

**AEW RESEARCH & STRATEGY**

# Essential Housing Market Perspective

Q3 2025



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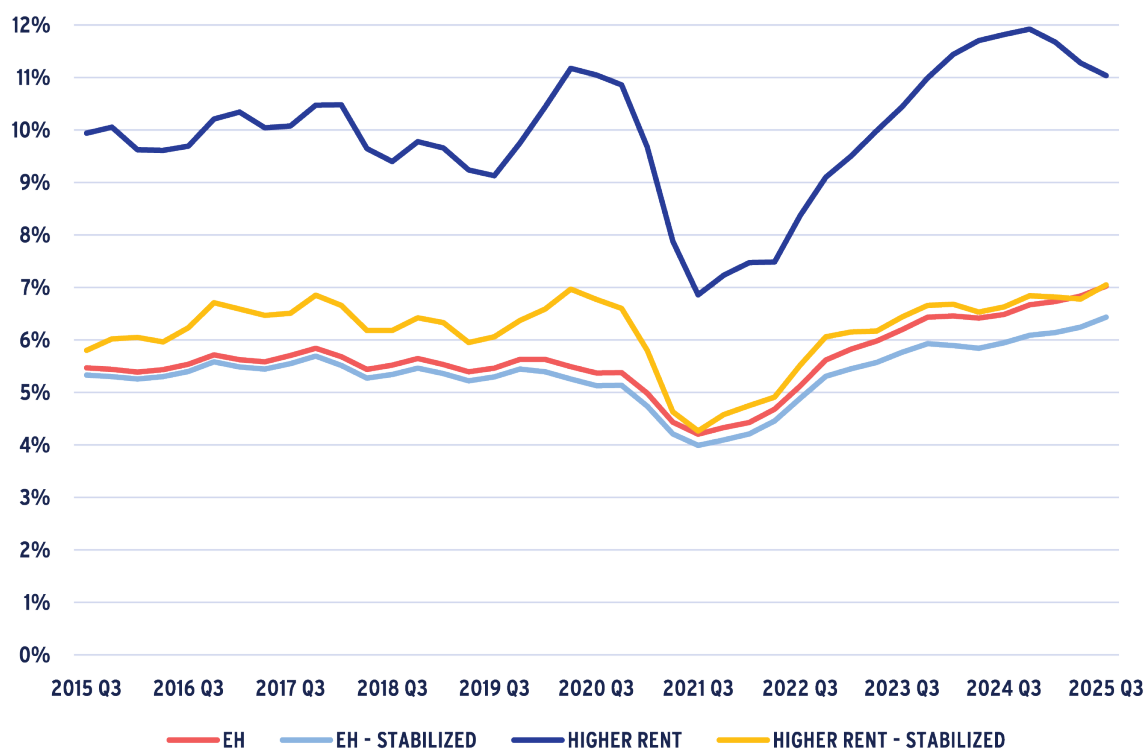
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## RESEARCH PERSPECTIVE | Q3 2025

# Essential Housing

U.S. rental housing market occupancy, in aggregate, was static during the third quarter. CBRE reported a 20-basis point increase in overall vacancies, moving from 4.2% to 4.4%, while CoStar recorded a small increase from 8.2% to 8.3%<sup>1</sup>. For essential housing, the overall vacancy rate rose from 6.8% to 7% during the quarter, in line with the stabilized vacancy rate for higher rent apartment properties<sup>2</sup>. Interestingly, the overall vacancy rate reported by CoStar for higher rent properties has steadily improved since the end of 2024, but this improvement has been from significantly higher levels as newly delivered, mostly vacant high-rent properties have begun to lease, suggesting some catch up after several years of high construction in this segment.

