness to originate and hold transitional loans. At the same time, agency lenders remain focused on stabilized assets and are constrained by DSCR requirements that limit proceeds in a higher rate environment. As a result, a growing segment of the market continues to require flexible, non-agency capital, positioning private lenders as a structurally important provider of credit rather than a temporary substitute.

A more selective, de-risked lending environment

Reduced pro forma resilience now defines today's lending environment, reinforcing a more selective approach to capital deployment. With less reliance on aggressive rent growth and forward assumptions, lenders are applying more stringent underwriting standards and heightened risk management, prioritizing transactions supported by durable in-place cash flow. This selectivity also accelerates demand for structured solutions such as mezzanine debt, preferred equity, and note-on-note financing that allow capital deployment across the capital stack while preserving downside protection.

Lenders' success will depend on disciplined underwriting and market selection.


Newer vintage multifamily assets with limited deferred maintenance and lower near-term capital needs present attractive lending opportunities. These properties may be better positioned for long-term upside as construction starts to slow down and supply pressures begin to normalize, supporting cash flow durability and asset longevity. Even in markets with flatter rent growth and sustained expense pressure, lenders are responding with more conservative structures, emphasizing as-leased DSCR at origination, lower attachment points, and shorter loan durations to protect cash flow coverage and reduce refinancing and stabilization risk. At the same time, value repricing and higher cap rates have lowered borrower basis, enabling origination at reduced LTVs and supporting a more de-risked multifamily lending backdrop.

Conclusion

Multifamily remains one of the most resilient and liquid commercial real estate sectors, supported by strong demand, reduced supply, and a significant refinancing wave.

From a downside perspective, oversupplied markets tend to experience stress through cash flow timing rather than immediate valuation impairment. As new deliveries compete for tenants, concessions rise, advertising costs increase, and absorption extends, often delaying stabilization by multiple quarters. These pressures typically manifest first in DSCR compression, as revenue softness coincides with fixed

debt service and rising operating costs. Even in the absence of outright defaults, prolonged lease-up periods can strain borrower liquidity and increase reliance on capital infusions, underscoring the importance of conservative attachment points, trusted sponsors with solid track records, and carry assumptions in high supply environments.

Lenders' success will depend on disciplined underwriting and market selection. Overestimating rent growth or underappreciating expense volatility can erode returns; lenders who capitalize on today's improved basis levels, stronger structures, and motivated sponsors should be well positioned to capture long-term value. 

¹ Zillow Research housing data through 3Q2025, accessed January 2026.

² RealPage. Data as of December 2025. Data accessed January 15, 2026.

³ *ibid.*

⁴ Trepp data, national multifamily income and expenses. As of December 2025.

⁵ *ibid.*

⁶ McCue, D., C. Herbert, and R. Frost. 2025. "Projections of Homeownership Rates and Household Growth by Tenure for 2025–2035." Joint Center for Housing Studies of Harvard University. August 2025 and updated with addendum December 2025.

⁷ New York Fed Consumer Credit Panel/Equifax, data as of 4Q2025 in Federal Reserve Bank of New York. 2026. "Quarterly Report on Household Debt and Credit 2025: Q4." February.

⁸ Hoyt Advisory Services and Eigen10 Advisors. 2022. "US Apartment Demand Through 2035." The National Multifamily Housing Council and National Apartment Association. May.

⁹ Trepp, data accessed February 18, 2026.

¹⁰ Green Street Commercial Property Price Index, released February 5, 2026.

¹¹ Lease-up loans are loans that finance a property during a crucial lease-up phase, bridging the gap between construction/renovation and stabilization.

¹² Mortgage Bankers Association. 2026. "CRE Forecast: Total Commercial Mortgage Originations to Increase 27 Percent to \$805 Billion in 2026."

¹³ Freddie Mac K-deals are a type of commercial mortgage-backed security (CMBS) backed by pools of newly acquired multifamily mortgage loans; Freddie Mac Multifamily, K-Deal Program Overview as of September 30, 2025.

¹⁴ Invesco Real Estate, utilizing data from Mortgage Bankers Association as of November 6, 2025.

¹⁵ The Basel III Endgame is a final set of global banking regulations proposed and implemented by US regulators, which aimed to increase capital requirements for large banks to ensure greater resilience after the global financial crisis.

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census data) buried deep in its 2026 rental housing report.⁸ One chart shows the widely circulated statistic that Americans spend an alarmingly high 31% of income on rent plus utilities.

