Roth&Co

Exploring the Rental Housing Surge:

How Changing Multifamily Starts and Market Pressure are Reshaping the U.S. Housing Investment Landscape

Hershy Donath, CPA
PARTNER

Ben Spielman, CPA
PARTNER

Executive Summary

Rising housing costs and constrained homeownership are driving a structural shift toward rental housing in the U.S. In this white paper, Roth&Co will examine how affordability pressures and reduced starts in multifamily construction will impact investment and development over the coming year.

The core question: Is the multifamily vehicle a sustainable structural response to housing demand or a short-term trend? Evidence indicates it is structural, with lasting implications for investors, developers, tenants, and policymakers navigating the U.S. housing landscape.

Introduction

The U.S. housing market is facing a prolonged affordability crisis, with homeownership increasingly out of reach for many. Rising mortgage rates, construction constraints, and uneven local policies are driving a structural shift toward rental housing.

In this white paper, Roth&Co will examine what these pressures could mean for the multifamily investment sector, including the rise of rental culture in the U.S. and regional demand and supply dynamics.

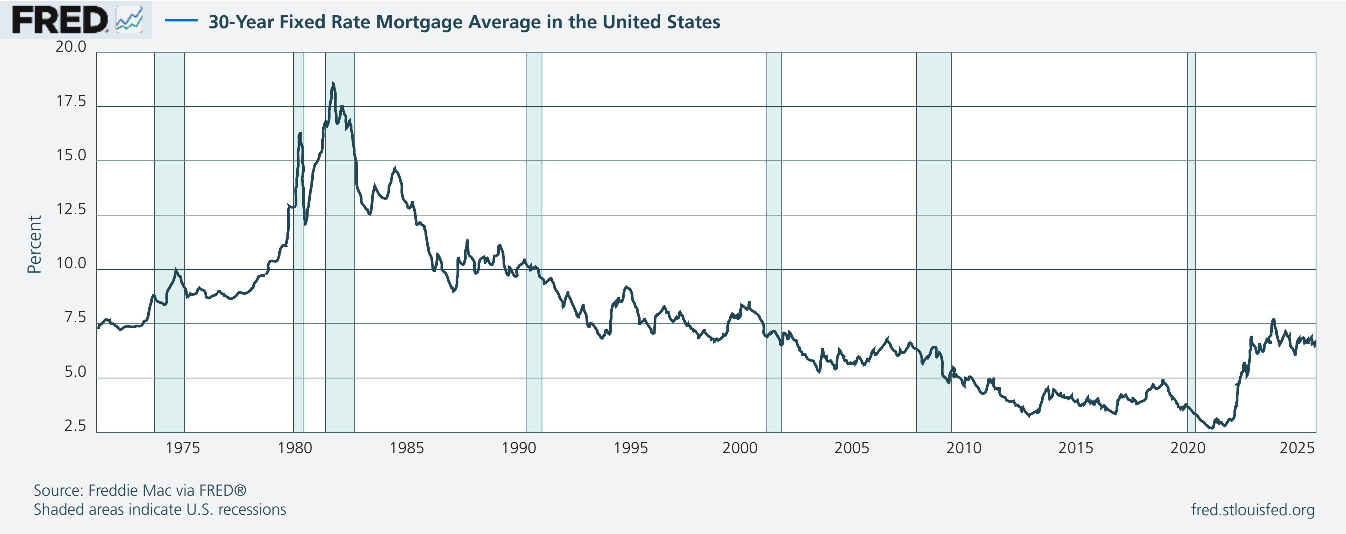
Drawing on the latest industry data and expert insights, we offer a forward-looking perspective on how investors can navigate market imbalances and capitalize on opportunities, even with these evolving demographic and economic trends.

Housing Affordability and Structural Shifts are Driving Rental Demand

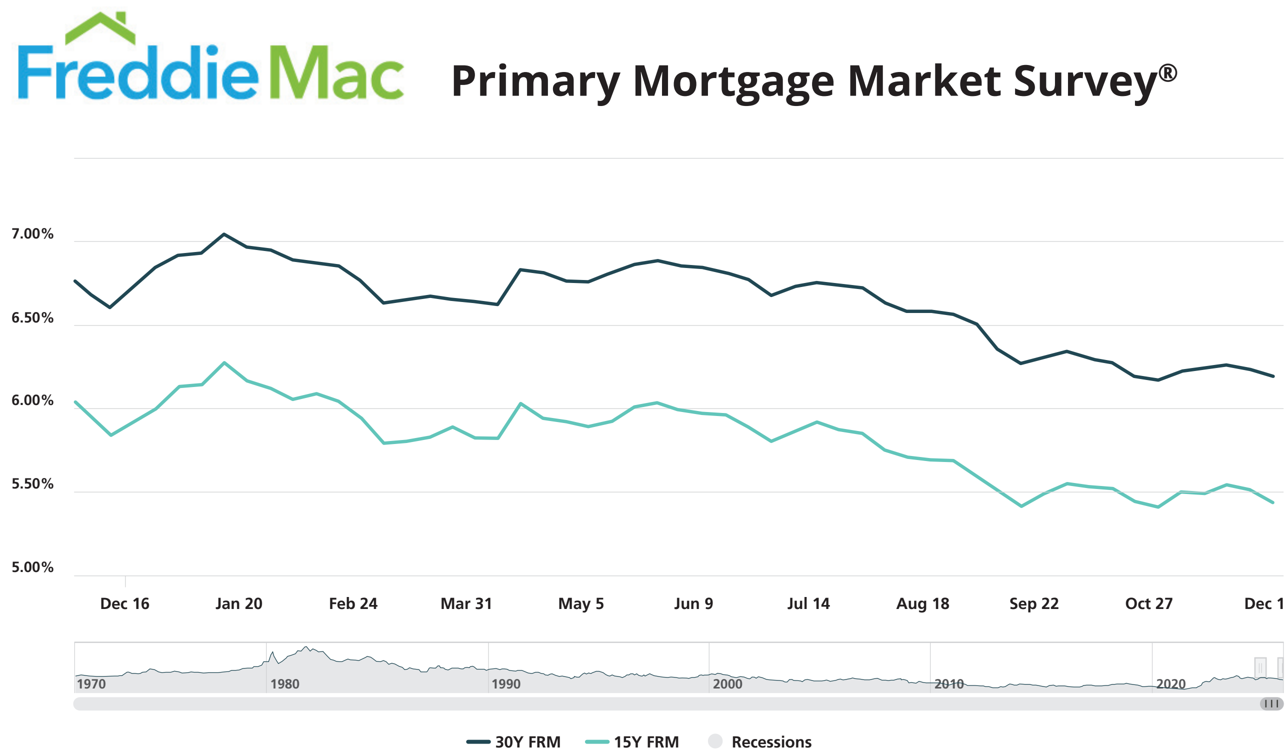
Today's U.S. housing market faces an affordability problem, which began in the 2008 crash and has been amplified through the pandemic and subsequent geopolitical and economic events.

