Features

Apartment Construction Cools in California Markets as Capital Gets Selective

By Richard Berger

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There's a decline in new-construction apartment starts in California's high-supply markets, according to Yardi Matri'x Q1 2026 report, a trend expected to continue. The national forecast was revised upward, but the specific California market summary reflects a different dynamic.

Nationally, starts have increased by 6% to 8% for 2026 through 2029, suggesting that while some high-supply markets exist, some may be cooling, such as those in the Golden State.

In Southern California, in particular, the pipeline is expected to thin out after 2026, which may lead to tighter vacancies and stronger rent growth later, according to the real estate data platform.

Others see similar scenarios.

"The pullback in California multifamily has been real, but it's not a demand issue," Martin Leitner, principal and director of multifamily & infill housing at LA-based Nadel Architects, told GlobeSt.com.

"Capital has become extremely selective, flowing only to projects in development-friendly jurisdictions and on sites that can clearly support density under today's cost and financing conditions, he said. This is jurisdiction-by-jurisdiction and site-by-site."

Leitner said he's seeing continued interest in well-located, amenity-rich infill sites, along with select suburban locations where desirability justifies higher construction costs.

"Since January 2026, there's been a clear uptick in new inquiries and site studies tied to significant transit-oriented incentives, signaling that the next cycle is already forming in the right locations," he said.

Katherine Zeller, senior analyst at JLL Research, said she expects Southern California markets to see a larger volume of deliveries in 2026 than in 2025, with a "substantial cliff" in 2027 and flatten from there.

JLL permitting data reflects this as well. Los Angeles and San Diego saw mostly flat new permit activity in 2025, while the Inland Empire saw a 65% jump.

San Francisco Rent Growth Out-Performing

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In San Francisco, Jay Pedde, senior vice president of Veritas Investments, told GlobeSt.com that the Bay Area has moved beyond recovery and has reestablished itself as one of the strongest rental markets in the country, with rent growth resuming at a pace that now ranks near the top among large metros.

"We're advising our owner and investor partners that well-located, turn-key apartments are seeing the deepest demand, and that disciplined, data-driven leasing execution is translating directly into stronger occupancy and revenue performance," Pedde said.

Demand drivers include ongoing tech hiring and return-to-office patterns, which are bringing higher-income renters back into core neighborhoods, Pedde said.

Additionally, portfolio data shows elevated lead volume, double-digit application activity on many listings and meaningful pre-leasing on "coming soon" units in the most supply-constrained submarkets.

Legislation Becoming a Drag

Complicating matters for developers, though, are new state laws, effective in January 2026, such as SB 61. It caps retention on most private construction contracts at 5% to improve contractor cash flow, which could impact future development. Other laws taking effect in mid-2026 aim to facilitate multifamily housing development near transit stops.

Notably, the California Association of Realtors forecasts the statewide median home price to reach a record $905,000 in 2026, up from $852,680 in December 2025.

Yardi's report indicates that nationally, annual completions for market-rate apartments will decline to pre-pandemic levels by 2028, while affordable and partially affordable new supply will remain near cycle highs, a trend likely reflected in California as well.