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CREFC January Conference 2026 – Day 3 Recap

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The final day of the CRE Finance Council (CREFC) featured three panel discussions on distressed office, alternative housing options, and the growing capital needs for data centers.

From Vacancy to Value: Repositioning, Financing Opportunities in Distressed Office

The panel opened by framing the scale of distress in the U.S. office market despite improving sentiment in select gateway cities. CMBS office delinquency rates have climbed to roughly 16%, refinancing success is only about 50%, and an estimated $100 billion of distressed office remains unresolved across CMBS and regional banks. Although headlines about leasing often highlight Manhattan and a handful of Sunbelt markets, panelists emphasized that distress is uneven and highly market- and asset-specific, with single-asset single borrower (SASB) loans and older Class B/C assets under the greatest pressure.

Across markets, recovery is being driven by bifurcation rather than broad-based improvement. Prime submarkets such as Midtown Manhattan, Uptown Dallas, Miami, and select Washington, D.C., locations are seeing strong absorption, rent growth, and tenant flight to quality, while weaker submarkets lag. Suburban office and Chicago submarkets overall continue to struggle. Hybrid work has largely stabilized, with employees in the office three to four days per week, but this has permanently changed space usage. Tenants now demand higher-quality buildings with hospitality-driven amenities, collaborative layouts, and experiential value, leaving commodity office increasingly obsolete.

Panelists mentioned that distress is often driven by over-leverage, outdated financing, or lender ownership rather than lack of tenant demand. Investors with operating expertise are finding opportunities by recapitalizing assets, re-tenanting buildings, and repositioning high-quality properties where lenders lack leasing capabilities or market relationships. Capital is returning selectively, led first by hedge funds and distressed investors, followed by private equity and life companies at lower leverage, with spreads beginning to compress.

Office-to-residential conversions were discussed as a limited and highly constrained solution, viable only in specific cities like New York where tax incentives, zoning flexibility, and housing demand align. Most office buildings fail basic conversion tests due to geometry, light, ceiling heights, parking, and cost basis. Outside those narrow conditions, panelists argued that office often remains the highest and best use, with demolition and ground-up redevelopment sometimes more rational than conversion. Importantly, government policy can enable conversions but cannot overcome poor building fundamentals or a high cost basis.

The panel agreed that this is a once-in-a-generation opportunity to reshape cities and the office sector, but said that the recovery will be slow and uneven. Markets like San Francisco are benefiting from artificial intelligence (AI)-driven demand, while others such as Denver, Seattle, and Portland are early in the recovery cycle. The biggest near-term challenge for CMBS is that servicers continue to extend rather than resolve distressed assets. True normalization, panelists noted, will require renewed liquidity, decisive resolutions, and the return of core capital to ultimately take repositioned assets out, signaling a full market reset.

Beyond Traditional Multifamily: Exploring Alternative and Affordable Housing

The panel examined how alternative housing formats are increasingly addressing the U.S. affordable housing shortage, with panelists noting a structural deficit of roughly 7 million affordable units nationwide. The discussion focused on manufactured housing, student housing, build-to-rent (BTR), and affordable multifamily, stressing how changing demographics, evolving renter preferences, and capital constraints are reshaping housing investment and financing strategies. Panelists broadly agreed that affordability challenges, rising development costs, and limited new supply continue to support long-term demand across these segments.

From an opportunity standpoint, panelists highlighted BTR and manufactured housing as areas benefiting from demographic tailwinds and limited supply. BTR was described as well positioned to serve aging millennials facing affordability barriers to homeownership, while manufactured housing was characterized as a naturally affordable product with strong demand and minimal new supply. Student housing was viewed as increasingly bifurcated, with institutional capital concentrated in top-tier universities and selective opportunities emerging in secondary "directional" schools with stable enrollment and limited new supply. Affordable multifamily and workforce housing were cited as offering attractive risk-adjusted returns due to rent advantages relative to market-rate properties and insulation from vacancy volatility.

Panelists also discussed key challenges across these segments including individual market oversupply, underwriting rent growth amid concessions, and rising operating expenses. In BTR, competition for stabilized assets and in strong for-sale housing markets was noted as an underwriting challenge; in the case of manufactured housing, the headwinds are investor sensitivity around optics, regulation, and rent growth assumptions. Student housing challenges centered on supply near campuses, enrollment trends, and exposure to policy shifts affecting international students. Across all segments, panelists stressed the importance of site selection, sponsor quality, and conservative underwriting to manage volatility.

