

REAL ESTATE

# The Apartment Glut Is Ending and Demand Is Rising. Rents Are Headed Up, Too.

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Rental signage on an apartment building in the Murray Hill neighborhood of New York. (JEENAH MOON/BLOOMBERG)

The high cost of buying a home makes renting look good in comparison. As demand intensifies, rent hikes are on the horizon.

With house prices still high, mortgage rates stuck just under 7%, and plenty of economic uncertainty, consumers are once again seeing the virtues of renting.

Over a third of respondents, 35%, told Fannie Mae in April that they would rent instead of buy if they had to move, the highest share since October and more than the long-term average of three in 10.

Rent growth slowed over the past several years as the largest surge of new multifamily buildings in decades began working its way onto the market. But that is beginning to ebb. Multifamily construction completions peaked at a roughly five-decade high last August, and are down 28% since then, census data show.

“Apartment fundamentals are past peak pain,” says David Kirshenbaum, the assistant portfolio manager of the \$2.06 billion Baron Real Estate Fund. “As fundamentals improve, and as demand continues, many landlords are already talking about the possibility of additional rent spikes if we look out over the next 12 to 24 months.”

From settling down to building equity, there are still plenty of reasons to prefer buying a home over renting—but saving on monthly costs is no longer one of them. The typical buyer in April would be signing up to pay about \$440 more a month in all-in housing costs than the typical renter, assuming a 20% down payment, according to two separate [Zillow](#) indexes. Before the pandemic, homeowners typically stood to save an average of about \$130 a month by taking on a mortgage.

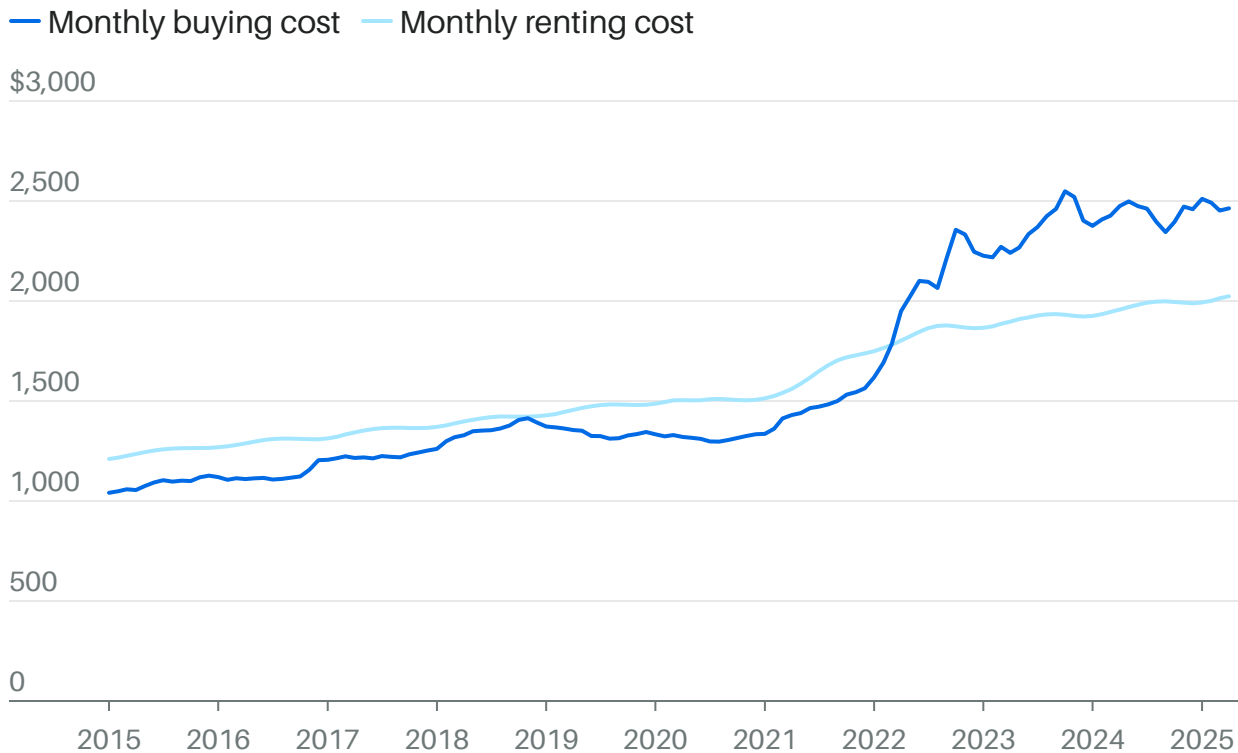
“Because renting, while not affordable, is more affordable than buying, you do see upward pressure growth on rents,” says Kara Ng, a Zillow senior economist. The company sees single-family and multifamily rents rising 2.8% and 1.6% this year, respectively, while home values are expected to fall 1.4%.

This homebuying season so far has been a dud, in part because of costs, volatile mortgage rates, and general economic uncertainty. “What you’re seeing in the for-sale side is actually helping boost demand and prop up the rental side,” says

Rob Warnock, a senior research associate at rental listing and management portal Apartment List.

## Buyer's Premium

Buying a home is now significantly more expensive than renting.



Note: Monthly buying cost assumes 20% down and includes insurance, property taxes, and maintenance costs. Monthly rent includes rental estimates for both single-family and multifamily residences. Both use smoothed and seasonally adjusted data.

Source: Zillow

High costs are one of two holdovers from pandemic-era housing trends that look likely to spur rent growth in the coming years. “People are being pushed out of the single-family home market and into apartments,” says Larry Connor, the founder of the real estate investment firm The Connor Group, who said he sees rent gains speeding up to annual increases of 5% to 10% as renting remains a better choice for many.

The other is a pullback in multifamily construction that began after interest rates rose and developers worked through a large backlog of new projects. “People are quite bullish on where the rental market will be in the next two to five years,

because the adage is there's no supply behind the supply," says Dan Kaplan, managing partner at developer Property Markets Group.

Those two factors combined mean "we should see pretty strong rent growth, perhaps not this year, but in the next year, into 2027 and into 2028," Chris Nebenzahl, vice president of rental research at John Burns Research and Consulting, said on a recent webinar.

***Corrections & Amplifications:*** Over a third of respondents, 35%, told Fannie Mae in April that they would rent instead of buy if they had to move, the highest share since October and more than the long-term average of three in 10. An earlier version of this article incorrectly said the long-term average was one in three.

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