**FIGURE 19**  
**U.S. APARTMENT MARKET VACANCY RATE**



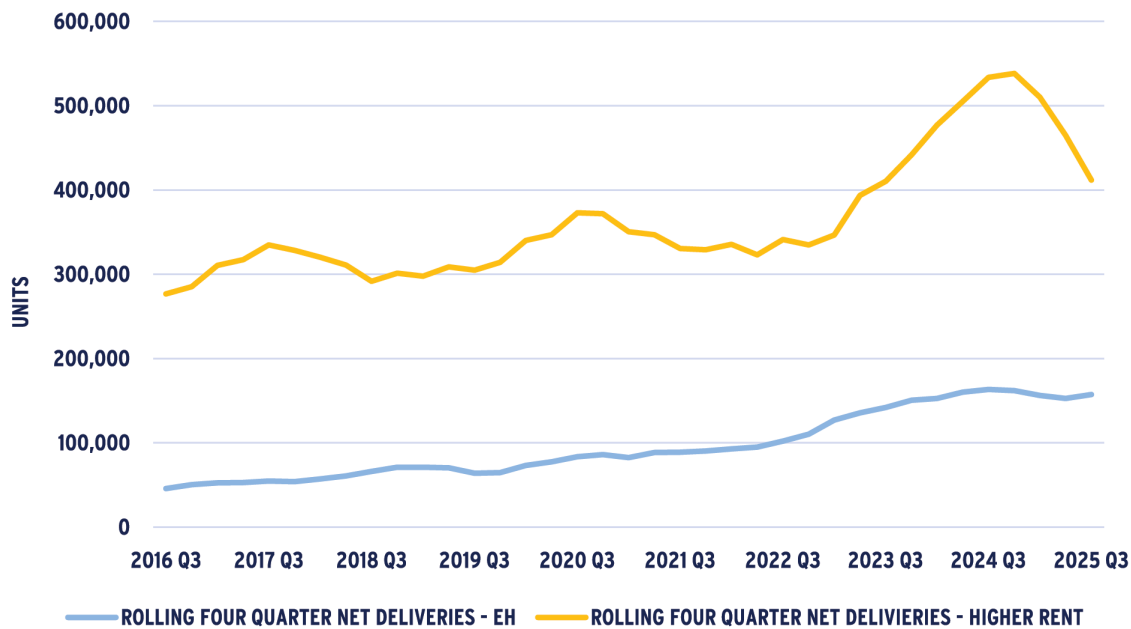
Source: CoStar, 2025 Q3

To this point, Figure 20 illustrates the pace of higher rent unit deliveries over the past decade relative to deliveries in the essential housing segment of the market. During 2024, new deliveries in the higher rent segment were approximately three times greater than the essential housing segment even though the absolute size of the essential stock is more than twice the size of the higher rent stock in total units. As we have observed previously, this supports our belief that the higher rent segment of the apartment sector represents the lion's share of new supply risk and the various negative impacts of new supply with respect to occupancy and rental rates.

<sup>1</sup> The absolute level of vacancy varies by data provider and reflects the degree to which newly delivered properties that are still in initial stabilization of occupancy are included.

<sup>2</sup> Essential Housing is defined here as the aggregate of 1-, 2- and 3-star properties within the CoStar apartment property ranking scheme. Similarly, higher rent properties are defined as the aggregate of 4 & 5 star rated properties.

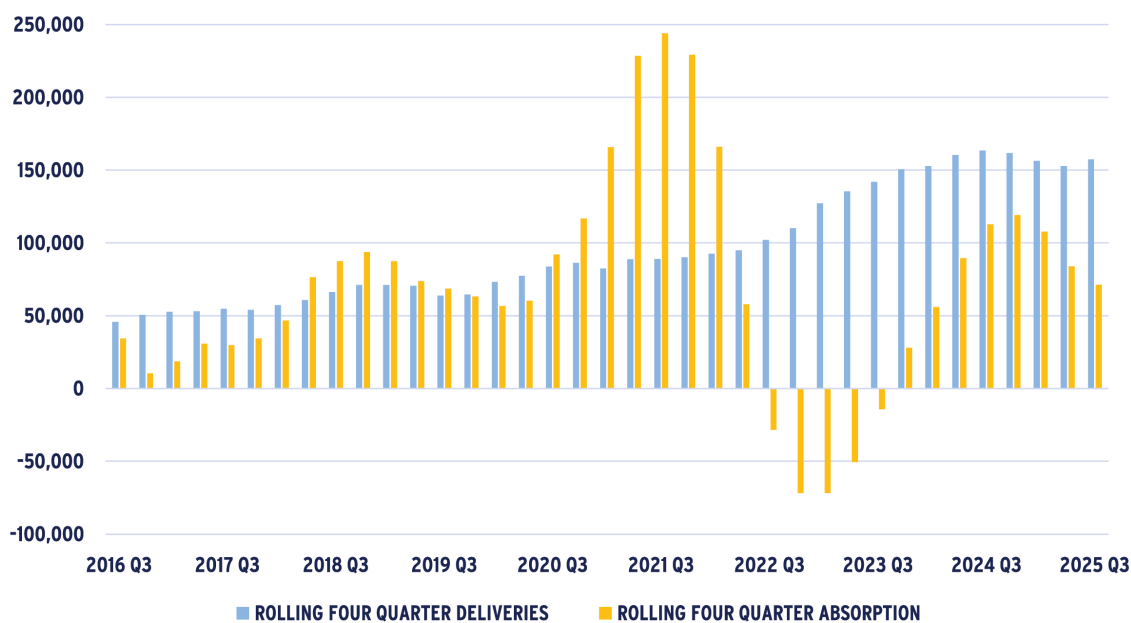
**FIGURE 20**  
**NET NEW APARTMENT DELIVERIES**



Source: CoStar. 2025 Q3

Taken together, the supply and demand picture of U.S. essential housing is mixed. While the net delivery of new units to the segment is limited in both total units as well as share of existing stock, absorption is also soft and has been weakening over the past four quarters (Figure 21). The recent rise in vacancy rates has, in large part, led directly to the corresponding slowdown in rent growth (Figure 22).

