



# 2025 National Multifamily Outlook

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An Anticipated Slowdown in New  
Construction Strengthens Market Sentiment





# Foreword

As the calendar turned to 2025, most forecasters had a sense that disruption would be occurring across several aspects of the economy. The country's immigration climate, the size and scope of the public sector, and international trade policies were all areas that were likely to see changes in 2025, and the first few months of the year have been volatile in these areas and many others.

In recent months, many of the forces that influence the operational performance and investor demand for rental housing have been impacted by the volatility in the larger economy. Labor markets have posted slower growth, inflation has picked up and then slowed, and interest rates have fluctuated. Forecasts for future interest rate cuts have swung wildly since the most recent rate cut at the end of last year.

It is against this evolving backdrop that we assess the current state of the national multifamily market and determine the outlook for the remainder of the year.





# After a Year of Outperforming Forecasts, What Comes Next?

The year ahead is expected to serve as a turning point in the national multifamily market, and stabilizing property fundamentals in 2025 should set the stage for a more significant improvement beginning in the following year.

In recent years, the multifamily market has been impacted by sustained supply-side pressures. Developers ramped up rental construction activity in the period immediately following the pandemic, completing an average of more than 450,000 units per year since 2022. This year, the pace of deliveries should slow, and with starts having stalled in recent quarters, completions will begin to come in well below trend in subsequent years.

In the near term, there will likely be more supply growth than net new demand, and vacancies are expected to inch higher. This follows a year where net absorption surpassed all expectations and the vacancy rate stabilized.

Rents have trended lower in recent years as operators have prioritized occupancy over pushing rents. Renters have benefited from having more options, often upgrading to higher-quality units. Many new communities are aggressively using concessions to attract renters during lease-up in this highly competitive leasing environment.

The investment market gained some ground in 2024, with newer properties accounting for an outsized share of the total transaction activity. Investors are acquiring new construction properties either at stabilization or during lease-up, a trend that is expected to continue in the year ahead.

There has been a sharp decline in the volume of value-add transactions that fueled the investment market during the surge in activity a few years ago. Many of these acquisitions were originally underwritten aggressively, and there was a prevailing sentiment that assets would become distressed and be sold at deep discounts in 2024, particularly in instances involving short-term, variable rate debt. To this point in the cycle, lenders have been willing to work with most sponsors to extend loans, a strategy that is supported in part by ongoing strength in the leasing environment.

In this special report, we will identify several key trends that will fuel the performance of the multifamily market in 2025. The outlook for the sector calls for some mixed conditions, and operating fundamentals will vary by market. There will be markets and regions that remain oversupplied throughout the year, while operators in other parts of the country will see the competitive impact of new supply ease, allowing for rent increases and stronger NOI growth.

“The investment market gained some ground in 2024, with newer properties accounting for an outsized share of the total transaction activity.”





# Renewed Growth in White-Collar Sectors Likely in 2025

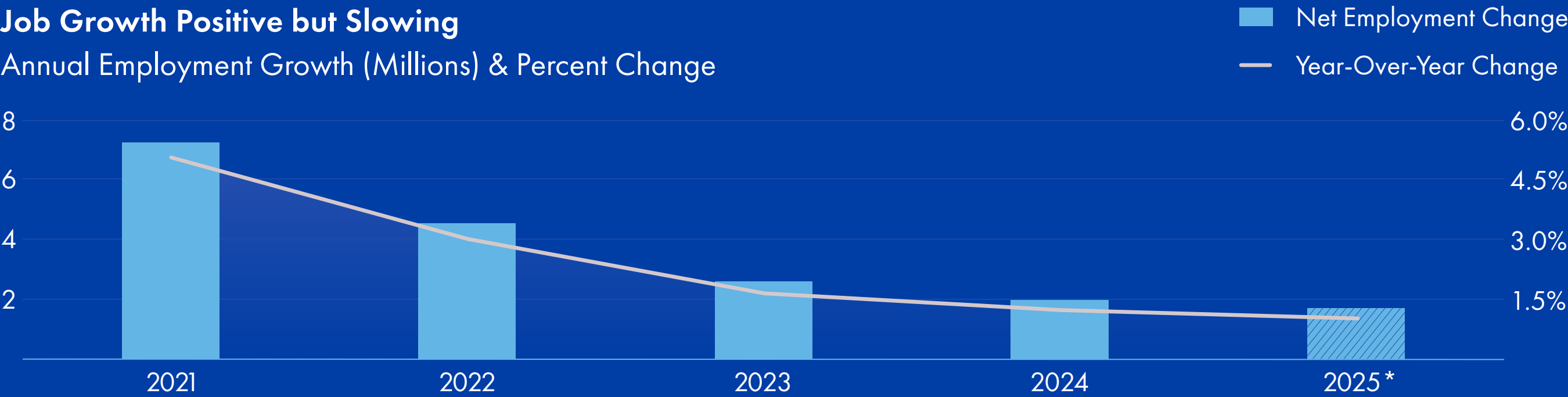
The national economy entered 2025 on a strong footing. The labor market expanded throughout 2024, although only a few industries added workers faster than their long-term pace of growth. Still, unemployment has remained low for more than three straight years, supporting consumer confidence and driving new household formation.

The rental market is capturing a larger-than-usual share of new households. Home sales remain sluggish, and the declines in mortgage rates that were anticipated a year ago have largely failed to materialize. The result has been

a widening gap in the cost between renting and owning, with renters favoring newly constructed, luxury units where operators continue to offer free rent to drive absorption.

While the overall economy has performed well to date, there are some uncertainties that could drag on growth in the year ahead. The baseline forecast already called for slower growth in 2025 than has been recorded in recent periods, and there are some downside risks to the outlook that need to be accounted for when determining the possible economic conditions in the year ahead.

**Job Growth Positive but Slowing**  
Annual Employment Growth (Millions) & Percent Change



\* Year-End Forecast

Sources: Northmarq, Bureau of Labor Statistics





# Employment Gains Likely to Occur Across a Broader Range of Industries

TOTAL JOBS ADDED

2MM

across all sectors in 2024, a 1.3% gain

NEARLY HALF OF NEW JOBS

45%

of total jobs were added in healthcare & social assistance

PUBLIC SECTOR JOBS GREW

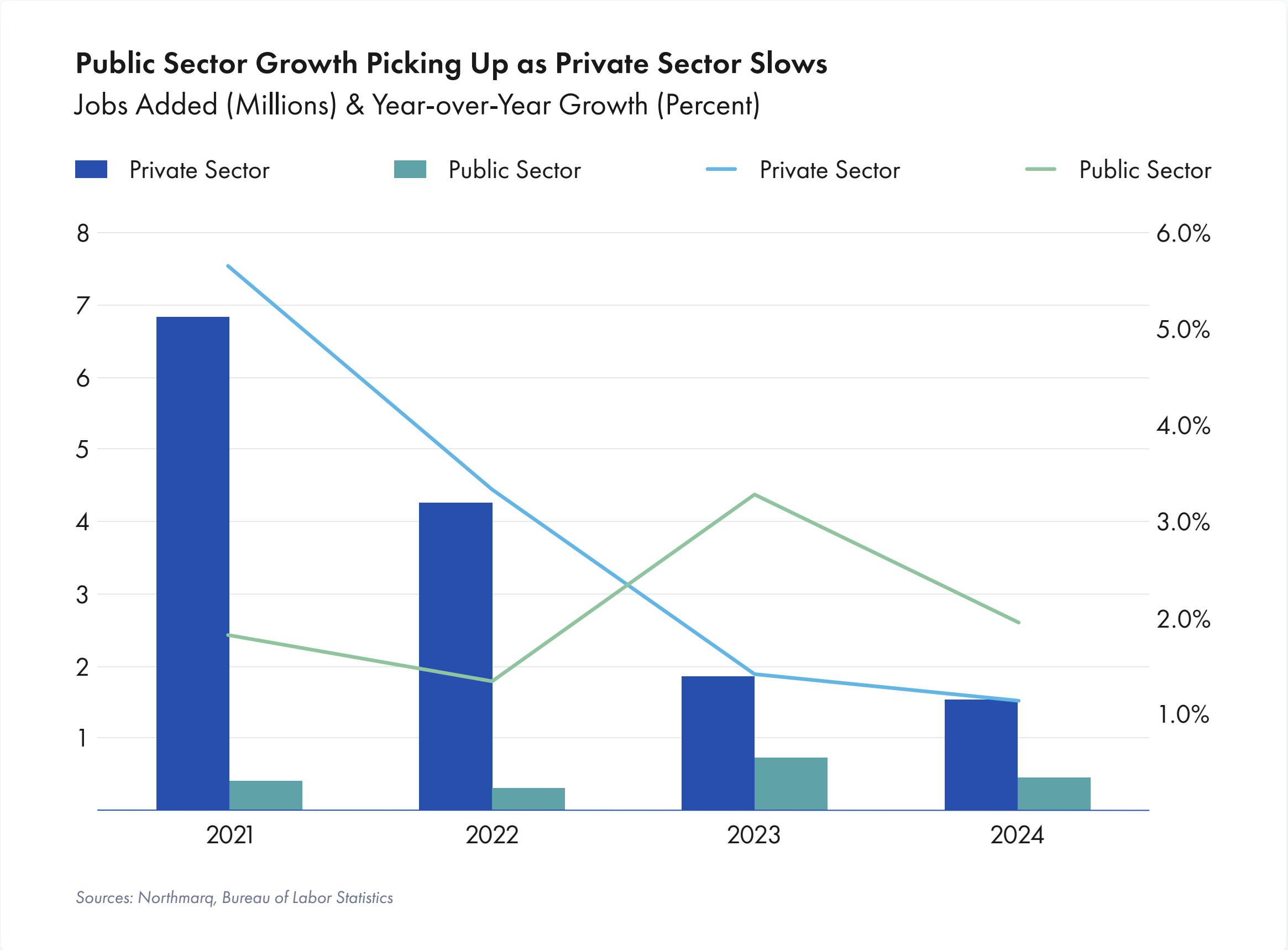
2%

in 2024, after a 3.3% spike in 2023

Employment growth beat expectations for a second consecutive year in 2024. Employers added nearly 2 million net new jobs for the year, a growth rate of 1.3 percent. This essentially doubled the consensus forecasts that originally called for job growth of about 1 million new workers.