U.S. Housing Affordability: By the Numbers

According to a recent Harvard report, Americans face the worst housing affordability crisis in 40 years, with home prices growing substantially in 97 of the top 100 U.S. markets. Insurance premiums have risen by 24% (average) year-on-year, twice as fast as inflation, and the burdens of rising property taxes and utility payments also increased substantially. Mortgage rates remain in the 6% to 6.5% band, the first long-term rise in decades:



Federal Reserve rate cuts post-pandemic also (briefly) created some of the lowest 30-year mortgage rates in 2020 and 2021. This spiked housing demand, but supply remained insufficient, creating pressure on both home prices and rental figures:



This brings us to 2025, where high home prices and lagging incomes make single home ownership out of reach for many Americans. In June 2025, median home prices hit $435,300 with the national average homeownership rate stalled at 65%. As Hannah Jones, a senior economic research analyst, states, "Renting is far more affordable than buying in much of the country."

However, home prices this year are expected to rise by just 2.1%, with predictions for 2026 even lower. This creates scope for a coming pricing correction, but this will ultimately depend on housing inventory, a major wildcard. As Rick Sharga, executive vice president at RealtyTrac, noted in an article by SRMFRE, "The supply-demand imbalance is the primary reason home prices have escalated so rapidly."

How Regulatory Matters Further Complicate the Picture

To compound these affordability issues, zoning reform and legislation, from state-level incentives to local policies, are uneven. Tenant protections, rent-control measures, and eviction moratorium legacies have become political flashpoints in many states.[9]

For example, the coastal markets suffer from restrictive zoning and lengthy approval processes, deterring construction and reducing supply.[10] Rent control is often cited as contributing to housing shortages, specifically in California, New Jersey, and New York.[11]

By contrast, the "Sun Belt", comprising mostly Southern states, has seen an influx of multifamily construction due to more permissive approvals and deregulated rental markets, at one point leading the national construction boom.[12]

Although the housing affordability crisis is a national trend, this unevenness highlights why national aggregates alone can often mask very different local outcomes. Some U.S. cities are experiencing net in-migration, while others are stagnant.

Investors and developers, therefore, should pay attention to the micro-dynamics in their target markets. Delayed household formation and a highly mobile younger generation mean job flows and so-called "affordability migration" can be major factors in metro-level populations. Decisions should be guided by local approval trends, rent-control and policy exposure, and political risk evaluations for the specific sector of interest as well as national trends.

With these factors in play, we have a perfect storm of high costs and additional economic and regulatory factors driving a rising rent-based housing market.

Tenants, Pricing, and Social Trends Create Further Rental Market Pressures and Opportunities

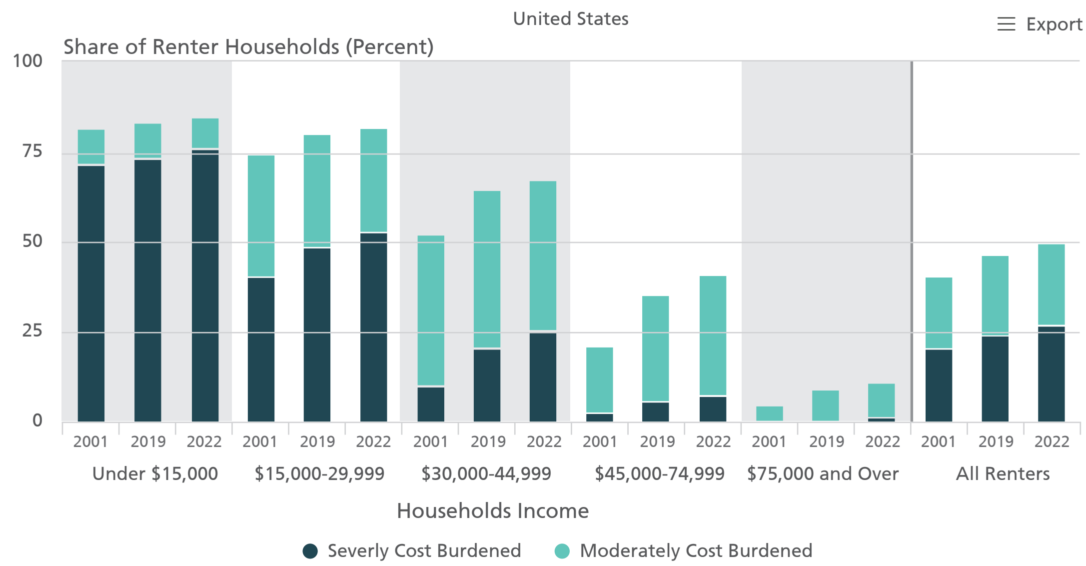
However, this swing to renting over home ownership is not just about basic housing affordability. Social factors impact it as well.

