Inland Research Report

Residential Sector Review

Inland Research Team

Executive Summary

Structural Demand, Cyclical Supply, Renewed Rent Growth Expected

The U.S. residential sector enters 2026 after an extraordinarily sharp cycle from 2020 through 2025. Pandemic-era demand surges, unprecedented rent growth, and a historic construction wave gave way to slower rent gains, elevated vacancies in select high-growth markets, and more cautious capital deployment in 2025. This report argues that the recent softness in multifamily fundamentals may reflect a cyclical supply correction rather than a structural deterioration in demand. Using national, regional, and product-level data, the analysis demonstrates our opinion that household formation remains resilient, affordability constraints continue to favor rental tenure, and the U.S. housing system remains structurally undersupplied, which we believe continues to anchor long-term sector resilience.

Macroeconomic Highlights

- Economic growth currently appears stable but decelerating.
- U.S. labor market has softened but remains historically strong, with unemployment at 4.3% as of January 2026.
- Healthcare, education, logistics, construction, and government employment have demonstrated relative resilience amid a weakening labor market.
- AI exposure is currently concentrated in white collar, information-heavy sectors, while employment bases such as healthcare, education, logistics, and construction remain largely insulated.
- AI is expected to raise productivity through task substitution rather than widespread job losses, preserving labor income stability and supporting housing demand.

Multifamily Highlights

- We believe demographic tailwinds remain one of the residential sector's strongest growth engines.
- Homeownership remains historically expensive for many Americans, as ownership costs exceed comparable rents by more than 100% in many markets.
- Record completions from 2023 to 2025 temporarily pushed vacancies upward and slowed rent growth, particularly in Sun Belt markets.
- Absorption remains steady, with occupancy expected to stabilize even as construction starts have fallen sharply.
- The sector's supply-demand imbalance is expected to improve steadily through 2026 and 2027, setting the foundation for the potential next rent growth cycle.

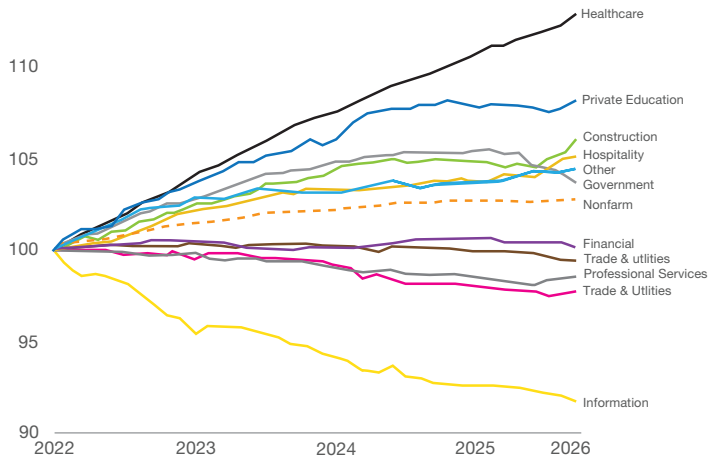
Labor Market Dynamics

National Employment Conditions: Stable but Slowing

The U.S. labor market has entered 2026 in a stable, but decelerating position as unemployment has risen from its low of 3.4 percent in 2023 to 4.3 percent as of March 2026. Notwithstanding this recent rise, unemployment remains remarkably low considering the post-World War II average of 5.7 percent.[1] As the labor market continues to normalize, this "slow hire, slow fire" environment has important implications for rental housing, as demand does not require rapid employment expansion; rather, it depends on income continuity and household stability. Recent market data support this distinction, and despite a pronounced deceleration in hiring, national apartment absorption remained positive from 2023 through 2025.[1]

The composition of employment outcomes has diverged sharply by industry. Healthcare, education, logistics, construction, and government employment have demonstrated relative resilience. Technology, media, and certain administrative and professional services have, on the other hand, exhibited higher volatility. Cities focused on the growing segments of the labor force tend to benefit from steady and stable demand for rental housing.

Employment by Industry Since 2022 (Indexed at 100)[2]



Artificial Intelligence: Productivity Shock, Not a Housing-Demand Shock

The rapid adoption of artificial intelligence (AI) has amplified concerns about labor displacement. Current evidence suggests that AI-related labor disruption is likely to be concentrated in white-collar, information-intensive industries, rather than broadly distributed across the entire labor market. According to a recent study from Microsoft, occupations with higher exposure to AI include those that are mostly knowledge-based, writing-heavy, analytical, or customer-service-oriented, whose core tasks include drafting text, gathering information, processing documents, and handling routine communication.[3] This coincides with a Bureau of Labor Statistics study, which similarly claims that occupations with higher exposure to AI include business and financial services, legal and compliance functions, insurance and claims processing, certain administrative and clerical roles, and segments of professional services where work is heavily task-based and text- or data-driven.[4]

Importantly, AI's impact, even within the above-mentioned industries, is expected to operate primarily through task substitution and productivity augmentation, rather than wholesale job elimination. By contrast, employment in healthcare, education, construction, logistics, and in-person service sectors, which rely more heavily on physical presence, interpersonal interaction, and non-routine decision-making, appears significantly less exposed in the near term. As a result, we do not see AI posing a systemic demand risk to the residential sector but reinforces the importance of product segmentation and market selection.