While the total number of jobs created surprised to the upside, only a few sectors accounted for nearly all of the gains, and growth was not spread across enough industries to propel the economy. More than 900,000 workers were added in the healthcare and social assistance sector, representing about 45 percent of all net new jobs created in 2024, and more than half of the jobs added in the private sector.

Employment totals in the public sector grew at a faster rate than the overall economy for a second consecutive year in 2024. Growth in government jobs reached nearly 2 percent in the past 12 months, building on a 3.3 percent surge in 2023. The bulk of the gains were posted in local government positions, with education leading the way.





While gains in state and local government payrolls support the overall economy, it is likely unsustainable that growth across public sector payrolls will continue to outpace the overall economy over any sort of extended term. More likely, fewer public sector workers will be added in 2025, and the private sector will be the primary driver of gains in the coming year.

White-collar sectors should record a bit of a rebound in net hiring in 2025, following sluggish performance in the prior year. The professional and business services sector is an expected source of much stronger gains in 2025. Last year, this high-wage sector added fewer than 100,000 positions as employers exercised greater caution ahead of what was expected to be a softer spot in the business cycle. This growth lagged long-term averages; since 2010, companies have added an average of 425,000 professional jobs per year.

Employment across financial services should also receive a boost in 2025, particularly if interest rates trend lower. Annual growth in the financial activities sector has come in below 1 percent in each of the past two years, after gaining an average of 1.5 percent per year for the prior decade. If gains in financial and professional sectors return closer to long-term averages in 2025, these increases could offset some of the anticipated slowing in the public sector.



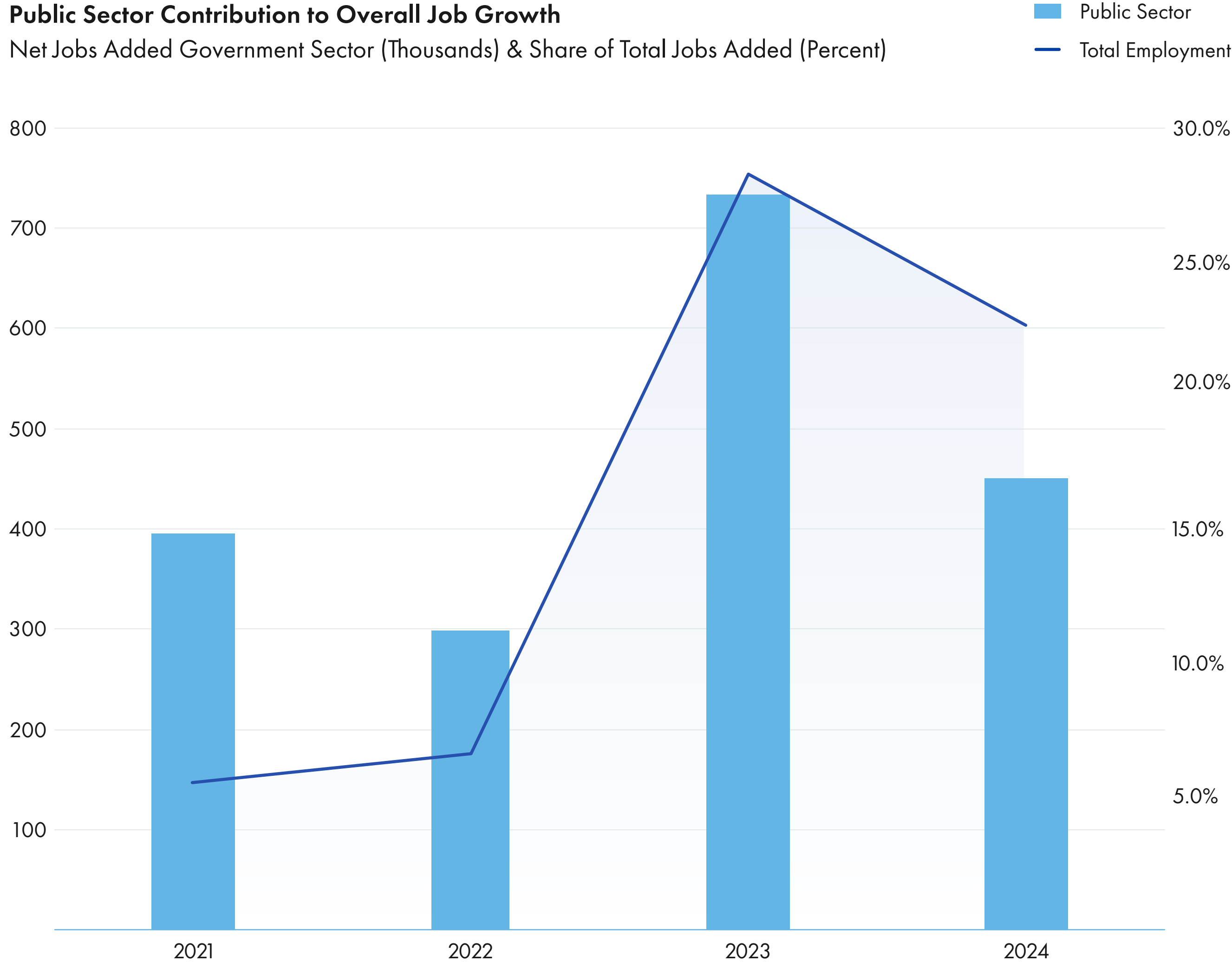


The current forecast calls for employers to add approximately 1.7 million net new jobs in 2025, a 1.1 percent growth rate. Growth in the private sector should be spread across a greater number of sectors, but gains among government employees should slow after a few strong years.

The Public Sector Boosted Overall Hiring

5.50%	Percent share of total jobs added in 2021
6.60%	Percent share of total jobs added in 2022
28.30%	Percent share of total jobs added in 2023
22.60%	Percent share of total jobs added in 2024
14.80%	Percent of total employment

Sources: Northmarq, Bureau of Labor Statistics



# Inflation: Largely Under Control, but Could be Impacted by Tariffs

CPI AVG. ANNUAL RATE

2.7%

increase during the  
second half of 2024

CPI ANNUAL INCREASE

2.8%

in the February 2025  
monthly data release

FED FUNDS RATE CUTS

100bps

over three meetings  
since September 2024

The inflation outlook is mixed at the beginning of 2025, and the lack of clarity surrounding the outlook for future prices is impacting expectations for interest rates and the pace of economic growth.

When viewed entirely looking at historical data, the inflation picture is positive. Average annual price increases as measured by CPI were below 3 percent in each of the six readings during the second half of last year, and the rate of increases has declined in each of the past five halves of years. During the second half of 2024, prices increased at an average annual rate of just 2.7 percent, still above the Federal Reserve's target rate, but a cool enough pace that the central bank cut the Fed Funds rate by a total of 100 basis points during three consecutive meetings beginning in September.





These trends continued during the first two inflation readings of 2025. The rate briefly ticked up to 3 percent before retreating in February, providing some relief to consumers.

**Inflation Above Target, but Stable**

CPI 12-Month Percent Change



Sources: Northmarq, Bureau of Labor Statistics

While the recent price data shows signs of progress, several proposed tariffs by the new administration could result in higher inflation levels either in the short-term or over a more extended timeframe. Proposed tariffs on some of the country’s largest trading partners, including China, Canada, and Mexico would likely increase overall price levels across a wide range of consumer goods.

Additionally, the ongoing tariff proposals—and the countermeasures being considered by other countries—are increasing uncertainty across the broader economy. While there may ultimately be some long-term gains associated with increased tariffs on imported goods, businesses may have a tougher time with strategic planning if costs on materials for goods manufactured domestically go up, or if exported goods from the United States face greater import duties when delivered overseas.

Prices are unlikely to surge at once, however. One of the largest inputs for inflation is the cost of housing, and the shelter component of CPI has been trending lower for the past several months.

With the national rental market entering a third consecutive year of mostly flat rents, the cost of housing is not expected to push the overall rate of inflation significantly higher in 2025, offering some relief across the wide range of consumer prices.



# The Pace of Completions Should Begin to Slow by Year End

After a two-year period where approximately 1 million new rental units were delivered across the country, completions should begin to level off in 2025 and return closer to long-term averages. Developers delivered more than 500,000 units in 2024, while projects totaling approximately 400,000 units are slated to come online in the year ahead.