Cost-burdened homeowners, or those spending more than 30% of their income on housing and utilities, grew by 3% to 19.7 million between 2019 and 2022, leaving 23% of homeowners struggling.[13] Renters see a similar burden, as you can see below, with 50% (22.4 million) cost-burdened.

Recent data from the Bureau of Labor Statistics[14] also shows that the consumer price index for shelter (the price Americans paid for a place to live) rose by 3.6% year-on-year. When shelter is a significant economic and inflationary pressure in this way, households become vulnerable to job market shocks and local policy changes, which can further increase housing pressures and stresses.

Before we analyze this perfect storm further, however, let's look at one final factor at play in this affordability crisis: social shifts.

Cost Burdens Climb the Income Scale

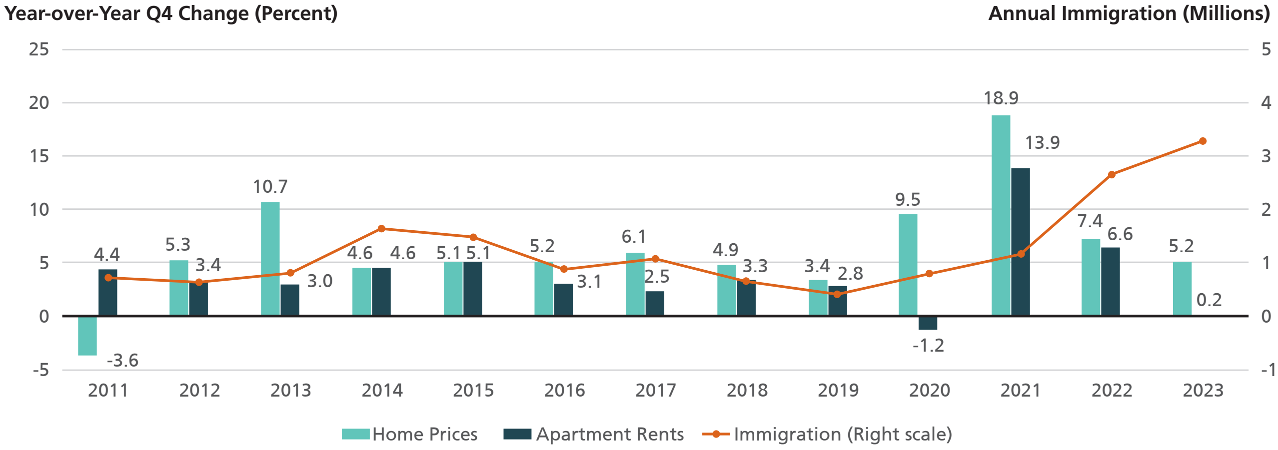


Shifting Population Dynamics

Younger generations now have different household formation timelines,[15] impacted by longer educational periods, the need to move for work more often, and rising job instability and economic damage,[16] again favoring rental markets.

While rising immigration also fuels rental demand to a point, immigration has not solely driven the rise in housing costs despite commonly being cited as a factor, as the following figure shows.

The Surge in Home Price and Rent Growth Predates the Surge in Immigration



Examining Rental Vacancy Rates

With this background in mind, let's see what vacancy rates reveal about supply and demand.

In the second quarter of 2025, we saw national vacancy rates at 7% for rental housing, as opposed to a 1.1% vacancy rate for owned homes, as the below shows.[17]

With homeowners understandably keen to hold onto properties financed at sub-5% mortgages in a high-interest environment, this means properties stay off the market for longer. As John Sim, head of Securitized Products Research at J.P. Morgan, explains, "More than 80% of borrowers are 100 basis points or more out-of-the-money. These borrowers have a significant disincentive to sell their home, creating the dearth in supply."[18]

However, there are some regional variations to note. Rental vacancy rates are highest in principal cities (7.6%) and suburbs (6.7%), and lowest outside of Metropolitan Statistical Areas (MSAs). Rental vacancy rates were highest in the South (9%) and the Midwest (6.6%).