Demographics

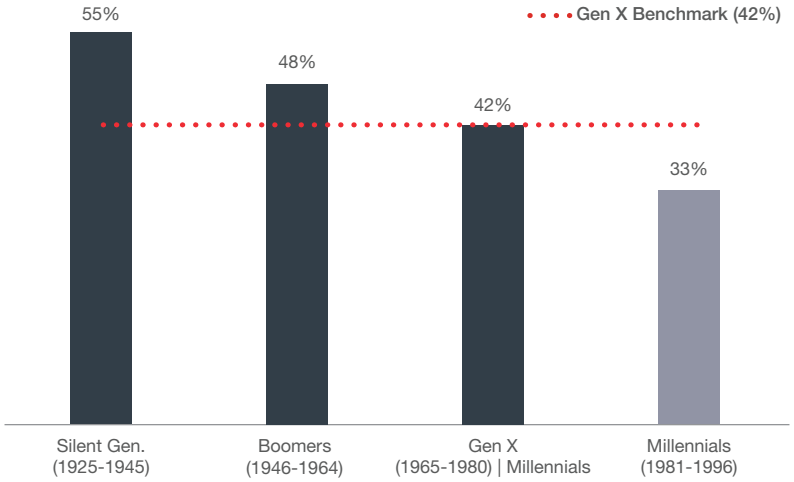
Gen Z: Entering The Market
Generation Z, Americans born between 1997 and 2012, represents approximately 71 million individuals. The 22-to-29 segment of this cohort is now entering full-time employment, establishing independent households, and will represent the single largest source of renter household formation throughout the next decade.

Recent headwinds, as well as preferences, are expected to keep many in this cohort renting longer than they otherwise would. Student debt represents one of these headwinds, as it is estimated that recent college graduates have a debt level at graduation of $30,000.[5] The resumption of loan repayments and the spike in delinquencies signal a suppression of discretionary income and down payment accumulation, driving more of Gen Z to rent. Additionally, many are choosing to delay household formation, preferring to continue living with parents.[6] Similar to Millennials, there is a cohort of Gen Z that is (referring to cohort) renters by choice, favoring the flexibility, amenities, and cost structure of renting over owning.

Millennials: The Core Cohort
The Millennial generation, broadly defined as Americans born between 1981 and 1996, comprises 74 million people, the largest living generation in the U.S.[7] This 30-to-45 cohort represents a core renter demographic, entering the precise years for peak household formation rates. It is estimated that approximately 45 percent of this cohort rents.[8] We believe this represents one of the most durable demand forces for rental housing.

Millennial homeownership rates, which were already lower than prior generations, have been significantly curtailed by high housing costs as well as the interest rate environment of the past three years. Millennial homeownership at age 30 stood at approximately 33 percent, compared to 42 percent for Gen X at the same age.

Homeownership Rate at Age 30 – by Generation[9]



It is worth noting that not all Millennial renters are constrained by finances. Rising wages in professional sectors and equity compensation in technology and finance have produced a meaningful cohort of high-income Millennial renters who choose rental housing by preference rather than necessity. This segment has been a key driver of demand for Class A* multifamily and build-to-rent (BTR) products in primary and secondary urban markets.

*Newest, best located, best built, nicest amenities, highest rent properties in a market, tend to attract institutional capital.

Gen X: The Forgotten Cohort
Gen X, aged 46 to 61 and born from 1965 to 1980, now account for 65 million people,[10] with homeownership rates for this group at 73 percent.[11] This generation has largely completed its transition into homeownership and does not represent a primary source of incremental renter household formation. However, the cohort contributes to rental demand in distinct ways (1) mid-life divorce and household dissolution, often converting a one ownership household into two rental households, and (2) a growing cohort of voluntary high-income renters in urban markets who are renting by preference rather than necessity.

Baby Boomers: The Aging Cohort
The Baby Boomer generation, born between 1946 and 1964, now numbers approximately 64 million people.[12] The homeownership rates for this group nears 80 percent.[13] However, a growing subset is beginning to transition toward right-sized alternatives, including senior apartment and manufactured housing communities.

The aging-in-place trend is dominant among Americans in their late 60s and early 70s. The inventory release event that many housing economists anticipated from Baby Boomer lifecycle transitions has been significantly delayed, keeping resale inventory constrained and for-sale prices elevated.[14]

Additionally, an intergenerational wealth transfer is underway with Baby Boomers and older generations holding nearly $110 trillion in wealth,[15] adding complexity to this cohort's housing dynamics. As wealth flows to Millennial and Gen Z descendants, the downstream effect may eventually accelerate first-time homeownership conversions among those generations.

Immigration: An Important Component
Immigration has historically been one of the most reliable and underappreciated drivers of U.S. housing demand. It is estimated that immigrant households account for a larger percentage of the renter population at 21 percent compared to their make-up of the entire population at only 15 percent.[16] Net international immigration peaked in 2024 with approximately 2.7 million persons and in 2025 dropped to 1.3 million, still above the 2015 through 2019 average.[17]

Higher levels of international migration contributed to additional household formation in the years following the pandemic, supporting demand in the multifamily sector. Recent federal policy changes have slowed this inflow, and material shifts are unlikely in the near term. We believe investments in gateway markets may need to incorporate this uncertainty into underwriting assumptions.

Household Formation: The Driver

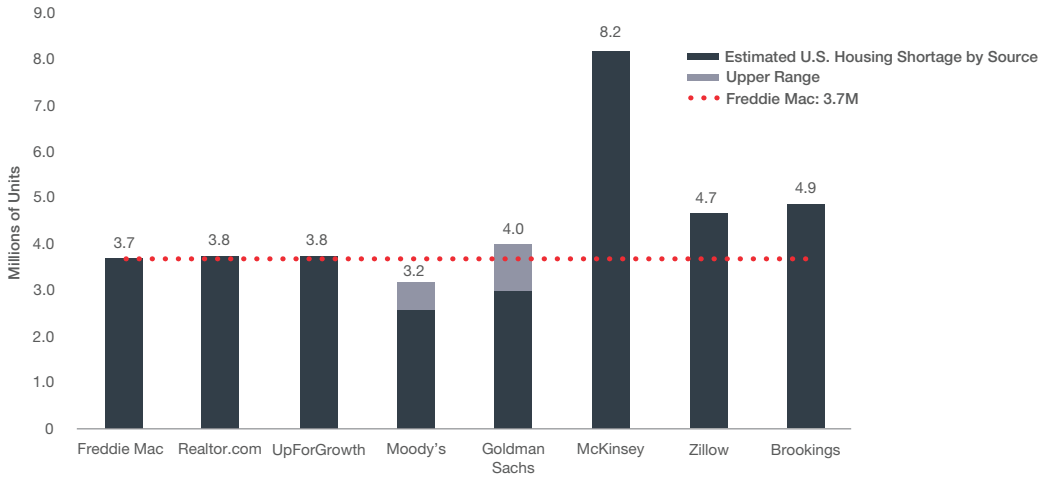
Household formation is the most direct link between demographic trends and housing demand. Long-run projections suggest that the U.S. continues to form approximately 1.6 million new households per year, with new households split between renters and owners.[18] Importantly, rental households account for a disproportionate share of marginal household formation in periods when affordability constraints limit access to homeownership.