On financing and capital access, panelists noted that adding affordability components can constrain rent growth but does not preclude financing when paired with appropriate incentives, such as tax abatements, subsidies, or attractive agency execution. Greater government-sponsored enterprise (GSE) engagement and secondary market liquidity were viewed as supportive of affordable and alternative housing, particularly in manufactured housing and workforce preservation strategies. Looking ahead, panelists expressed optimism for 2026 and beyond, citing growing policy focus on housing preservation, potential expansion of factory-built and modular housing, and continued capital interest in nontraditional residential sectors. Overall, the panel concluded that alternative housing formats will play a critical role in addressing affordability gaps while offering differentiated investment opportunities within the broader residential landscape.

Powering Digital Infrastructure: Growing Demand for Data Center Capital

The final session focused on the rapidly expanding demand for digital infrastructure and the massive capital-raising requirements for the data center sector. The discussion emphasized that investment needs extend well beyond traditional data centers to include broader computing and AI infrastructure, with some estimates suggesting total digital infrastructure spending could approach $1 trillion over time. While questions persist around whether current investment levels reflect a potential bubble, panelists broadly agreed that data centers underpin nearly every aspect of modern life, supporting applications ranging from social media and cloud computing to banking, health care, and government operations.

Panelists represented a cross-section of market participants, including lenders, investors, developers, and structured finance specialists. The conversation highlighted that while many traditional real estate fundamentals still apply, data centers present a distinct underwriting profile. For most commercial real estate, location is critical; for data centers, the equivalent consideration is power availability and reliability. Panelists pointed out that proximity to power sources, access to substations, quality of switchgear, and fiber connectivity are important factors in determining whether an asset can meet tenant requirements. In addition, the long-term credit quality of utility providers was cited as an important consideration, given the reliance on sustained power delivery over extended lease terms.

Developers discussed the need for close coordination with utility companies to manage grid capacity and ensure reliability, noting that the objective is not necessarily the lowest-cost power, but dependable power that can be expanded with growing demand. Panelists highlighted the importance of being a responsible participant within local communities, with a focus on proactive planning to mitigate grid stress and avoid consumer disruptions. The discussion also touched on alternative power sources, such as geothermal energy, which remain limited in the U.S. but may play a role in certain regions, particularly along the West Coast. Panelists noted a current imbalance between power supply and demand, with utility infrastructure often requiring several years to expand generation, transmission, and distribution capacity.

From a capital markets perspective, panelists conveyed that the scale of data center investment requires access to multiple financing sources. Three primary buckets were discussed: ABS, CMBS, and private placements. ABS issuance has generally supported smaller transactions, often under $1 billion, while CMBS has been better suited for larger transactions in the $2 billion-$4 billion range. Private placements were viewed as complementary, offering flexibility around duration and structure. Panelists noted that many sponsors are actively dual-tracking transactions across markets, given the volume of capital required, stressing that no single execution channel can absorb projected demand on its own.

An investor in this segment highlighted continued preference for core markets and hyperscale tenants, although interest in noncore locations was noted where tenant quality, lease structure, and contractual rent growth support underwriting. Discussions also addressed long-term risks such as potential obsolescence, as data center buildings are long-lived physical assets while underlying technology can evolve rapidly. Panelists described efforts to mitigate this risk through expandable megawatt capacity and flexible design that allow assets to adapt over time. Lease-end outcomes for hyperscale tenants were acknowledged as relatively untested, although some panelists viewed well-powered assets as “warm shells” capable of re-leasing with appropriate reinvestment and maintenance of the asset.

Overall, the session reinforced that while data centers introduce additional complexity, particularly around power, infrastructure, and technology risk, many core real estate principles remain intact. Location, tenant quality, lease duration, asset condition, and sponsor commitment continue to drive outcomes, alongside the growing importance of power infrastructure. Panelists expressed optimism about the sector’s long-term role within commercial real estate, emphasizing thoughtful underwriting, diversified capital access, and disciplined execution as demand for digital infrastructure continues to expand.

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