VIKING CAPITAL

MARKET REPORT

Q2 2026

U.S. Multifamily Fundamentals, Capital Markets & Strategy

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EXECUTIVE SUMMARY

As the U.S. multifamily market moves through mid-2026, the sector is navigating the final stages of a prolonged supply absorption cycle while facing new headwinds from geopolitical disruption and economic uncertainty. The post-COVID surge in deliveries — 2.2 million units between 2022 and 2025 — has produced a bifurcated market: Gateway and Midwest markets are posting meaningful rent gains as supply constraints hold firm, while Sun Belt metros remain pressured by elevated vacancy, widespread concessions, and negative year-over-year rent growth.[1,5,8] The silver lining is structural: new construction starts have fallen more than 50% from 2023 peaks, the pipeline is clearing, and $174 billion in dry powder sits ready to deploy the moment bid-ask spreads narrow.[1,5,8] The medium-term thesis for patient, basis-disciplined capital remains compelling.[1,3,5]

About this edition: Figures reflect the most recent releases available at publication. Monthly data runs through May 2026 (Yardi Matrix); the latest quarterly actuals are Q1 2026 (Cushman & Wakefield; MSCI). Q2 2026 readings are estimates and projections (CoStar / Apartments.com), supplemented by Green Street's May 28, 2026 residential update and the Burns + CRE Daily 2Q26 investor survey (June 9, 2026). Full Q2 2026 quarterly actuals publish mid-to-late July 2026.

$1,767	6.8%	~73K	+0.2%	~2%
(May 2026)	Rate	Absorption (Units)	(May 2026)	Consensus 2026 Rent Growth Forecast

- ***Mid-Year (Q2 2026) Snapshot:*** *With the quarter now closed, the latest estimates point to national net absorption peaking near 73,000 units in Q2 20268 — the seasonal high for the year, though below the prior-year pace — even as vacancy in the most oversupplied Sun Belt metros pushes toward 13%–16%.[1,5,8] Investor sentiment held in modestly expansionary territory, with the Burns + CRE Daily Fear and Greed Index at 56 (multifamily 58), while most capital stayed on the sidelines.[16]*

- ***Supply Normalization Accelerating:*** *Annual deliveries fell ~25% in 2025 to approximately 523,000 units and are forecast to contract an additional 36% in 2026 to approximately 333,000 — the lowest annual delivery total since 2014.[1,5,8] Starts are down more than 50% from 2023 peaks.[1,5,8]*

- ***Gateway & Midwest Outperformance:*** *San Francisco (+4.5%), Chicago (+3.5%), and New York City (+3.3%) are leading rent growth as constrained supply meets resilient AI-driven and professional demand.[1,5,8]*

- ***Sun Belt Under Continued Pressure:*** *Austin (-3.7%), Phoenix (-3.1%), Denver (-2.9%), and Tampa (-2.8%) continue absorbing elevated supply.[1,5,8] Concessions are widespread, averaging up to 10–15 weeks of free rent in the hardest-hit markets.*

- ***Capital Formation Remains Strong:*** *$174 billion in equity capital has been raised for U.S. multifamily acquisitions on a rolling two-year basis through Q1 2026 — the most of any commercial real estate asset class — but sellers remain on the sidelines amid wide bid-ask spreads and geopolitical-driven rate volatility.[1,5,8]*

- ***Cyclical Entry Point:*** *Asset values sit 20–30% below 2022 peaks in many markets and below current replacement cost.[1,5,8] Morgan Stanley Real Estate Investing characterizes this as a compelling cyclical entry point with structural demand support — as for-sale affordability constraints continue to extend renter tenure and broaden the demand base.*

MARKET FUNDAMENTALS

National Vacancy & Absorption

The national multifamily market has undergone a material shift from the early-cycle metrics reflected in Q1 data. National vacancy rates across institutional-quality product have risen to approximately 6.7%–6.8% as of early 2026 — materially above the 2021 trough of 4.9% — reflecting the cumulative impact of approximately 1.8 million units delivered over the past three years.[1,5,8] This is the highest vacancy reading since the post-financial-crisis recovery period. The national occupancy rate fell to 94.1% in April, down more than 200 basis points from its cycle peak in 2022 and its lowest reading since 2013.[1,5,8] At a market level, San Francisco was the sole major metro to post positive occupancy gains year-over-year (+0.2%), driven by AI-related job growth.[1,5,8] Texas markets face the starkest occupancy challenges: Houston (91.6%), Austin (91.8%), and Dallas (92.3%) posted the lowest occupancy rates among major markets nationally.[1,5,8]

Q1 2026 demand was broadly in line with historical norms despite a challenging macro backdrop. Cushman & Wakefield reported net absorption of 65,200 units in Q1 — down from nearly 100,000 units a year prior but consistent with the long-run historical Q1 average of approximately 64,000 units.[1,5,8] Renter household formation remains supported by longer-run demographic trends, including a surge in single-member households and persistent affordability constraints in the for-sale market.

Turning to the current quarter, the seasonally stronger spring leasing window is expected to lift demand: CoStar projects Q2 2026 net absorption near 73,000 units — the seasonal high for the year, though still below the prior-year pace as inflation, economic uncertainty, and softer household formation weigh on renter demand.[8] The latest Q2 2026 projections also show vacancy grinding higher in the most oversupplied metros — San Antonio (~16%), Memphis (~15%), Austin (13.7%), Charlotte (~13%), Houston (12.9%), and Dallas–Fort Worth (~12.6%) rank among the highest nationally, and on a broader 50-metro screen Sarasota (17.6%) and Huntsville (17.4%) top the list.[10] Against this Q2 backdrop, Q1's 65,200-unit absorption print now reads as the prior-quarter baseline rather than the headline.[1,5,8]

Construction Pipeline & Deliveries

The supply contraction is the defining structural catalyst for the medium-term recovery thesis. Annual multifamily completions peaked at 608,000 units in 2024 — the highest level in 38 years — before declining approximately 25% in 2025 to roughly 523,000 units.[1,5,8] Forecasters project an additional 36% contraction in 2026 to approximately 333,000 units, the lowest annual delivery total since 2014.[1,5,8] Q1 2026 alone saw only 31,055 new units added to inventory — down dramatically from the three-year quarterly average of approximately 80,400 units.[1,5,8] The pipeline compression is not uniform: Austin deliveries are projected to decline 47% in 2026, Denver supply is expected to be cut by more than half, and Phoenix faces an additional 40% decline.[1,5,8] Multifamily starts have now dropped more than 50% from 2023 levels nationally, creating a thinning medium-term pipeline that sets the stage for improving fundamentals as excess supply is absorbed.[1,5,8]

MARKET FUNDAMENTALS

U.S. Multifamily Deliveries – The Supply Wave Crests and Recedes

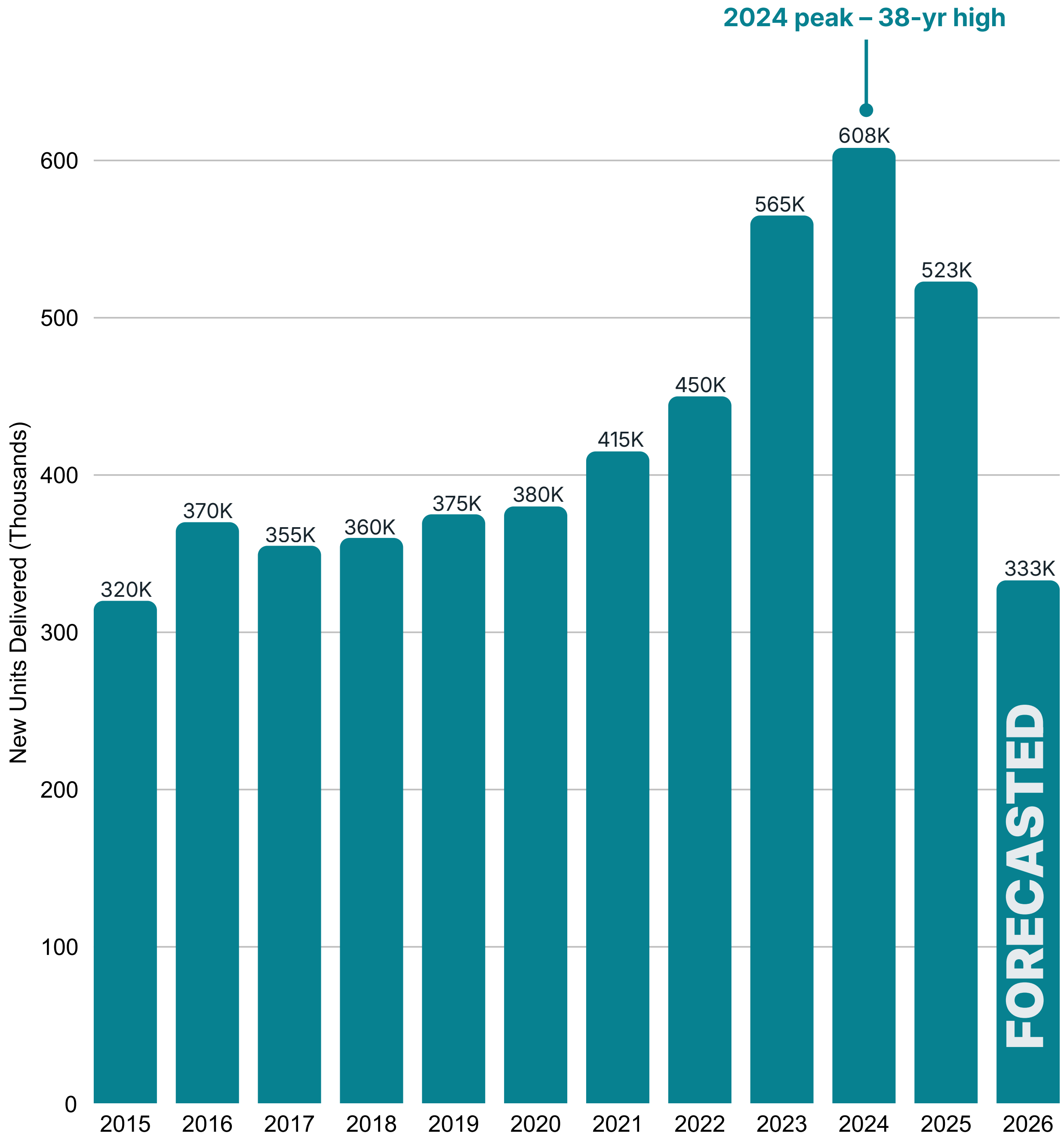


Chart: Annual U.S. multifamily completions (units, thousands). 2026 is forecast. Source: CoStar; Yardi Matrix; Newmark; RealPage — compiled May 2026.[1,5,10]

RENT TRENDS & FORECAST

The national average advertised asking rent rose to $1,767 in May 2026 — up $6 from April and marking a barely positive 0.2% year-over-year gain.[1,8,15] This follows two consecutive months of improvement, though the seasonal spring lift of approximately 1% through January–May remains well below the pre-pandemic norm of roughly 2% over the same period.[1,8,15] Rents are down year-over-year in 18 of Yardi Matrix's top 30 tracked metros, underscoring how much of the national average is being held up by a handful of supply-constrained Gateway and Midwest markets.

A critical nuance: widely reported asking rent figures understate actual portfolio performance. Renters are renewing leases at historically elevated levels — approximately 57% of all leasing activity — and renewal rents are growing materially faster than new-lease asking rents.[1,8,15] Blended rent growth, combining asking and renewal rates, is positive even in markets like Austin and Denver, where new-lease asking rents remain negative. Operators have strategically prioritized occupancy preservation over rent growth on new leases, a rational response to a competitive lease-up environment that should reverse as the supply pipeline clears.