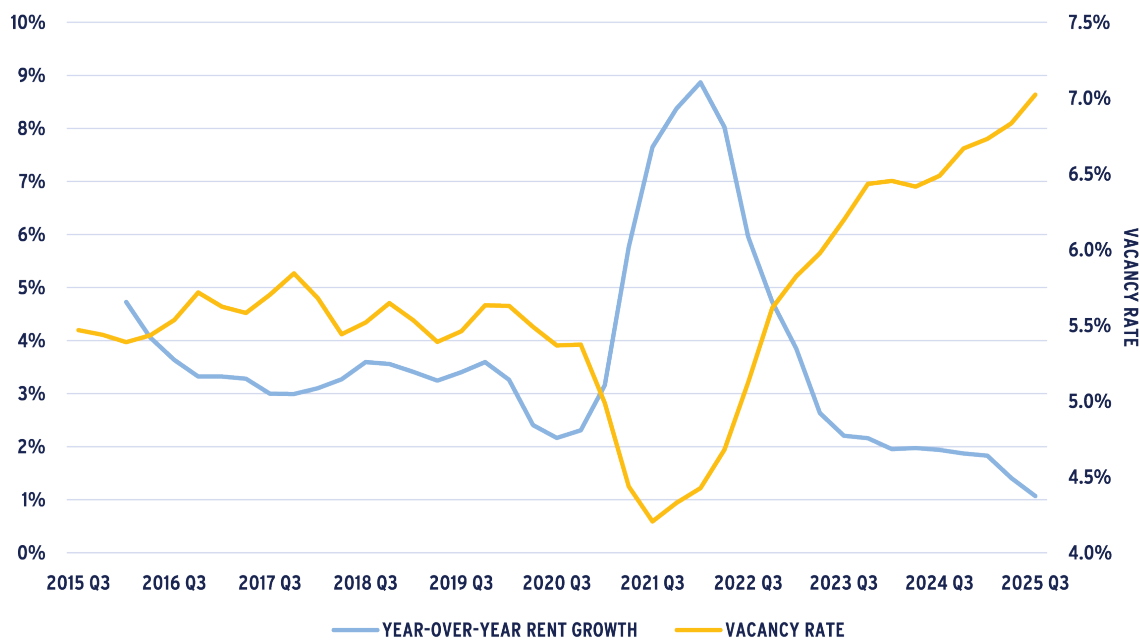
**FIGURE 21**  
**ESSENTIAL HOUSING SUPPLY & DEMAND**



Source: CoStar. 2025 Q3



**FIGURE 22**  
**ESSENTIAL HOUSING RENTAL RATE GROWTH & VACANCY RATE**



Source: CoStar. 2025 Q3

In part, this reflects a broad trend of slowing economic growth as the post-pandemic spending stimulus continues to dissipate. More significantly for essential housing, lower income households are more burdened by lingering higher inflation and, at the same time, are not participating in the broader wealth effect benefiting higher income households, particularly with respect to ever higher equity market and home values.

