



CREFC | WORLD

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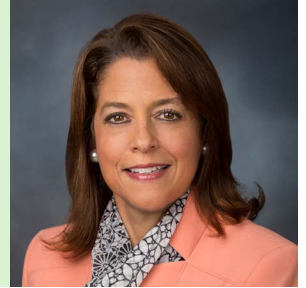
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Letter from the President & CEO

Lisa Pendergast | *President & CEO* | CRE Finance Council



Dear CREFC Members and Industry Colleagues,

As we move through Spring 2026, our industry continues to navigate a landscape of shifting fundamentals and emerging opportunities. The sectors that drive our business—multifamily, data infrastructure, retail, hospitality, and beyond—are responding to evolving capital flows, demographic trends, regulatory pressures, and technological disruption. Understanding these currents and anticipating where they lead is what separates disciplined investors from those caught off guard.

This issue of CREFC World brings together thought leadership on the topics that matter most right now. Our contributors—experienced practitioners across equity, debt, credit analysis, servicing, and research—examine the data, challenge assumptions, and offer perspective grounded in real market experience. Whether the focus is macroeconomic, sector-specific, or structural, the goal is the same: to help you think more clearly about where to deploy capital, what risks to monitor, and what opportunities your peers may be overlooking. Analysis of the 2026 midterms examines how shifts in congressional control will reshape the political environment for banking regulation, tax policy, GSE reform, and housing finance.

We remain committed to publishing twice yearly, ensuring that each issue is curated with care and offers genuine value to your thinking—not noise. Our Editorial Board members are practitioners first, and they bring that rigor to every piece we publish.

Submissions for our Fall 2026 issue will open in mid-August. If you have expertise on a topic of significance to CRE finance—whether macroeconomic, structural, regulatory, or sector-specific—we invite you to submit. The standard is straightforward: bring data, think clearly, and respect your readers' time.

To our authors and Editorial Board: thank you. To our readers: we hope this issue clarifies what matters for your business in the second half of 2026.

Be Well,

A handwritten signature in black ink that reads "Lisa A. Pendergast". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Lisa Pendergast
President & CEO,
CRE Finance Council

Income Inequality and the Implications for CRE

Stewart Rubin | *Senior Director, Head of Strategy and Research* | New York Life

Matt Wnek | *Director* | New York Life

Marshall Swett | *Associate* | New York Life



High levels of income inequality can lead to very elevated or even confiscatory taxation levels. In extreme cases it may even result in revolution or war. The economy has been growing unevenly for a long time, but the issue has grabbed particular attention in the wake of the pandemic.

Although stimulus payments initially supported lower-income populations, the ensuing inflation shock offset these benefits by operating as a regressive tax, disproportionately eroding purchasing power for households with the highest exposure to essential living costs.

Concurrently, the post-pandemic market environment favored households with established asset holdings, including market equities and residential real estate, mitigating adverse effects for higher-wealth cohorts. Asset prices appreciated even as consumer confidence weakened.

One segment of the populace remains resilient—consumer spending is steady, balance sheets are healthy, and confidence remains solid—while another segment continues to adjust to the effects of inflation and is operating more cautiously. When these conditions coexist, top-line economic growth can appear stable even as underlying stress persists. The economic fortunes of high-wealth households with significant market equity and home equity are increasingly tied to the success of the overall economy, as they spur most of the spending, which constitutes roughly 70% of U.S. GDP.¹

Discussion of a K-shaped economy in today's climate pertains to divergent fortunes of income groups and the resulting consumer spending patterns—the affluent are thriving and spending more, while others are seeing stagnant wages and moderating expenditures. For investment purposes, it's important to analyze what impact this is having on commercial property.