Quarterly Residential Vacancies and Homeownership, Second Quarter 2025

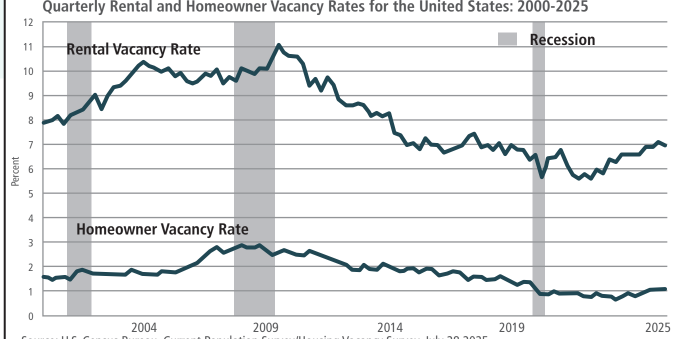
RESIDENTIAL VACANCIES AND HOMEOWNERSHIP SECOND QUARTER 2025

Rental Vacancy Rate	**7.0%**
Homeowner Vacancy Rate	**1.1%**
Homeownership Rate	**65.0%**

Next release: October 28,2025

Data are not adjusted for seasonality.
Source: U.S. Census Bureau,
Current Population Survey/Housing Vacancy Survey, July 28,2025

Figure 1
Quarterly Rental and Homeowner Vacancy Rates for the United States: 2000-2025



Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, July 28,2025
Recession data: National Bureau of Economic Research, <www.nber.org>

Rental and Homeowner Vacancy Rates by Area and Region: Second quarter 2024 and 2025

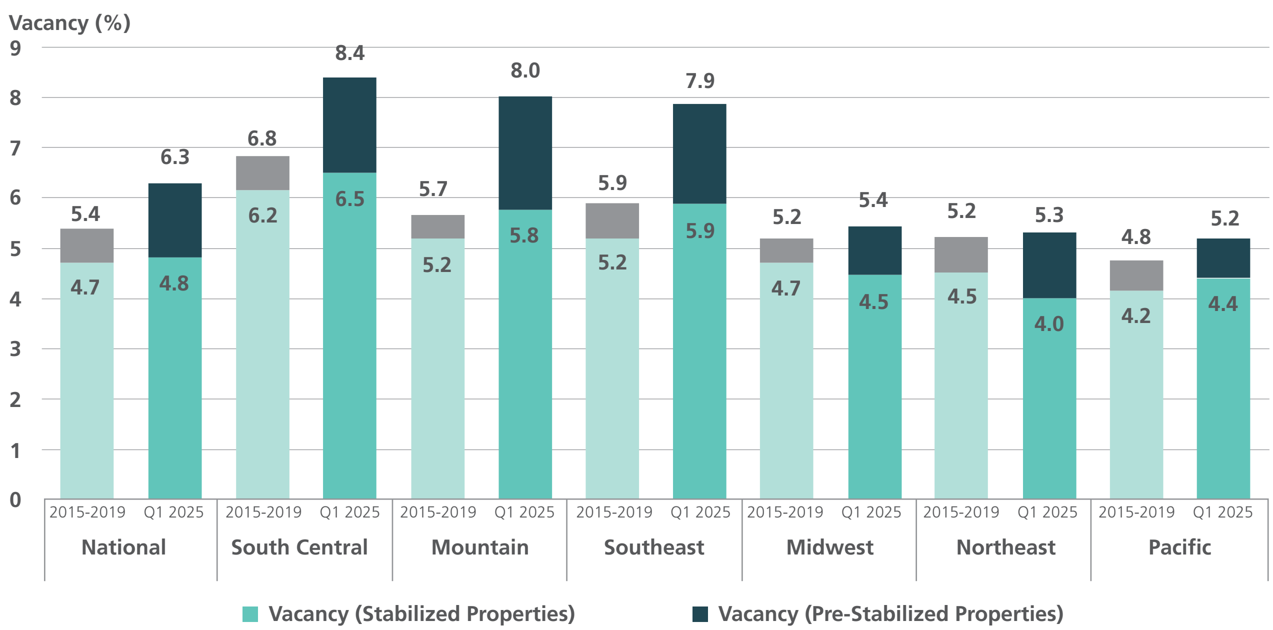
Table 2. Rental and Homeowner Vacancy Rates by Area and Region: Second quarter 2024 and 2025

Area/Region	Rental Vacancy Rates (percent)				Homeowner Vacancy Rates (percent)			
	Second Quarter 2024	Second Quarter 2025	Margins of Error[a] of 2025 rate	Margins of Error[a] of difference	Second Quarter 2024	Second Quarter 2025	Margins of Error[a] of 2025 rate	Margins of Error[a] of difference
United States..............	6.6	7.0	0.2	0.3	0.9	1.1	0.1	0.1
Inside Metropolitan Statistical Areas...........	6.7	7.2	0.3	0.3	0.9	1.1	0.1	0.1
In principal cities.......	6.9	7.6	0.4	0.5	1.0	1.5	0.2	0.2
Not in principal cities (suburbs).........	6.5	6.7	0.4	0.5	0.9	0.9	0.1	0.1
Outside Metropolitan Statistical Areas	6.2	5.8	0.7	0.9	1.1	1.2	0.2	0.2
Northeast...................	5.7	5.2	0.5	0.7	0.7	0.8	0.2	0.2
Midwest.....................	5.5	6.6	0.7	0.9	0.9	0.8	0.1	0.2
South..........................	8.4	9.0	0.4	0.6	1.2	1.3	0.1	0.2
West...........................	5.5	5.7	0.4	0.6	0.8	1.1	0.2	0.2

[a] A margin of error is a measure of an estimate's reliability. The larger the margin of error in relation to the size of the estimate, the less reliable the estimate. This number, when added to and subtracted from the estimate, forms the 90 percent confidence interval.
Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, July 28, 2025.

Notably, some data[19] suggests that vacancy rates may be higher in properties built during the post-pandemic construction boom, with pre-stabilized properties (new builds not yet at 85% occupancy) often excluded from official figures. The following figure shows that impact.