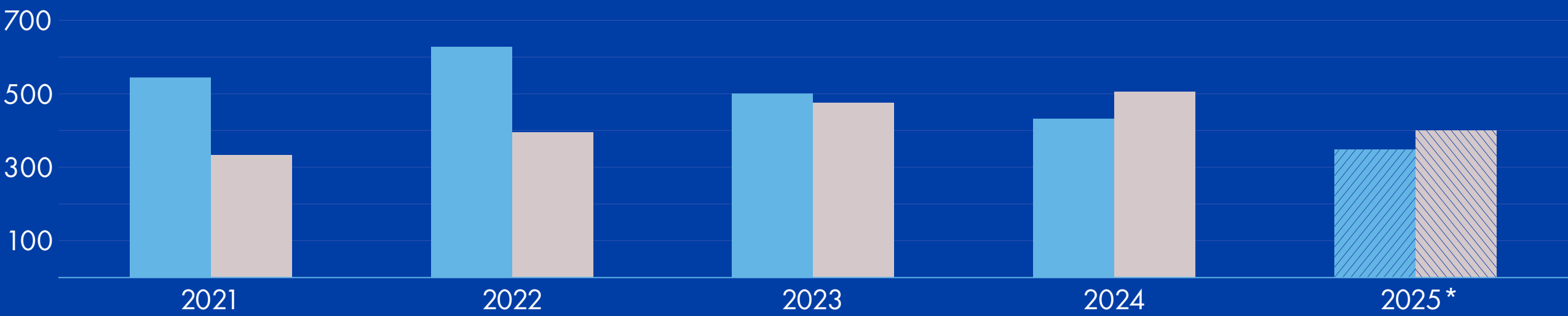
Most of the major markets in the country will record construction declines from 2024 to 2025, including several high-growth regions where completions have

been particularly elevated. Phoenix and Dallas-Fort Worth stand out as two markets where developers have remained active during the past several years, bringing new projects through the pipeline to meet current and anticipated renter demand for units.

In 2025, supply-side pressures should begin to ease. Developers in Dallas-Fort Worth and Phoenix are expected to reduce deliveries by 30 percent and 6 percent, respectively, from 2024 highs. Further declines will take shape across both markets again in 2026.

## Slower Deliveries and Permitting Likely in 2025

Unit Permits + Completions (Thousands)



\* Year-End Forecast

Sources: Northmarq, Census Bureau, CoStar, Reis







Austin is one of the markets where deliveries have been elevated in recent years and the number of units coming online this year is expected to gain momentum. Developers in Austin delivered nearly 20,000 units in 2024 and are on pace to complete more than 23,000 units in the year ahead.

Other markets are further along in their development cycles and will record more pronounced slowdowns in deliveries in 2025. Atlanta and Houston are examples of markets where delivery totals in 2025 will decline by 40 percent or more from prior year totals.

Rapid population growth and a wave of new jobs in Charlotte and Raleigh-Durham have fueled development during the past several years. This year, each market is forecast to record year-over-year declines of new deliveries of approximately 15 percent.

There will be more significant declines in deliveries across some of the Florida markets. Delivery totals in Orlando are forecast to slow by 23 percent from 2024 to 2025, while the annual drop-off in completions in Tampa is expected to exceed 40 percent.





# Absorption: Unlikely to Duplicate Recent Elevated Levels

Absorption of rental units significantly outperformed forecasts during the past 12 months. Renters moved into a net of approximately 480,000 units in 2024, nearly doubling the prior-year total. This surge in renter demand, which occurred throughout nearly all of the major metropolitan areas in the country, offset much of the new construction that was delivered and kept vacancies tighter than originally expected.

The outlook for 2025 calls for a more modest pace of absorption than was recorded last year. Historically, absorption has been closely tied to new job creation, and a ratio of approximately

eight jobs to one unit of net absorption was common. In 2024, however, the ratio was closer to five-to-one, suggesting that operators of rental housing captured a larger-than-expected share of new households that were created as the economy expanded.

There were many reasons for this, but the primary driver of the capture rate for rental units was the cooling pace of renters transitioning into home ownership. According to the National Association of Realtors, first-time homebuyers accounted for the lowest share of transactions since the number started being tracked more than 40 years ago.

These conditions set the stage for a few different potential outcomes in 2025. The first scenario is one where economic growth and gains across the employment market closely track 2024 levels and the pace of absorption is sustained throughout the year.

“The outlook for 2025 calls for a more modest pace of absorption than was recorded last year.”





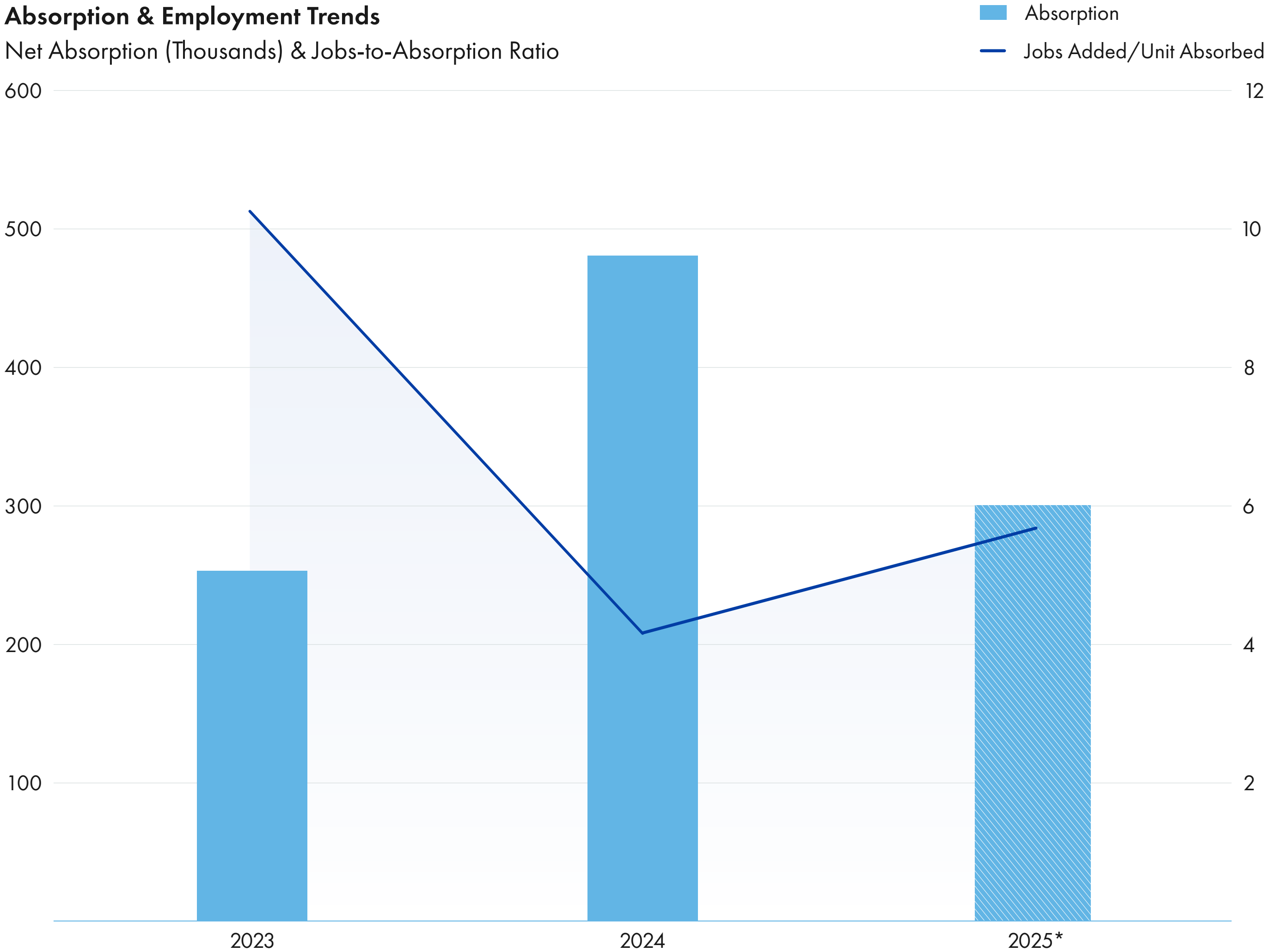
The more likely outcome is one where the market reverts to longer-term employment-to-absorption patterns. In this case, net absorption would total about 225,000 units. That figure is likely a bit too low, given the obstacles to home ownership of high mortgage rates and elevated home prices are expected to persist throughout much of 2025.

The current forecast calls for approximately 300,000 units of net absorption in 2025. Historically, the national market has averaged about 200,000 units of net renter demand per year, and this would mark a third consecutive year topping that total.