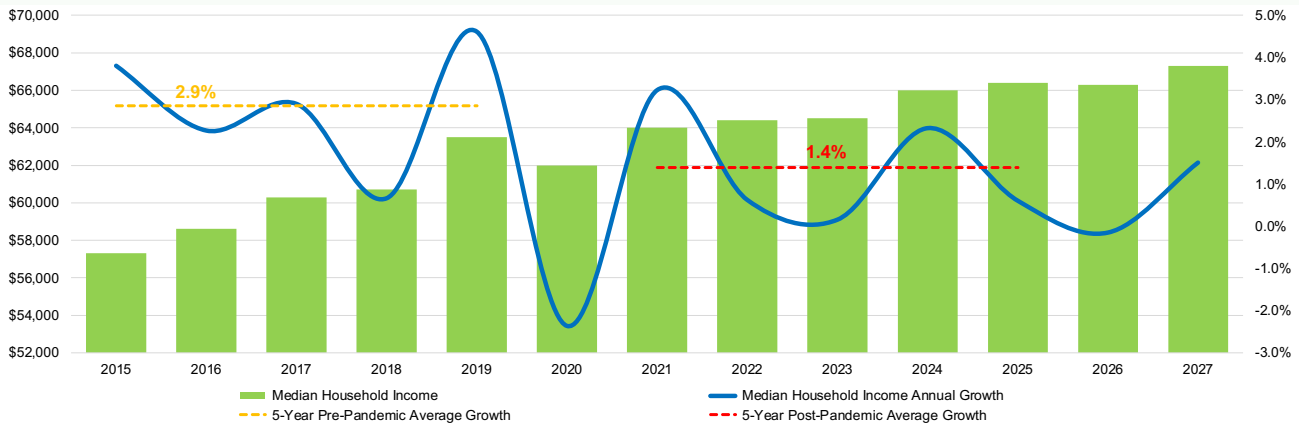
Economic Gains Are Not Harvested Evenly

The K-shaped dynamic matters because consumer spending—the primary engine of U.S. growth—is increasingly concentrated. Following a surge in median household income growth coming out of the short recession in 2020, the measure has cooled considerably in the subsequent years. In fact, real household incomes have growth at an average of 1.4% annually between 2021 and 2025, less than half the pace recorded in the five-year period preceding the pandemic. This development comes as consumer prices remain elevated, courtesy of a demand-driven surge and extensive government spending including government stimulus checks in 2020 and 2021, eroding Main Street's purchasing power.

¹ U.S. Bureau of Economic Analysis

Income Inequality and the Implications for CRE (cont.)

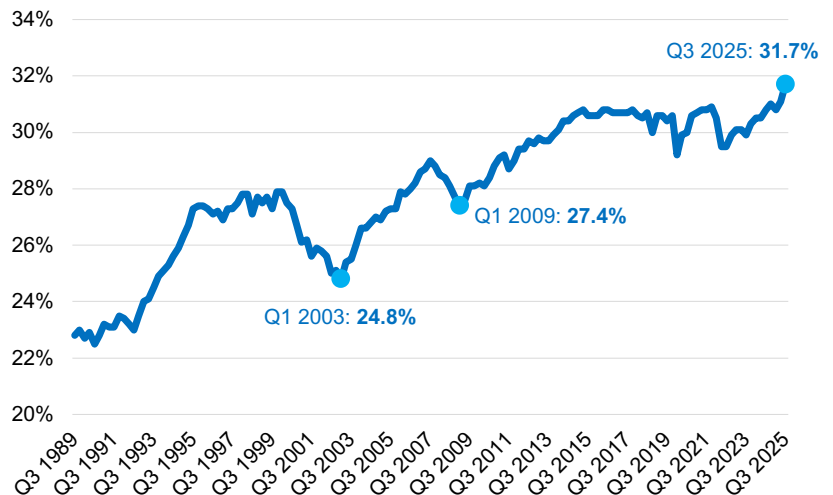
FIGURE 1
Median Household Income Growth



Source: U.S. Census Bureau

Meanwhile, on Wall Street, the stock market continues to set new records weekly, boosting the economic fortunes of the wealthiest Americans to all-time highs. The S&P 500 is up 190% and home prices, according to Zillow, are up 44% since March 2020. That has helped concentrate more of the nation's wealth in the hands of the most affluent Americans. The latest Federal Reserve data through the third quarter of 2025 reveals that the top 1% of households command 31.7% of the country's wealth. This compares to 27.4% in 2009 and 24.8% in 2003.

