the CRITTENDEN REPORT

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MULTIFAMILY LENDING GAINS MOMENTUM, WHILE NEW SUPPLY WANES

Multifamily remains one of the most attractive sectors and there will be plenty of capital available for deals across the risk spectrum over the next six to 12 months. Borrowers have more financing options today than they have had in several years, provided they are bringing lenders a well-structured transaction with experienced sponsorship. Banks are back in construction lending, debt funds are aggressive on bridge, life companies are growing allocations and agencies have more capacity than ever. New supply is finally beginning to slow after several years of record deliveries, while homeownership remains out of reach for many due to elevated home prices and financing costs. This will support fundamentals and lending activity going forward. The refinancing gap is forcing creativity and watch for bridge, pref equity and mezz to fill the gap on deals that do not pencil at agency proceeds. The flight to quality continues for both sponsors and deals, with a high focus on discount to replacement cost.

Leverage will range widely from 55% to 75%. Bank construction loans will be in the 60% to 65% LTC range, with debt funds and mezz capital pushing combined leverage to 75% to 80% LTC for strong sponsorship. Watch for debt fund leverage creeping toward 75% to 80% next year. Bridge loans on value-add acquisitions typically run 65% to 75% LTC. DSC will start at 1.20x. Debt yield will start at 8%. For bridge and construction, the loan will be underwritten more to business plan execution and exit debt yield at stabilization. In the strongest markets, that stabilized debt yield can price as tight as 6.5% to 7%, depending on submarket and asset quality. Interest-only periods will come back for lower-leverage deals, but proceeds will be constrained by debt service coverage and debt yield floors rather than LTV.

Banks such as **Wells Fargo**, **PNC Bank**, **KeyBank**, **Chase**, **Truist Bank**, **Citi**, **WaFd Bank** and **Amalgamated Bank** will be active. Borrowers will see 6% to 6.75% rates and construction pricing will be around 5.5% to 7% all-in on deals with strong sponsors. Banks will require 55% to 65% leverage with recourse or depository relationships, although they have been known to push up to 70% for their strongest relationship sponsors. Banks will want 1.20x to 1.25x DSC based on actuals. Life companies such as **Pacific Life**, **Northwestern Mutual**, **New York Life**, **PGIM Real Estate** and **MetLife Investment Management** will also strive to compete. Life company execution is typically 65% to 70% leverage for most conventional deals. Keep an eye on how far life companies push concession burn-off underwriting before it shows up in lease-up debt yields. Life company permanent loans see a 1.25x DSC, though many lenders are underwriting closer to 1.30x to 1.35x on secondary markets or transitional assets as a cushion.

Among the private equity and finance shops, **Ares**, **KKR** and **Apollo** will be some of the most active balance-sheet lenders. On bridge and construction, **Affinius Capital** and **Related** are among the most competitive debt fund executions. Also, watch for **Blackstone**, **Arbor Realty Trust**, **Ready Capital**, **Prime Finance**, **BrightSpire Capital** and **Oaktree Capital Management** to be among the many trying to win multifamily deals. Borrowers will see leverage reach the 70% to 75% range. **Mesa West** targets high-quality real estate, experienced sponsorship, as well as markets with durable economic growth and strong demand drivers. The lender will be active across acquisition and refinancing opportunities and sees that many high-quality multifamily properties simply need additional time to stabilize and execute their business plans before a sale or permanent financing. Mesa West will prefer markets with a deep institutional buyer base, which helps create liquidity and support values across market cycles, making those areas more resilient over the long term. Sponsors who have successfully executed similar business plans and have the liquidity and balance-sheet strength to support their assets when conditions become more challenging will be desired.

Look for more scrutiny on rent growth assumptions and less patience for pro forma optimism, particularly in markets still absorbing 2022 to 2023 deliveries. Lenders are underwriting to in-place trailing rents plus modest, defensible growth, not the aggressive year-two numbers that were common a few years back. Expect tighter exit cap rate assumptions, harder interest rate stress testing on floating-rate bridge debt, and closer scrutiny of sponsor liquidity given how many 2021 to 2022 vintage loans are still working through refinance stress.

Lenders want stabilized, workforce and Class B garden and mid-rise product with in-place cash flow. Well-located new construction still gets done in markets with real job and household growth, especially with an experienced sponsor. Stabilized Class B value-add in supply-constrained coastal markets and adaptive-reuse/conversion deals with strong basis will also see capital. Vintage matters more than it used to, therefore count on strong demand for 2000 and newer assets, while 1970s and 1980s product is difficult to finance outside the agencies and local banks willing to take recourse.

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ROBUST MEZZ LENDERS (2026 PROJECTED ORIGINATION VOLUME AND PREFERENCES)		
MEZZ LENDER	**VOLUME**	**DETAILS**
Canyon Partners Real Estate	$200M	$20M-$200M loans for multifamily, condos, office, hotels, mixed-use, retail, student housing, industrial; stabilized, bridge, construction and rescue capital deals; 65%-80% leverage; SOFR+ 600-1000 basis point rates, 10%-15%; 12- to 60-month terms; non recourse; primary and secondary markets
Driftwood Capital	$150M-$200M	Funded $70M so far this year; $10M-$50M loans for all hospitality-related transactions; up to 80% LTV; SOFR+ 900+ basis point rates; five-year terms; non recourse; nationwide and the U.S. territories
Access Point Financial	$75M-$150M	Funded $45M so far this year; $2M-$100M+ loans for limited-, select-, compact full-service and extended-stay hotels with Marriott, Hilton, IHG and Hyatt flags, will look at all flags for extended-stay hotels; 80%-85% leverage; one- to 10-year terms; 100% pledge of equity interests in the borrowing entity; primary, secondary and tertiary markets
Tryperion Holdings	$50M	Funded $22.5M so far this year; $10M+ loans for all property types; up to 90% leverage; low to mid-teens rates; up to 10-year terms; non recourse; all domestic markets
Dekel Capital	$50M	$3M-$7M loans for multifamily and build-for-rent; targeting 14%-18% returns depending on risk profile; sizing down to a 6.25% debt yield; non recourse; nationwide
Red Starr Investments	$40M-$50M	Funded $15M so far this year; $3.5M-$15M loans for all property types; 80%+ LTV/LTC; mid-teens rates; terms are coterminous with the senior loans; non recourse; nationwide and Puerto Rico
Arbor Lodging	$25M-$50M	Funded less than $5M so far this year; $5M-$75M loans for premium-branded select-service and full-service hotels; rates depend on leverage; targeting 65%-80% LTV; generally non-recourse, interest-only, floating-rate debt; typically three-year terms with extension options; primary and secondary markets
Northmarq Fund Management	$40M	$2M-$10M loans for mezz tranche; most stabilized assets, no construction; up to 80% LTC; 12%-15% rates; non recourse; five-year terms; nationwide
Atlantic Pacific Credit Partners	$30M	Funded $15M so far this year; $2.5M-$15M loans for multifamily; up to 85% LTV; up to five-year terms; non recourse; 12%-15% all-in rates; the Southeast, TX

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