Sources: Northmarq, Bureau of Labor Statistics, CoStar, RealPage, Yardi

Absorption & Employment Trends

Net Absorption (Thousands) & Jobs-to-Absorption Ratio

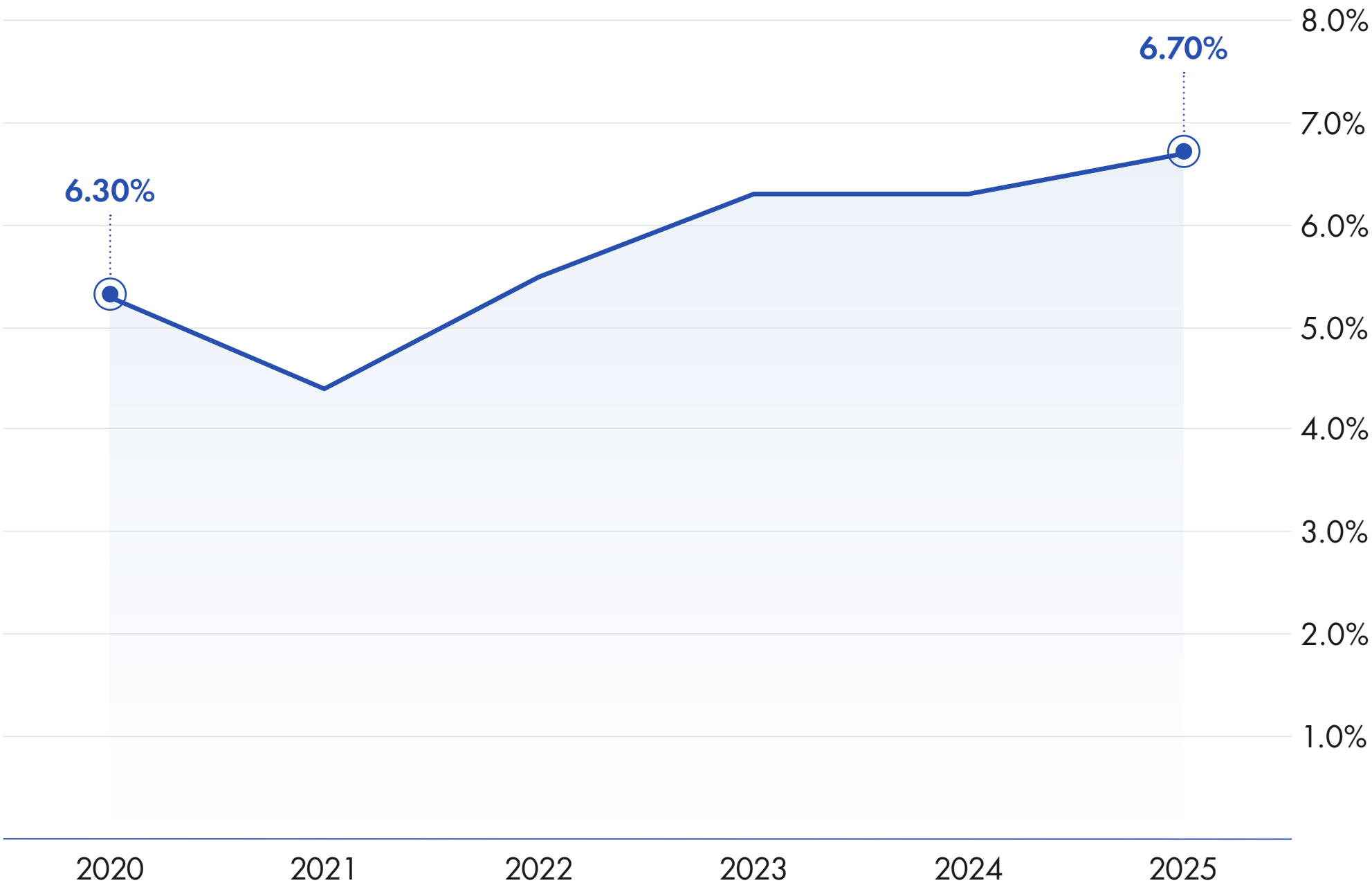


\* Year-End Forecast



# A Modest Vacancy Uptick Forecast for 2025

**After a Flat 2024, Vacancy to Inch Higher**  
National Vacancy Rate (2025 Forecast)



Sources: Northmarq, CoStar, Reis, Yardi

The national multifamily market outperformed the consensus expectations in 2024. One year ago, most forecasts were calling for national vacancy increases of 100 basis points or more, and some markets where new inventory growth was on pace to set records were expected to post steep vacancy spikes.

The market’s actual performance was far stronger than expected, with the national vacancy rate holding steady at 6.3 percent. Some of the markets where the competitive threat coming from new supply was perceived to be the greatest—such as Phoenix and Dallas-Fort Worth—posted vacancies that were either flat or dipped slightly in 2024.

Outside of the rapidly expanding Sunbelt region, other markets posted vacancy rates that tightened modestly, with the Midwest the top performing region of the country. Supply constrained markets in Southern California and in the Northeast also recorded minimal changes in vacancy rates.

Vacancies are forecast to tick higher in 2025. A repeat of the robust absorption recorded in 2024 is unlikely, and this year will mark the conclusion of an extended period of significant supply expansion. This will result in a bit of a supply-demand imbalance, where new leasing activity fails to keep pace with supply growth. Vacancy is forecast to end 2025 at 6.7 percent, 40 basis points higher than at the beginning of the year.



# Rents to Inch Higher in 2025, Some Markets Likely to Post Slight Dips

While operators have recorded elevated levels of net absorption in recent years, the leasing environment remains very competitive, as most major markets across the country are recording inventory surges that are at 40-year highs. The result has been operators prioritizing occupancies over rent levels, and renters who have been leveraging the current conditions to secure significant concessions and rents that are lower than a few years ago.

These trends will likely persist through much of 2025, with developers continuing to add new units to local inventories. While there will likely be some multifamily markets where oversupply conditions will persist through the end of this year and into 2026, many parts of the country will return closer to equilibrium and record rent increases near their long-term averages.

The Midwest is expected to be a top region for rent growth in 2025. Rents across the Midwest rose by approximately 2 percent in 2024, and a similar

rate of increase is likely in the year ahead. Leading markets are expected to include Chicago and Kansas City.

The outlook for Southern California has been complicated by the recent wildfires that will have far-reaching impacts across the region over the next several years. In the short term, there is expected to be a shortage of housing options and there could be some additional demand across Los Angeles County and Orange County, which should support rental rates.





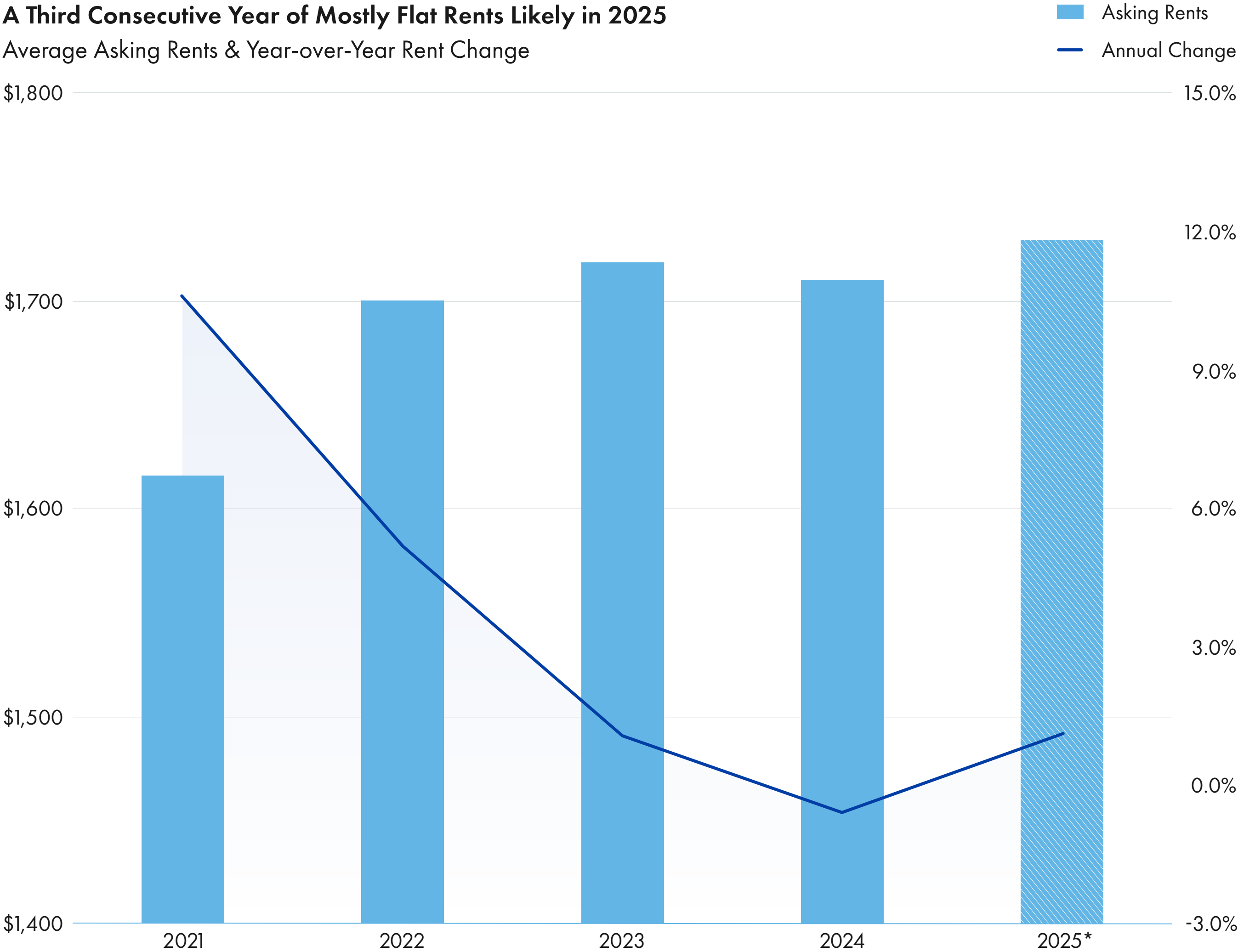
One factor that is expected to support the possibility of rent increases at the national level is the for-sale housing market. The costs of home ownership remain elevated, and the gap between renting and owning continues to widen during a time when mortgage rates are high, home prices have not come down, and insurance costs are on the rise.