FIGURE 2
Percentage of U.S. Wealth Held by Top 1% of Households



Source: U.S. Board of Governors of the Federal Reserve System (US) via FRED

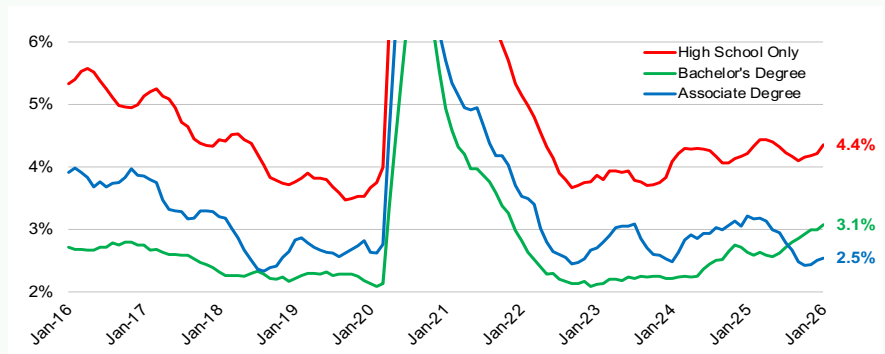
Income Inequality and the Implications for CRE (cont.)

As technology and automation reshape today's workplace, another feature of today's economic dislocation is a mismatch between candidates' skills and available job requirements. In fact, an analysis of Bureau of Labor Statistics data by the Federal Reserve Bank of St. Louis shows that the unemployment rate for bachelor's degree holders recently exceeded that of associate degree holders when measured on a trailing six month average to smooth seasonal fluctuations. If this increase in the number of college-educated unemployed people persists, it can potentially force indebted college graduates to accept lower salaries and/or in other fields and may even keep them completely out of the labor market, further exacerbating income inequality.

What's more, a heavy student debt burden is already exerting a toll on household balance sheets. Specifically, the 30-39 age cohort carries an outstanding student loan balance of \$531 billion, comprising one-third of the total.

FIGURE 3
Unemployment Rate by Education Level

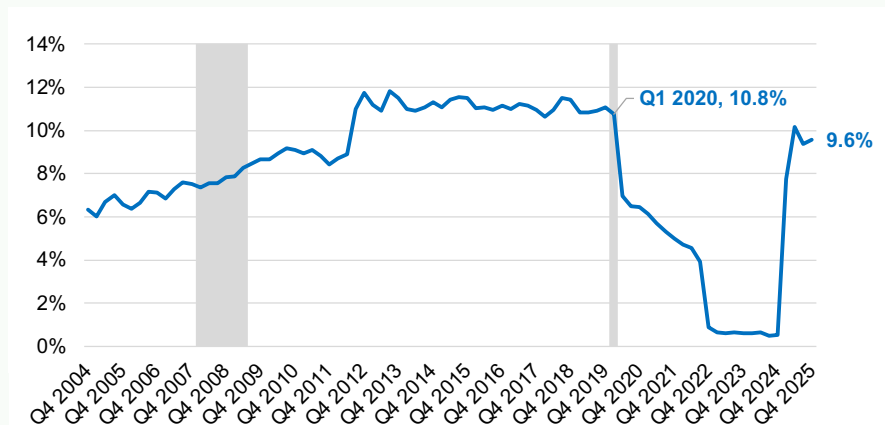
(Age 25+, trailing 6-month average, through January 2026)
COVID-Era Peaks: 12.2%, 9.6%, 7.6%



Source: "The Employment Situation, January 2026," Bureau of Labor Statistics, Federal Reserve Bank of St. Louis.
Note: St. Louis Fed FRED tabulations of BLS CPS microdata are used to isolate employment outcomes for individuals with an associate degree from an occupational program. A 6-month moving average is applied to reduce seasonality and month-to-month volatility.

