

LESSONS SHAPING THE MULTIFAMILY MARKET IN 2026

A White Paper by CF Capital
2026 January



CF CAPITAL

www.cfcapllc.com

Overview

As the multifamily industry reflects on 2025, the market enters 2026 at a clear inflection point.

After two years of elevated interest rates and muted transaction activity, the Federal Reserve's December rate cut — its third of the year following moves in September and October — became a defining moment late in 2025, adding to the reset expectations across the capital stack. Together, the three 25-basis-point reductions brought the benchmark rate down to 3.50%–3.75% by year-end. Even so, Fed officials entered 2026 signaling caution, projecting only one additional cut this year as they wait for a clearer read on economic conditions.

For operators, lenders, and investors, the question coming out of 2025 is not whether the easing cycle has begun — it objectively has — but how quickly these cuts will translate into improved deal flow, pricing stability, and clearer underwriting.

Drawing from CF Capital's transaction experience, market observations, and insights shared throughout 2025, this White Paper looks back at the lessons that defined the past year and outlines how they are shaping multifamily performance and investor behavior heading into 2026.

While national data provides important context, the emphasis here is on the pressures we observed on the ground throughout 2025: cap-rate shifts, operational headwinds, and the continued importance of conservative underwriting in a market where fundamentals remain sound but uneven.

These takeaways reflect not only where the market ended 2025, but where decision-making pressure is most likely to concentrate in 2026.

Key Takeaways



The Fed's series of 2025 rate cuts provided needed relief, but pricing discovery took time.

Rent growth stabilized in the second half of 2025, and many Sun Belt markets saw absorption strengthen after a wave of new supply.



Expenses remained a major pressure point, especially insurance, payroll, and property taxes — a trend that continues into 2026.

Cap rates widened moderately in 2025 and may compress modestly in 2026, but the industry is not returning to pre-2022



Liquidity remained strong across agencies, life companies, and private lenders, though leverage has stayed conservative due to debt-service-coverage constraints.

Investors increasingly prioritized cash flow, operational risk, and risk-adjusted entry basis rather than speculative organic rent appreciation.



A Shifting Rate Environment

The Federal Reserve implemented three rate cuts in 2025 — one each in September, October, and December — lowering the benchmark rate by a cumulative 75 basis points to a target range of 3.50%–3.75%. Despite this meaningful shift, policymakers entered 2026 indicating they expect only one additional cut this year, underscoring an ongoing wait-and-see posture.

Debt markets reacted to the December move. Yet the industry has not seen an immediate rebound in values. What we observed throughout late 2025 — and continue to see as 2026 begins — includes:

- Buyers continuing to underwrite higher debt costs than pre-2022 norms
- Sellers remaining divided, with some accepting new pricing realities and others holding out for further rate relief
- Agencies remaining the most stable source of capital, with private credit becoming increasingly active as banks continue to retrench