The current forecast calls for positive rent growth between 1 percent and 1.5 percent for the U.S., with average rents coming in slightly higher than the year-end 2023 level. The second half of this year is expected to be stronger than the first half, and beginning in 2026, the national rent trend is forecast to return closer to long-term averages between 2.5 percent and 3.0 percent.

Sources: Northmarq, CoStar, Reis, Yardi

A Third Consecutive Year of Mostly Flat Rents Likely in 2025

Average Asking Rents & Year-over-Year Rent Change



\* Year-End Forecast



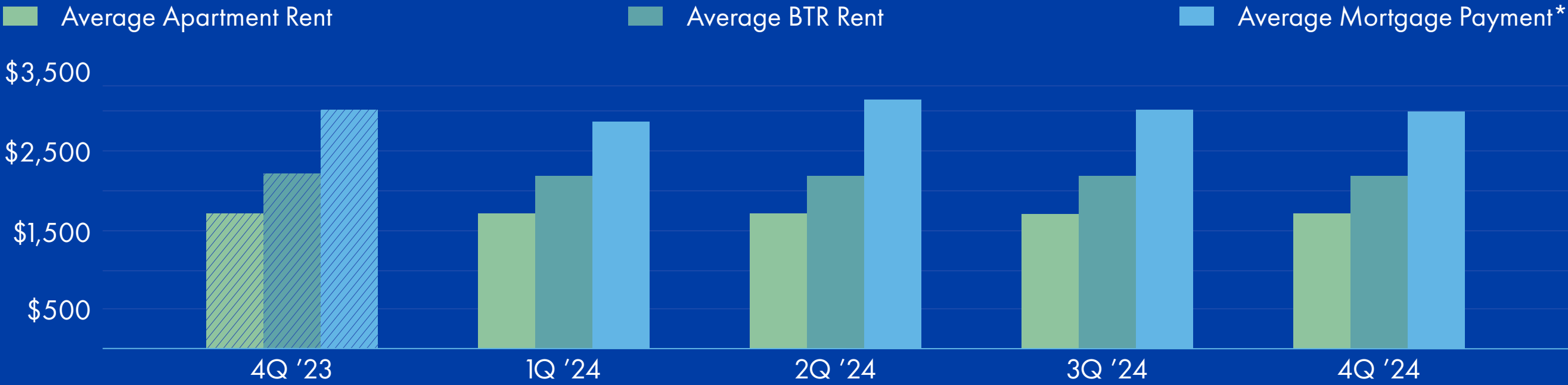
# As Investors Target New Assets, Demand Remains Healthy for BTR Properties

Many of the supply and demand trends that are being observed in the traditional multifamily market are also taking shape in the single-family build-to-rent market. Supply growth has been elevated while net absorption has continued at an active pace. Retention levels are high, in part because transitioning from renting to owning remains challenging. Renters are increasingly older and more affluent and are engaged in a flight to quality. These factors are driving renter preferences for more space and greater privacy.

Vacancies trended higher across most single-family build-to-rent markets in 2024. The national vacancy rate ended the year at 9.6 percent, 100 basis points higher than the year-end 2023 figure. As recently at late-2021 and early 2022, vacancies had declined to just 4 percent.

A handful of large markets maintained lower BTR vacancy rates in 2024, led by Las Vegas, Denver, and Orlando. Vacancy rates in these markets were generally in the 5 percent to 6.5 percent range.

Cost Gap Between Renting and Owning Hold Steady in 2024



\* Assumes 10% Down Payment on Median-Priced Existing Home

Sources: Northmarq, CoStar, Freddie Mac, National Association of Realtors





#### NAT'L BTR VACANCY

9.6%

up 100 bps in 2024

#### AVG. BTR RENTS

\$2,250

down 1% from YE 2023

#### BTR RENTS

+\$500

vs. apartment rents

There were several markets where vacancy rates pushed much higher, particularly those where developers have been most active. Vacancies in Phoenix ended 2024 at 9.4 percent, 70 basis points higher than one year earlier. Dallas-Fort Worth is another top market for recent supply growth. Since the beginning of 2021, developers have delivered projects totaling more than 14,000 units throughout the Metroplex and absorption has topped 11,000 units. Area vacancy topped double digits early in 2024 but has come down from its earlier peak.

Rents across professionally managed single-family communities averaged approximately \$2,250 per month at the end of 2024, having declined by 1 percent from one year earlier. Current rents are about \$500 higher than the average monthly apartment rent. Still single-family build-to-rent homes offer a significant cost savings to owning. The average mortgage on a median-priced single-family home in today's market is about \$1,000 per month higher than the average rent on a BTR unit.

Investment activity in communities of single-family rentals was consistent from 2023 to 2024. While the annual totals were similar from year to year, there was a slowdown in transaction activity in the middle part of the year. The pace of property sales gained momentum in the fourth quarter, and total transaction counts were up 5 percent in 2024.





Phoenix was the top market for total build-to-rent sales transactions in 2024, with properties totaling more than 1,400 units changing hands in sales totaling approximately \$500 million during the course of the year. Other top markets included Atlanta and Dallas-Fort Worth.

Prices have declined from peak levels in 2021 and 2022, but investor appetite remains for new communities of single-family rentals that can achieve rent premiums over competing properties. The median price in sales that closed last year was \$289,700 per unit, down from \$302,000 per unit in 2023.

Cap rates have averaged approximately 5.3 percent across the sector in recent quarters, only slightly higher than the 2023 range. At the height of the investment market, investors acquired single-family build-to-rent communities at cap rates of 4.5 percent or lower.



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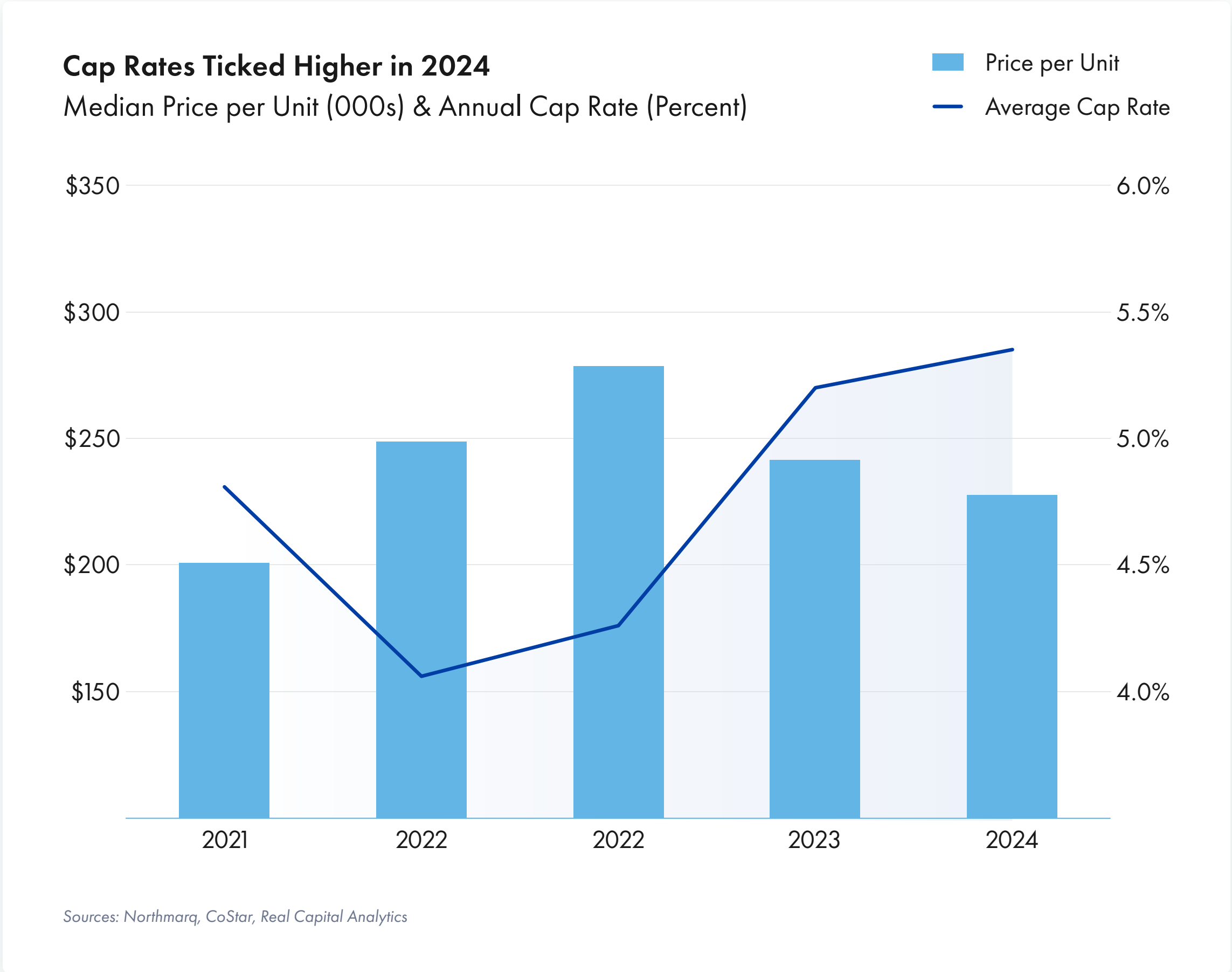
# Sales of Newer Properties Expected to Lead the Way Again in 2025



The multifamily investment market has shifted in recent years, but 2025 is expected to serve as a step towards steadier conditions. The wave of new inventory that has been delivered in recent years is creating investment opportunities, although buyers have largely steered clear of Class B and Class C assets for the past 24 months.