FIGURE 4
Student Loan Serious Delinquencies Rate

(Quarterly, % of Loan Balances 90+ Days Delinquent)



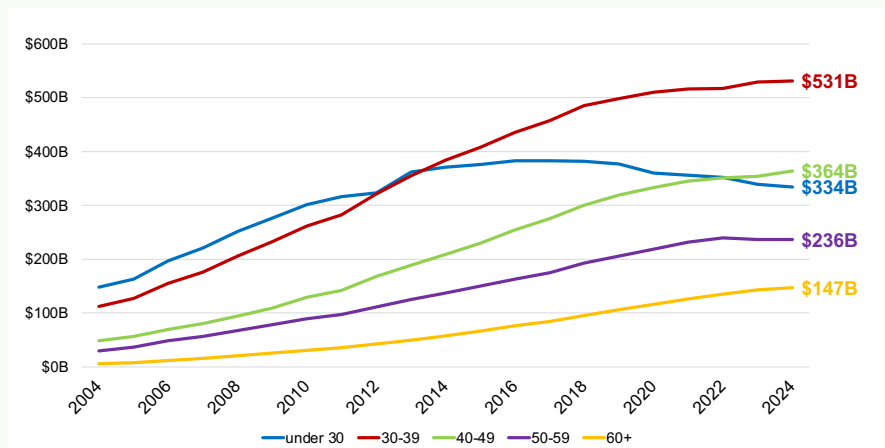
Source: New York Fed Consumer Credit Panel/Equifax, Q4 2025.

Income Inequality and the Implications for CRE (cont.)

The resumption of student loan repayments after roughly five years of suspension has triggered a sharp rise in delinquencies. In 4Q2024, the overall delinquency rate was just 0.5%, but since the U.S. Department of Education resumed collections on defaulted federal student loans, the 90+ day delinquency rate has climbed to 9.6%, while new delinquencies (30+ days) have risen to 16.3%, the highest level in the New York Fed's data history.

This dynamic is creating an additional headwind for consumer spending, as it directly lowers disposable incomes for households. High student debt without commensurate job income potential limits the ability to participate in the housing market and retail spending.

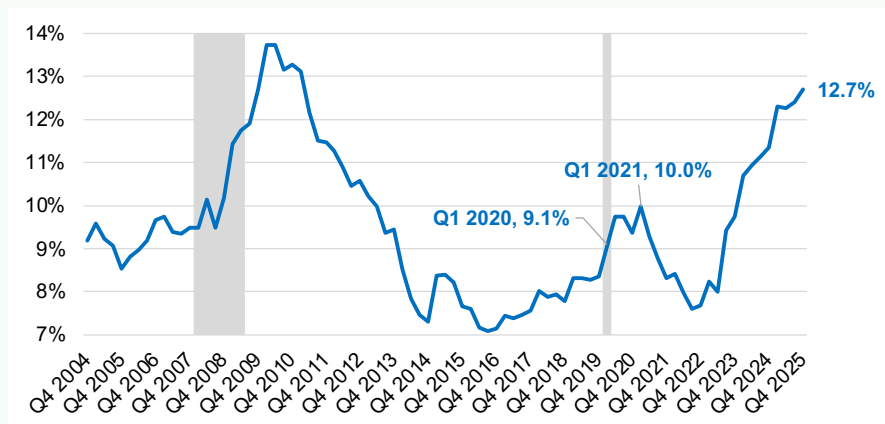
FIGURE 5
Student Loan Balances by Age Group



Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax

FIGURE 6
Credit Card Serious Delinquencies Rate

(Quarterly, % of Loan Balances 90+ Days Delinquent)



Source: New York Fed Consumer Credit Panel/Equifax, Q4 2025.

Income Inequality and the Implications for CRE (cont.)

Another reflection of stress in the weaker economic strata of the population is the elevated default rates of credit cards and auto loans. The rates for both are near the highest levels since the aftermath of the Global Financial Crisis.

