Navigating the Reset: How Disciplined Operators Win in a Post-Peak Market

By Edward Aloe, Founder and CEO *California Capital Real Estate Advisors, Inc. (CALCAP)*

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1. Executive Summary

The multifamily market remained challenged for the last 3 years as the sector continued to absorb a historic wave of new supply and the full impact of "higher-for-longer" interest rates. So far, the widely predicted wave of distress hasn't played out as a sudden, catastrophic crash. Instead, we are living through a gradual reset. Values are adjusting, capital structures are being reworked, and expectations are shifting. It just isn't happening all at once.

For institutional allocators and RIA platforms, this transition phase requires a fundamental pivot in strategy. The era of inexpensive, plentiful debt lifting all boats is clearly over. Today, operational execution matters more than ever. At CALCAP, we believe the next 24 to 36 months will define the winners of the next cycle. By focusing on workforce housing fundamentals and executing a disciplined operational strategy, we are preparing for the best acquisition vintage since we started the company during the Great Financial Crisis.

This paper examines the structural shifts in cap rates and supply, the critical importance of disciplined asset management, and why the window for capital deployment into multifamily is opening now. The reset is real, and for those paying attention, it's exactly where the opportunity begins.

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2. The Reset Is Real — But Not New

Over the past decade, real estate markets were defined largely by cheap money and aggressive lending. If a property ran into trouble, refinancing or a profitable sale often provided an easy solution. The market forgave a lot of operational sins because asset appreciation consistently covered the spread.

That environment has changed.

Between 2021 and 2022, we saw an unusual dynamic where cap rates compressed tightly across all multifamily classes. In many markets, Class A, B, and C assets were all trading at very similar cap rates — often sub 4%. There was very little differentiation in pricing for risk. Newer product, older product, higher risk, lower risk — it all cleared at nearly the exact same levels.

That is not typical.

The story today isn't just that cap rates have reset higher — averaging around 5.7% in 2025, up from 4.1% in 2021[1] — it's that they're beginning to separate again across asset classes. In many markets, that spread is now back to 50–150 basis points, depending on quality and location. Cap rates aren't just higher. Risk is being priced again.

At this point in the cycle, many assets are still operating reasonably well. Occupancy is relatively stable in most markets. The bigger issue is the capital structure behind them. Loans originated in a very different rate environment are now maturing into one where proceeds are lower and underwriting is tighter. When the capital structure no longer supports prior assumptions, behavior is forced to adjust.

Sellers revisit pricing expectations. Buyers underwrite more conservatively. Capital moves with far greater discipline.

This isn't a sudden break in the market. It's a slow, necessary adjustment. Lenders have been extending loans. Sponsors have been contributing additional equity. Assets have been held longer than originally planned. In many cases, excesses that weighed on the sector are gradually being worked through. But the "extend and pretend" strategy has an expiration date. Many loans originated at the peak were structured as 3-1-1 bridge loans — a three-year initial term with two one-year extension options. Loans closed in 2021 and 2022 are now exhausting those extensions and hitting final maturity. The clock that hoped for lower rates has run out. We are rapidly approaching that moment of reckoning.

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3. The GFC Playbook, Revisited

Cycles are almost always predicated on the availability (or lack thereof) of capital. They turn when financing conditions force decisions that were previously avoidable. I saw it when I started the company during the Great Financial Crisis, and we're seeing it again today. Back then, the overnight freeze in credit markets had an immediate and significant impact on values.

The difference between managers who survive these resets and those who don't comes down to leverage and patience. During the 2021 peak, it was incredibly tempting to stretch underwriting assumptions to win deals. We chose to step back. Now, as the market resets, that discipline pays off. We are not forced sellers.

The GFC taught us that capital preservation first is the only way to survive a downturn. You must protect the balance sheet, so you have the dry powder to act when others are forced to liquidate.

Today, the distress isn't necessarily at the property level — it's in the capital stack. We are seeing bridge loans that were originated at 3.5% now floating at 8%, with rate caps expiring and replacement caps prohibitively expensive. Sponsors who bought on aggressive rent growth assumptions are finding themselves upside down, unable to refinance without substantial cash-in. As these bridge loans expire through 2026, we anticipate increased lender capitulation and forced recapitalizations.

This is where the GFC playbook becomes relevant again. It requires having the capital and the operational infrastructure ready to step in when the math finally breaks for over-leveraged sponsors. It means looking past the short-term noise and focusing on the long-term value of the underlying real estate. It means being willing to do the hard, unglamorous work of turning around an asset that has been starved of capital.

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4. Where the Opportunity Lives

While the broader market digests the reset, we remain highly convicted in workforce and attainable housing.

I've spent a lot of time recently thinking about AI — not as a threat to real estate, but as a tool that separates those who adapt from those who don't. The fundamentals of our business haven't changed. But the speed at which we can analyze, manage, and communicate has. And all that talk about AI digitizing everything got me thinking about housing.

You can digitize software. You can digitize services. You can digitize media.

But you can't digitize a place to live.

Housing remains essential, physical, and scarce. Despite the cyclical oversupply of Class A apartments delivering today, the United States faces a structural housing shortfall of approximately 4 million units — a deficit built up over more than a decade of underbuilding. Affordability pressures compound the problem. In a K-shaped economy, lower- and middle-income renters face pressure

from inflation and rising non-housing costs, with homeownership increasingly out of reach. This makes attainable, Class B workforce housing not just a defensive play, but the most resilient segment of the market.