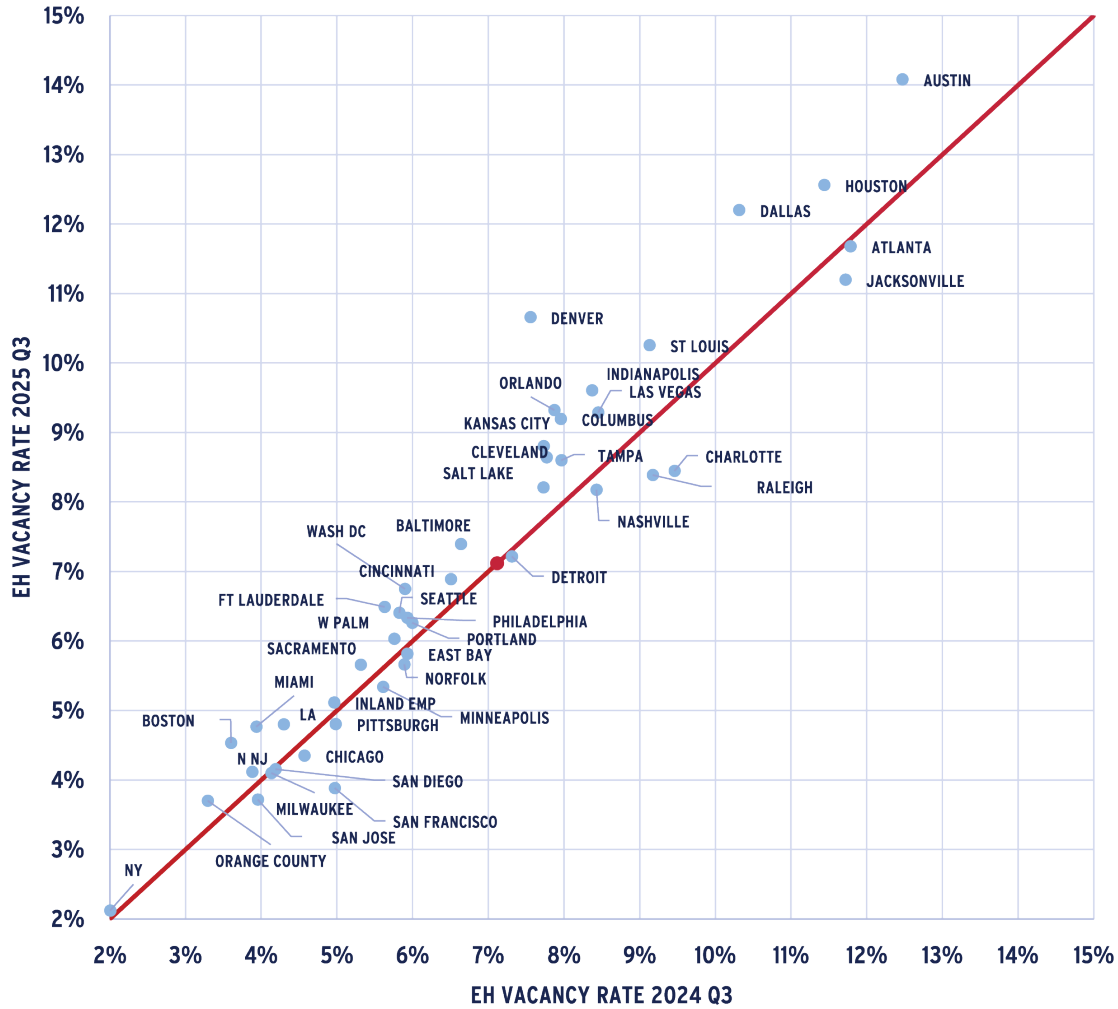
More recently, and likely going forward, aggregate demand for apartments and virtually all manner of consumer goods is constrained by negative net migration originating in foreign-born residents leaving, both by force and by choice, combined with fewer people in other countries electing to move to the U.S. As highlighted in the macroeconomic overview, numerous reputable forecasters project the U.S. will lose two million (or more) foreign-born residents this year and this is expected to continue at least through the remainder of the current administration and possibly beyond. On average, foreign-born workers have lower incomes than native-born so it is likely that the impact of this net decline in population will be felt disproportionately in the segment of the housing market most likely to house below-median-income workers, i.e., essential housing.

Finally, with respect to the geographic distribution of the trends, Figure 23 illustrates the change in essential housing vacancy rates over the past year by market. Markets above the diagonal line experienced vacancy increase while markets below the line showed improvement. Of the 45 major markets shown, one-third showed vacancy improvement and two-thirds showed vacancy increase over the past year, with Charlotte and Raleigh showing large absolute improvement, albeit from relatively high overall essential housing vacancy, along with San Francisco from much lower starting vacancy.

The further the market moved away from the line, the greater the increase or decrease in vacancy. There are clear clusters of markets that have high current vacancy rates and experienced large increases in vacancy over the past year, such as the primary Texas markets of Dallas, Houston, and Austin as well as Denver.

Going forward, there will be continued concern for markets with significant shares of foreign-born households. In general, the large coastal gateway markets such as New York and Los Angeles have the largest aggregate population of foreign-born residents while markets such as Miami and San Jose are believed to have the highest concentration of foreign-born residents.

**FIGURE 23**  
**ESSENTIAL HOUSING APARTMENT VACANCY RATE 2025 Q3 VS. 2024 Q3 BY MARKET**



Source: CoStar, 2025 Q3