Affordability Crisis

The Scale of the Housing Shortage

Despite record multifamily construction between 2020 and 2024, the United States housing market remains structurally undersupplied, with estimates varying from two to eight million housing units.[19] This deficit reflects more than a decade of underbuilding following the Global Financial Crisis, restrictive zoning in many metros, and rising construction costs.

Estimated Housing Shortage by Source[20]

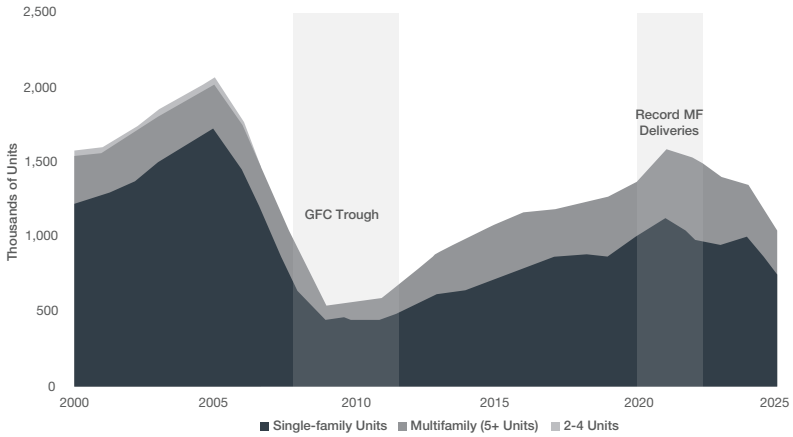


The recent construction boom addressed pent-up demand in certain markets but did not eliminate the national shortage. Instead, it created temporary oversupply conditions in specific submarkets, particularly those that experienced concentrated development during the low-interest-rate era. As a result, the most oversupplied markets saw rent declines, while markets with limited new deliveries continued to notch steady, smaller gains.

The persistence of a housing shortage provides a critical backdrop for multifamily performance. When vacancies rise in high supply markets, steady demand is expected to absorb the glut over time, eventually leading to future rent growth as the supply pipeline dries up. Ultimately, the absence of sufficient for-sale alternatives is likely to limit long-term substitutions away from renting.

These factors come together to create a dynamic where affordability in the homeownership market, due to both prices and interest rates, skews the rent versus own analysis significantly in favor of renting for many households.

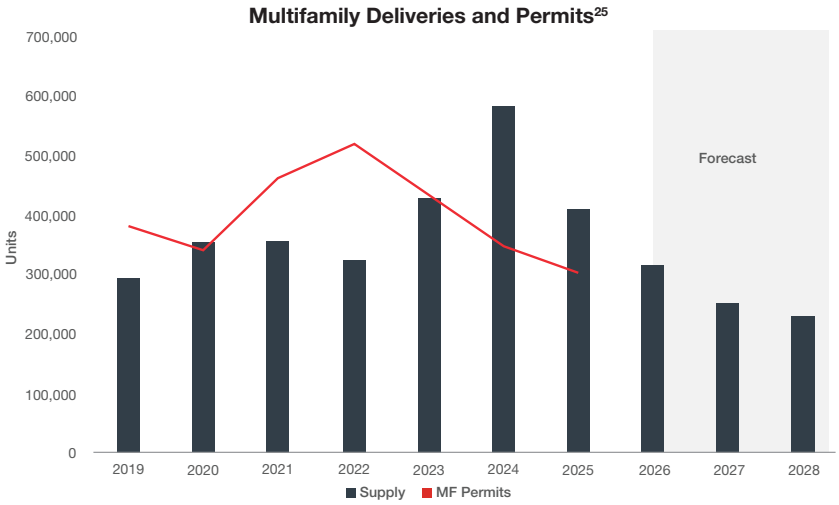
U.S. Annual Housing Starts[21]



For Rent Supply Boom: What Lies Ahead

The multifamily market absorbed an unprecedented volume of new supply from 2023 to 2025. Approximately 428,000 new apartment units were delivered nationally in 2023, followed by an estimated 585,000 in 2024, capped off by an estimated 410,000 units in 2025, the highest consecutive delivery years this century.[22] The top ten delivery markets accounted for roughly 38 percent of all deliveries nationally.

While effective rents declined year-over-year in some markets, including Austin (-7.8 percent), Phoenix (-5.4 percent), and Jacksonville (-2.3 percent) during 2025, net absorption across the top 50 markets in 2025 reached approximately 366,000 units, the fifth strongest year of this century.[23]