The industry consensus for full-year 2026 rent growth is approximately 2%, contingent on improvement in job growth and consumer confidence through the second half of the year.[1,8,15] Housing economist Jay Parsons notes that absorbing the dwindling supply pipeline should not require exceptional demand to produce positive rent growth momentum.[1,8,15]

RENT TRENDS & FORECAST

Public-Market Forecast Cross-Check

Green Street's May 2026 residential update, produced for a public-REIT audience, offers an independent read that broadly corroborates the private-market consensus while adding regional and net-operating-income detail. Green Street projects roughly 2% average market-RevPAF growth (a blended measure of effective rents and occupancy) across the top-50 markets over the next two years — nudged modestly higher than its March estimate as prior forecasts proved too bearish.[1,8,15] The regional dispersion mirrors the Gateway-versus-Sun-Belt divide central to this report: for 2026—2027, Green Street expects the West Coast to lead at +2.5%, followed by the East Coast (+2.0%), Midwest (+1.8%), and Sun Belt (+1.6%), with several Sun Belt markets not reaching national-leading growth until 2027—2028 as lease-up pipelines are digested.[1,8,15]

The Bay Area is the standout in Green Street's data, with asking rents up approximately 9.2% year-over-year and the only major market posting first-quarter occupancy above its pre-COVID level — driven by a prior pause in construction, minimal new supply, and AI-sector hiring.[1,8,15] That figure sits well above the +4.5% San Francisco reading from Yardi Matrix cited earlier, a gap that reflects differing methodologies and asset-quality mixes; the directional signal — decisive West Coast leadership — is consistent across both sources.[1,8,15]

Most instructive for underwriting is the NOI trajectory. Green Street models apartment same-store NOI growth troughing near 0.9% in 2026 as record deliveries are absorbed against a softer labor market, then reaccelerating to roughly 3.3% in 2027 and 4.5% in 2028 as supply relief combines with easing property-tax, insurance, and payroll expense growth.[1,8,15] This back-loaded recovery reinforces the report's core thesis — that the most meaningful improvement in fundamentals arrives in 2027 and beyond rather than in the second half of 2026 — and argues for conservative near-term NOI assumptions in acquisition models.[15]

MARKET LEADERS & LAGGARDS

Market	YoY May 2026	Forecast YE 2026	T12 Completions (% of Stock)	2026E–2030E M-RevPAF CAGR*
San Francisco	+4.5%	+2.6%	0.2%	–
Chicago	+3.5%	+4.1%	0.1%	–
New York City	+3.3%	+3.1%	2.4%	–
Twin Cities	+2.6%	+4.7%	1.2%	–
Kansas City	+2.1%	+3.9%	1.4%	–
Philadelphia	+2.0%	+2.9%	1.9%	–
National	+0.2%	~+2%	1.4%	–
Nashville	-0.5%	-1.4%	3.9%	3.0%
Dallas	-1.6%	-4.3%	3.2%	2.8%
Denver	-2.9%	-5.9%	3.7%	–
Phoenix	-3.1%	-6.2%	4.4%	3.1%
Austin	-3.7%	-5.2%	6.5%	3.7%

Rent Growth Bifurcation – Supply Constrained Coastals vs. Sun Belt

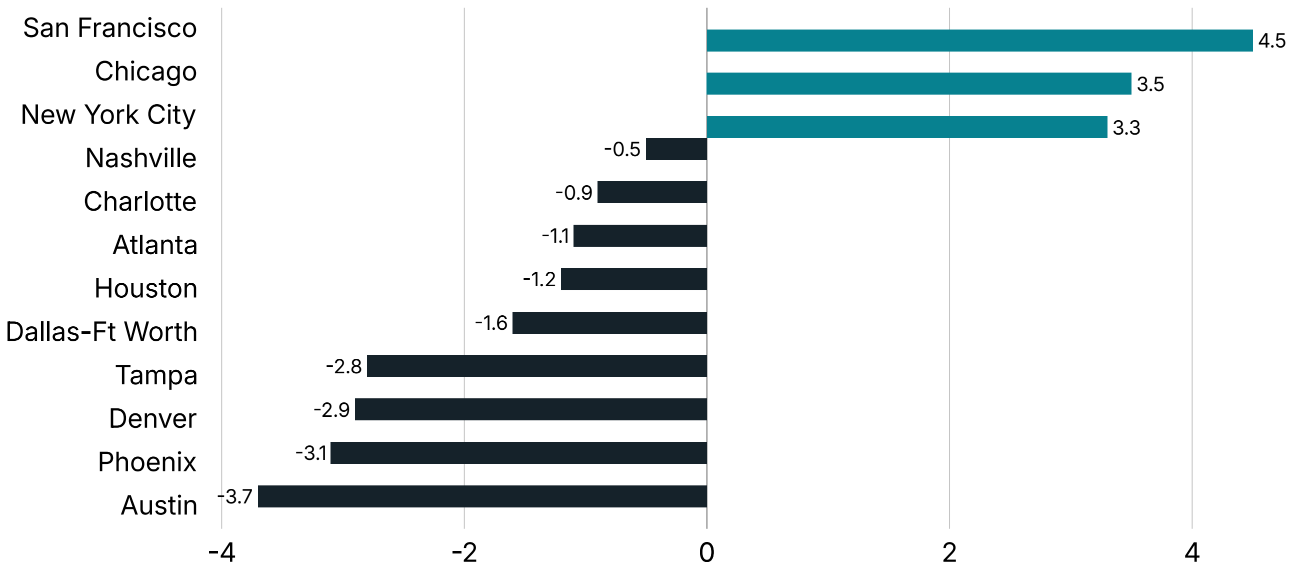


Chart: Year-over-year effective rent growth by market, May 2026. Source: Yardi Matrix, May 2026.
*2026E–2030E M-RevPAF CAGR sourced from Green Street Research. YoY data: Yardi Matrix, May 2026. Forecast: Yardi Matrix, LeaseLock.1,8,15

SUN BELT: RECALIBRATION & THE RECOVERY THESIS

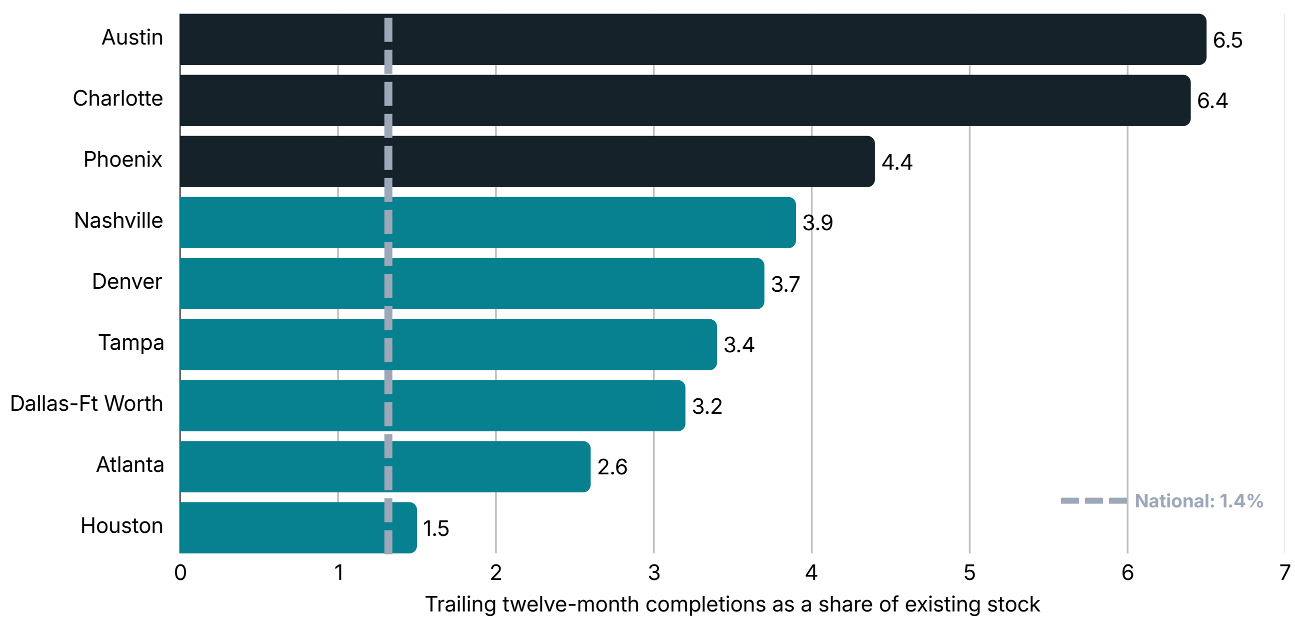
The Sun Belt multifamily market has entered a more challenging phase of its correction than many predicted at the start of 2026. Vacancy rates across Sun Belt metros are materially higher than national averages — and in several markets have set multi-decade records. The Federal Reserve Bank of Dallas documents that rents are still declining in most Texas metro areas and that concessions remain widespread, pressuring valuations of new construction and older properties alike. The distinction between a distressed asset and a high-conviction opportunity is sharper than ever, and it hinges almost entirely on submarket selection, basis, and pipeline timing.[1,8,10]

16%	13.7%	-47%	$174B	2027
San Antonio Vacancy (Highest Major Market)	*(Q1 2026)*	*Austin Deliveries Forecast Change 2026*	*For U.S. Multifamily*	*Expected Recovery For Hardest-Hit Markets*

Where the Supply Pressure Is Concentrated

New supply as a percentage of total stock reveals stark differences across Sun Belt markets. Austin leads nationally with 6.5% of inventory in T12 completions, meaning roughly 1 in 15 units is newly delivered and in lease-up.[1,8,10] *Charlotte, Phoenix, and Nashville face similarly elevated loads. However, pipeline deceleration is now dramatic in most markets: Austin deliveries are projected to fall 47% in 2026, Denver's supply is being cut by more than half, and Phoenix faces an additional 40% decline.*[1,8,10] *Markets like San Antonio and Memphis, which have the highest vacancy rates nationally, are also experiencing the sharpest pullbacks in new starts, setting the stage for material undersupply by 2027–2028.*[1,8,10]

T12 completions as a percentage of total stock. Navy bars exceed 4% of inventory.