After a steep decline was recorded in 2023, multifamily transaction activity gained some momentum last year. Transaction counts rose by 11 percent nationally, although sales volumes in 2024 were still down about 50 percent from peak levels a few years ago.

The year-over-year increase in transactions was driven almost entirely by greater activity in the Class A space, where the number of sales surged by more than 20 percent. These properties are available for acquisition as developers complete new communities and are being purchased in many cases in all-cash transactions. The all-cash nature of many of the acquisitions has offset some of the impact of interest rate volatility on sales velocity.





Outside of the top tier, Class B properties recorded a modest uptick in transaction counts from 2023 to 2024, while levels were essentially flat among Class C assets. These segments of the market were expected to account for higher volumes in 2024, as properties that had been acquired using short-term, floating rate debt during the runup were expected to become available as distressed sales.

While many major markets have recorded a handful of distressed transactions, the numbers have fallen far short of the capital that was raised in anticipation of acquiring them. Instead, many lenders have worked with borrowers and extended terms rather than taking back properties or forcing sales. The elevated absorption numbers and the health of the overall economy have supported these efforts, as older vintage assets have largely maintained recent occupancy levels and rents, even while falling short of the financial performance that was used during acquisitions in 2021 and 2022.

Declines in property values are likely more significant than in the median pricing data due to the mix of sold properties being skewed toward newer assets. When comparing like assets, Class A properties are selling for about 25 percent less than they were in 2022, with the median price across the top tier in 2024 reaching approximately \$278,000 per unit.

In 2025, investment activity will likely gain some momentum, while still falling far short of the highs from a few years ago. Newly constructed assets will likely continue to present investment opportunities. While hundreds of new properties have changed hands in recent years, the rate of transactions involving newer assets has lagged prior periods.

Across the largest markets in the country, properties built between 2022 and 2024 are selling at about half the rate as properties built between 2019 and 2021 did during that three-year period. As properties continue to lease-up and the development pipeline thins, these newer assets will change hands in greater numbers, propping up overall transaction counts.

Prices have trended lower in recent years, as rising operational costs and flat rents have dragged on property cash flows, while higher interest rates have resulted in increased borrowing costs. The median price dropped to \$227,400 per unit in 2024, down 19 percent from the peak in 2022.

“In 2025, investment activity will likely gain some momentum, while still falling short of the highs from a few years ago.”





#### CLASS B SALES

\$235K

per unit median price

#### CLASS B CAP RATES

5.4%

2024 average

#### 10-YR. TREASURY

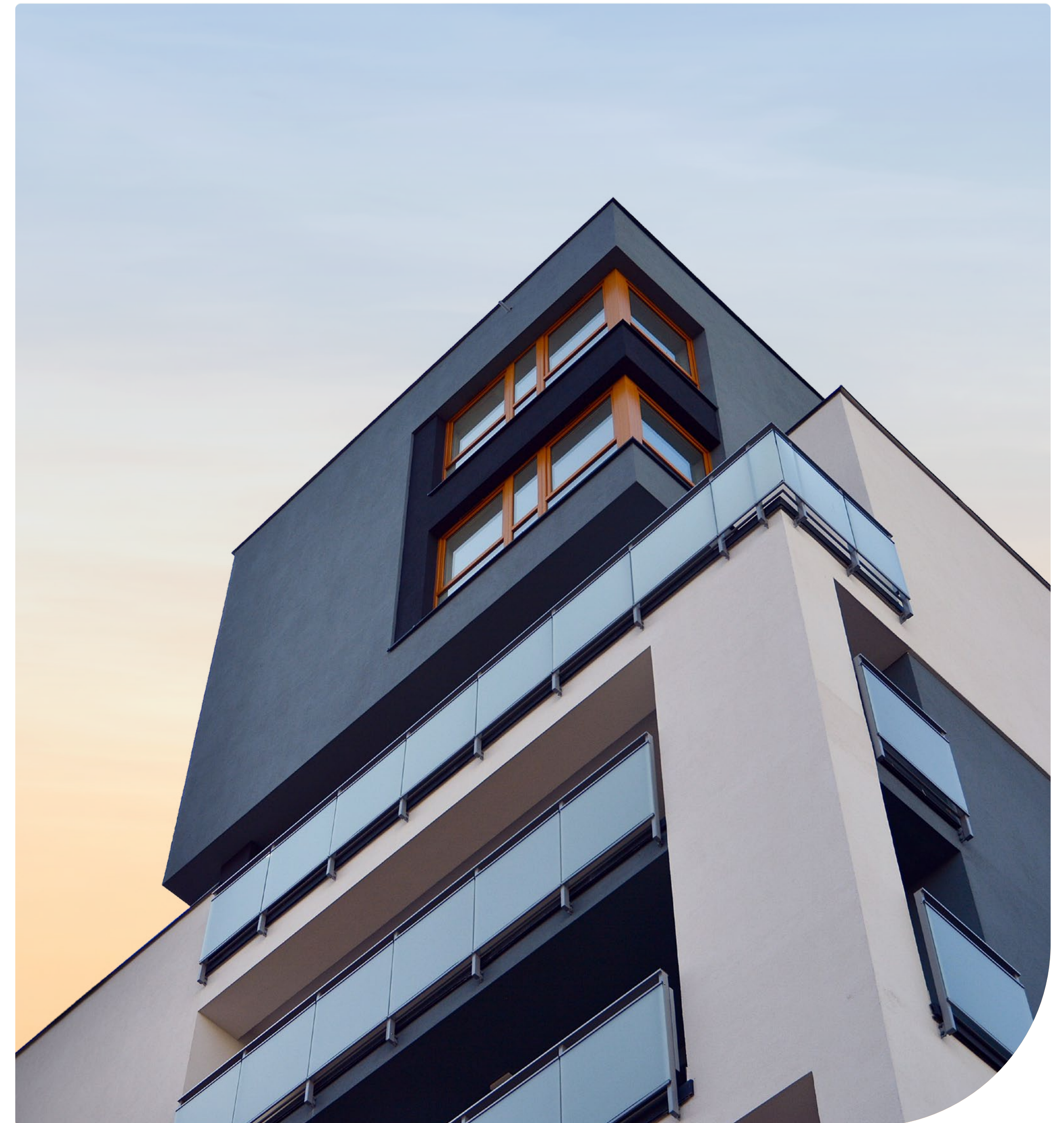
+60bps

yield increase in 2024

Activity across the Class B market gained a bit of momentum from 2023 to 2024. More properties sold in the past year than in 2023, and with investors targeting newer Class B assets, pricing held steady at about \$235,000 per unit. Cap rates crept higher, averaging 5.4 percent for the year across Class B properties.