Vacancy Rates With & Without Pre-Stabilized Properties, 2015-2019 vs. Q1 2025



Vacancy Rates With & Without Pre-Stabilized Properties, 2015-2019 versus Q1 2025.
Source: CBRE Research, CBRE Econometric Advisors, Q1 2025

What This Means

While expert opinions vary, the following vacancy benchmarks are useful for the rental industry:[20]

- Sub-5%: High rental demand, typically higher than supply.
- 5-10%: Greater balance between supply and demand.
- 10%+: A strong indicator of a soft market, with excess supply over demand.

This leads us to some logical extrapolations. For multifamily operators, this means pricing power is softer than in ownership markets, but opportunities still exist.

In principal cities, the data suggests that urban multifamily properties still face competition from newly delivered units and renter affordability challenges. The lower suburban rate suggests a preference for suburban living among renters, possibly driven by relative affordability, but doubtless also influenced by the availability of larger units and more family-friendly spaces in these areas. Smaller, non-MSA regions likely show stronger occupancy due to limited new housing inventory and a growing interest in rural areas as a non-primary market.

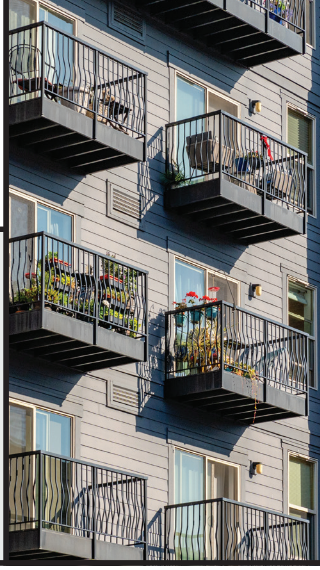
Breaking this down by regional trends, we can arrive at these conclusions:

- **The South/Sun Belt:** The high vacancy rate here is veering close to a soft market indicator. This is backed by data[21] showing rapid construction shrinkage. As the Sun Belt has already seen considerable multifamily construction, oversupply is likely in play.
- **Midwest:** Coming in slightly below the national average, this could indicate a stable demand with less supply pressure. This could open the door to steady investment performance.
- **West and Northeast:** Both show the tightest current rental markets, indicating the strongest demand relative to supply. These regions should support firmer rent growth.

This infers that rent growth will underperform in oversupplied markets, such as the Sun Belt and urban cores, and operators and asset managers will need to compete more aggressively for tenants. Rents will likely hold up better in more constrained markets, and the Northeast and West could offer more rent stability and pricing resilience.

Regional trends suggest the oversupplied Sun Belt and urban core areas are dragging up the national vacancy average, while constrained coastal and secondary markets remain tight, offering stronger performance for multifamily properties.

Examining Multifamily Construction's Drivers and Data: Boom, Bust, or Balance?



Armed with this insight into the housing affordability crisis and rental market, let's examine the multifamily construction market in greater depth.

Exploring the Multifamily Market

With single-family homes less accessible, multifamily developments offer a solution, providing more units per land used and shared infrastructure that contribute to better affordability.

However, a market relies on both supply and demand.

Multifamily constructions have faced significant headwinds in recent years. Economic uncertainty, rising costs, high interest rates, and rapid regulatory shifts equally impact the construction side of real estate.

Construction Weakness

The construction industry has a now-chronic lack of skilled workers, with over 500,000 positions open in 2025,[22] The industry is pressured by increasing costs, both from high inflation and new tariffs on core materials, which disproportionately affect construction.[23]

Rising interest rates are the biggest negative driver currently impacting multifamily construction, but luckily, we have seen one interest rate cut in 2025, and there is the possibility of others.[24]

There is also a rising lot shortage[25] despite a reduction in construction starts. Many cite regulatory hurdles and lack of governmental infrastructure investment as underlying causes.[26] The National Association of Home Builders notes that 39% of builders report cutting prices to remain more attractive to buyers, with a month-on-month average cut of 5%.[27] This showcases a softening buying market and suggests the construction industry must look beyond single-family dwellings for profit and marketability.

However, completions are up 2%, with Ben Bruckner, senior research analyst, noting, "On a year-over-year basis, the under-construction pipeline has declined by 16.4% (a level which) easily supports a modest increase in forecast completions."[28] Yardi Matrix offers potential completion projections by number of units in the chart below.

Year	3Q2025	2Q2025	%Chg
2025	547,779	536,278	2.1%
2026	430,061	422,301	1.8%
2027	360,558	350,257	2.9%
2028	410,205	406,856	0.8%
2029	425,287	426,461	-0.3%
2030	453,668	451,670	0.4%

Source: Yardi Matrix

What This Means for Multifamily Rentals

In the summarized first-quarter earnings reports of the "Big Six" multifamily real estate investment trusts (REITs),[29] there was still chatter about increasing their developmental pipelines.

Why?