SUN BELT: RECALIBRATION & THE RECOVERY THESIS

Sun Belt Scorecard – Elevated Vacancy Meets Negative Rent Growth

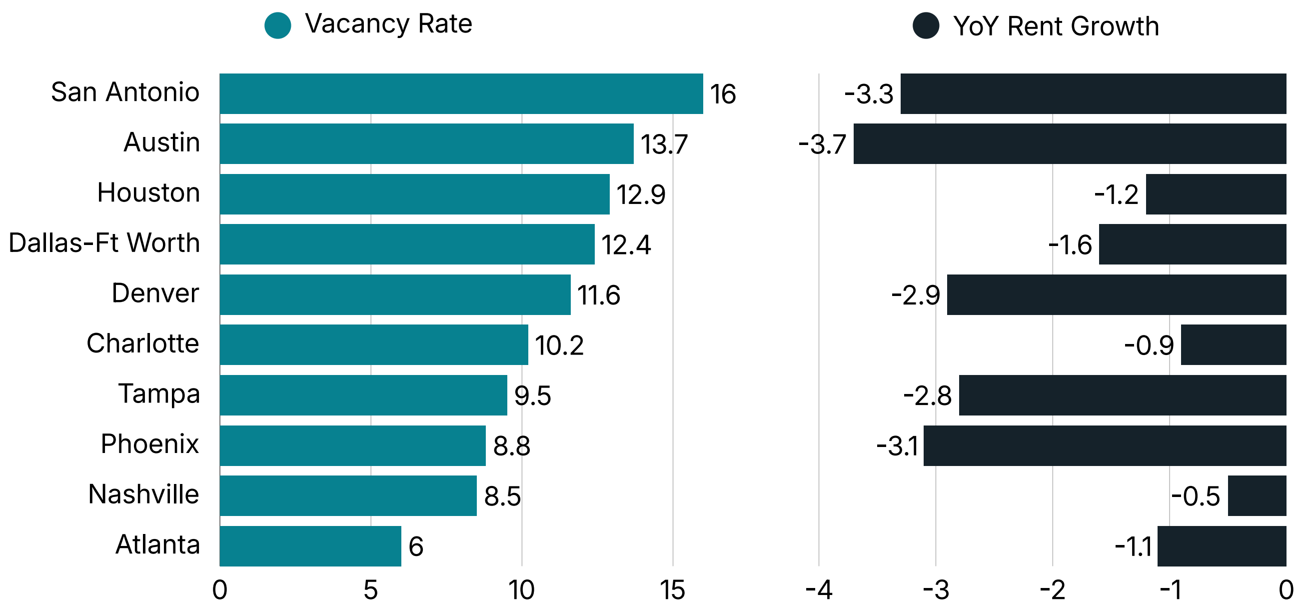
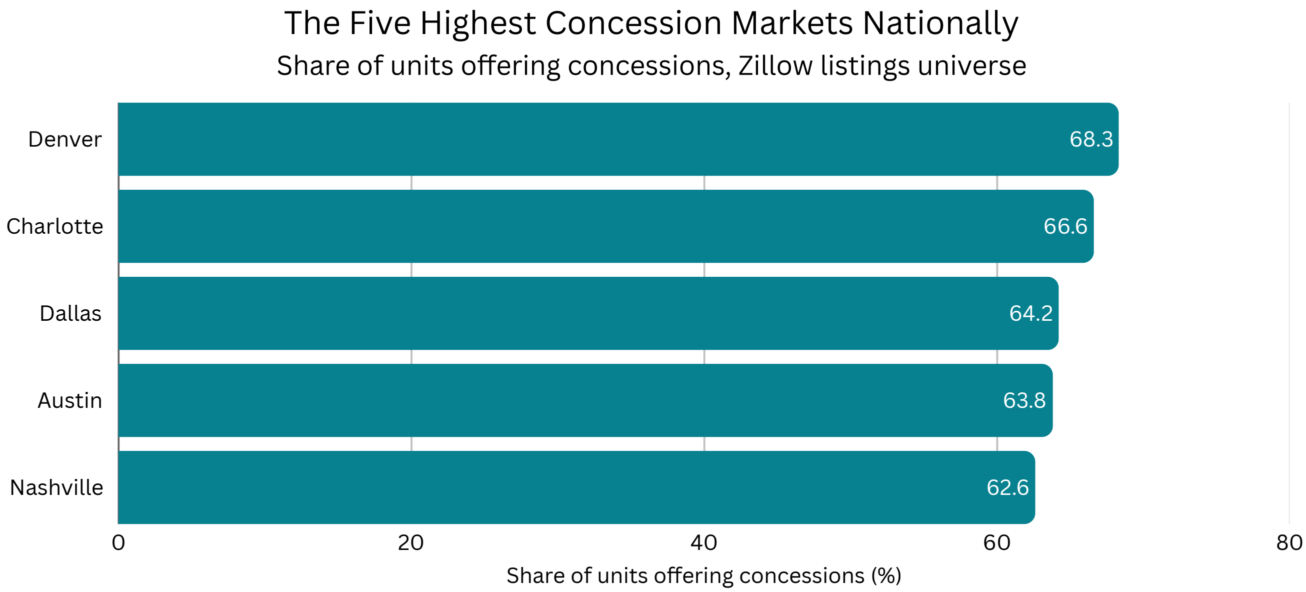


Chart: Vacancy rate and year-over-year rent growth by Sun Belt market, Q1–Q2 2026. Source: Apartments.com/CoStar; Yardi Matrix, May 2026.1,8,10

Rent Growth Trajectory — Is the Trough in Sight?

Rent growth across Sun Belt markets has been negative for several consecutive quarters, with the rate of decline beginning to moderate in a handful of markets but remaining deeply negative in Austin, Phoenix, and Denver. The concession picture is stark: Zillow data shows Denver (68.3% of units offering concessions), Charlotte (66.6%), Dallas (64.2%), Austin (63.8%), and Nashville (62.6%) as the five highest concession markets nationally.[1,8,10] Phoenix properties built since 2023 are now offering up to 10 weeks free in some submarkets. These concessions will not unwind quickly — the pipeline of units still being absorbed means operators in high-construction markets will likely face pressure well into 2027.

Investor sentiment is, if anything, more cautious on the timing of a Sun Belt recovery than this report's 2027 base case. In the 2Q26 Burns + CRE Daily Fear and Greed survey of commercial real estate investors, only 7% of multifamily respondents expected heavy-supply Sun Belt markets to return to 3%+ year-over-year rent growth in the second half of 2026; 28% pointed to 2027, and a clear majority — 65% — expected 2028 or later.[1,8,10] Green Street's institutional-quality asking-rent data underscores the depth of the current trough, with Austin (–4.3%), Tampa (–5.1%), and Charlotte (–3.5%) among the weakest major markets and Sun Belt occupancy averaging roughly 330 basis points below pre-COVID levels.[1,8,10] Both data points reinforce the case for underwriting to conservative absorption and rent assumptions rather than extrapolating a rapid V-shaped recovery.[1,8,10]



Texas: Four Markets, Four Timelines

Texas remains the primary engine of Sun Belt apartment demand, but recovery timelines across its four major metros are diverging meaningfully. The Federal Reserve Bank of Dallas projects that rent growth will not turn positive in Austin until 2027, even as population continues to grow and the construction pipeline rapidly clears.[1,11,31]

Market	2026 Outlook	2027 Outlook
Dallas–Ft Worth	30K+ units absorbed in 2025; occupancy stabilizing; concessions beginning to burn off	Limited 2024 starts creates supply vacuum; 4–5% rent growth potential as pipeline clears
Houston	Energy and medical sector demand supports absorption; vacancy near 12.9%	Avoids deeper correction seen in speculative markets; gradual normalization
Austin	13.7% vacancy; concessions still 10–15% of lease value; delivery pipeline falling 47%	Returns to equilibrium mid-2027 as pipeline fully clears; job growth recovering
San Antonio	Highest vacancy nationally at ~16%; serious oversupply; near-zero new starts beginning	Yield market with strong long-term case; undersupply building by 2027–2028

Basis, Asset Quality, and the Class A–B Convergence

The supply wave bore down hardest on Class A properties, which absorbed the brunt of concession-driven rent compression and narrowed the effective price gap between newly delivered Class A units and 15–20-year-old Class B assets. As the supply cliff arrives and concessions retire, Class A owners will reclaim pricing power. For Class B and C assets, the more immediate challenge is operating expense inflation: deferred maintenance, tax reassessments, and insurance spikes can compress NOI materially faster than for higher-revenue assets. The current market most favors Class A-/B+ assets — properties from the early 2000s that trade at meaningful discounts to replacement cost while carrying a value-add story. Asset values are 20–30% below 2022 peaks in many Sun Belt markets, and replacement costs have risen nearly 39% since 2020, creating an unusually wide gap between acquisition cost and reproduction cost.[1,8,10]

SUN BELT: RECALIBRATION & THE RECOVERY THESIS

The Long-Term Case Remains Intact

- ***Absorption Is Working:*** *Despite elevated vacancy, net absorption in Sun Belt markets remains positive. Dallas-Fort Worth recorded approximately 24,280 units of trailing twelve-month absorption, second nationally only to New York City's 27,850 units.[1,8,10] The demand is structural; the supply overhang is temporary.*

- ***Construction Is Slowing Sharply:*** *By 2027–2028, Sun Belt markets are projected to see significantly reduced completion volumes — in some cases below pre-pandemic averages — setting the stage for vacancy compression and rent normalization.*

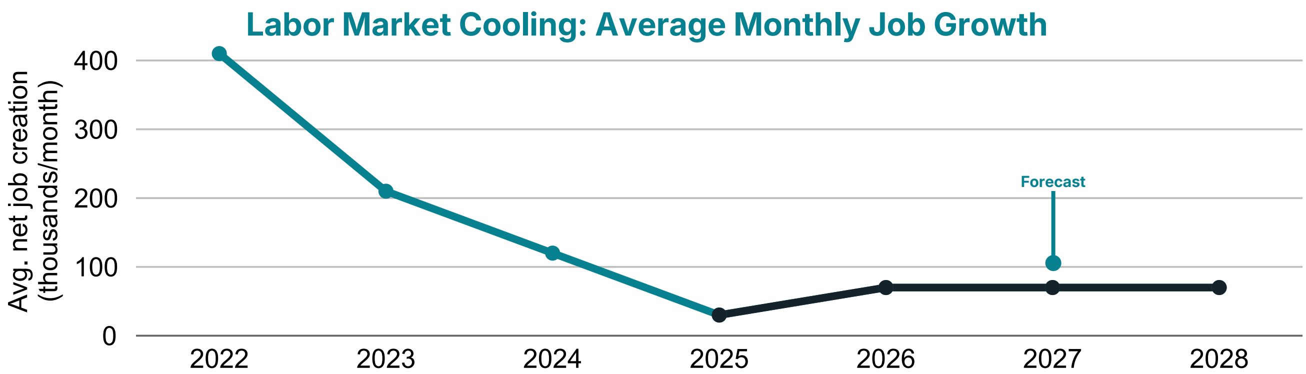
- ***Capital Is Positioned:*** *The MBA forecasts multifamily originations of approximately $400 billion for 2026, a ~20% increase over 2025, as lenders re-engage and the maturity wall forces price discovery.[1,8,10] Equity dry powder stands at $174 billion — the largest of any asset class.[1,8,10]*

- ***Structural Undersupply Building:*** *The U.S. has an estimated 600,000-unit apartment shortage created by underbuilding in the wake of the Global Financial Crisis.[1,8,10] With starts at multi-year lows and deliveries declining sharply, the structural deficit is widening again even as near-term supply pressure persists.[1,8,10]*

MACROECONOMIC & DEMOGRAPHIC BACKDROP

Economic Conditions

The U.S. economy is showing signs of strain entering the second half of 2026. Real GDP growth has moderated, with the Federal Reserve now projecting approximately 2.2% for the year.[27,28,30] Job growth averaged only approximately 75,000 jobs per month in 2025 through August — down sharply from 166,000 per month in 2024 and well below the 300,000+ monthly pace of the prior four years — and the Fed projects unemployment drifting toward 4.3% by year-end.[27,28,30] The Middle East conflict pushed energy prices sharply higher, with WTI crude spiking from roughly $57 to a $113 peak in April before easing toward $76 by late June; core PCE inflation nonetheless rose to 3.3% in April from 3.0% in December 2025 and is projected to end 2026 near 3.6%.[27,28,30] Consumer delinquencies on credit card debt have remained above 7% since 2023, and overall consumer loan delinquencies reached their highest level since 2012 in Q2 2025.[27,28,30] These dynamics are creating real headwinds for multifamily demand at the margin.[27,28,30]



Population & Migration: A Critical Demand Signal

U.S. population grew by only 1.8 million in 2024–2025 — the slowest pace since the pandemic.[4,13,26] International immigration fell 54% year-over-year to 1.3 million, driven by enforcement policy and self-deportation.[4,13,26] Domestic migration has also slowed dramatically. These trends affect multifamily markets disproportionately: coastal and high-growth Sun Belt markets with elevated immigrant population concentrations — Miami, San Jose, Fort Lauderdale, San Francisco, and Los Angeles — face specific demand headwinds. Midwest markets appear more insulated from the immigration slowdown due to lower immigrant population concentrations.