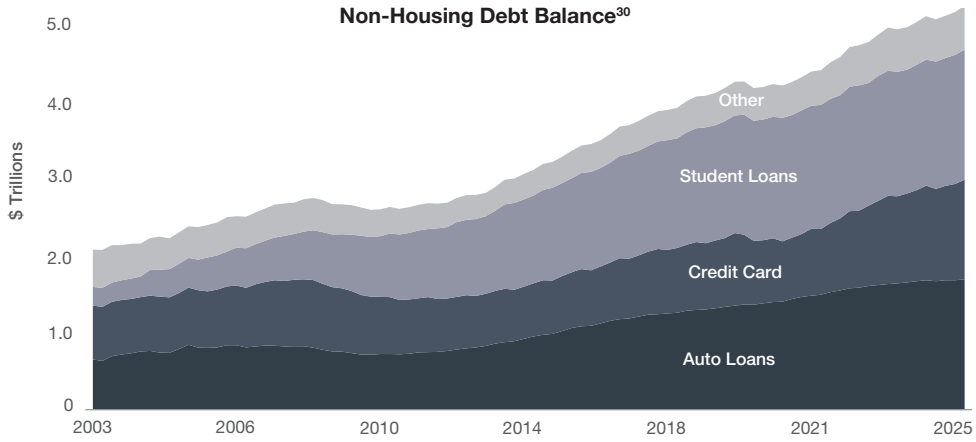


Multifamily permit issuance fell to an annual rate of approximately 370,000 units by Q4 2025, down from a peak of over 523,000 units in 2022.[24] Given the typical 18-to-24-month lag between permit issuance and delivery, we anticipate a sharp reduction in new supply beginning in late 2026 and accelerating through 2027 and 2028.

Household Balance Sheets and Confidence

U.S. households enter 2026 with relatively healthy balance sheets but increasing constraints. Debt service ratios remain manageable due to fixed-rate mortgages, yet pandemic-era excess savings have largely been exhausted.[26] Additional problems persist as wage growth moderates;[27] household debt continues to climb (housing debt at $13.6 trillion up 4.6 percent, and non-housing debt at $5.2 trillion up 2.6 percent from a year ago);[28] and consumer confidence remains subdued[29] amid uncertainty around inflation and employment. Increasing cracks in balance sheets are also showing up as delinquencies in credit cards, student loans, and auto loans have all risen significantly.[30]

Increased debt loads, put increased financial pressure on “would-be homeowners” as their propensity to stretch for homeownership remains depressed, leading to higher renter retention rates, combined with increased price sensitivity.



The Affordability Gap Between Renting and Owning

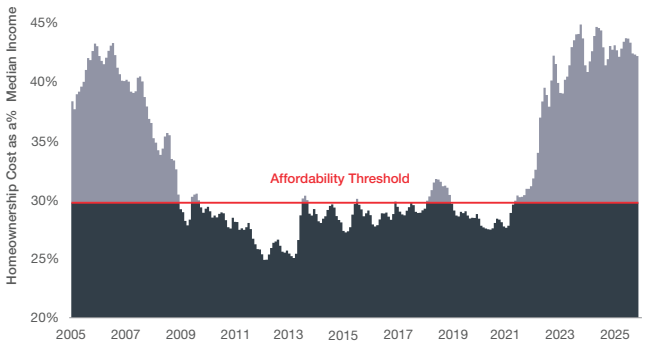
The affordability gap between renting and owning reached historic extremes following the rise of interest rates in 2022. As rates rose, it became increasingly difficult for current renters to make the jump to homeownership. In fact, a conventional 20 percent down mortgage on a $400,000 home became nearly 80 percent more expensive as 30-year mortgage rates rose from below three percent to above seven percent. This resulted in monthly payments increasing from $1,300 to $2,300, an increase of approximately $1,000.[31]

This is further demonstrated by homeownership costs as a percentage of income. According to HUD, families who pay more than 30 percent of their income for housing are considered cost burdened.[32] This industry standard is widely used as the "affordability" threshold. The rise in interest rates starting in 2022 pushed homeownership costs well above the affordability threshold, increasing from 28 percent of income in 2020 to 45 percent in 2024, with levels still elevated at 43 percent by late 2025.

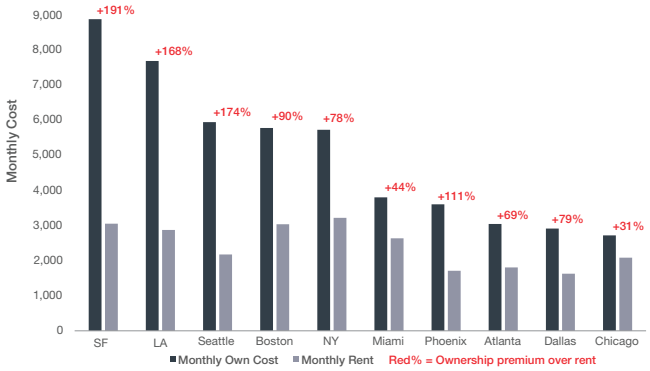
In many markets, the monthly cost to own exceeds the cost to rent by more than 100 percent, even before accounting for down payments and transaction costs. This monthly payment differential is a tailwind for rental housing demand, as those who could afford a home if rates were much lower are forced to stay renters.

Adding to the slowdown in ownership demand is the growing number of owners effectively locked into their current homes. More than half of all outstanding U.S. mortgages carry interest rates below four percent,[35] creating a strong lock-in effect. Moving would mean giving up a low monthly payment for one tied to today's roughly six percent rates. On top of that, more than 40 percent of U.S. homeowners have no mortgage at all,[36] which further reinforces the incentive to stay put. Together, these factors have kept would-be sellers on the sidelines, suppressing the supply of homes on the market, keeping prices elevated even as purchasing power is eroded.