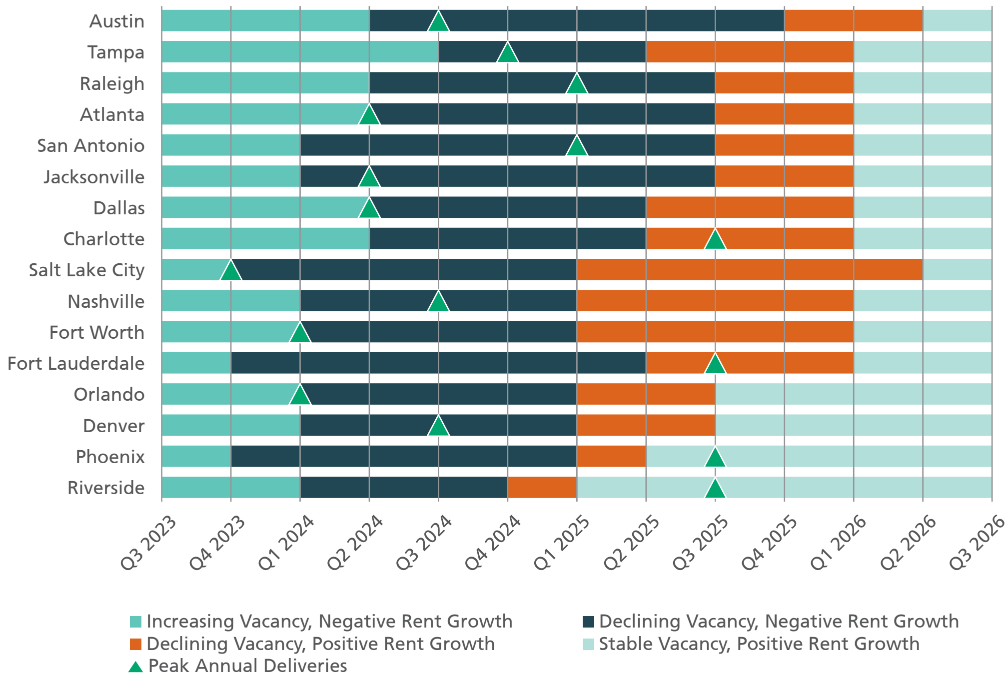
As we've seen, rental demand is robust and healthy, but we could still see tighter market conditions in 2025 and 2026 due to fewer new projects breaking ground. Despite the uptick in multifamily unit completions, it is still expected that the existing supply of multifamily units will decline throughout the year.[30] This should swing available multifamily properties back to undersupply and a more favorable investment environment.

This is also supported by Fannie Mae data[31], which also expects the multifamily market to improve (caveat: in most places) and vacancy rates to drop into the 6% range. Rent growth should increase slightly, in the 2%-2.5% range.

Indeed, this could ultimately increase the potential in the multifamily market from 2027 onwards by creating limited housing inventory on the supply side, with little sign of the demand factors like the affordability crisis or shift to rental models falling off.

Recovery Timeline for High-Supply Markets with Negative Rent Growth

CBRE data similarly supports a recovery in rental growth rates by 2026, even in high-supply markets with negative rent growth:



For the right developer or investor, the multifamily rental sector therefore offers considerable potential.

What This Means for Investment Strategies

For investment, specifically, the broader equity markets are characterized by strong growth periods followed by sharp corrections, and we are in the midst of an extended, bullish, upward surge that began in late 2023.[32] Pessimism about its continuance is setting in, leaving many looking for alternative investment opportunities with different risk profiles.[33]

Multifamily investment, in contrast, offers stable long-term appreciation, seeing fewer and shallower downturns that typically protect equity from turbulence. Rebalancing an overweight equity portfolio into multifamily real estate offers a way to improve risk-adjusted returns and capitalize on the next cycle of rental growth.

The multifamily sector at present offers three attractive opportunities:

- **Value through Market Dislocation:** While high interest rates and uncertainty in capital markets have put downward pressure on valuations, rental demand remains strong. Where there is a disconnect in pricing vs. fundamentals, stakeholders can acquire or develop assets at more attractive valuations.
- **Rent Growth:** As the supply of new units slows due to higher construction costs and regulatory pressure despite high rental demand, multifamily units are expected to rebound by the end of 2025 and continue to rise through later years.
- **Affordability:** The affordability gap also makes multifamily an attractive investment, with sustained demand for affordable living options offering the potential of consistent cash flow and reasonably stable occupancy.

However, investors and stakeholders cannot ignore the shifting dynamics of the U.S housing market either. This creates a highly nuanced environment, making understanding the embedded risks essential for investment strategy.

Investment Appeal and Risk By Investor Type

The bifurcation between small and institutional investors is sharpening. Institutional investors such as private-equity groups and leading REITs continue to dominate the premium Class A rental segment. Class A properties in major metros often become more defensive assets, even if oversupply pressures temporarily weigh on returns.

However, it is more complex for smaller and regional developers. Downward margin pressure makes new project economics harder to justify. Additionally, financing challenges as interest rates stay elevated and lending criteria tighten create new pressures. This could leave smaller investors concentrated in the single-family rental market long term, possibly to their detriment.

