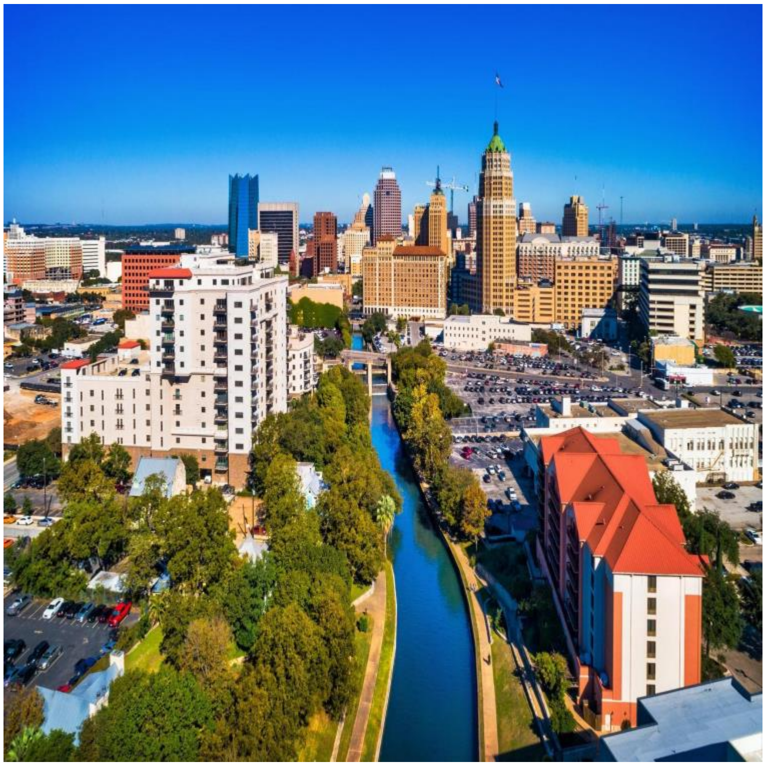
Rising multifamily vacancy expected to peak in early 2027

US drop in supply outpaces slowing demand



By Grant Montgomery
CoStar Analytics
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U.S. multifamily vacancies are expected to climb this year more than previously expected, peaking in early 2027 as the forecast for rent growth softens.

While the number of project completions is expected to fall, supply is still projected to outpace annual absorption, the net change in occupancy, as leasing returns to normalized levels. Multifamily construction surged after the pandemic to meet the added demand that arrived during the health crisis, and the industry has watched to see when the new units would be filled.

The vacancy rate is now projected to increase to 8.8% by year-end before easing to 8.4% by the end of 2027. Stabilized vacancy is expected to rise modestly through mid-2027 as the market continues to absorb excess inventory built up over the past two years.

CoStar's forecast maintains near-term rent growth expectations, reflecting moderate leasing trends and demand in line with earlier assumptions. However, the revised forecast lowers rent expectations for the latter part of the year, as more modest employment growth is expected to weigh on demand, extending the timeline for absorbing excess supply into 2027.

As a result, the annual rent growth outlook is slightly lower than in the previous forecast, despite performance tracking expectations early in the year. Annualized rent growth is expected to increase from 0.2% in the first quarter to 0.5% in the second quarter of 2026, representing a 10 basis-point upward revision from last quarter's forecast.

Expected rent growth later in the year, however, was revised lower, with the fourth-quarter 2026 projection reduced slightly from 0.6% to 0.5%

Maintaining the near-term rent growth outlook reflects modest first-quarter rent trends in line with expectations. The lowering of second-half 2026 rent growth, meanwhile, is driven by softer employment assumptions and the sizeable backlog of excess inventory accumulated across 2024 and 2025 that must be absorbed before market conditions can meaningfully tighten.

Absorption is expected to decline to 70,000 units per quarter, below its five-year pre-pandemic average, while completions of new units are expected to fall 28% in 2026 to 382,000 units, followed by another 24% decline in 2027. This reduction in new supply will finally set the stage for demand to outpace new supply by mid-2027.

Risks to forecast tilted to downside

The balance of risks remains tilted to the downside. A near-term energy price spike has eroded consumer spending power, and economists have downgraded employment growth expectations due to significant changes in U.S. tariff policy, slower labor force growth, and increased productivity that allows output to expand with fewer new hires.

Beyond the near term, these pressures extend into the longer-run demand outlook. Fiscal expansion from mid-2026 to early 2027 could provide a temporary boost to the economy.

However, lower immigration is expected to constrain labor force and employment growth through 2031, weighing on long-term demand for rental units.

In addition, population growth and household formation are projected to remain subdued throughout the forecast period.

As a result, multifamily vacancy is expected to decline only modestly over the next five years, with rent growth averaging 1.5% annually, trailing historical norms.