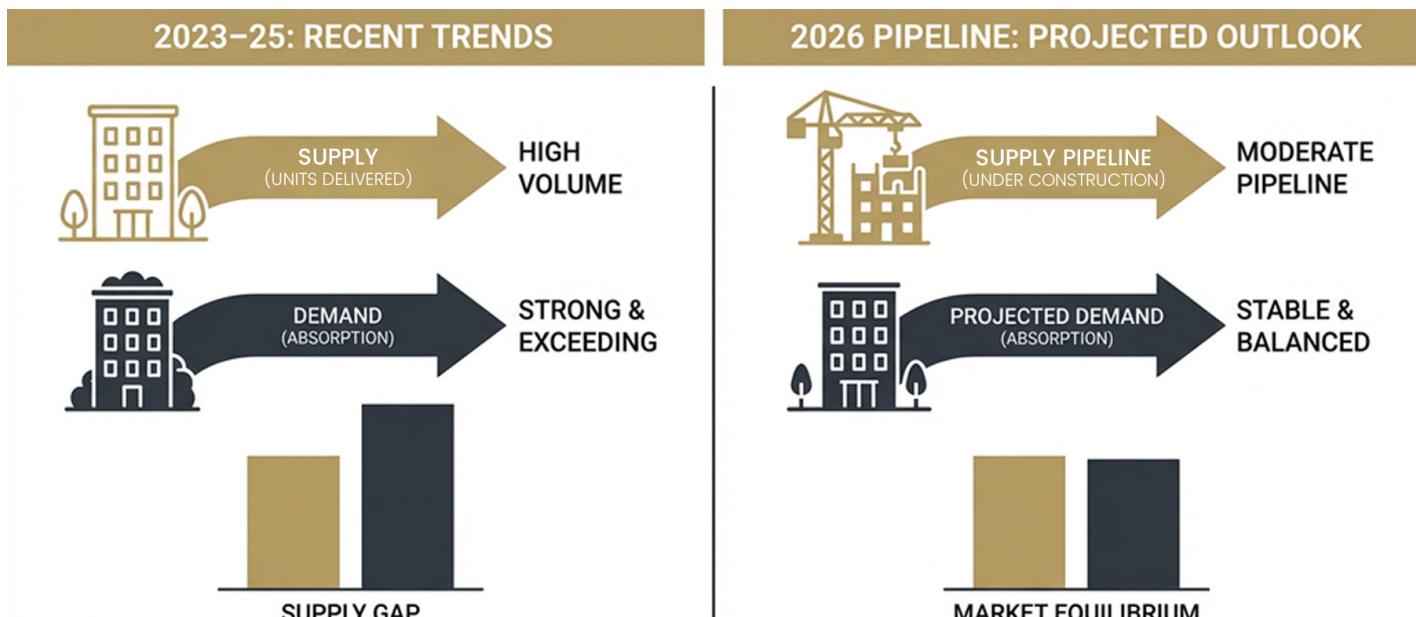
As we emphasized in our October 2025 capital-stack analysis, structure and discipline matter more than timing, especially when rate signals remain uncertain.

1. Supply and Demand

Several fast-growing metros absorbed record levels of new supply between 2023 and 2025. By late 2025, CF Capital's monitoring began to show signs of stabilization:

- Lease-up velocity improved in markets with strong in-migration
- Concessions began to retreat in submarkets with fewer 2026 deliveries
- Class B and workforce housing continued to outperform Class A due to affordability constraints

A key takeaway from 2025: demand isn't the problem — timing is. This echoed our early December "Prediction Week" discussion about eliminating noise and staying focused on fundamentals.



2. Operating Costs

NOI pressure in 2025 primarily came from escalating expenses, as most rents in our target markets continued to grow at a moderate pace:

- Insurance premiums surged across several states
- Property taxes rose even as valuations softened
- Labor costs increased, especially for maintenance and onsite staffing

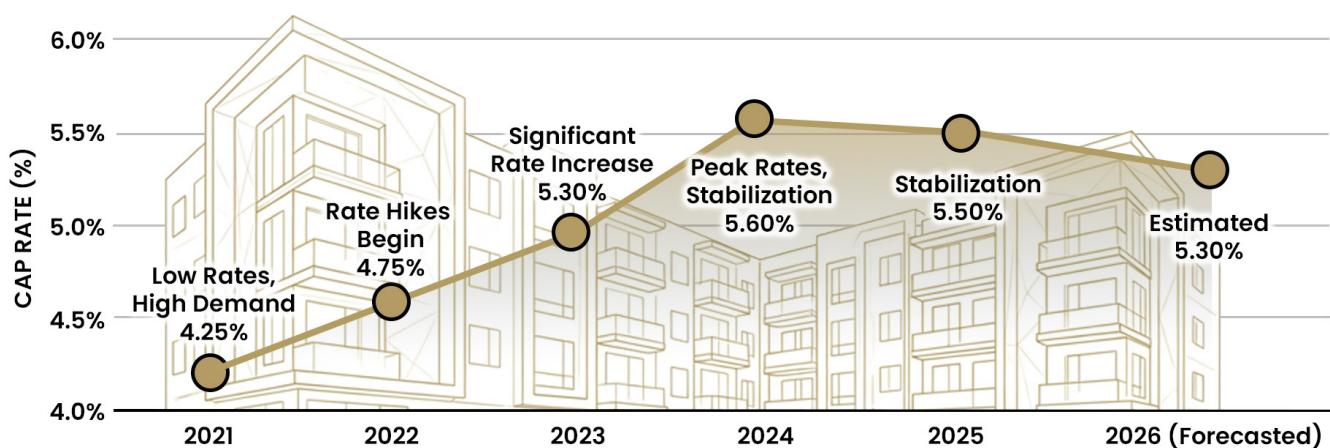
As our November 2025 strategy brief emphasized, NOI-first management and disciplined expense control remain essential to navigating the next phase of the cycle.