Evaluating Nuanced Markets

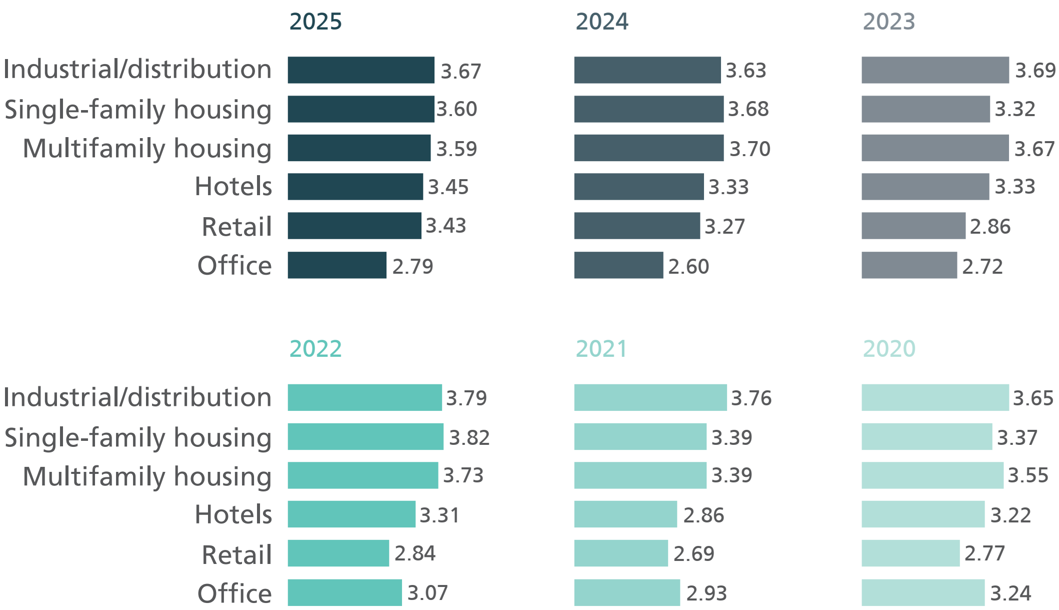
Likewise, not all markets are equally favorable. For investors, this means underwriting assumptions must be more conservative in high-growth metros that have already seen significant multifamily expansion.

Lastly, don't lose sight of the impact of capital rotation into multifamily from other commercial real estate sectors facing headwinds, such as office real estate. Institutional investors have been increasingly allocating capital into multifamily portfolios since 2019[34], while conversions of obsolete office space into residential units are gaining traction in some post-pandemic urban markets.[35]

In this environment, the "winners" will be the stakeholders who align their strategies correctly with underlying regional market fundamentals and long-term demographic demands. Risks remain most acute in oversupplied metros and for mid-market developers navigating thin margins. However, the structural case for multifamily remains resilient, even in the face of broader housing affordability and construction challenges, with the Urban Land Institute placing it in the top three best investment prospects for real estate in the figure below.[36]

Investment Prospects for Major Commercial Property Types, 2020–2025

1-Abysmal 2-Poor 3-Fair 4-Good 5-Excellent



Roth&Co Insight: Sustainability or Short-Term Spike?

This leads us to the million-dollar question: will multifamily supply catch up with demand or lead to local oversaturation?

As we have seen through the data in this white paper, the multifamily sector remains a compelling investment choice, but the sector faces a potential short-term depression in mid-2025, with multifamily construction starts contracting and supply-side issues driven by high interest and cost pressures on contractors. For investors and developers, the question is not whether rental demand exists (it does), but whether new supply will be absorbed at modeled rents and in modeled timeframes.

Over most property investment classes, including multifamily, we are seeing stability return after the chaotic post-pandemic period. This inevitably means that cyclical issues, such as over- or undersupply, enter a corrective period. Nationally, housing demand continues to exceed supply and rental demand remains high, but at the metro level, oversupply risks are real.

However, the affordability gap raises new risks. Half of renter households are already reported as cost-burdened. If unemployment ticks up, rent collection could become more fragile. Tariffs and materials inflation may further tighten construction, exacerbating affordability concerns while simultaneously limiting new supply.

This leads to three potential scenarios:

1. **Expected:** Where demand continues, even with localized slowdowns, multifamily will remain attractive for investment, but now requires metro-level selectivity and great market understanding.

2. **Negative:** If macroeconomic weakness, such as unemployment, accelerates, we will see reduced renter purchasing power and higher vacancies, with higher competition stretching lease-up times to reach stable occupancy and cash flow.

3. **Wildcard:** Sweeping federal or state tenant protections, state-level rent caps, or tax changes could alter expected cash flows and prospects significantly, although no current indicators suggest these will surface despite a volatile policy environment.

Roth&Co recommends investors prioritize:

- Stress testing on 20–30% rent compression scenarios in pipeline-heavy metros
- Discipline on presales and pre-leasing thresholds before stabilization
- Tax-efficient hold period planning that anticipates potential capital adjustments or early disposition

With integrated scenario planning that accounts for tax, accounting, and capital structure modeling, investors can preserve value across any of these scenarios, and actively benefit from the most likely one.

Most market experts still anticipate another rise in the multifamily market for 2027 and beyond, seeing the current contraction as a combination of construction industry challenges and the aforementioned market stabilization. In fact, many see the slight downturn in new multifamily starts but rise in completions as the precursor to another potential supply shortage, which will inevitably drive returns higher down the line.[37]

Kurt Stuart, co-head of Commercial Term Lending at Chase, sets the reasoning as follows: "Most of the supply introduced into markets around the country over the last couple of years has been delivered and is stabilizing. That is why you're seeing strong rent growth and occupancy in many markets around the country, coastal markets in particular."[38]

In short, multifamily remains a compelling investment play currently—but its future sustainability depends on recognizing that the "national story" can mask sharply divergent local realities.

Investors must adapt their strategies to capitalize on future potential, not past results. In particular, larger institutional investors are well poised to make the most of this period in the multifamily market, with the capital and agility to seek out the best investment outcomes.

