

## QUARTERLY CALL RECAP:

HOUSING ECONOMIST JAY PARSONS' REARVIEW  
MIRROR AND FORECAST ANALYSES

DECEMBER 2025

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It isn't a secret that more than 1.5 million apartment units have been delivered in the United States over the past three years. Nor is it a secret that those units have been absorbed quickly, due to ongoing demand. Will this supply/demand trend continue into 2026 and beyond?

According to rental housing economist, consultant and speaker Jay Parsons, the industry is poised for recovery in 2026. "Supply obviously dropped off substantially this year," he said during the EMBREY Insights 4Q 2025 Quarterly Call, which took place on Dec. 9. On the other hand, assuming steady economic conditions, demand should continue to show strength into 2026, he noted.

EMBREY Chief Investment Officer Garrett Karam added that while the cycle has been challenging, the firm is "seeing fundamentals stabilize in a way that supports a more constructive outlook heading into 2026."

## Articulating Affordability Issues

One large question surrounding housing is affordability. Homeownership is out of reach for many potential buyers. Yet, on the rental side, Parsons explained that renters aren't so much flocking to affordability as they're making their way to quality. The Class A and B+ renter pool is healthy, with CoStar reporting a robust absorption of more expensive rental units.

Meanwhile, the older vintage properties continue to cut rents and add concessions to fill space. Additionally, "I think value-add becomes more choosy in the next cycle, as it tries to find deals in the right locations, with the right demographics, and so on," Parsons observed.

Another question is that of pent-up demand. Karam pointed out that approximately 38% of younger renters are still living with mom and dad. As this age cohort becomes employed and leaves home, demand for rental units is expected to increase. Meanwhile, "we're going to have a lot less supply in 2026 and 2027," Parsons commented.

Additionally, there are reports of rent growth and positive absorption in high-supply markets, such as Atlanta, Florida, and certain parts of Texas which are starting to see rent-growth momentum. According to Parsons, "If the economy holds up, I think we'll see concessions burn off next year."

## Revealing Retention Rates

Parsons explained why renter retention and renewal rates continue to increase. Between 2020 and 2022, during the pandemic and its immediate aftermath, vacancy rates plummeted, resulting in fewer choices for renters who wanted to relocate. "In the past couple of years, renters have more options," Parsons said. "Yet we've seen them stay put."

One reason is that retention rate increases have been happening for at least a decade. Additionally, "We're building a lot nicer apartments than we did in the past," he said. "You don't know until you walk into one how nice those buildings are."

Parsons also exploded the myth that renters continue to struggle due to the softening labor market. "That hasn't been the case in the (Class) A or B markets," he commented. "We're seeing renters paying their rent every month. They're renewing leases. They're in good standing."

## Investigating Investor Appetite

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## Contemplating Cap Rates and Spreads

One question asked during the webinar was whether cap rates would hold steady in the current interest rate environment—and what the spreads might look like. Parsons responded that buyers in it for the mid to long term are willing to look past compressed spreads in the short term.

"The bullishness for multifamily longer term has prompted more investors to accept a lower spread in the short term, with expectations that the spreads will widen in the latter years of the investments," he said. "Unless there's a shift in the rates beyond expectations, that will continue to be the story for next year."

## Speaking of Next Year . . .

Parsons indicated that the primary multifamily issue in 2026 will be consumer confidence. Currently, that confidence is weighed down by economic volatility and a softening labor market, leading to “uncertainty, fear and nervousness,” which results in stagnation in decision-making, he said. Such holding patterns can hinder activities such as making purchases, creating jobs, or signing a lease.

However, Parsons doesn't see this paralysis lasting forever. Once people understand they're doing relatively okay and start to feel better about the U.S. economy and geopolitical issues, businesses will begin hiring and spending again, and individuals—especially younger ones—will leave their parents' homes or friends' couches and strike out on their own. This means higher absorption rates in the multifamily sector.

Karam added that EMBREY remains focused on long-term fundamentals, noting that periods of uncertainty often create opportunities for disciplined investors with a patient outlook.

“If the economy improves, there is decent job growth and a boost in consumer confidence, things could snap back relatively quickly,” Parsons said. “I don't think it'll take much to ramp up again.”

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Garrett Karam leads investment and capital markets activity for EMBREY. As a seasoned industry professional, he sets strategic direction and drives performance alongside a talented in-house investments team, with a focus on maximizing returns and building long-term relationships.

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