Homeownership Costs as a % of Income[33]



Monthly Rent vs Own Cost – by Market[34]



Affordability, a Structural Issue

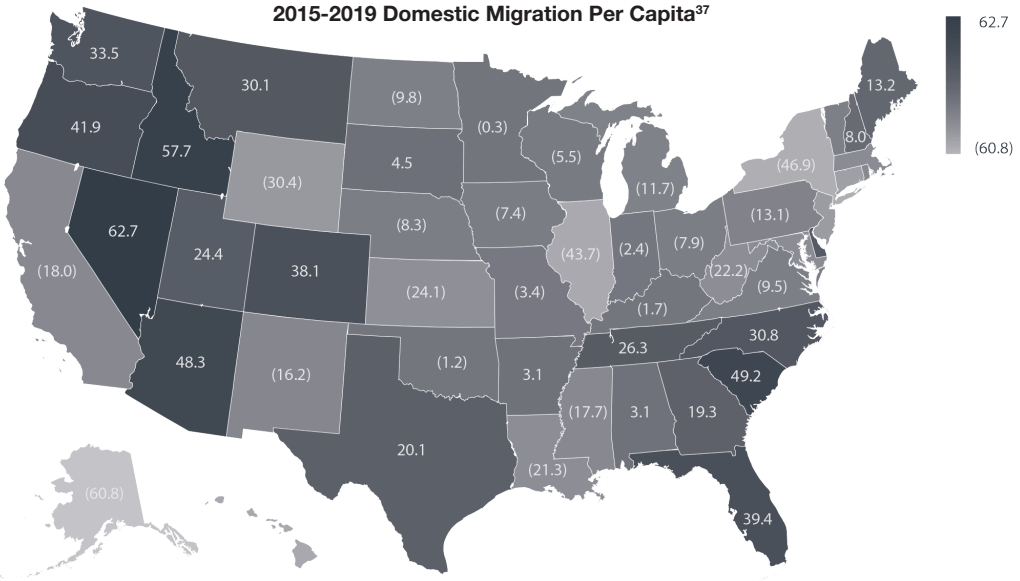
We believe a deficit of more than two million housing units accumulated over more than a decade cannot be resolved by the recent delivery surge. We see this supply-demand imbalance in U.S. housing persisting, creating a favorable backdrop for the residential sector.

America's New Geography

Pre-COVID Migration Patterns

Between 2015 and 2019, the United States experienced a sustained period of domestic migration away from the high-cost gateway metropolitan areas toward lower-cost, faster-growing Sun Belt and Mountain markets. New York, Illinois, Massachusetts, and California all saw net domestic migration losses over this period, while states such as Arizona, Nevada, Idaho, and South Carolina recorded some of the strongest gains.

2015-2019 Domestic Migration Per Capita[37]

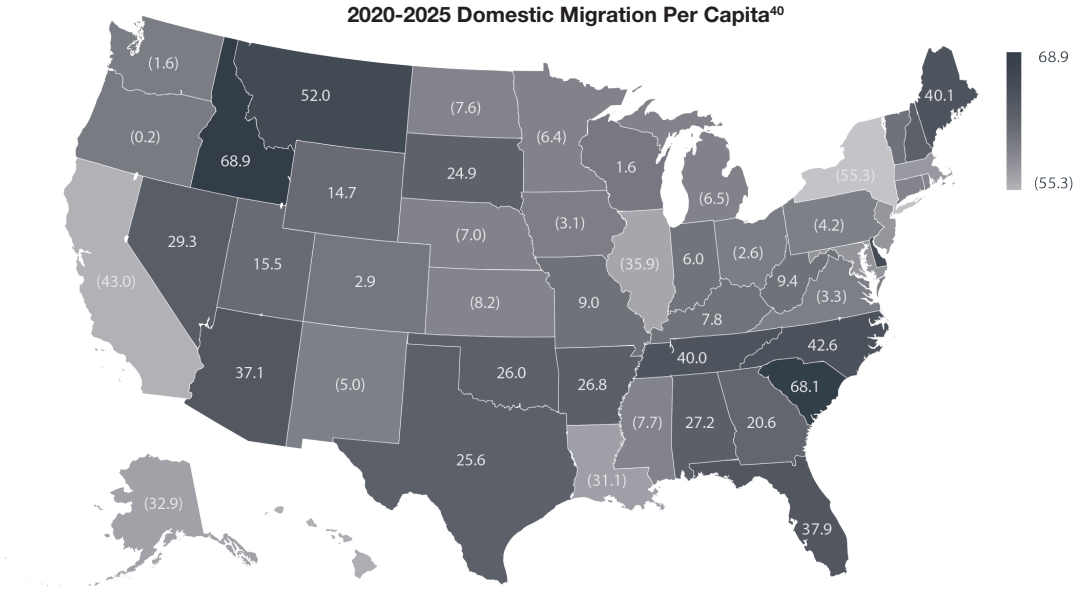


The COVID Migration Shock

The COVID-19 pandemic produced the most dramatic two-year migration shift in recent history. The widespread adoption of working from home effectively decoupled housing location from workplace proximity for a substantial segment of the working population. Increased focus on affordability, remote work flexibility, and quality of life drove household behavior.

The pre-COVID trend was accelerated as markets such as Austin, Phoenix, and Tampa saw massive net domestic inflows of 40,000, 67,000, and 42,000 in 2021 alone.[38] These inflows drove explosive rent growth. Austin saw effective rents increase by an average of 14 percent annually in 2021 and 2022, while Phoenix and Tampa grew by an annual average of 14 percent and 17 percent over the same time.[39]

2020-2025 Domestic Migration Per Capita[40]



The outflow markets experienced significant but not catastrophic losses. New York City saw net domestic outflows of 385,000 in 2021. San Francisco and the broader Bay Area lost an estimated 129,000 residents.[41] Neither market experienced economic collapse; their labor markets proved resilient even as residential populations contracted.

Post-COVID Correction & Slowing Population Growth

As individuals began returning to the office, migration patterns shifted again. While some markets faced retracement risk, many markets were able to remain durable by combining increased population flows with increased economic dynamism. Cities such as Austin, Nashville, Dallas, and Phoenix saw increases in corporate relocations, secondary offices opening, and sustained investments in high-skilled talent pipelines.

