

How Capital Rotation Repriced Newly Built Multifamily

By Erika Morphy

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Core capital's retreat from multifamily has scrambled one of the sector's most reliable pricing anchors: in many trades today, brand-new Class A assets are clearing at higher cap rates than older value-add product. That reversal, driven by who is actually showing up to bid, is reshaping outcomes for merchant builders, sponsors coming out of lease-up and core-plus funds waiting to get back into the market.

In a recent Walker & Dunlop webinar at MIT, CEO Willy Walker walked through data showing that 2020-and-newer properties are trading at wider yields than 2010 or even 2000 vintages, despite better locations, finishes and amenities. "You sort of ask yourself, how is it that assets that are newer or from 2020 until today are trading at a higher cap rate, or, as you all know, a lower value than a 2010 or 2000 vintage?" he told the audience. "The issue on that one is the fact that core capital has basically pulled out of the commercial real estate market over the past couple years, and it's been that value add capital that has actually been active in the market."

Who's Setting the Price Now

The answer, in Walker's telling, lies less in bricks and mortar than in capital flows. With core and core-plus funds largely sidelined, value-add buyers

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improve, while demanding a discount
e for forced appreciation.

Walker put it plainly: value-add investors "are driving down cap rates" on the vintages where they can execute a business plan, and the absence of core capital "is what has made Class A newly delivered actually trade at a higher cap rate or a lower value." In other words, the capital most eager to transact today is not looking for long-duration, bond-like income streams; it is looking for upside. The result is an upside-down yield curve by vintage that would have been hard to imagine a few years ago.

Merchant Builders Lose Their Natural Exit

For merchant builders, that inversion cuts straight into the thesis many used when they broke ground in the 2020–2022 window. The typical playbook assumed a familiar destination: deliver, lease up, then exit to a core buyer at a premium price, supported by strong rents and an attractive spread to Treasuries. Instead, builders are discovering that the most aggressive bidders are value-add funds focused on older assets, while new Class A is being marked to a world where core money is cautious or absent.

Walker's data illustrated how many institutional investors piled in late, when cap rates and interest rates had largely compressed, and are now looking back at that period as a difficult vintage. Developers exiting this environment now are being asked to accept cap rates that bear little resemblance to those they underwrote. Some are trying to refinance rather than sell into those levels, but that choice comes with its own constraints, especially for deals financed with short-term paper.

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ing dynamic in the market" as
and again around 2030–2031. Owners

coming out of lease-up with these structures face a narrow set of options: extend and hope core pricing returns, sell into a value-add-driven cap rate, or recapitalize in a market where lenders and equity alike are wary of paying core-type values for new product.

The Path Back for Core-Plus Funds

If there is relief coming, Walker suggested it will arrive the same way this dislocation did: through capital rotation. He showed how LPs are pressing managers to return money before writing checks to new funds, forcing more sales even in a market where few owners are enthusiastic sellers. "You called all this capital... and you haven't redistributed any of that capital back to me," is how he summarized the message from investors. That pressure explains why transaction volumes in multifamily have recovered toward pre-pandemic norms, even though "only 4% of survey respondents were actually sellers" in a recent buyer-seller sentiment survey.

As redemptions in other strategies build and capital rotates back toward real estate private equity, Walker argued that "commercial real estate private equity will benefit from the rotation out of private credit funds." As that happens, more equity will need to be allocated to stabilized assets, particularly those that match long-duration liabilities and can be underwritten with lower execution risk. In that world, newly built institutional-quality multifamily assets similar to what AvalonBay is targeting at the higher end of the K-shaped economy become a natural home for returning core-plus capital.

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ward a more active trading

current anomaly — higher cap rates

for new Class A than for older value-add stock — could resolve quickly, restoring the traditional hierarchy of yields by quality and vintage.

Until then, the market is still defined by the investors who never left. Value-add buyers, armed with dry powder and focused on execution upside, are calling the tune on pricing, especially in oversupplied growth markets where rent trends are under pressure. For merchant builders, developers coming out of lease-up and core-plus funds planning their re-entry, Walker's analysis offers a clear takeaway: in the absence of core capital, the bid for new multifamily reflects value-add expectations, not core ones, and strategies need to be recalibrated to that reality.

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