But the same chart also breaks out this statistic by household income level. This stat is telling: Households making less than \$30,000 annually spend more than 80% of income on rent and utilities combined. Meanwhile, households making more than \$75,000 annually spend 20% of income on rent plus utilities (see [2](#)).

For apartment investors, there are two additional pieces of critical nuance. One: conventional, institutional-quality apartments largely cater to the latter group, those making north of \$75,000 a year. And two: that’s also where nearly all the demand is coming from. Harvard reports that “the number of renter households with higher incomes (after adjusting for inflation) rose by 1.7 million from 2021 to 2024,” which explains nearly all net new renter household formation over that time period. Going back a full decade, a total of 4.1 million higher-income renters have been added. They now comprise 35% of the renter population, up 7.1% since 2014 (see [3](#)). That is material.

Narrative-busting statistics like that may require secondary data sources for validation. They exist. An analysis using CoStar data finds that pricier apartments (four- and five-star) comprised 80% to 90% of all net absorption in 2023, 2024, and again in 2025 (see [4](#)). When this statistic is shared, some skeptics inevitably respond: “Absorption skews up market only because new supply skews up market — and we just built a ton of it.”

Our response: That’s true, but someone still has to lease all those units. And to lease it, they must be able to afford it. That is the point: higher-income renters can afford it and they are leasing it. RealPage data shows that even as demand has shifted up market, rent-to-income ratios (in conventional apartments) are going down, reverting back around pre-pandemic norms around 22%. Apartment REITs reported similar ratios ranging from 19% to 22%.

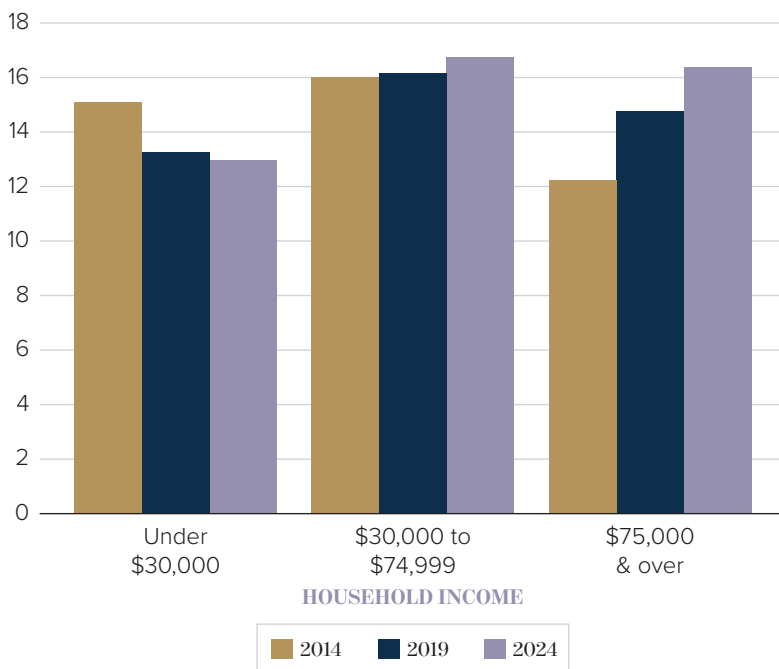
The flight to quality effect doesn’t only play out to newly built apartments — it appears to hold for newly renovated apartments as well. The nation’s largest REIT by unit count, MAA, said on its 4Q2025 earnings call

3

Higher income households are driving new apartment demand

Since 2014, there have been 4.1 million new higher income renters. They now comprise 35% of the renter population, up 7.1% from a decade ago.

RENTER HOUSEHOLDS (M)



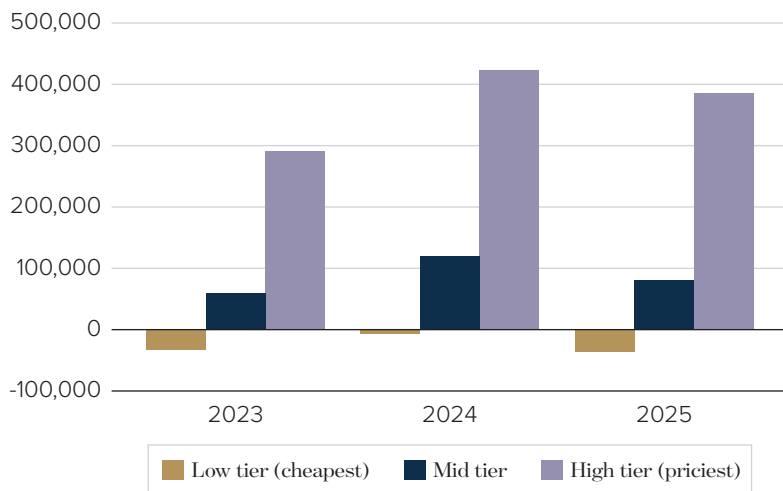
Note: Household incomes are adjusted for inflation using the CPI-U for all items. Sources: JCHS tabulations of US Census Bureau, American Community Survey 1-year estimates.