Investor Implications: Key Takeaways

In short, multifamily properties remain a defensive, cash-flow-generating asset class that can balance equity volatility. Provided, that is, that investors adapt their strategies to local market fundamentals and account for the following:

- **Consider the Affordability Crisis:** With half of renters cost-burdened, rent growth projections must be stress-tested against potential economic shocks, unemployment shifts, or policy interventions.
- **Understand Uneven Demand:** National rental demand remains strong, yet oversupply in certain metros (notably the Sun Belt and urban cores) means investors should underwrite at the local, not national, level. Approach saturated and high-pipeline metros with disciplined pre-leasing and conservative assumptions.
- **Follow Vacancy Signals:** Markets lying closer to 5% vacancy support firmer rent growth. Higher-vacancy metros demand more conservative assumptions and lease-up stress testing
- **Plan for Future Shifts:** High costs, labor shortages, and tighter lending are slowing new builds. This may tighten supply from 2026 onward, setting up stronger multifamily rent performance post-2027.
- **Understand Capital Rotation in Commercial Real Estate:** Institutional players are reallocating from challenged CRE sectors (e.g., office) into multifamily. Smaller investors face margin pressure, but partnerships or targeting niche markets may help offset this.

With these factors properly accounted for, the multifamily market should continue in strength for at least the next few years.

In Conclusion

Despite a downturn from peak multifamily start and construction levels, multifamily real estate remains a solid and resilient investment and development opportunity. While national demand is strong, local market conditions are key. In an environment of constrained supply and shifting demographics, multifamily offers a defensive, income-generating asset class that complements broader portfolio strategies.

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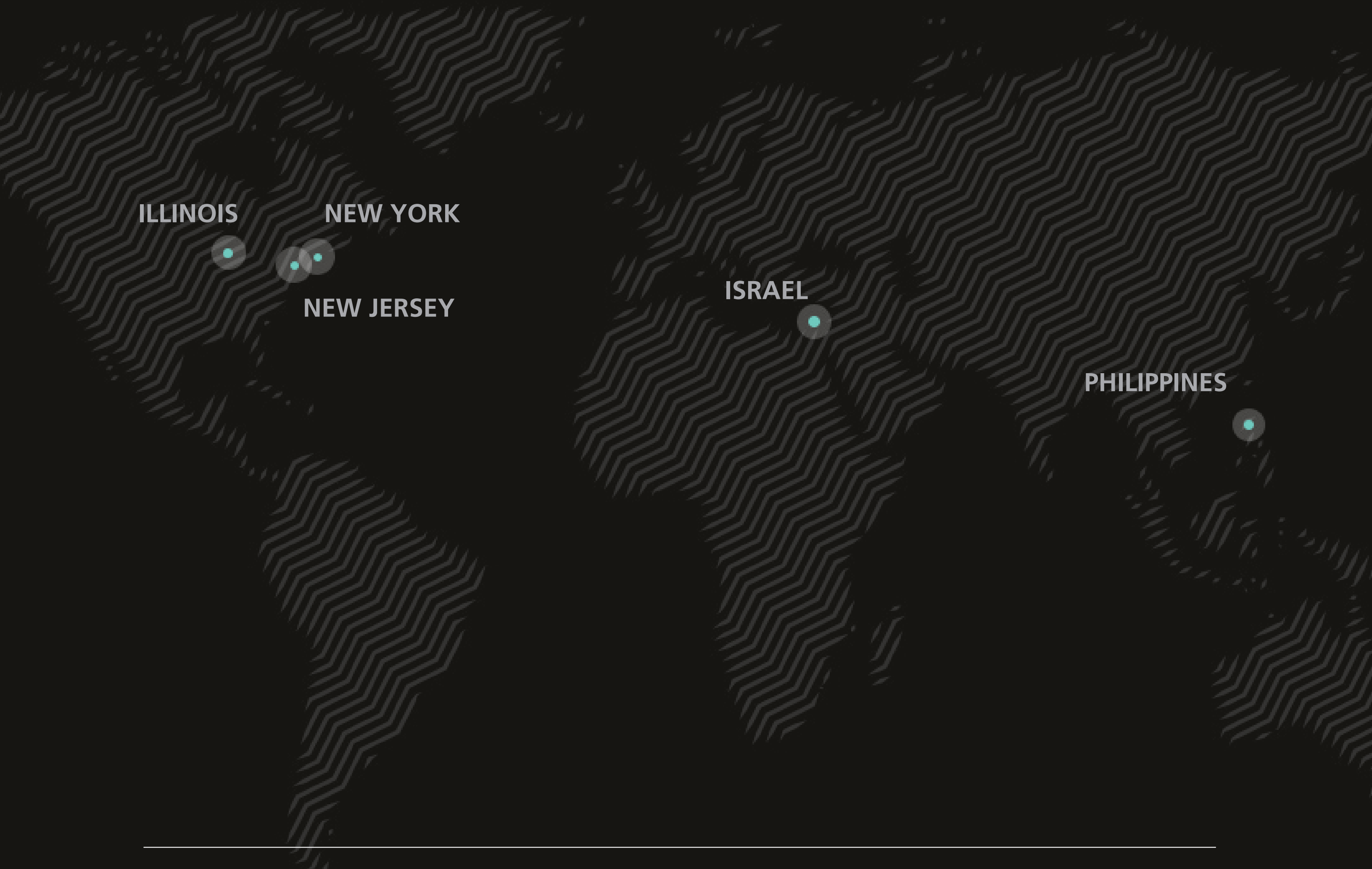

info@rothcocpa.com www.rothcocpa.com (718) 236-1600

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