The forward path warrants close monitoring. From 2021 through 2024, immigration accounted for essentially all net renter household growth nationally, and restrictive 2025 measures are projected to reduce inflows by as much as 75% from 2024 levels.[4,13,26] The Harvard Joint Center for Housing Studies estimates that under a low-immigration scenario, annual renter household formation could decline by approximately 74,000 to 86,000 households — a 16% to 42% reduction from recent trends.[4,13,26] This is a demand-side variable that could partially offset the tailwind from the supply contraction, and it reinforces the case for underwriting to conservative absorption assumptions rather than extrapolating the demand surge of 2022–2023.[4,13,26]

CAPITAL MARKETS & INVESTMENT ENVIRONMENT

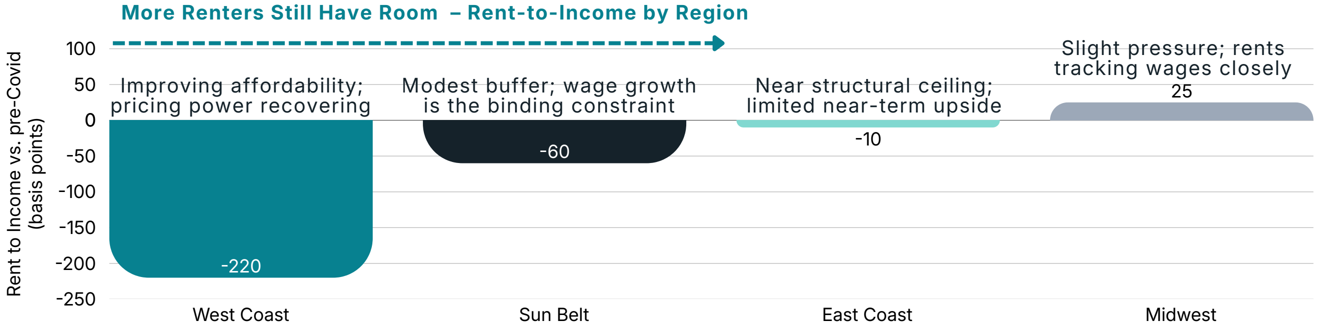
Durable Demand Drivers: Structural Affordability Constraints

Despite cyclical headwinds, the structural demand case for rental housing remains compelling. Morgan Stanley Real Estate Investing identifies three durable demand pillars: an unaffordable for-sale housing market, demographic momentum through prime renting years, and household income growth expected to remain above 4% annually over the next five years — a level that historically supports sustained rent growth.[26,27,28] The challenged for-sale market is forecast to create approximately 2.5 million new renter households from 2025 to 2028 as the homeownership rate declines from 65.2% toward 64.7%.[26,27,28] The monthly premium to own versus rent has reached approximately 105%, with an estimated shortage of 3.4 million single-family homes limiting the supply of for-sale alternatives. [4,13,26]

Metric	2025–2028 Base Case	vs. Historical Average
New Renter Households (2025–2028, cumulative)	**+2.5 million**	Structural affordability-driven demand
Household Income Growth Forecast (5-year)	**Above 4% annually**	Supports rent growth capacity
Homeownership Rate Trend	**64.7% by 2027E**	Gradual decline from 65.2% in 2025
Monthly Premium to Own vs. Rent	**~105%**	Multi-decade high; keeping renters renting
Renewal Rate (% of All Leasing Activity)	**~57%**	Up from 51% in 2015; historic high

The Ownership Affordability Gap

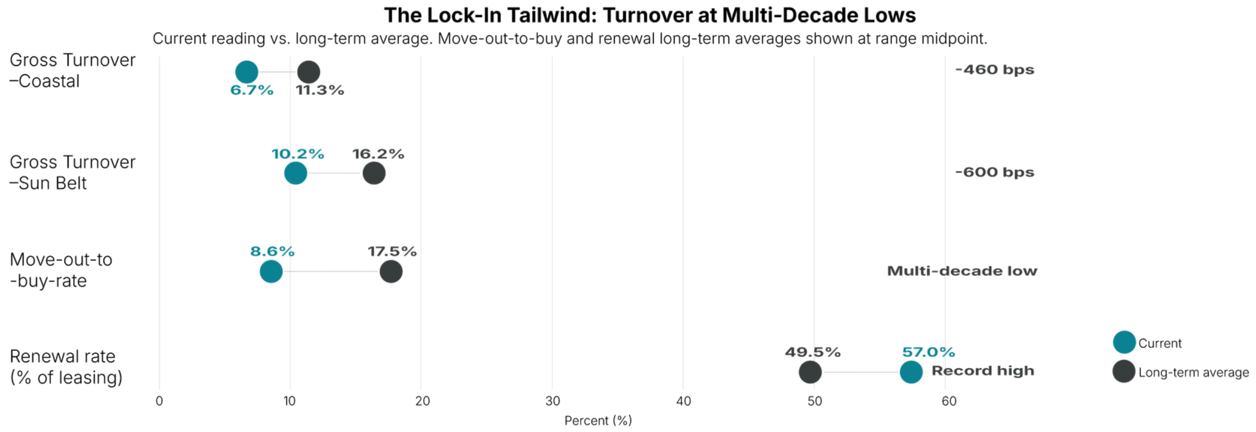
Elevated mortgage rates and higher home prices have kept monthly ownership costs approximately 45–50% — and in many markets 105% — above rental costs.26,27,28 The 30-year mortgage rate has drifted down to approximately 6% from peaks above 7.5%, but remains well above levels needed to materially ease affordability — the product of a roughly 50% surge in home prices over the last five years.[26,27,28] With more than half of the outstanding $13 trillion in mortgages financed at below 4%, existing homeowners face powerful disincentives to sell, reducing for-sale inventory and deepening the affordability gap for would-be buyers.[4,13]



CAPITAL MARKETS & INVESTMENT ENVIRONMENT

Renter Retention: The Lock-In Tailwind

Annualized gross turnover has compressed to multi-decade lows, and renewal rates have hit record highs. Approximately 57% of all leasing activity in 2026 is comprised of renewals — up from 51% in 2015 and 48% in 2005.[26,27,28] This retention dynamic has two critical implications for operators: it reduces the cost burden of high-turnover environments, and it means that blended rent growth (combining asking and renewal rents) materially outperforms asking rent growth alone — particularly in high-supply markets where new-lease asking rents remain under pressure from concessions.[13]



Consumer Balance Sheet Pressures

Below-the-surface income pressures represent a meaningful ceiling on near-term rent growth not captured by headline employment data. Student loan debt has grown at approximately 5% annually to $1.6 trillion, and resumed repayment enforcement has driven 90+ day delinquencies sharply higher.[26,30,33] Slower wage growth, depleted pandemic-era savings, and higher debt service costs on credit card and auto balances are pressuring disposable income at the lower and middle-income levels that define Class B and C workforce housing demand. Each $100 in monthly student loan payments reduces post-tax income by approximately 2%, directly constraining rent capacity.[26,30,33]

Demographics: An Aging but Broadening Renter Profile

The 25–34 year old cohort — historically the core apartment renter demographic — shows essentially flat population growth over the next five years, with the under-25 cohort posting net declines. However, offsetting dynamics are strengthening. The median age at first home purchase stands at a historically elevated level that extends the prime renting window. Large renter cohorts continue to move through prime renting years, while older households increasingly opt for rental housing due to mobility, lifestyle, and capital preservation considerations. The 75+ age cohort is the fastest-growing population segment nationally. The result, per Morgan Stanley MSREI, is a demand base that is broad, sticky, and less cyclical than in past cycles.[4,22,26]

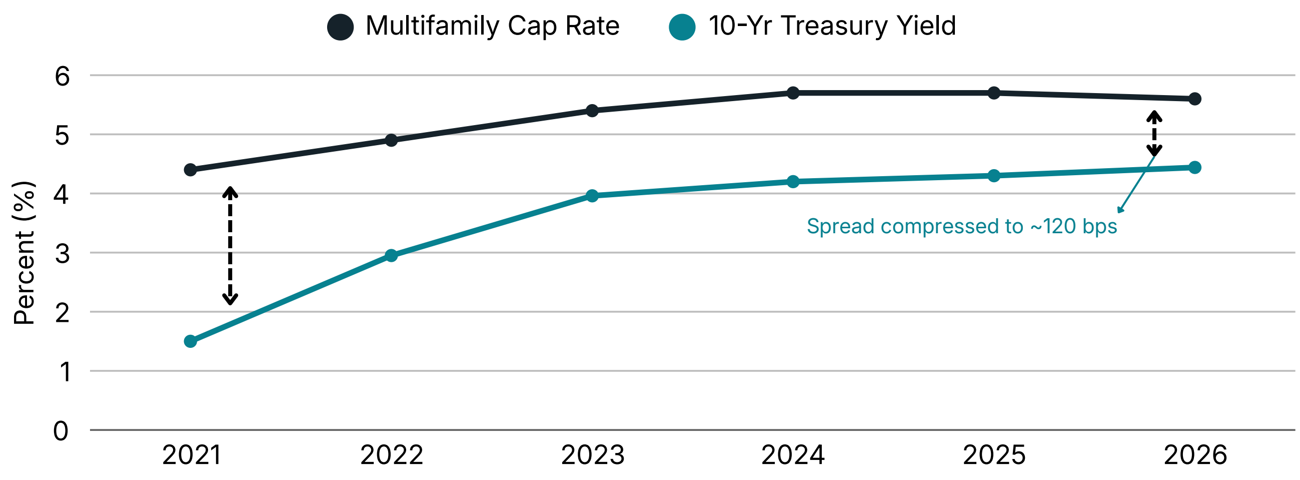
CAPITAL MARKETS & INVESTMENT ENVIRONMENT

Interest Rates & Cap Rate Spreads

The rate environment has shifted decisively against the easing scenario that capital markets participants had priced entering the year. The conflict in the Middle East, which erupted in late February 2026, drove WTI crude from roughly $57 at the start of the year to a peak near $113 in April before it eased back toward $76 by late June — but the inflation impulse lingered, with core PCE climbing to 3.3% in April.[6,28,29] Against this backdrop, new Federal Reserve Chair Kevin Warsh, who succeeded Jerome Powell after his term ended in May, struck a pointedly hawkish tone: at the June 17 meeting, the Fed held the federal funds rate at 3.50%–3.75% for a fourth consecutive meeting while emphasizing price stability.[6,28,29] Critically, the June dot plot showed nine of nineteen FOMC participants projecting at least one rate hike in 2026 — a striking reversal from the one-to-two cuts the market anticipated in January. The 10-year Treasury, which fell as low as 3.9% in February, has settled near 4.44% as of late June, and forecasters at Bank of America now project three hikes to a 4.25%–4.50% funds range.[6,28,29] The debate has moved from how much lower rates will go to whether they rise from here — a materially more defensive backdrop for levered acquisitions.

Multifamily cap rates averaged 5.7% in 2025, unchanged from 2024, and have now plateaued for seven consecutive quarters — the longest such streak in 25 years.[6,28,29] In Q1 2026, all-class average cap rates compressed modestly to approximately 5.6% as buyer sentiment improved briefly on lower rates in January and February.[6,28,29] However, the cap rate-to-Treasury spread remains thin at approximately 110–130 basis points in gateway markets, rewarding disciplined asset selection over passive market exposure.[6,28,29] First American's Potential Cap Rate model indicates fundamentals support lower cap rates than current levels, with temporary forces — rate volatility, labor market uncertainty, and cautious investment sentiment — holding cap rates above their structural equilibrium.[6,28,29]