4

Flight to quality is occurring as pricier apartments are more in demand

Four- and five-star apartments comprised 80% to 90% of all net absorption in 2023, 2024, and 2025 as higher income renters are leasing both newly built and newly renovated properties.

APARTMENT NET ABSORPTION BY RENT TIER



Sources: JPI research, CoStar. Tiers based on CoStar’s groupings of 1 to 2 star, 3 star, and 4 to 5 star properties.

It’s not just renters shifting up market. Capital is, too, albeit with a somewhat different twist.

they renovated 5,995 units in 2025. Those renovated units leased 11 days faster, on average, than non-renovated units and at a premium of \$95 more per month. That’s a flight to quality, too.

A possible implication is that at the upper end of the market (specifically class A or B), recent rent cuts might be less about creating demand at a macro level, and much more about competing to draw that demand (that is, interest from higher income renters) to the property. The demand is clearly there as the Harvard and CoStar data shows. But because supply grew even faster than demand from 2023 to 2025, supply did what supply does — it forced operators to compete, and renters benefited. And because rent-to-income ratios improved and now hover well below the affordability ceiling

of 30%, most renters (in this part of the market) can likely absorb normalized rent increases without pushing the limits of affordability, particularly if solid wage growth holds.

Furthermore, upper-tier properties have two other major advantages. One, they appear less sensitive to reductions in international immigration into the US. (There are exceptions, such as submarkets catering to international students attending local colleges.) And, two, they may benefit from an aging population, coupled with the elongating renter stage of life. Since income tends to increase with age, demand may further skew toward higher end, and perhaps larger, units. There could be more demand from the growing number of wealthy senior adults choosing to downsize to apartments either in trendy neighborhoods or near grandchildren.

Clue #3: The capital shift

It’s not just renters shifting up market. Capital is, too, albeit with a somewhat different twist. There is thus far a more disciplined focus on higher quality submarkets in this higher interest rate, softer rent environment. The old ‘location, location, location’ adage seems to matter a lot more today.

To measure this, we divided submarkets across the US into three categories — high, mid, and low — based on a submarket’s average monthly rent compared to its parent metro area. Then we indexed sales volume to 2019, the pre-pandemic peak year for apartment sales.

The results are telling. Historically, the three categories of high, mid, and low submarkets tend to move together in lockstep. But they have diverged of late. Compared to 2019 levels, the data shows that apartment sales in 2025 were 90% in higher-rent areas, 83% in mid-rent areas, and just 67% in lower-rent areas (see 5). Put another way, higher rent areas show more stability in the post-COVID era. It’s an even bigger split in the Sunbelt, where sales volumes in 2025 measured just 55% of 2019 levels. That’s a clear flight to quality.

Newmark published a related analysis showing strong buyer preference for newer vintage apartments, providing more evidence of flight to quality.⁹

There is a connection between lower rent areas and older apartments: They tend to correlate. However, it is our suspicion that location may matter even more than

vintage. A property in bad condition can be fixed. But a bad location can't. Some buyers may see well-located older apartments in high quality submarkets as a path to draw middle-income renters working nearby.

Caveats and conclusions

There will naturally be an itch to narrowly define 'quality' in a flight to quality thesis. Our advice would be to use a flexible definition that may vary based on market.

Take the Midwest, for example. Most Midwest markets have built relatively few apartments over the past 40-plus years. Therefore, institutional-quality properties (of any class) represent a small share of the market. In that type of market, a 1980s-vintage deal may still be considered 'quality' to renters and investors alike. Indeed, older vintage apartments in the low-supplied Midwest have materially outperformed older apartments in the high-supplied Sunbelt in terms of rent growth and occupancy. One could make a case that continues given how Midwest renters have fewer move-up options.

That regional nuance shows up in the sales volume data, too. The Midwest is the only region where apartment sales surpass 2019 levels in submarkets of all rent levels — reflecting not only the dearth of investment-grade supply, but also the increased appeal of the Midwest's steadiness.