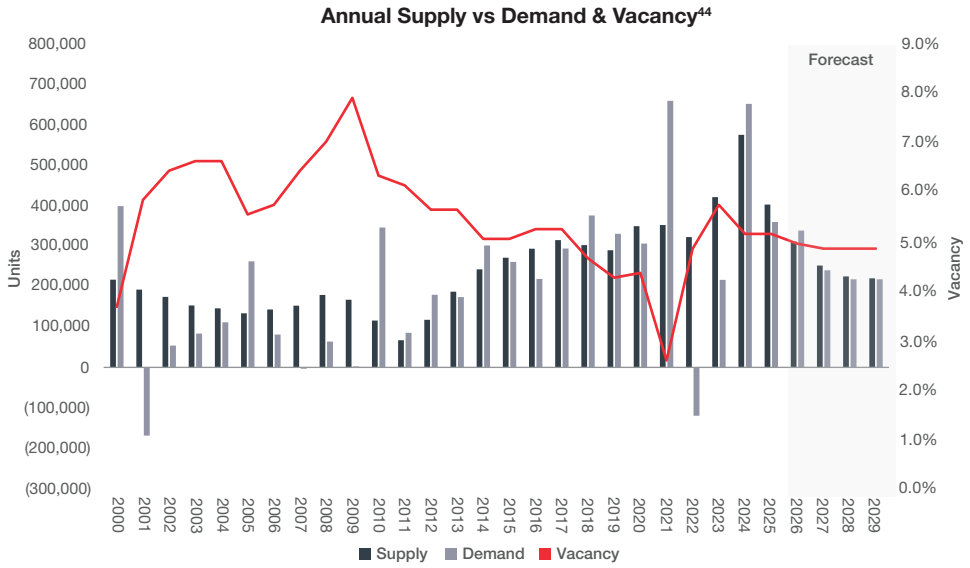
Over the last few years, U.S. population growth has slowed structurally due to aging demographics and declining birth rates. Net immigration has become more volatile and policy sensitive, increasing uncertainty around headline population forecasts. In this context, domestic migration patterns have become a more important determinant of local housing demand.

While migration flows have moderated, they remain directionally supportive of lower-cost markets relative to high-cost coastal metros. Housing affordability and taxes are likely to continue driving migration trends as well as quality of life aspects, including weather and recreation, into the coming years. We expect to see continued flows to Sun Belt and Mountain states, with positive economic drivers.

Multifamily Fundamentals: Demand Resilience Amid Pricing Pressure

Deliveries, Demand, and Rising Vacancies

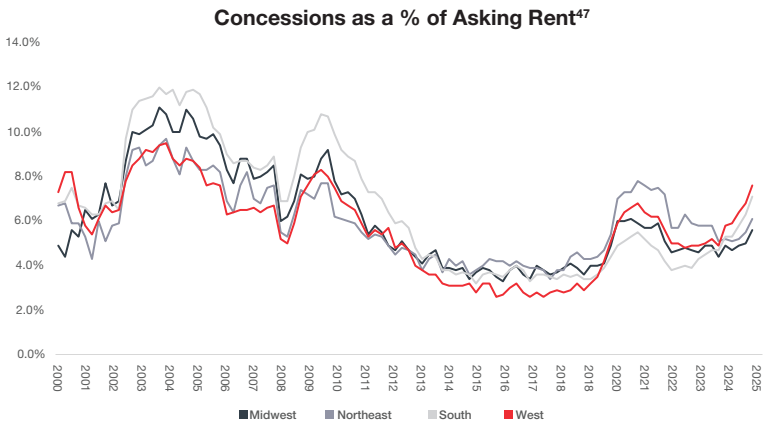
The 2024/2025 period marked the peak of the multifamily supply cycle. Nationally, annual unit deliveries reached over 584,000 in 2024 and 409,000 in 2025. Absorption over this same time remained surprisingly robust as vacancy declined from 5.8 percent in 2023 to 5.2 percent in 2024 and was flat in 2025.[42] Vacancy trends look different once lease-up properties are included. RealPage data excludes buildings still in lease up, thus their data understates the amount of new supply sitting empty. When those properties are added back in, vacancies have in fact risen each year since their 2021 low, reflecting a steady flow of new units coming online, pushing vacancy rates higher.[43]



Rent Growth Deceleration

Following the accelerated growth in 2021 and 2022, rent growth has since slowed sharply as elevated levels of new supply continue to drive increased competition across properties for new tenants. Nationally, rents decelerated in 2024, as they were essentially flat year-over-year. Asking rent growth then turned negative to -0.4 percent year-over-year in 2025,[45] with effective rents turning negative as well, reaching -0.6 percent.

Increased competition for tenants is further demonstrated in the increase of concessions by landlords. Concessions have been steadily rising since 2022, particularly in the high supply Sun Belt and western markets with ample new Class A properties.



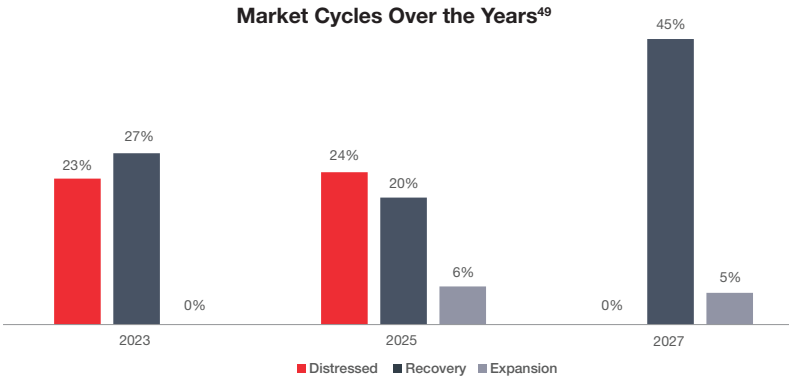
Supply Driven Correction

Crucially, this rent deceleration occurred without a corresponding collapse in demand, which we believe underscores the supply-driven nature of the correction.