Thin Cushion: Multifamily Cap Rate vs. 10-Year Treasury

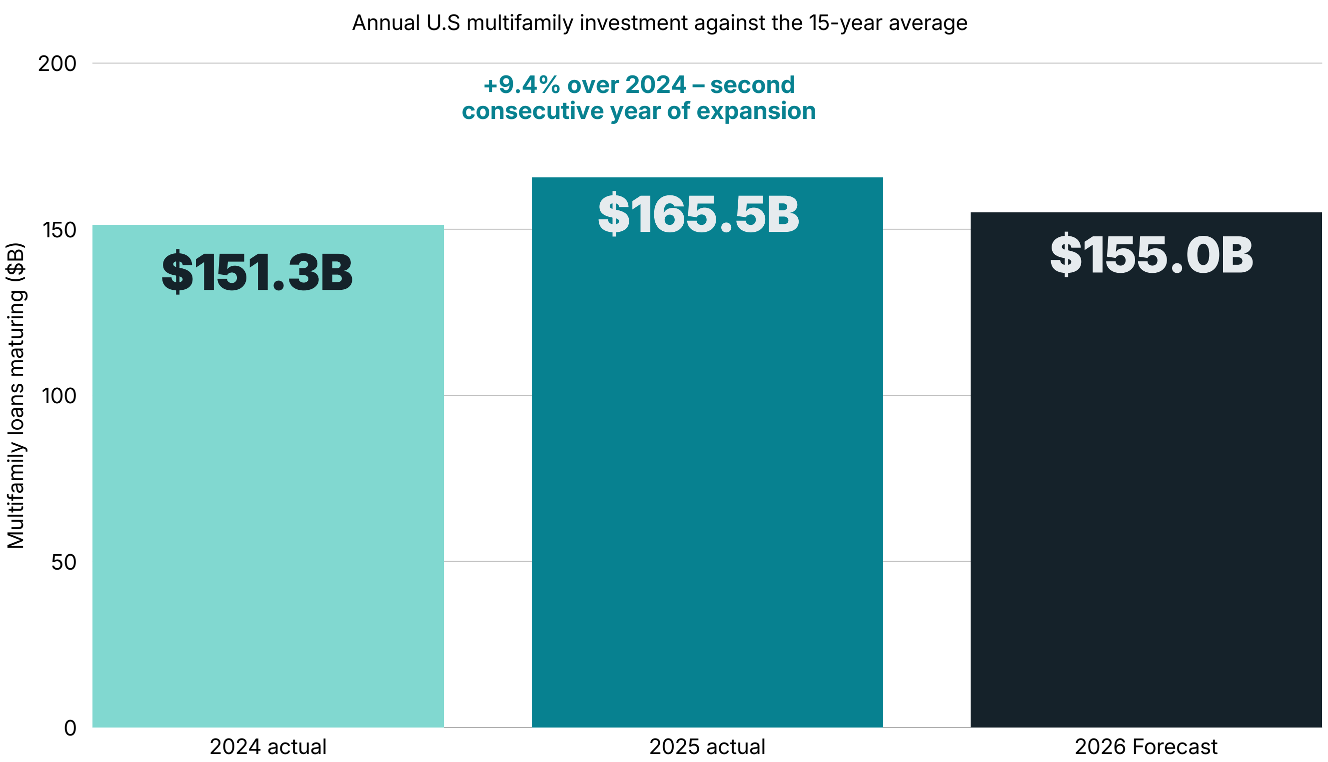


CAPITAL MARKETS & INVESTMENT ENVIRONMENT

Transaction Volume: Capital Poised but Sellers Sidelined

Multifamily investment volume totaled $165.5 billion in 2025 — the second consecutive year of expansion, outpacing 2024 by 9.4% and exceeding the 15-year annual average of $155 billion.[1,3,6] Q1 2026 saw $32.1 billion in transactions, essentially flat year-over-year, as individual asset sales rose 3%, signaling growing confidence in property-level underwriting.[1,3,6] However, the year-to-date picture through May 2026 is more sobering: $26.6 billion in transactions, down 10.7% from the same period in 2025.[1,3,6] The primary impediment is not a lack of capital — $174 billion in equity capital has been raised for U.S. multifamily on a rolling two-year basis through Q1 2026, one-third of all commercial real estate fund flows — but rather a dearth of sellers.[1,3,6] Many owners acquired assets at peak 2021 pricing, financed at 3%–4% rates.[1,3,6] With current fixed-rate mortgage rates in the mid-to-high 5% range, selling at today's prices locks in meaningful losses.[1,3,6] The CMBS market, historically active for larger loans, is being frozen out of smaller transactions as coupon volatility makes pricing unpredictable. Fannie Mae and Freddie Mac activity is running close to their 2026 caps of $88 billion each, but much of the volume is driven by refinancings rather than acquisitions.[1,3,6]

Transaction Volume: Two Years of Expansion, a Softer Start to 2026



Debt Landscape & Dislocation Dynamics

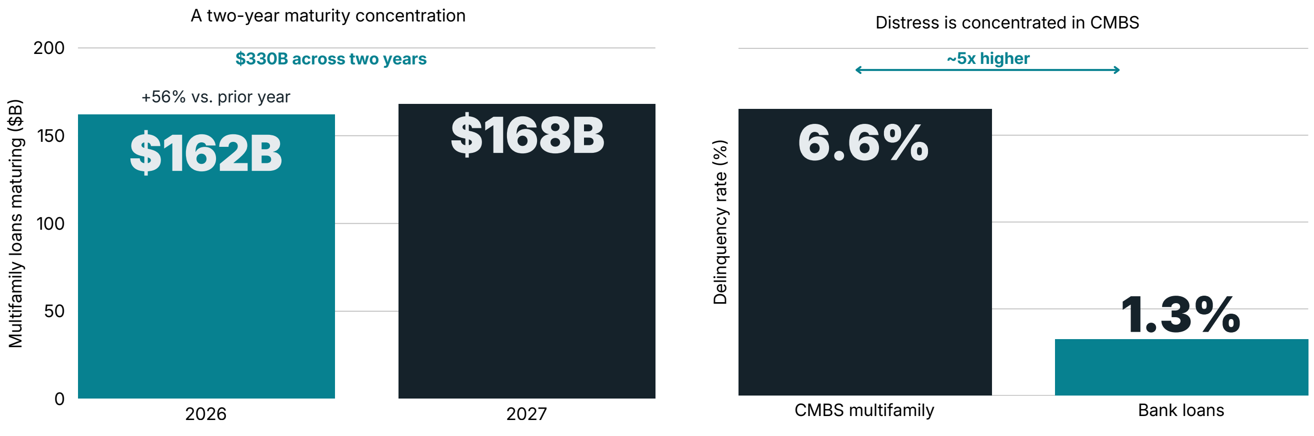
- ***Agency Lending:*** *Fannie Mae and Freddie Mac each have 2026 loan purchase caps of $88 billion, with both on pace to come close to their caps.[6,28,29] Agency multifamily rates start as low as 5.1%, the most competitive in the capital stack.[6,28,29] At least 50% of capacity must be directed toward mission-driven affordable housing, with workforce housing loans excluded from the caps.[6,28,29]*

- ***Maturity Wall & Refinancing Pressure:*** *Approximately $162 billion in multifamily loans are scheduled to mature in 2026 — a 56% increase from the prior year — with a further $168 billion anticipated in 2027 and an estimated 60% of 2021–2022 vintage loans coming due in H2 2026.[6,28,29] CMBS multifamily delinquency rates have risen to 6.6%, nearly six times higher than bank loan delinquencies at 1.3%.[6,28,29] This two-year maturity concentration is generating selective recapitalization and note-purchase opportunities for well-capitalized investors.*

- ***Capital Structure Opportunity:*** *Preferred equity, mezzanine debt, and bridge loans are filling a gap in the capital stack that agency lenders have left at LTVs above 65%, generating attractive risk-adjusted returns for investors who can move quickly with conservative underwriting.[6,28,29]*

- ***Reset Pricing Entry Point:*** *Transaction prices fell approximately 20% from peak levels through 2024, with asset values now sitting below current replacement cost in many markets.[6,28,29] Morgan Stanley MSREI notes that the ability to acquire at a reset basis below today's replacement cost — which is unlikely to decline given elevated construction costs — represents a particularly attractive entry point.[1,3,6]*

The Maturity Wall and Where the Distress Sits

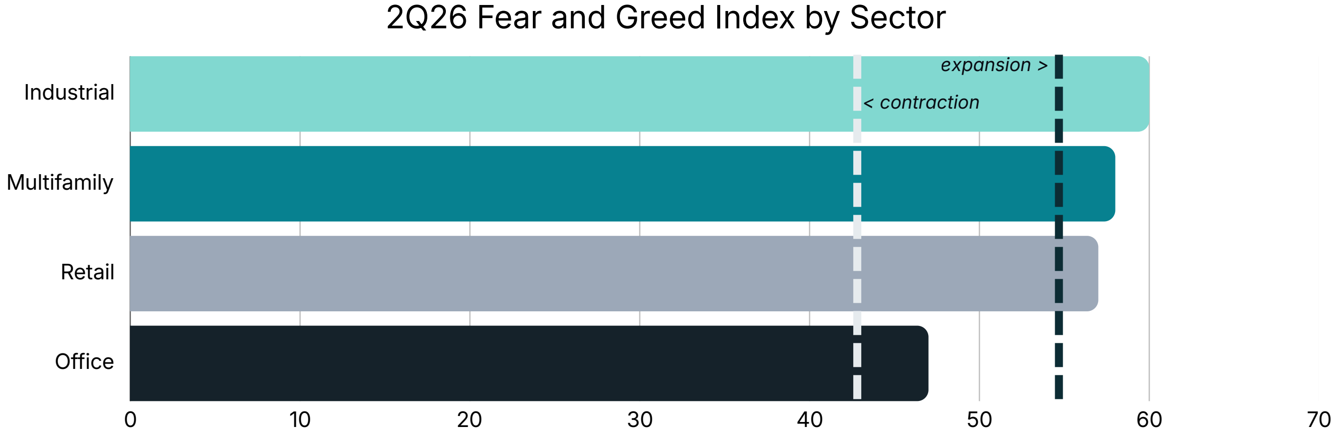


Source: Debt Landscape & Dislocation Dynamic, as presented in this report. An estimated 60% of 2021-2022 vintage loans, come due H2 2026. Agency rates start as low as 5.1%; Fannie Mae & Freddie Mac each carry 2026 loan purchase caps of $88 Billion.

Investor Sentiment & Public-Market Signals

Two independent third-party gauges — a broad investor-sentiment survey and a public-REIT valuation lens — help triangulate the private-market data above and confirm that the capital environment tightened through the quarter. The 2Q26 Burns + CRE Daily Fear and Greed Index, a diffusion measure where readings above 55 signal expansion and below 45 signal contraction, registered 56 overall — a slightly expanding market, but down from 57 in 1Q26. Multifamily scored 58, behind Industrial (60, the strongest sector) and ahead of Retail (57) and Office (47, the clear laggard).

Multifamily Second Only To Industrial

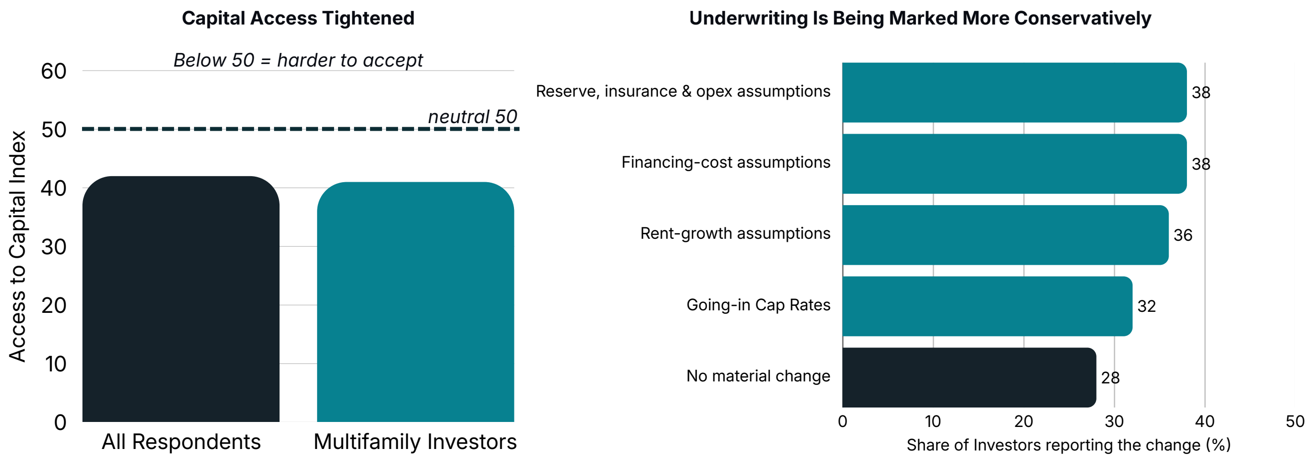


Source: John Burns Research and Consulting. CRE Daily. 2Q26 Fear and Greed Survey (Commercial Real Estate) – June 9, 2026. Figures as cited in this report.