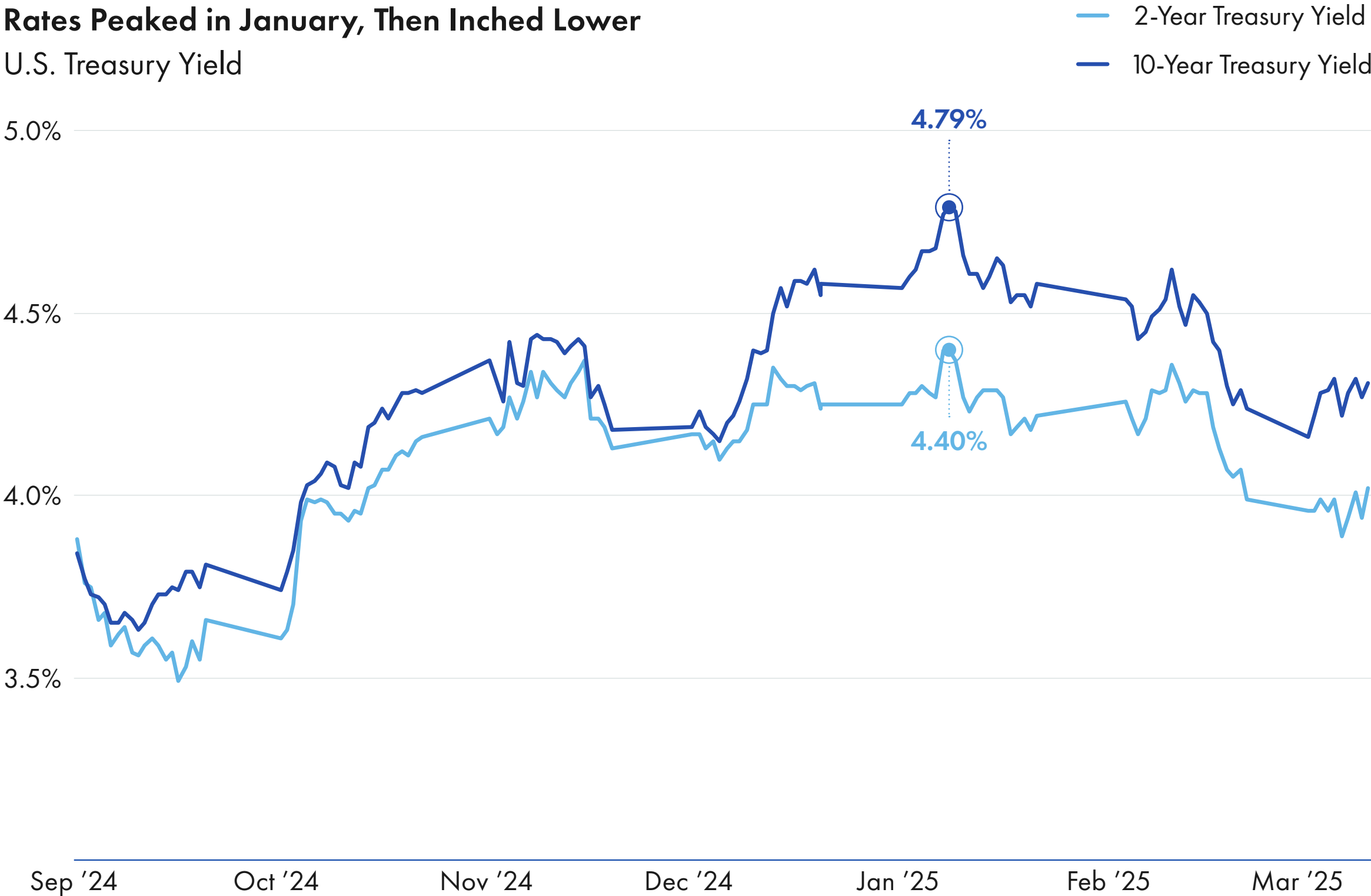
Cap rates have been mostly flat throughout much of 2024. Interest rates were volatile over the course of the year, adding uncertainty to borrowing costs and restricting activity levels. While the Federal Reserve cut short-term rates a total of 100 basis points across three cuts in the second half of the year, the yield on the 10-year Treasury rose by more than 60 basis points in 2024. Nearly all of the increase was recorded during the fourth quarter, which is typically an active period for sales velocity.

As 2025 begins, the expectation is for cap rates to remain largely unchanged. While lenders are showing signs of becoming more aggressive when underwriting loans for acquisitions, there are questions surrounding the direction of interest rates. While some declines are possible, a return to the extremely low rates from a few years ago is very unlikely.





# Lenders Getting More Competitive at the Beginning of 2025



Sources: Northmarq, U.S. Treasury

Strategies within the debt and equity markets have continued to evolve in recent years, and volatility in interest rates—and interest rate expectations—have added complexity to transactions. On the whole, there should be greater liquidity in the multifamily property sector in 2025, particularly surrounding financing for acquisitions. Equity strategies are proving to be more complex, with many existing owners seeking preferred equity to recapitalize properties acquired at the peak of the market, while developers are encountering challenges finding equity to bring new projects through the construction pipeline.

While Treasury yields did not trend lower as expected in 2024, multifamily fundamentals outperformed expectations, and lenders are more aggressive on issuing new debt for performing properties. The slowing pace of competition from new construction is likely to buoy lender sentiment in the coming year, which should support origination volumes and tighten spreads across the sector.



# Interest Rate Environment

Interest rates were initially predicted to stimulate the capital markets in 2024, with forecasts calling for several rounds of rate cuts that were expected to bring down yields on both short- and long-term maturities. While the Fed eventually cut short-term rates, yields on longer-term maturities ended 2024 higher than they were at the beginning of the year.

The yield on the 10-year Treasury started last year at just under 4 percent and had ticked up to nearly 4.7 percent by late April, a move that halted acquisition and refinance activity levels after a healthy first few months of the year. Yields eventually began to push lower and retreated back below

4 percent in the third quarter, setting the stage for a potential uptick in transaction activity late in the year. Instead, the yield on the 10-year Treasury reversed course in the fourth quarter, surging past 4 percent and ending the year at nearly 4.6 percent.

One interest rate indicator that attracted a great deal of attention was the yield curve, which inverted in 2023 and remained so throughout much of 2024. By late in the third quarter, declines in short-term bond yields and rises in the 10-year Treasury yield caused the curve to return to a traditional slope, lessening the thoughts that a potential recession might be looming.

The interest rate outlook for 2025 is mixed. Most forecasts call for the Federal Reserve to cut rates at least once, and multiple cuts are becoming increasingly likely. Yields on longer-term bonds have been volatile during the past two years, which has caused greater uncertainty in capital markets. Renewed concerns surrounding inflation in recent months, combined with persistent stresses about overall government debt levels have kept rates elevated and may prevent any significant declines in Treasury yields in 2025.

“While the Fed eventually cut short-term rates, yields on longer-term maturities ended 2024 higher than they were at the beginning of the year.”





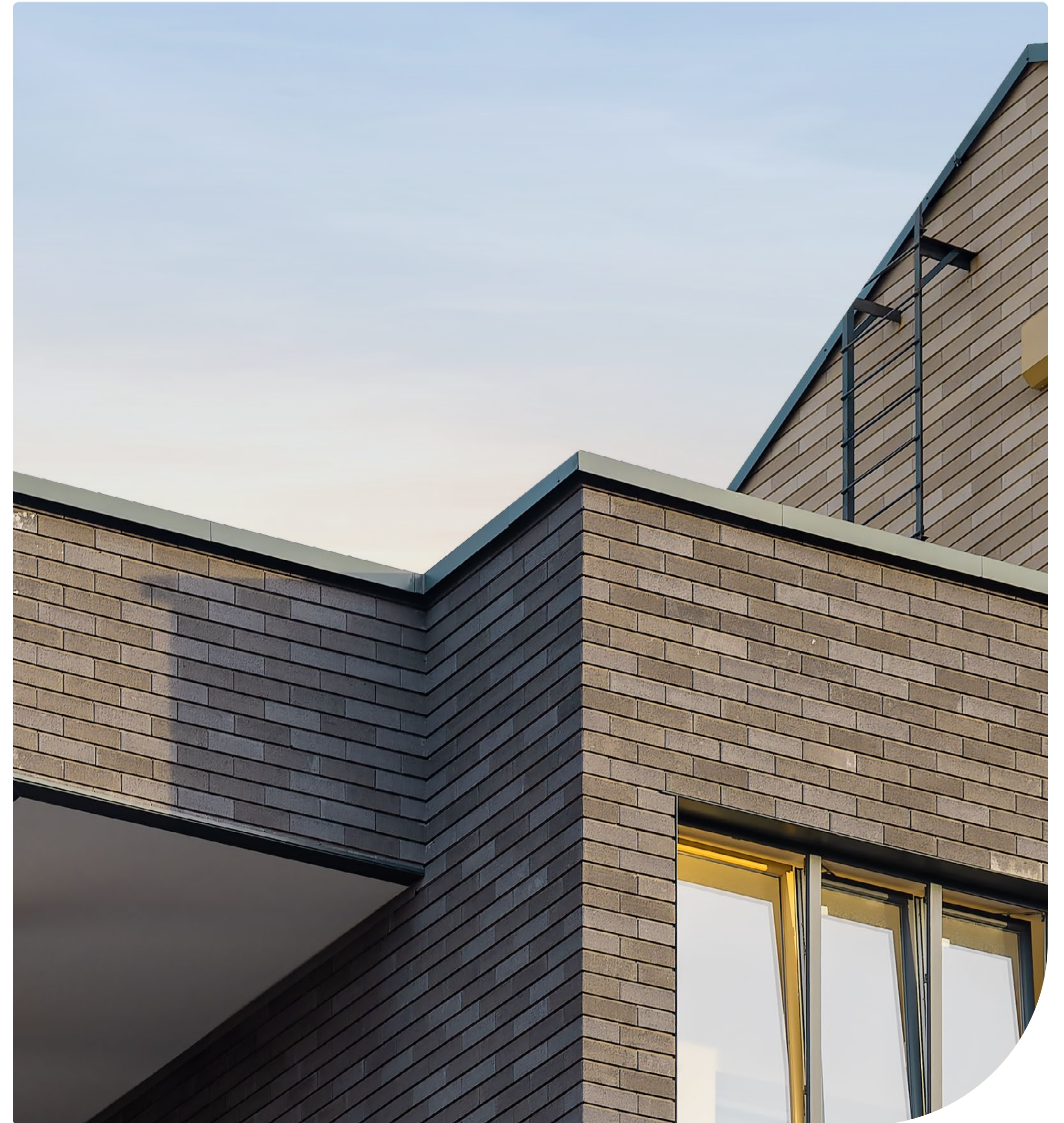
# Multifamily Debt Climate

Lenders are expected to increase origination volumes in 2025. Multifamily lending peaked in 2021 and 2022 and then activity levels were slashed essentially in half in 2023. Volumes gained some momentum last year and are expected to post increases again in 2025, as sales activity will likely pick up and some of the shorter-term loans that were taken out at the peak of the market should provide some refinancing activity.