Rent Growth Cycles

Looking forward, we expect deliveries to be much lower than prior years as starts and permits for multifamily have dropped precipitously, down 55 percent and 31 percent nationwide since the peaks in 2022.[48] Given this drop in expected new supply, we expect increased stabilization across the multifamily sector as properties still in lease-up from the supply boom continue to rent out vacant space. Vacancies should decline, and rents should begin ticking up, marking a new cycle of positive rent growth.

Market differentiation continues to be broad, and therefore, market and submarket selection is an increasingly important skill. As we analyze the rent cycles of the top 50 markets across the U.S., we find that over the last two years, markets are beginning to move from the distressed* and recovery buckets to the expansion bucket. Using forecasted data, we expect this trend to continue into 2027 as more markets move from distressed to recovery.



*We define a distressed market as one that has increasing vacancy compared to its 10-year average and negative year-over-year (YoY) rent growth. We define a recovery market as one that has either stable vacancy compared to its 10-year average and flat or positive YoY rent growth or one that has increasing, or flat vacancy compared to its 10-year average and positive YoY rent growth. We define an expansion market as one that has decreasing vacancy compared to its 10-year average and positive YoY rent growth.

Market Differentiation and Regional Cycles

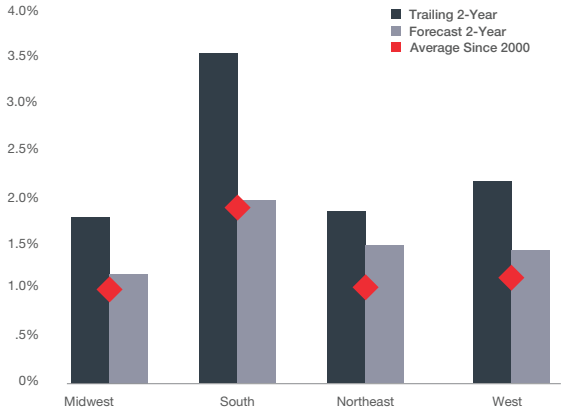
High-Growth Migration Markets

Markets that benefited most from pandemic-era migration, particularly in the South, and Mountain regions, experienced the largest supply influx. However, construction pipelines in these markets peaked in late 2024/2025 and have since contracted sharply.

Trailing rent growth in many of these metros has turned negative in recent quarters, largely driven by the massive influx of new supply. Markets such as Austin, Phoenix, and Nashville added an annual average new supply as a percentage of stock of 7.3 percent, 5.1 percent, and 5.8 percent over the last two years. However, employment growth in many of these markets remains among the strongest in the country, continuing to drive meaningful demand across these markets.

As excess inventory is absorbed, we believe these metros are positioned to re-emerge as rent growth leaders, though recovery is expected to be uneven and gradual.

New Supply as a % of Existing Stock[50]



Rent Growth[51]

"Steady Eddy" Midwest and Northeast Markets

In contrast, Midwest and Northeast markets experienced significantly less new supply, insulating them from the rent declines seen in the high-growth regions. These markets have seen steady rent growth of approximately two to three percent over the last two-years and are expected to continue seeing this stable rent inflation.

Employment growth across these markets has been more moderate in recent years but has also been more predictable and therefore less volatile. As supply pressures ease nationally, relative rent growth leadership is expected to rotate gradually back toward historically higher growth markets, but we think steady supply metros will continue to play a critical role in risk-adjusted portfolio construction.

Build-to-Rent Communities

Structural Outperformance
Build-to-rent (BTR) communities are purpose-built, professionally managed single-family or townhome rental developments that have emerged as a distinct and increasingly institutionalized segment of the U.S. housing market. These communities offer detached or semi-detached units, private outdoor space, and family-oriented layouts, while retaining the operational efficiency and scale of institutional multifamily ownership.

BTR's appeal is rooted in its ability to bridge the widening gap between housing preferences and housing affordability. As homeownership costs have surged, we see many households that would historically have transitioned into owner-occupied housing are instead seeking rental alternatives that replicate the wfunctional and lifestyle attributes of single-family homes without the financial burden of homeownership.

Demographic Tailwinds
Millennials are entering peak family formation years later than prior generations. Elevated home prices, mortgage rates, and down payment requirements have delayed or foreclosed homeownership for many, pushing rental demand toward larger units and suburban formats. BTR communities directly address this demand by offering space, privacy, and neighborhood amenities that are difficult to replicate in traditional multifamily properties.

At the same time, aging Baby Boomers and Gen X represent a second structural demand driver. As homeowners seek to monetize equity, reduce maintenance responsibilities, and preserve lifestyle flexibility, BTR communities provide an attractive alternative that allows households to remain in familiar suburban areas without ownership risk.

Supply Constraints and Performance Implications
Despite rising institutional interest, BTR remains a relatively small share of the total U.S. rental housing supply. Development is constrained by land availability, zoning, infrastructure requirements, and capital intensity, limiting the risk of overbuilding. Performance data suggest that BTR communities benefit from higher renter retention, lower rent volatility, and greater occupancy stability relative to traditional multifamily, particularly during periods of economic uncertainty.[52]

We believe BTR communities should be viewed as a structural complement to traditional multifamily, offering differentiated demand drivers and risk-adjusted performance characteristics.