- ***Investors remain on the sidelines.*** *Roughly 71% of all surveyed investors — and 63% of multifamily investors — held exposure unchanged in 2Q26, near the highest share in the survey's history.*[6,28,29] *Notably, 27% of multifamily investors increased exposure (up from 22% in 1Q26), a tentative sign that basis-disciplined buyers are beginning to re-engage even as most wait for clearer signals — consistent with the seller-sidelined dynamic detailed above.* [6,28,29]
- ***Access to capital deteriorated.*** *The survey's Access to Capital Index fell to 42 overall (41 for multifamily), below the neutral 50 line, with 30% of all respondents and 33% of multifamily investors reporting that capital became harder to access versus the prior quarter — up sharply from 19% in 4Q25.*[6,28,29] *Respondents tied the tightening directly to the rise in the 10-year Treasury and inflation expectations, corroborating the rate narrative in this section.*
- ***Underwriting assumptions are being reset for inflation.*** *Asked how higher energy prices and inflation had changed their underwriting for new acquisitions, 38% of investors reported raising reserve, insurance, and operating-expense assumptions; 38% raised financing-cost assumptions; 36% revised rent-growth assumptions; and 32% raised going-in cap rates.*[6,28,29] *Only 28% reported no material change — a signal that acquisition math is being marked more conservatively across the market, not only at Viking Capital.*[6,28,29]

- ***Value sentiment aligns with the reset thesis.*** *Surveyed investors estimated multifamily asset values fell approximately 5% year-over-year — the steepest decline among the four major sectors — and expected a further modest decline of about 1% over the next six months, with no sector anticipating meaningful near-term appreciation.*[6,28,29] *This is directionally consistent with the 20%—30%-below-peak private valuations discussed above and argues against underwriting near-term cap-rate compression.*[6,28,29]
- ***The public-REIT lens offers a relative-value cross-check.*** *Green Street's commercial property price index shows apartment values roughly 20% below their 2022 peak and essentially flat over the trailing 18 months (–0.2% over the last twelve months), closely tracking the private-market reset.*[6,28,29] *With residential REITs broadly trading at 10%—20% discounts to gross asset value, Green Street views listed residential — and single-family rental REITs in particular, which it flags as priced well below private-market values — as offering more compelling relative entry than direct private ownership on a going-in-yield basis.*[6,28,29] *The pending AvalonBay—Equity Residential merger, which would create an approximately $70 billion enterprise-value REIT with about $125 million in targeted run-rate synergies, further signals that public-market consolidation is underway.*[6,28,29] *For allocators weighing vehicle selection, this is a reminder to test private-market pricing against cheaper listed alternatives — a point of genuine debate rather than a settled case for private exposure.* [15,16]

Multifamily Second Only To Industrial



NOTABLE TRANSACTIONS — RECENT ACTIVITY

Q2 2026 transaction backdrop: *Full second-quarter volumes will not publish until the mid-to-late-July release cycle, but the trend through the first five months of 2026 frames the quarter — deal volume totaled $26.6 billion, down 10.7% year-over-year, as wide bid-ask spreads and rate volatility kept sellers sidelined.[1] The Q1-anchored trades below remain the most recent closed comparables; Q2 activity has skewed toward recapitalizations and individual-asset sales rather than large portfolio trades.*

Notable transactions in Q1 2026 underscore continued institutional participation across core coastal and high-growth Sun Belt markets, even as pricing remains highly segmented by asset quality and location. Per-unit values ranged from approximately $221,000 in select Phoenix-area trades to over $657,000 for prime urban assets in Washington, D.C. — reflecting meaningful differences in market liquidity, supply conditions, and long-term demand drivers.[8,15,35] The geographic concentration of activity toward coastal gateway markets reflects institutional capital's preference for income durability and supply constraint over near-term Sun Belt recovery upside.[8]

Property	Location	Seller / Buyer	Units	Price / Price Per Unit
Park 12	San Diego, CA	Greystar / MG Properties	718	$309.0M / $430,362
WestEnd25	Washington, D.C.	JBG Smith / JRK Property Holdings	283	$186.0M / $657,244
Essex Skyline at MacArthur	Santa Ana, CA	Essex Property Trust / Crescent Heights	512	$239.6M / $467,969
Hill Estates	Belmont, MA	DiGiovanni Family / The Hamilton Co.	396	$175.0M / $441,919
Citron Apartments	Anaheim, CA	Anton Dev. / MG Properties	314	$144.0M / $458,599
Bella Vista at Hilltop	Richmond, CA	Kennedy Wilson / Pacific Housing Group	675	$225.0M / $333,333
Bella Encanta	Mesa, AZ	Bela Flor / J.P. Morgan	212	$95.8M / $451,887
Arches at Hidden Creek	Chandler, AZ	Blackstone / Brookfield Asset Mgmt.	432	$95.5M / $221,065
Ascent	San Jose, CA	Shea Properties / Ethos Real Estate	651	$323.0M / $496,540
Via6	Seattle, WA	NewTower Trust / Weidner Apartment Homes	654	$295.0M / $451,070
Proto Kendall Square	Boston, MA	BXP, Inc. / Pembroke	280	$170.0M / $607,145
North Water	Chicago, IL	FPA Multifamily / Crescent Heights	398	$175.0M / $439,700

NOTABLE TRANSACTIONS — RECENT ACTIVITY

Transaction Takeaways

• Coastal gateway assets commanded $430K–$657K per unit, supported by constrained supply, strong renter demand, and high barriers to entry.[8,15,35] These markets remain the preferred destination for core institutional capital.

• Sun Belt pricing reflects the supply overhang, with Phoenix-area trades clearing at $221K–$452K per unit — a meaningful reset from 2021–2022 peaks.[8,15,35] Disciplined buyers are selectively re-engaging at these levels.

• Institutional buyers — J.P. Morgan, Brookfield, MG Properties, Pembroke — are active, signaling that well-capitalized investors view current pricing as a long-term entry opportunity rather than a value trap.

• Deal structures are evolving. Several Q1 transactions involved recapitalizations and preferred equity structures as sellers sought liquidity without full mark-to-market dispositions.[8,15,35]

MARKET-BY-MARKET PERFORMANCE SNAPSHOT

The table below summarizes key fundamentals across major U.S. metros as of latest available 2026 estimates. Sun Belt markets, including Dallas, Houston, Phoenix, and Denver, continue to face vacancy rates well above the national average as heavy deliveries slowly absorb. Gateway markets — New York, Chicago, and San Francisco — are exhibiting strong rent fundamentals driven by supply constraints and professional demand growth. San Francisco is particularly notable: it is the only major market posting positive occupancy growth year-over-year, supported by AI-sector job creation expanding from tech companies into broader commercial real estate absorption.

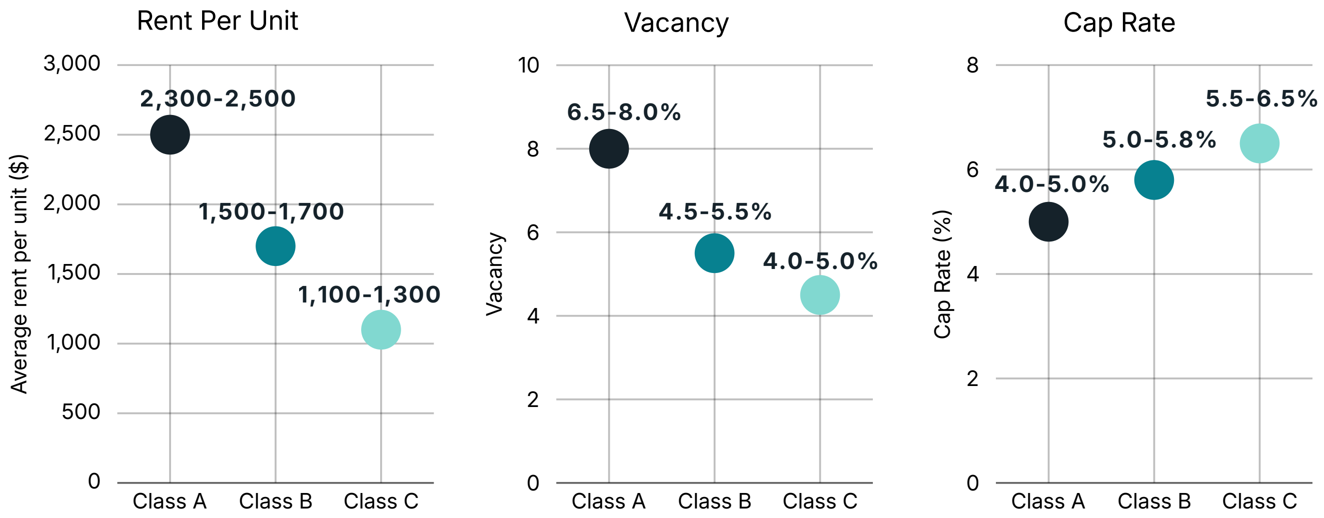
New York City recorded the highest trailing twelve-month absorption of any major metro at approximately 27,850 units, supported by chronic undersupply and its lowest vacancy rate nationally at 3.1%.[1,8,13] For investors focused on income durability, the Northeast and Midwest corridor remains the most defensible positioning in the current cycle.

Property	Inventory (Units)	2026F Deliveries	Vacancy Rate	YoY Vac. (bps)	Net Abs. (T12/Est)	Avg Eff. Rent	YoY Rent Growth
Park 12	1,050K	33.5K	12.2%	+90	24.3K	$1,490	-1.6%
WestEnd25	310K	7K	7.2%	+60	6.0K	$2,080	+0.3%
Essex Skyline at MacArthur	690K	8.5K	5.6%	+30	7.2K	$2,300	0.0%
Hill Estates	790K	20K	6.0%	+30	20K	$1,600	-1.1%
Citron Apartments	1,420K	9K	3.1%	+10	27.9K	$3,420	+3.3%
Bella Vista at Hilltop	720K	16K	12.9%	+110	16K	$1,390	-1.2%
Bella Encanta	540K	5K	3.5%	+10	7.5K	$1,880	+3.5%
Arches at Hidden Creek	540K	18K	8.8%	+60	16.5K	$1,575	-3.1%
Ascent	294K	2.5K	5.8%	+20	2.8K	$2,960	-0.5%
Via6	370K	13K	11.6%	+110	13K	$1,800	-2.9%
Proto Kendall Square	170K	1.5K	4.5%	-10	2.1K	$3,200	+4.5%
North Water	22.6M	333K*	~6.8%	+~90	~480K*	$1,767	+0.2%

**2026F delivery and absorption figures are full-year estimates. Sources: Yardi Matrix May 2026; MMCG Q1 2026; Cushman & Wakefield Q1 2026; Arbor/Chandan Economics; CBRE.*1,8,13

ASSET CLASS DEEP DIVE

Asset Class Positioning – Class B Is The Cycle's Sweet Spot



Source: Asset Class Deep Dive table, as presented in this report. Bars show the stated range for each metric. Class B strategy: Value-Add/Core+; 2026 outlook: Most Favored.

The Workforce Housing Case

Workforce housing — broadly Class B multifamily serving households earning 80–120% of Area Median Income — remains the most compelling risk-adjusted opportunity in the current cycle.[1,13,36] Class A properties absorbed the brunt of the supply wave's concession-driven rent compression. Class B assets, by contrast, benefited from renters trading across from over-concessed Class A product, keeping occupancy relatively firm. As the supply cliff arrives, Class A will reclaim pricing power while Class B faces its own challenge: operating expense inflation from aging stock, property tax reassessments, and insurance cost spikes that can compress NOI materially faster than for higher-revenue assets.

• ***Structural Demand****: Elevated mortgage rates and home price appreciation have shifted a meaningful cohort of would-be buyers into long-term renters, filling workforce units at above-trend rates.*

• ***Limited New Competition****: Very little new Class B supply is being built, given construction cost economics. The existing stock is effectively irreplaceable at current replacement costs — and those costs have risen nearly 39% since 2020.[1,13,36]*

• ***Income Durability****: Class B assets demonstrate more stable occupancy and renewal rates through downturns. Residents have limited affordable alternatives below them, supporting strong retention.*

• ***Operational Upside****: Light renovation, revenue management, and centralized leasing can drive meaningful NOI growth without requiring heavy capital expenditure.[1,13,36]*