The recent heightened absorption totals have strengthened market sentiment and are encouraging more lenders to become increasingly competitive in allocating capital to the multifamily sector. These conditions are resulting in some spread compression, even as overall lending rates are significantly higher than a few years ago.

The agencies increased their multifamily loan caps by about 4 percent from 2024 to 2025 and are expected to be leading sources of acquisition financing this year. Both Fannie Mae and Freddie Mac have volume caps of \$73 billion for 2025, for a combined total of \$146 billion. At least 50 percent of agency multifamily business must be mission-driven for affordable housing, a requirement that has been in place for the past few years.

While multifamily construction starts are expected to reach multi-year lows, debt for new construction projects is expected to remain available, although development deals will need to be well capitalized with sufficient equity and proven sponsors.



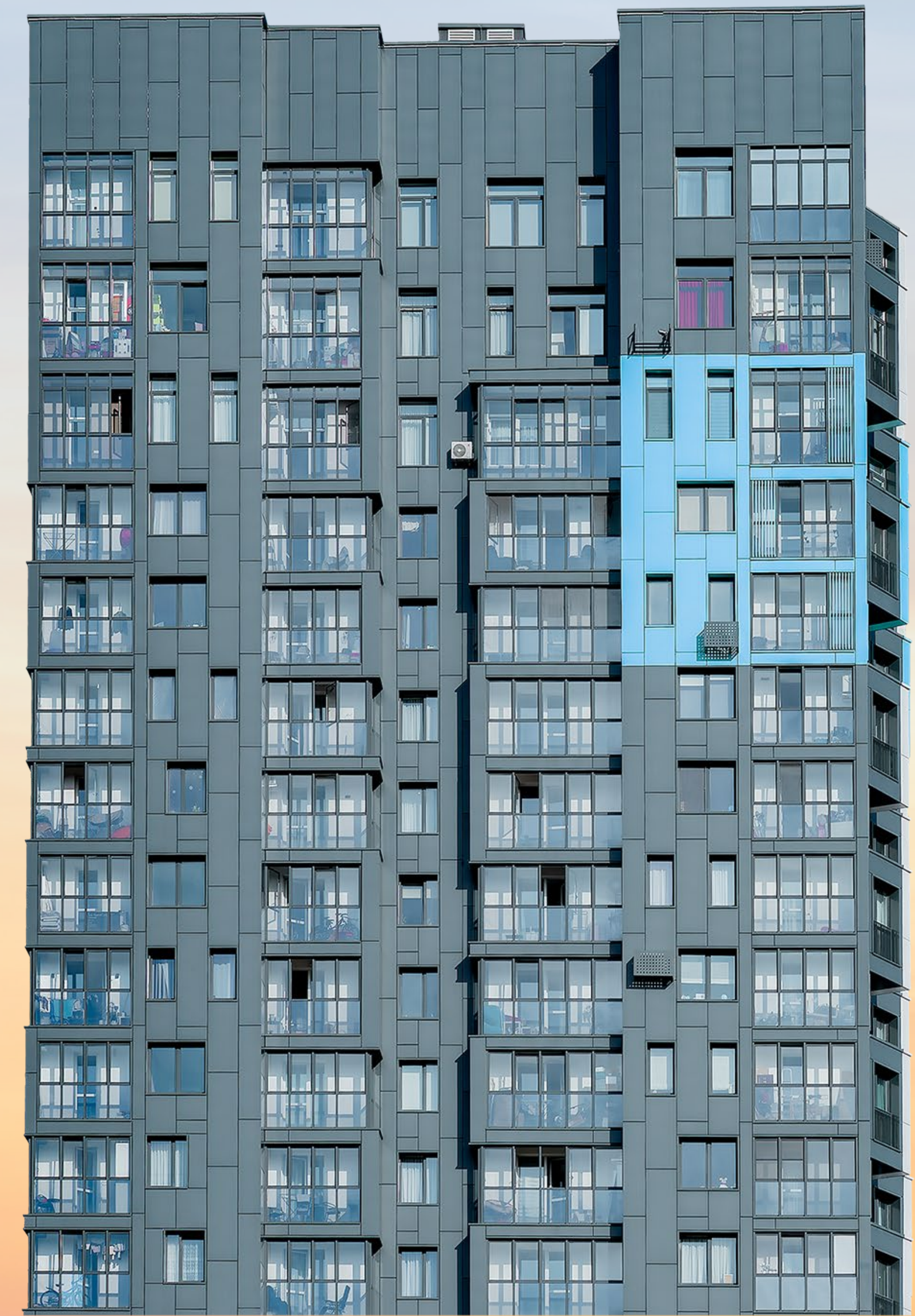


# Equity

The equity environment for multifamily properties is expected to be split in 2025. Equity capital has been raised in recent years in anticipation of a flood of REO assets that were expected to become available for acquisition at prices much lower than replacement cost. While a handful of these assets have sold across several markets, far more equity capital has been raised for this purpose than has been invested. Capital is expected to be deployed in acquiring troubled assets in 2025, but the number of transactions is not expected to increase significantly.

While some investors are attempting to acquire properties at discounted prices and finding few opportunities, there has been much greater success in deploying equity capital in purchasing new communities. Many newer developments are being acquired in all-cash transactions at cap rates around 5 percent, or only about 50 basis points higher than a Treasury yield. Equity investors are employing these strategies in efforts to deploy large blocks of capital efficiently across major multifamily markets assuming that property fundamentals will strengthen as supply-side pressures ease.

Equity for new ground-up construction is proving far tougher to secure. There is a sense that it may take a few years for many high-growth markets to work through the new inventory that has come online since 2023 as well as the projects that have broken ground and are in the construction pipeline. The more conservative stance by equity investors should ease some of the oversupply concerns in the next few years, which would allow markets to return closer to equilibrium and ultimately spark the next cycle of development.





# A Mix of Optimism and Uncertainty as 2025 Begins

Following a year where absorption levels surpassed nearly all expectations, the national multifamily market begins 2025 with a brighter outlook than it did 12 months ago. While there should be continued renter demand for units and a thinning of the development pipeline in 2025, property fundamentals at the national level are expected to remain within a fairly tight range of current conditions.

When forming the outlook for 2025, it is important to note the forces that combined for unexpectedly strong demand conditions in the prior year, and to assess the factors that will drive absorption in the coming year.

The economy has been advancing at a healthy pace in recent years, supporting demand for all forms of housing. Much of the recent demand has been fulfilled by rental housing, as persistently high mortgage rates and sticky home prices have prevented many renters from becoming homeowners. In 2025, these conditions should persist, even as economic growth is expected to continue at a slightly slower pace than in prior years.

While the overall outlook for the economy is favorable, there are potential threats that are worth monitoring. Two proposed policies in particular could

impact economic growth. The first is tariffs, which have historically produced inflationary pressures as consumers respond to changing prices and businesses adjust supply chains to new costs on imported goods, building materials, and parts.

Immigration is another force that has a direct impact on housing demand, labor costs, and new business formation. With the natural rate of population growth slowing in the United States, immigration has been cited as a source of the country's above-average pace of economic expansion in recent years. At the beginning of 2025, there has been a great deal of conversation about immigration, but it is too early to determine the impact that any specific measures might have.

With the pace of economic growth and the rate of inflation somewhat in question, forecasters are adjusting their expectations for the direction of future interest rates. Any potential increases in pricing conditions will make it tougher for interest rates to creep lower, although a period of slower economic growth could lead to greater economic stimulus either from fiscal or monetary policy measures.

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While external factors are sources of uncertainty, one aspect of the multifamily market that is showing greater clarity is the development pipeline. For the past few years, the competitive impact of new supply coming online has been one of the primary concerns surrounding the national multifamily market. The past two years of elevated completions and a slowing pace of starts has stabilized the outlook on the supply side. Total completions at the national level are forecast to decline approximately 20 percent from 2024 to 2025, with additional slowing likely in 2026.

With supply-side pressures easing, vacancies will likely peak this year and many major markets will begin to record rent growth after a few sluggish years. Rents may remain fairly soft at the beginning of 2025 but should begin to gain momentum during the stronger leasing

season in the second and third quarters. Not all markets will move in lockstep, however, and several markets where vacancies are more than 100 basis points over their long-term averages may not record rent increases until 2026.

With property fundamentals stabilizing, the investment markets should regain some momentum. New construction projects should continue to fuel the market, keeping cap rates low even if relief from interest rate cuts is limited.

Another year without much interest rate relief will likely weigh on investors who might otherwise target Class B and Class C properties. If deeply discounted distressed assets begin to become available in greater numbers, there will likely be a surge in transactions, as funds allocate the significant sums of capital that have been raised to pursue these opportunities.

While there are some hurdles present in the market that still need to be overcome, there are more positives in the outlook for multifamily assets than negatives at the beginning of 2025, supporting a mostly positive forecast. This year will likely serve as an inflection point, as construction slows, rents edge higher in the second half and transaction activity accelerates, setting the stage for a more robust recovery in 2026.







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# 2025 National Multifamily Outlook

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