SOUTHERN EDGE CAPITAL

Why Multifamily Outperforms Other Commercial Real Estate in a Downturn

What Two Recessions Reveal About Where Capital Holds Up

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There are several different subcategories within the commercial real estate asset class.

Office buildings, shopping centers, industrial warehouses, and apartment communities all sit under the same broad umbrella of "commercial real estate," but they respond to a downturn in fundamentally different ways.

The last two recessions, the Great Recession of 2008 to 2009, and the COVID pandemic-driven downturn of 2020, give us a clean, data-backed comparison of how each sector historically performs when the economy contracts.

The pattern that emerges is consistent, and it isn't close.

The Distinction That Matters

Every property type ultimately depends on demand, but the source of that demand varies enormously from one sector to the next.

Office demand depends on business activity and headcount decisions. Retail demand depends on discretionary consumer spending. Industrial demand depends on the movement of goods, which itself depends on business investment and consumer purchasing. Multifamily demand depends on something else entirely: population.

Businesses can shrink their office footprint (remember the astronomical rise of work-from-home during the COVID days?). Consumers can defer purchases. Manufacturers can slow shipments. But people do not stop needing a place to live because the economy has slowed.

If anything, a downturn can push more people toward rental housing, not away from it, as tighter budgets and stalled home purchases keep would-be buyers renting longer.

Housing is a need, not a want, and that basic distinction is what separates multifamily's downturn performance from every other major commercial real estate sector. Everything that follows in this article is simply the data proving that distinction out.

Office: The Slowest Recovery

Office was the clearest casualty of the Great Recession, and the data shows why.

National office rents declined approximately 17.7% peak to trough during the 2008 to 2009 downturn according to CBRE. That alone would be a difficult correction for any property type to absorb. What made it worse was the recovery timeline. Office rents took roughly 27 quarters to climb back to their pre-recession peak according to CBRE as well.

Compare that to a sector that recovers in a fraction of that time, and the gap in investor outcomes becomes obvious. A vacant office suite does not generate income while it sits empty, and a multi-year recovery window means capital is effectively parked rather than compounding. An investor holding office property through that cycle wasn't just underperforming. They were standing still while other sectors moved forward.

The 2020 COVID downturn only reinforced the sector's exposure, and in a different way than 2008 did.

Stay-at-home orders shut down office buildings directly and immediately, not gradually the way a credit crisis unwinds. The shift toward remote and hybrid work that followed left many markets carrying vacancy well above pre-pandemic norms years after the initial shock had passed. Nationally, office vacancy reached a record 21% in Q1 2026, according to Moody's Analytics, up from 17% at the start of the pandemic.

That is not a temporary dip that corrects itself once the broader economy recovers. It’s a structural repricing of the sector's risk profile, and one that two consecutive downturns have now confirmed rather than resolved.

Retail: The Most Exposed to the Consumer

Retail's vulnerability comes from a simple mechanism. When households come under financial pressure, discretionary spending is the first thing to go, and discretionary spending is retail's lifeblood.

During the Great Recession, neighborhood and community shopping center vacancy climbed to roughly 10% by the second quarter of 2009, up from 9.5% just one quarter earlier, while effective rents fell for consecutive quarters as landlords scrambled to hold on to tenants, according to National Real Estate Investor.

Negative net absorption, meaning more retail space emptying out than filling up, ballooned to an estimated 27 million square feet by the end of 2009, and the sector was not expected to post positive absorption again until 2012, per National Real Estate Investor. That is a three-year window in which retail landlords were, on net, losing tenants faster than they were gaining them.

The retailer casualties tell the same story from a different angle. More than 850 retailers filed for bankruptcy across 2008 and 2009 alone, as reported by Morgan Stanley. Every one of those closures left physical space behind, and physical space that is not generating rent is a direct hit to property performance, regardless of how well the building itself was managed.

Retail has clawed back meaningfully in the years since, aided by a long stretch of minimal new construction that eventually tightened supply. But that recovery took over a decade, and it happened despite the sector's fundamentals during the downturn itself, not because of them.

In a recession, retail is directly downstream of consumer confidence, and consumer confidence is precisely what a recession erodes first and restores last.

Industrial: Resilient, But Cycle-Dependent

Industrial is the sector most often lumped in with multifamily as "recession resistant." The data suggests that label deserves a caveat.

According to CBRE, in the Great Recession, industrial rents declined approximately 7.3% over a 15-quarter stretch, a meaningfully smaller drop than office but still a real correction, and one that took roughly two years longer to fully recover than multifamily did.

Industrial demand in that cycle was tied closely to manufacturing output and global trade volume, both of which contracted sharply as businesses pulled back on investment and consumers pulled back on spending.

The 2020 downturn told a different story entirely. Industrial was one of the few sectors to post positive rent growth during the pandemic, driven by the acceleration of e-commerce and the logistics and warehousing infrastructure it required. A recession that shut down physical retail and office space simultaneously increased demand for the warehouses supporting online delivery.

The takeaway here is not that industrial is weak. It's that industrial's performance depends heavily on what is actually driving the specific downturn, in a way multifamily's does not.

A recession rooted in a housing and credit crisis, as in 2008, hits industrial demand through slowed manufacturing and shipping. A recession rooted in a public health shutdown, as in 2020, can accelerate industrial demand through a shift to online consumption. Industrial's resilience is real, but it’s conditional. Multifamily's is not.

Multifamily: The Shortest Drop, The Fastest Recovery

Multifamily's performance across both downturns is the clearest data point in this entire comparison.

During the Great Recession, national multifamily rents fell an estimated 4.1% from the fourth quarter of 2008 to the fourth quarter of 2009, by far the smallest decline of any major commercial property type, per MPF Research.