ASSET CLASS DEEP DIVE

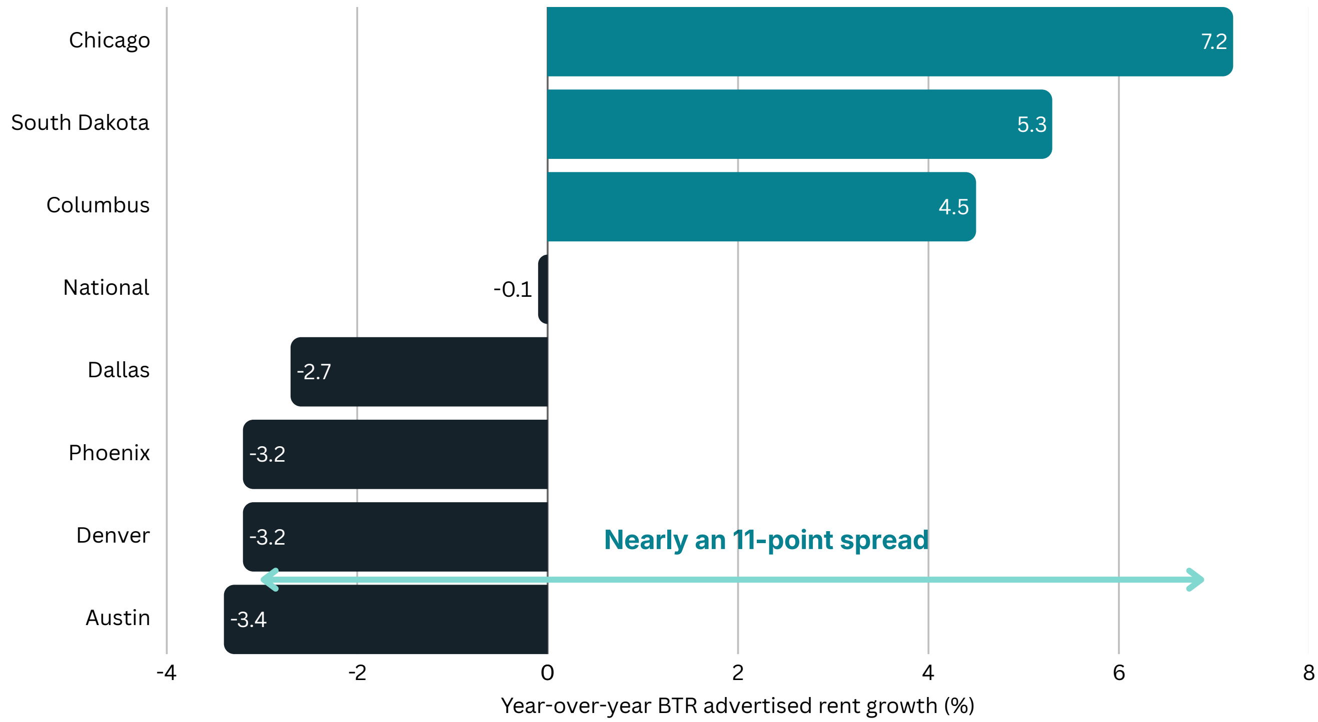
Build-to-Rent (BTR / SFR)

Single-family build-to-rent average advertised rents rose to $2,224 in May 2026 — essentially flat year-over-year (-0.1%) nationally — masking a sharp regional divergence.[1,13,36] Midwest markets are posting strong BTR rent growth (Chicago +7.2%, South Dakota +5.3%, Columbus +4.5%), while Sun Belt BTR markets face steep declines (Austin -3.4%, Phoenix -3.2%, Denver -3.2%, Dallas -2.7%).[1,13,36] The nearly 11-percentage-point spread between the strongest and weakest BTR markets underscores a growing bifurcation in performance even more acute than in the broader multifamily sector. SFR occupancy remained solid at 94.5% nationally in April.[1,13,36]

Investor behavior in the build-to-rent space reflects the policy overhang noted below. In the 2Q26 Burns + CRE Daily survey, about 1 in 4 multifamily investors reported active BTR exposure or recent consideration, but 63% of BTR-active investors had paused new investment amid policy uncertainty — specifically the 21st Century ROAD to Housing Act's proposed seven-year disposal requirement for single-family build-to-rent product, which the House removed on May 15, 2026, mid-survey.[1,13,36] A small share of paused capital (roughly 8% of BTR-active respondents) indicated it was being redirected toward conventional multifamily, a modest incremental tailwind for the sector while the regulatory picture settles.[16]

Build-To-Rent: Midwest Strength, Sun Belt Weakness

Single family BTR advertised rent growth, May 2026. National average $2,224, essentially flat YoY



Source: Build-To-Rent (BTR/SFR) section, as presented in this report. SFR occupancy stood at 94.5% nationally in April 2026.

MULTIFAMILY IN A DIVERSIFIED PORTFOLIO

Private multifamily real estate has historically offered a combination of characteristics that are difficult to replicate across other asset classes: income stability, inflation sensitivity, low correlation to public markets, and meaningful tax efficiency. In the current environment — reset pricing, a rapidly contracting supply pipeline, and structurally anchored renter demand — these attributes are complemented by one of the most attractive entry points in a decade. Morgan Stanley Real Estate Investing describes the current setup as a cyclical opportunity with structural demand support, characterized by improving liquidity and the ability to acquire high-quality assets below current replacement cost.[4,15,37]

Attribute	Multifamily Characteristic	Portfolio Benefit
Income Stability	Lease renewals at record ~57% of all leasing activity; occupancy supported by for-sale affordability constraints	Predictable cash distributions; downside protection through cycles
Inflation Sensitivity	Rents reset annually; replacement cost up ~39% since 2020 creates natural floor on long-term asset values	Real return preservation in inflationary environments
Low Correlation	Private market valuations driven by NOI; less sensitive to daily equity market volatility	Portfolio diversification; smoothing of return volatility
Tax Efficiency	Bonus depreciation, cost segregation, 1031 exchange, opportunity zone eligibility	After-tax return enhancement for high-net-worth allocators
Entry Point (2026)	Values 20–30% below 2022 peaks; below replacement cost in most markets	Attractive risk-adjusted returns vs. prior vintages; margin of safety
Supply Tailwind	Starts down 50%+ from peak; 2026 deliveries forecast lowest since 2014	Rent recovery and NOI growth as pipeline clears by 2027–2028

Access Vehicles

• ***Private Equity Real Estate Funds:*** *Best suited for long-term, illiquidity-tolerant capital seeking maximum return potential with a defined fund life. Typical structures target 10–15% net IRR with 5–7 year hold periods.*[4,15,37]

• ***Non-Traded REITs / NAV REITs:*** *Provide semi-liquid exposure with regular income distributions. Lower minimum investments increase accessibility for a broader investor base. Apartment REITs currently trade at approximately a 15% discount to gross asset value, offering public market investors cheaper exposure than private market equivalents.*[4,15,37]

• ***Delaware Statutory Trusts (DSTs):*** *Purpose-built for 1031 exchange situations. Allow fractional ownership in institutional-quality assets while deferring capital gains — particularly relevant given the volume of appreciated real estate in many client portfolios.*

• ***Syndications / Co-Investments:*** *Direct deal access alongside a proven operator, offering asset-level transparency and control over investment selection.*[4,15,37]

MANAGER SELECTION & DUE DILIGENCE

Manager selection is the single most consequential decision in private real estate allocation. The dispersion of returns between top- and bottom-quartile operators is significant — particularly in a market where operational execution, basis, and market selection will drive outcomes far more than macroeconomic tailwinds. The current cycle's complexity — bifurcated geography, rising operating costs, and a concession-heavy competitive landscape — makes this distinction more acute than at any point in the past decade.[4,37]

Category	Key Questions	Watch-Outs
Track Record	Audited IRR across all realized investments? Performance consistency across vintage years?	Performance only in up-markets; no realized exits; unaudited returns
Market Expertise	How deeply does the team know their target markets? How long operating in target geographies?	Frequent market pivots; surface-level knowledge; over-concentration
Operational Platform	In-house or third-party management? Occupancy and renewal track record?	Sole reliance on third-party managers; no proprietary systems or data
Leverage Profile	Average LTV at acquisition? Fixed vs. floating rate financing mix?	LTVs above 70–75%; heavy floating-rate; interest-only throughout hold
Alignment	GP co-investment percentage? Waterfall and fee structure?	Minimal GP co-invest; acquisition fees misaligned with LP returns
Transparency	Frequency and depth of investor reporting? Independently audited financials?	Quarterly reporting only; no audited financials; vague attribution
Team Stability	Core team together through a full cycle? Succession planning in place?	High turnover; key-man dependency; no institutional infrastructure

Vintage Diversification & Sizing

• ***Portfolio Sizing:*** *Most institutional frameworks suggest 10–20% of a diversified portfolio in real assets, with multifamily representing the largest single allocation within that sleeve, given its income stability and liquidity profile relative to other real estate sectors.*[4,37]

• ***Vintage Diversification:*** *Deploying capital across multiple vintage years (2026, 2027, 2028) reduces entry-point risk. Dollar-cost averaging into private real estate is a disciplined approach in an environment of ongoing price discovery, and the supply cliff thesis suggests 2027 vintage deals will benefit from meaningfully improved fundamentals.*

• ***Tax Coordination:*** *Real estate investments generate significant tax benefits that should be coordinated with the investor's broader tax planning strategy.*[4,37]

RISKS & HEADWINDS

Geopolitical Uncertainty & Energy Prices

The outbreak of military conflict in the Middle East in late February 2026 has been the most consequential market development of the year. Oil futures spiked as Strait of Hormuz disruption fears elevated energy prices — WTI reached a $113 peak in April before easing toward $76 by late June — helping lift core PCE inflation to 3.3% in April.[28,30,32] The resulting pressure on Federal Reserve policy, now led by hawkish new Chair Kevin Warsh, has erased anticipated rate cuts and left the 10-year Treasury near 4.44%, directly pressuring transaction volume and borrowing costs.[28,30,32] The resolution timeline, and whether energy prices remain contained remains a central uncertainty.[28,30,32]

Tariff Impacts on Construction Costs & Supply

Reinstatement of broad-based tariffs is increasing construction material costs and further limiting new supply starts. While this ultimately benefits existing asset owners by reducing competitive new supply, it also strains value-add renovation budgets and may delay capital improvement programs. New construction economics remain deeply challenged, with development yields insufficient to justify new starts in most Sun Belt markets even before tariff impacts are factored in. [14,26,34]

Demographic Demand Softening

The sharp slowdown in immigration and domestic migration is a structural headwind for demand, particularly in Sun Belt markets that relied on population inflows. Markets with elevated immigrant population concentrations — Miami, San Jose, Fort Lauderdale, San Francisco, and Los Angeles — face additional demand pressure from this structural shift, though the AI-driven job boom has partially offset this effect in Bay Area markets specifically. [14,28,32]

Consumer Balance Sheet Strain

Rising student loan delinquencies, elevated credit card debt service burdens, and depleted pandemic-era savings represent a meaningful ceiling on rent growth for the Class B and C renter cohort. These pressures are most acute at the lower and middle-income levels that define workforce housing demand — precisely where operators need pricing power to grow NOI.[14,28,32]

Higher-for-Longer Rate Environment

If geopolitical pressures and tariff-driven inflation keep the Fed on hold longer than currently projected, financing costs could remain elevated well beyond current consensus expectations, pressuring cap rate compression timelines and extending the recovery horizon for rent growth.[23,28,29]

RISKS & HEADWINDS

Concession Persistence in High-Supply Markets

Concession levels in markets like Denver, Charlotte, Dallas, Austin, and Nashville remain at or near record highs as a percentage of units offering incentives. The process of burning off these concessions — a critical prerequisite for sustainable rent growth recovery — is taking longer than anticipated, particularly in markets where the construction pipeline has not yet fully cleared.[14,28,32]

Legislative & Regulatory Risk

Rent control initiatives have been key components of recent elections in markets such as Boston, Denver, New York, and Seattle. If implemented broadly, these initiatives would likely constrain investment activity and limit opportunities for new renters by reducing development incentives. The 21st Century ROAD to Housing Act's provision requiring operators to sell build-to-rent single-family homes after seven years remains a live regulatory concern for the SFR sector. [16,37]

Economic Slowdown

Job growth averaged only approximately 75,000 jobs per month in 2025 — well below prior-cycle levels — and economic uncertainty driven by geopolitical developments and trade policy remains elevated.[14,28,32] *A sharper-than-anticipated slowdown would reduce household formation, increase delinquency rates, and pressure renewal rates, particularly in workforce housing where tenant income is most sensitive to employment conditions.*[14,28,32]

TRENDS TO WATCH — SECOND HALF 2026

The first half of 2026 resolved one question — the supply wave has clearly crested — while opening several others. As the sector moves into the seasonally stronger leasing quarters, the path to recovery hinges less on the direction of fundamentals, which are broadly understood, and more on the pace and sequencing of a handful of swing variables. The following are the developments Viking Capital is monitoring most closely as capital-allocation inputs for the balance of the year. Nothing here constitutes a forecast of returns; each item is a variable to underwrite against.[8,28,29]

3.50–	4.44%	9 of 19	~73K	$162B
3.75% Fed Fund Rates (held June 2026)	(Late June)	Projecting a Hike	(Seasonal Peak)	Maturity Wall