Policy Issues

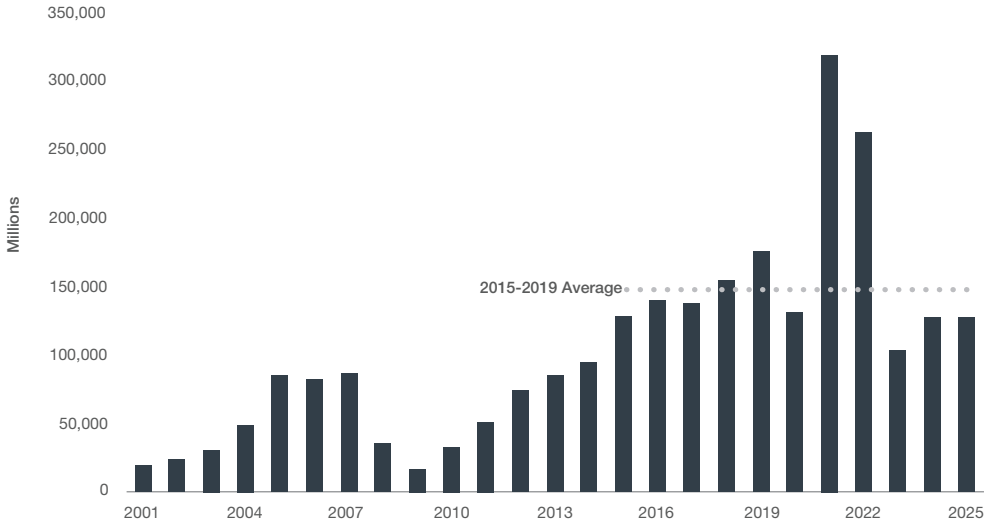
A proposed federal bill, the 21st Century ROAD to Housing Act, is currently creating uncertainty in the BTR space. The bill includes a provision requiring institutional investors to sell newly constructed BTR homes within seven years of completion, which would likely significantly curtail BTR development. This warrants close monitoring.

Capital Markets

Transaction Volume

Residential capital markets enter 2026 in a continued period of normalization following the severe transaction volume contraction coming off the 2021/2022 boom. National multifamily transaction volume collapsed from its 2021/2022 peak of approximately $292 billion annually to a trough of roughly $103 billion in 2023. The rapid rise in rates increased financing complexity driving up lending rates as well as underlying hurdle rates. Volume recovered modestly to approximately $129 billion, in 2024 and 2025 nearing the average seen prior to the pandemic boom.[53] We expect 2026 transaction volume to continue its path to normalization, nearing or slightly above the 2025 number.

Transaction Volume[54]



Pricing & Financing Solutions

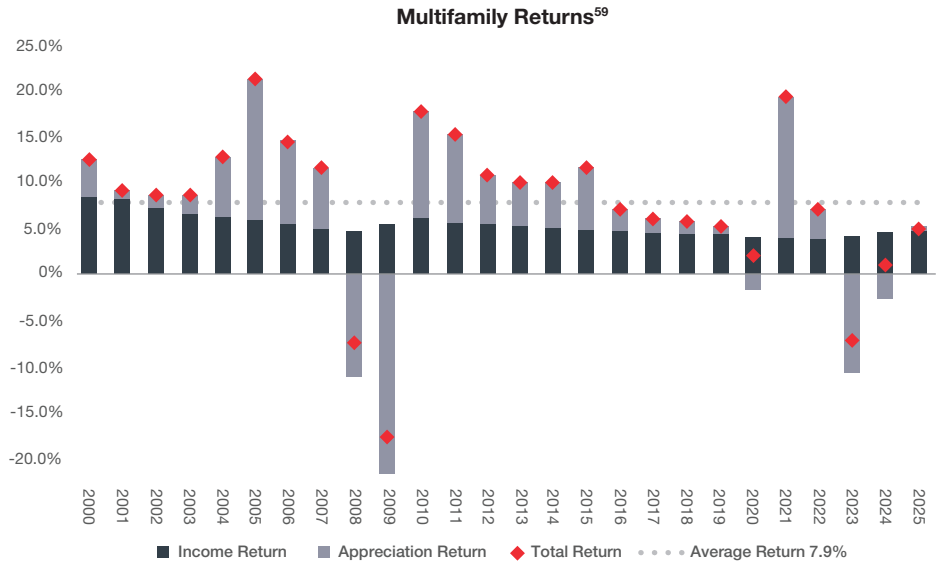
Multifamily remains a favored asset class among institutional investors, but pricing discipline is increasingly important. Cap rate expansion has been the defining valuation story of the past three years as core multifamily in primary markets repriced from cycle-low cap rates of 3.5 to 4.0 percent in 2021 to approximately 5.0 percent by the end of 2025.[57] Stabilized cap rates for core multifamily assets generally range from mid-four percent to low five percent, with value-add assets trading roughly 25 to 50 basis points higher.[55]

Given expectations for subdued near-term rent growth, underwriting assumptions must reflect a longer normalization period rather than a rapid rebound. Recent survey data suggests that underwriting rent growth assumptions for the first three years of a hold are flat from a year ago at 2.7 percent for core properties.[56]

The debt capital markets have stabilized over the last few years. This is demonstrated in spreads as fixed rate spreads were steady in 2024 and 2025 at 1.5 percent, while floating rate compressed 25 basis points in 2025 from 2024.[57]

Returns

Multifamily returns were slightly positive in 2024 and even more so in 2025. The sector is marked by stable income returns averaging 4.1 percent over the last five years, despite the recent downturn. Since 2000, multifamily has been a strong performer averaging a total return of 7.9 percent.[58] Over the next half decade, we expect potential further positive movement in total returns, as appreciation returns begin to pick up.



12-Month Outlook: From Stabilization to Recovery

Construction starts have fallen by more than 60 percent from their 2022 peak, which we believe could cause a meaningful decline in deliveries beyond 2025.[60] Meanwhile, household formation remains positive, and affordability constraints continue to favor rental tenure. While rent growth may remain modest through portions of 2026, we see the structural setup pointing toward gradual re-acceleration as inventories tighten. In our opinion, the recent deceleration in multifamily fundamentals should not be misinterpreted as a demand failure. Instead, it represents the late stage of a supply-driven correction within a housing system that remains structurally undersupplied. From our perspective, employment stability, household formation, and affordability constraints continue to anchor long-term rental demand, even as near-term pricing power is diluted by new supply.

As construction pipelines contract and excess inventory is absorbed, we believe the residential sector is poised to transition from stabilization to recovery over the 2026/2027 period. In this context, we see residential housing, including multifamily, and BTR communities, remaining a core component of institutional real estate portfolios.

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