¹ Federal Reserve Bank of St Louis, All Employees, Nonfarm and Unemployment Rate figures.
² Federal Reserve Bank of Atlanta, Wage Growth Tracker.
³ Federal Reserve Bank of St Louis, Consumer Price Index for All Urban Consumers: All Items in US City Average.
⁴ Author's calculation using data from the US Census Bureau and RealPage.
⁵ Author's calculation using RealPage data.
⁶ Rodnyansky, S., D. Su., and A. Horowitz. 2025. "New Housing Slows Rent Growth Most for Older, More Affordable Units." Pew Charitable Trusts. July 31.
⁷ Boesch, T., E. Hembre, and B. Horowitz. 2024. "How New Apartments Create Opportunities for All." Federal Reserve Bank of Minneapolis. March 5; W. Airgood-Obrycki and S. Wedeen. 2024. "Rents are Cooling, but Not Everywhere." Harvard University Joint Center for Housing Studies. February 20.
⁸ Joint Center for Housing Studies of Harvard University. 2026. "America's Rental Housing 2026."
⁹ Wolfson, M., D. Bitner, and J. Biasi. 2026. "4Q25 US Multifamily Capital Markets Conditions & Trends." Newmark. February 10.

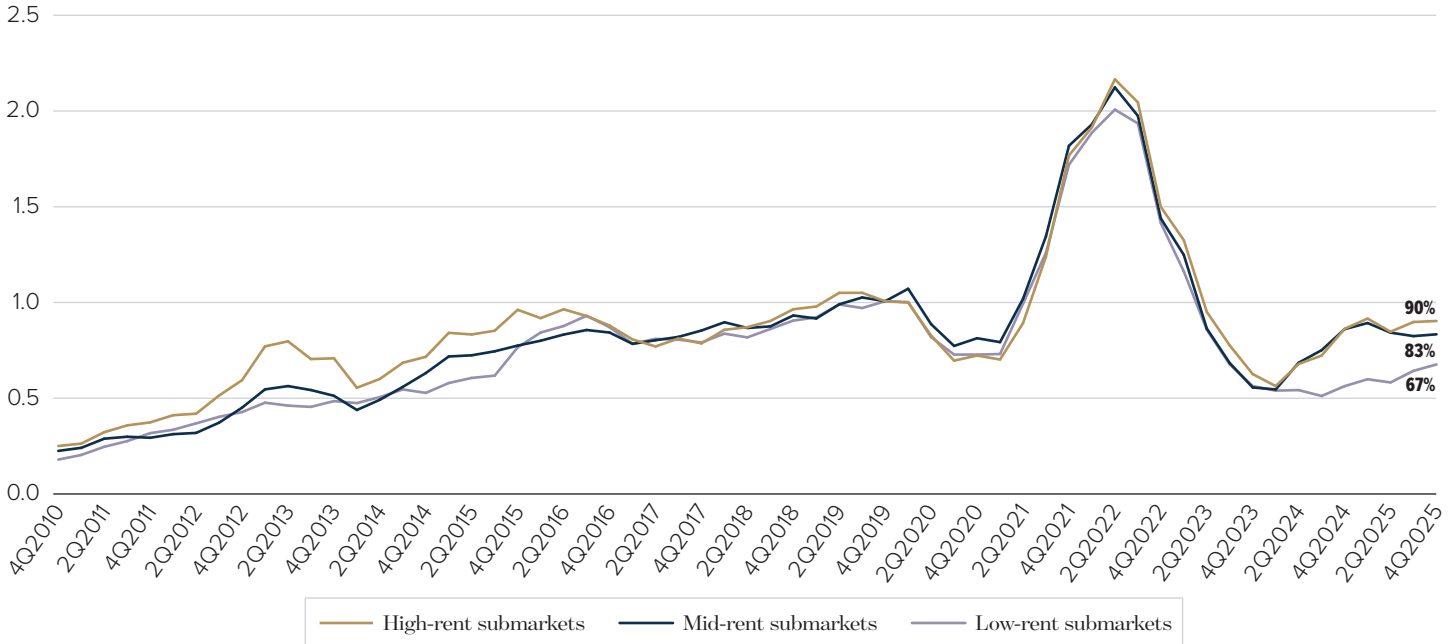
Jay Parsons is a rental housing economist, advisor, and speaker.

5

Capital today heavily favors higher rent submarkets

Compared to 2019 levels, apartment sales in 2025 were 90% in higher rent areas, 83% in mid rent areas, and just 67% in lower rent areas. Higher rent areas show more stability post-COVID.

APARTMENT \$ SALES VOLUME BY SUBMARKET RENT TIER, INDEXED TO 4Q2019



Sources: JPI research, MSCI Real Capital Analytics. Rent tiers are based on submarket's positioning relative to its parent market's average rent.