Vacancy across the U.S. rental stock peaked at approximately 10.6% in 2009, at the very bottom of the worst downturn since the Great Depression, and began falling again almost immediately after, as reported by the U.S. Census Bureau. For context, that peak vacancy level is still less than half of where national office vacancy sits today, in an economy that isn't even in a recession.

A CBRE analysis of the sector's historical performance found that multifamily rents outperformed every other major property type in three distinct ways during and after the 2009 recession: the smallest rent decline, the fastest recovery back to pre-recession peak rents, and the longest sustained period of rent growth once that recovery began.

It’s one thing for a sector to fall the least in a downturn. It’s another for that sector to then outgrow the alternatives once the recovery starts, which is exactly what multifamily did.

The 2020 downturn added a second, independent data point, generated by an entirely different kind of economic shock. Multifamily posted positive rent growth throughout the pandemic, alongside industrial and retail, while office stood alone as the sector still struggling. Two very different recessions, with two very different root causes, twelve years apart, and multifamily held up in both.

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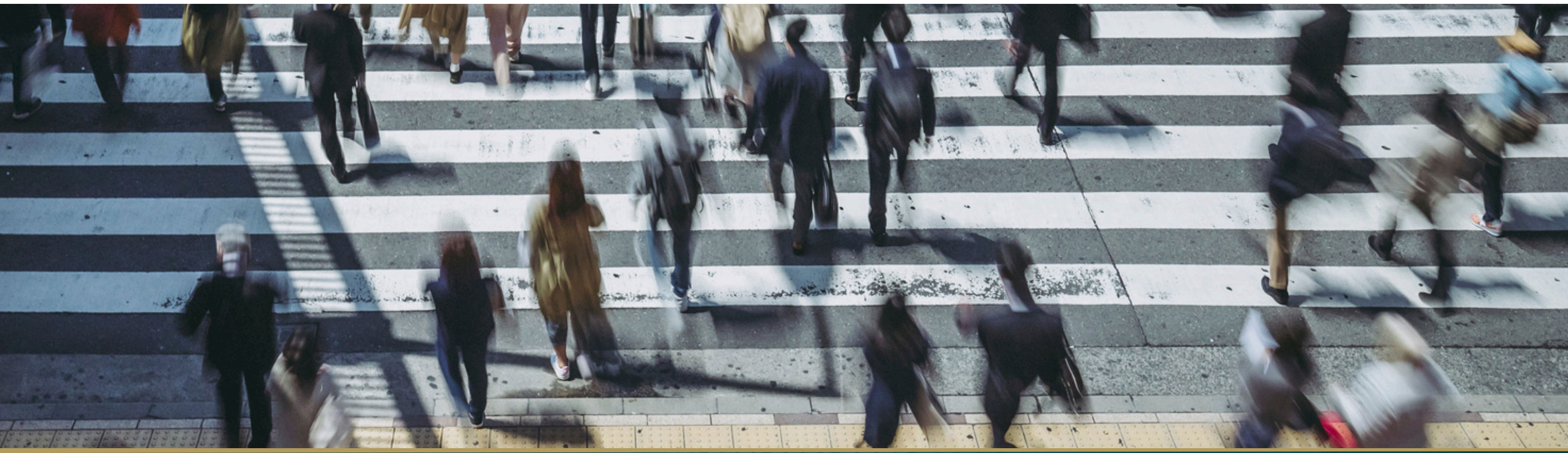
What "Recession Resistant" Doesn't Mean

None of this makes multifamily immune to softness. It is worth being precise about that distinction, because overselling the point would undercut the argument.

Multifamily fundamentals can still weaken when supply and demand fall out of balance within a specific metro, independent of what the broader economy is doing. A market that absorbs several years of new apartment construction in a short window can see rent growth flatten or occupancy soften even without a recession, purely as a function of local supply catching up to demand. That is a normal part of the multifamily cycle, and it looks different from the demand-driven contraction that hits office, retail, and industrial in a downturn.

The distinction is important for how investors should think about risk.

Multifamily's resilience in a recession comes from the durability of demand, people need housing regardless of the economic backdrop. It does not come from an absence of supply risk, and disciplined underwriting has to account for both.



Why the Pattern Holds

The data above is not a coincidence. It follows directly from what housing actually is.

When a household comes under financial pressure, the sequence of cuts is fairly predictable. Travel goes first. Dining out follows. Entertainment and non-essential retail purchases get delayed or eliminated. Businesses freeze hiring and shrink their office footprint before they touch payroll. Housing is typically the last major expense a household will sacrifice, because the alternative to paying rent isn't simply spending less in one category. It's losing the roof over your head, and few households will let that happen if there is any other line item left to cut.

The Great Recession illustrated this dynamic in an especially direct way. As the foreclosure crisis pushed homeowners out of single-family housing, a meaningful share of those households did not disappear from the housing market. They shifted into rental housing instead, which helped support multifamily demand even as the broader economy contracted around it. A downturn that devastated single-family real estate simultaneously reinforced the case for multifamily, a dynamic unique to housing that has no real equivalent in office, retail, or industrial demand.

The Takeaway

Two recessions, separated by more than a decade and caused by entirely different forces, produced the same ranking.

Multifamily fell the least, recovered the fastest, and grew the longest once that recovery began.
Office fell the hardest and took the better part of a decade to recover, then arrived at the next downturn still exposed.

Retail absorbed a wave of tenant failures it spent over a decade adjusting to.

Industrial's resilience shifted depending on what kind of downturn it was facing, proving durable in one cycle and vulnerable in the other.

That is not a coincidence of timing. It's what happens when an asset class is built on a fundamental need rather than a want.

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