3. Capital Markets

Throughout 2025, the cost of capital – not fundamentals – dictated pricing in our target markets. By the fourth quarter:

- Cap rates expanded 150–250 basis points from 2021 peaks
- Equity partners prioritized basis and operational upside
- Bridge debt lost appeal unless tied to a well-defined value-creation plan

The best-performing acquisitions of 2025 shared three traits: patient capital, disciplined underwriting, and submarket selection grounded in long-term migration trends. This mirrors our guidance that capital efficiency and partnership alignment remain key advantages heading into 2026.



Key Drivers & Insights



INTEREST RATES

Aggressive rate hikes by central banks led to higher borrowing costs, directly increasing cap rates.



ECONOMIC UNCERTAINTY

Inflation, recession fears, and geopolitical tension caused investor caution and higher risk premiums.



RENT GROWTH & SUPPLY

Decelerating rent growth and new supply deliveries impacted valuations and stabilized cap rate expansion.

Source: Market Analysis, Industry Reports. Forecast is illustrative. Data is approximate for visualization.



Lessons Shaping the Multifamily Market in 2026

CF Capital Perspective: What We Saw in 2025

Selective Acquisition Strategy

We prioritized assets where pricing had reset, sellers were motivated, and operational inefficiencies offered room for improvement — consistent with our November message that selectivity beats scale in this cycle.

Operational Focus

Underwriting centered on retention, resident experience, and operational efficiency. This aligns with our August discussion on clarity and consistency as competitive advantages.

Risk Management

We strengthened stress testing around debt, insurance, taxes, and exits — reflecting the risk-management blueprint from our October capital-stack report.

Lessons for 2026

LESSON 1

Underwrite for resilience, not best-case outcomes

Expenses remain elevated, and rate volatility isn't over.

LESSON 2

Focus on true affordability

Workforce housing resilience matched what we saw portfolio-wide in 2025.

LESSON 3

Expect a slow thaw, not a quick rebound

Despite three rate cuts, valuations adjusted slowly and will continue to do so.

LESSON 4

Operations beat speculation

Execution — not rent growth — defined the strongest performers of 2025.

LESSON 5

Liquidity will define opportunity

As lender confidence gradually improves, well-capitalized buyers will see more actionable deals.

Conclusion and Next Steps

The 2026 multifamily landscape is not the overheated peak of 2021, nor a return to the frozen conditions of 2023–2024. Instead, it represents a more balanced environment shaped by the lessons of 2025 — disciplined capital, operational rigor, and thoughtful risk management.

CF Capital will continue to:

- Track the impact of rate cuts on pricing and leverage
- Pursue acquisitions with strong fundamentals and operational lift
- Share ongoing research and insights through our news and analysis platform

The opportunities in 2026 are real — but they will reward those who stay patient, disciplined, and focused on long-term value creation.



Lessons Shaping the Multifamily Market in 2026