The Macro & Financing Setup

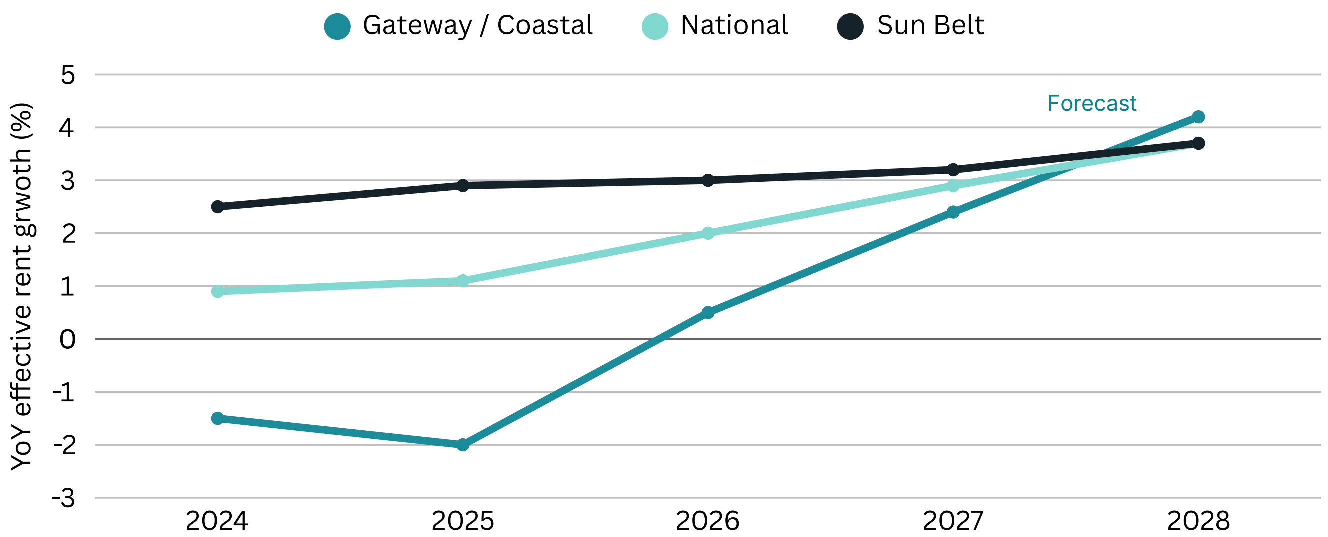
• ***The rate path has flipped from cuts to possible hikes.*** *This is the single most important shift of the year. New Fed Chair Kevin Warsh held the funds rate at 3.50%–3.75% in June for a fourth straight meeting and emphasized price stability, and nine of nineteen FOMC members now project at least one hike in 2026 — a sharp reversal from the one-to-two cuts priced in January.*[8,28,29] *The practical implication is that acquisition underwriting should stress-test to a flat-to-higher rate path rather than assuming refinancing relief, especially with the 2026 maturity wall cresting. The July 28–29 FOMC and the September 16 dot plot are the key near-term catalysts.*

• ***Energy is the swing factor for inflation*** *— and cap-rate spreads. WTI crude ran from roughly $57 to a $113 April peak before retreating toward $76; if it stays contained, the hawkish repricing could ease, but a renewed spike would harden the higher-for-longer regime and keep the cap-rate-to-Treasury spread compressed at its current thin 110–130 basis points.*[8,28,29] *Energy is the top exogenous variable to monitor into the second half.*

• ***Transaction momentum hinges on bid-ask compression.*** *2025 sales rose approximately 15% to a three-year high with roughly 80% of metros participating, but 2026 year-to-date volume is running below the prior year.*[8,28,29] *A stable-to-lower rate path would narrow spreads and coax sellers off the sidelines; a hawkish surprise would re-freeze the market. In the interim, distress-driven recapitalizations tied to the maturity wall represent the more reliable opportunity set for well-capitalized buyers.*[8,28,29]

TRENDS TO WATCH — SECOND HALF 2026

Rent Growth Recovery Path: Gateway Leads, Sun Belt Inflects



Projected YoY effective rent growth by market group. 2026–2028 forecast. Gateway markets lead near-term while Sun Belt rent growth inflects positive as excess supply clears. [1,8,15]

The Fundamentals Setup

- ***Watch for the absorption-deliveries crossover.*** *Most forecasters expect net absorption to overtake deliveries in oversupplied Sun Belt and Mountain West markets during H2 2026 — the inflection that historically precedes vacancy compression and firmer rents. CoStar projects Q2 absorption near 73,000 units, the seasonal high for the year.*[8,28,29] *The question is whether the second half confirms the crossover or whether softening demand — tepid job growth and reduced household formation — pushes it into 2027.*

- ***The supply reprieve may prove temporary.*** *Construction starts have risen roughly 25% off their mid-2024 trough.*[8,28,29] *Given typical 19-month completion timelines, deliveries could re-accelerate modestly around the turn of 2027, meaning the window of falling supply is real but finite. This raises the premium on securing a favorable basis and pipeline timing at the point of acquisition rather than counting on a durable supply drought.*

- ***Flight to quality continues to bifurcate performance by class.*** *Class A vacancy fell roughly 80 basis points over the past year as renters trade up into concession-rich new product, while Class B and C vacancy rose by a similar magnitude.*[8,28,29] *With renewals at 57% of leasing activity holding blended rents positive even where new-lease asking rents are negative, the key H2 signal is whether Class A concessions begin to burn off as lease-up completes — the clearest early indicator that pricing power is returning.* [8,28,29]

TRENDS TO WATCH — SECOND HALF 2026

Policy & Regulatory Signals

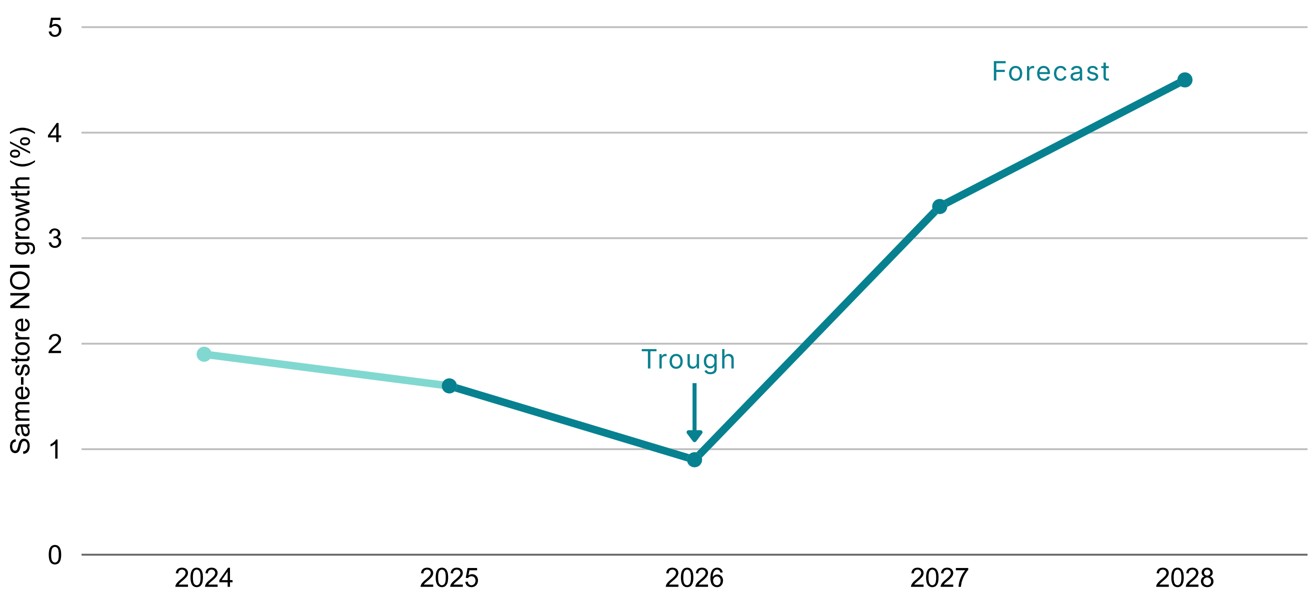
- ***Rent regulation and housing policy remain live variables.*** *Regulatory outcomes cut both ways: Massachusetts' proposed statewide rent-control ballot measure was struck down as unconstitutional and removed from the November 2026 ballot — a positive for investor sentiment — even as initiatives remain active in other markets. Investors should also watch FHFA's mid-year posture on the $88 billion-each agency lending caps and the continued drag of restrictive immigration policy on renter household formation.*[5,8,28]

2026 OUTLOOK & VIKING CAPITAL POSITIONING

2026 is shaping up to be a year of normalization rather than recovery — a distinction that matters significantly for underwriting. The supply cliff is real and approaching, but geopolitical disruption has complicated the rate and transaction environment that capital markets participants anticipated. The thesis remains intact: new construction starts have fallen more than 50% from peak, the pipeline is clearing, $174 billion in equity capital is positioned to deploy, and structural demand anchors remain firmly in place.[1,3,37] The question is timing — and the current evidence suggests that the most significant rent recovery will emerge in 2027 rather than H2 2026 for the hardest-hit markets.[13]

Metric	Current (Q2 2026)	H2 2026 / 2027 Forecast	Direction
National Vacancy	~6.8%	6.5%–6.8%	→ Approaching Peak
Avg Effective Rent	$1,767	$1,790–$1,820	↑ Modest Growth
YoY Rent Growth	+0.2%	~2%	↑ Gradual Recovery
Transaction Volume (T12)	$170.4B	$160B–$185B	→ Geopolitical Headwinds
New Deliveries (2026F)	~333K units	~260K–300K 2027	↓ Declining Sharply
Occupancy Rate	94.1%	94.0%–94.5%	→ Near Bottom
Fed Funds Rate	3.50%–3.75%	3.50%–4.00%	→ Higher for Longer

Apartment NOI Growth: Trough in 2026, Reacceleration Ahead



Apartment same-store NOI growth (%). 2026–2028 forecast. NOI growth troughs in 2026 before reaccelerating as supply pressure eases and expense growth moderates. 1,13,15

2026 OUTLOOK & VIKING CAPITAL POSITIONING

Viking Capital's Investment Focus

Viking Capital has built a legacy over the last decade with over 6,000 doors acquired and $1.2 billion in assets under management nationwide. Our mid-2026 strategy is guided by the following convictions:

• ***Selective Sun Belt Acquisitions at Basis:*** *We are actively underwriting workforce housing assets in Sun Belt submarkets where the supply cycle is furthest along, absorption is accelerating, and the pipeline has demonstrably contracted. We target basis-advantaged entry at 20–30% discounts to replacement cost with a clear path to occupancy recovery by 2027.*[1,3,37]

• ***Capital Dislocation Plays:*** *Preferred equity, bridge recapitalizations, and discounted note acquisitions, where maturing 2021–2022 vintage debt and floating-rate exposure have created forced selling. The maturity wall creates selective, time-sensitive opportunities for institutional capital with speed and underwriting discipline.*

• ***Gateway Market Conviction:*** *The Gateway and Midwest corridor is demonstrating the fundamentals the cycle called for — low supply, strong demand, and genuine rent recovery. We are underwriting selective acquisitions in supply-constrained metros where occupancy and rent growth provide durable income certainty.*

• ***Operational Intensity:*** *In a normalizing rent environment, outperformance comes from execution. Our in-house property management platform, revenue management systems, and leasing analytics are core competitive advantages as the industry shifts from beta capture to alpha generation.*

• ***Patient Capital:*** *Our balance sheet and investor base allows us to hold through short-term supply pressure and capture the full benefit of the supply cliff recovery ahead. We are not forced sellers.*

DISCLOSURES & SOURCES

This report has been prepared by Viking Capital for informational purposes only. It is not an offer to sell or a solicitation to buy any security. Past performance is not indicative of future results. Real estate investments involve significant risks, including illiquidity, loss of principal, and sensitivity to interest rate changes, economic conditions, and local market dynamics. Investors should carefully review all offering documents and consult with their financial, legal, and tax advisors before investing. All data presented as of Q2 2026 unless otherwise noted. Forecasts and projections are forward-looking and subject to change. Market data derived from third-party sources is believed to be reliable; Viking Capital has not independently verified all data.

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