Institutions have historically under-allocated to this space, favoring shiny, urban Class A developments. But the supply pipeline tells a different story. Multifamily starts have declined sharply from their 2022 peak — falling nearly 37% through 2024 before beginning to stabilize.[2] Looking ahead, annual deliveries are projected to decline approximately 24% in 2026 to around 450,000 units, down from nearly 600,000 in 2025, with the slowdown in starts pointing to further supply tightening ahead.[3] This is the sharpest pullback in the delivery pipeline since the GFC.

The vast majority of the new supply delivering today is Class A. This creates a temporary overhang at the top of the market but does absolutely nothing to solve the structural shortage of workforce housing. As new construction starts plummet due to high capital costs, the existing stock of well-located, attainable housing will become even more valuable.

Market Segment	Current Dynamics	2026-2027 Outlook	Institutional Positioning
Class A (New Build)	Heavy supply deliveries, elevated concessions, flat rent growth	Supply pipeline tapers, absorption catches up, moderate recovery	Currently over-allocated; facing near-term yield compression
Class B (Workforce)	Stable demand, limited new supply, expense pressures	Strong structural demand, lower vacancy, pricing power returns	Structurally under-allocated; offers superior risk-adjusted returns
Class C (Older)	Cap rate expansion, heavy capital expenditure needs	Deep value-add opportunities for well-capitalized buyers	Requires intense operational expertise; high barrier to entry

5. The Vertically Integrated Advantage

Rent growth seems to get most of the headlines in real estate, but expenses are telling the more important story right now.

Insurance, payroll, repairs and maintenance, and property taxes have all moved meaningfully over the past few years. Even well-performing properties are working harder just to maintain margins.

Right now, operational execution matters more than ever in multifamily. For many years we had the market appreciation wind at our backs. Today, operations are front and center in the game. Every basis point of yield has to be earned on the ground.

Vertical integration in real estate doesn't mean owning every function. It means controlling the decisions that drive returns.

At CALCAP, that means owning acquisitions, asset management, and capital allocation under one roof — with a disciplined eye on every property in the portfolio. We work with best-in-class third-party property managers, but we are never passive. We set the strategy, we monitor the performance, and we hold our partners accountable to the same standards we hold ourselves.

We recently made a significant investment in that function — bringing on a Senior Managing Director of Asset Management with 18 years of institutional experience to help build what we believe will be a best-in-class platform. The asset management function is where value is created or destroyed. We're treating it that way.

That distinction matters. A lot of sponsors outsource property management and then outsource their attention along with it. We don't.

At CALCAP, we are also leaning heavily into technology to drive operational efficiency. We are deploying AI leasing tools to reduce our reliance on paid marketing and dramatically improve lead-to-lease conversions. We have also implemented a resident satisfaction platform to monitor the resident experience in real time, improve retention, and hold our property management partners to a higher standard.

In a market that no longer forgives operational shortcuts, disciplined execution across cycles is what separates true operators from capital allocators. It's about doing the little things right, "blocking and tackling" every single day. It's about building the systems and hiring the people to execute a business plan flawlessly. We call this our "CALCAP 2.0" initiative — institutionalizing our governance, standardizing our reporting, and building a platform that can scale predictably.

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6. Positioning for the Recovery

The managers who will define the next cycle are running a disciplined playbook right now. At CALCAP, we call it Protect, Prune, and Position.

Protect. Defend the core portfolio. Prioritize economic occupancy over headline occupancy. Tighten expense controls. Manage bad debt aggressively. In an environment where the capital stack is under pressure, protecting your balance sheet is not a conservative choice — it's a competitive advantage.

Prune. Be disciplined about capital allocation. If an asset has maximized its value, or sits in a submarket with deteriorating fundamentals, sell it. Recycle that capital into liquidity and optionality.

The investors who will win the next cycle are the ones who didn't fall in love with their real estate during the last one.

Position. Prepare to act decisively when others can't. As capital stack stress creates compelling acquisition opportunities — distressed assets, note purchases, recapitalizations — the sponsors with dry powder and operational infrastructure will have an enormous advantage. We are building that infrastructure today for the portfolio we intend to manage tomorrow.

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7. Conclusion — The Case for Now

As we move deeper into 2026, it's becoming increasingly clear that the multifamily market is less about *if* it recovers — and more about *when*.

After more than three years of rising interest rates, cap rate expansion, and muted transaction activity, the sector appears to be nearing the end of a long reset phase. Cap rates have largely stabilized, pricing has become more consistent, and bid-ask spreads are slowly narrowing. Transaction volumes are beginning to climb again, reaching $165.5 billion in 2025.[4]

Importantly, stabilization isn't being driven by aggressive assumptions or cheap leverage — it's being guided by fundamentals. Rent growth has mostly held, occupancy remains healthy, new construction starts have slowed materially, and debt is readily available for well-located assets with proven cash flow.

For institutional allocators and RIAs, the window is opening. The managers who will deliver outsized returns in the next cycle are the ones who preserved their capital during the peak, managed their operations tightly during the correction, and have the dry powder to acquire assets at a reset basis today.

Those who stay focused on fundamentals during quieter cycles like this are often best positioned when momentum returns. For disciplined investors and long-term allocators, these transition periods often matter most. For those ready to deploy capital alongside a disciplined operator, the entry point is now.

The reset is here. It's time to get to work.

This paper is for informational purposes only and does not constitute an offer to sell or solicitation of an investment.

References

[1] U.S. Multifamily Market Snapshot — February 2026; Multi-Family Market in 2025: Key Trends in Tough Landscape
[2] Multifamily Housing Outlook — PwC Emerging Trends in Real Estate
[3] Yardi Matrix, National Multifamily Market Report, February 2026
[4] https://www.multifamilydive.com/news/2026-apartment-sales-multifamily-distress/810517/

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