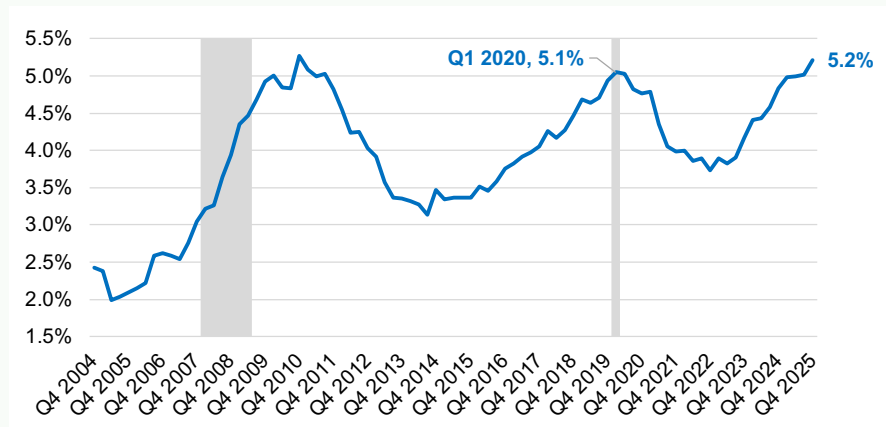
Gini Ratio

Income distribution is commonly quantified in a Gini Ratio, a statistical measure that expresses income inequality on a scale from 0 to 1, where 0 means perfect equality and 1 denotes perfect inequality. The Gini ratio has increased steadily over the last half century and is now 0.49.

The U.S. Census Bureau also publishes Gini Ratios for metropolitan statistical areas. The agency's most recent American Consumer Survey compiled in 2024 shows that the highest income concentrations are in Bridgeport/Stamford, CT, New York, and Miami. Other large metro areas with high Gini ratios include San Francisco, Los Angeles, Chicago and Philadelphia. Income is more evenly distributed in Utah (Ogden/Salt Lake City/Provo), Boise, Stockton, CA, and Virginia Beach/Norfolk.

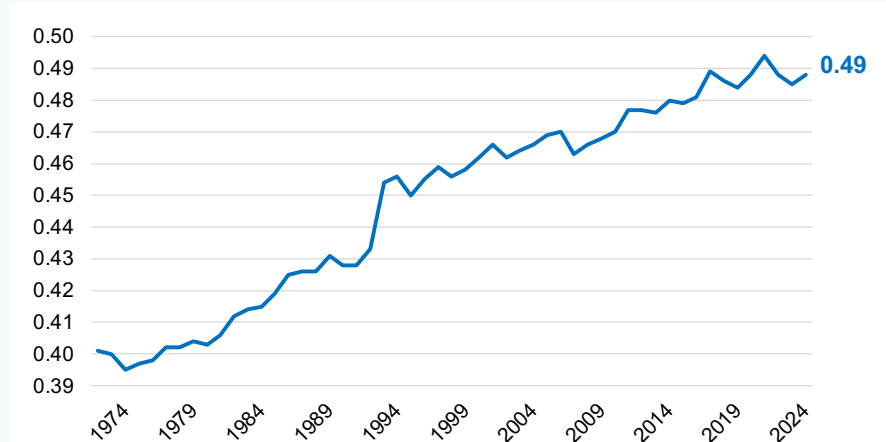
FIGURE 7
Auto Loan Serious Delinquencies Rate

(Quarterly, % of Loan Balances 90+ Days Delinquent)



Source: New York Fed Consumer Credit Panel/Equifax, Q4 2025.

FIGURE 8
U.S. Gini Index of Income Inequality



Source: U.S. Census Bureau. Data as of 2024.
Gini Index of Income Inequality ranges from 0, indicating perfect equality (where everyone receives an equal share), to 1, perfect inequality (where only one recipient or group of recipients receives all the income)

Income Inequality and the Implications for CRE (cont.)

FIGURE 9
Gini Index by Metro Area, 2024

Rank	Metro Area	2024	Rank	Metro Area	2024	Rank	Metro Area	2024
1	Bridgeport/Stamford	0.543	27	Oklahoma City	0.469	53	Orlando	0.455
2	New York	0.515	28	Louisville	0.469	54	Kansas City	0.454
3	Miami	0.504	29	Tulsa	0.469	55	Buffalo	0.454
4	Memphis	0.500	30	Nashville	0.468	56	Raleigh	0.454
5	New Orleans	0.498	31	Birmingham, AL	0.466	57	Baltimore	0.453
6	San Francisco	0.494	32	Providence	0.466	58	Albuquerque	0.453
7	Houston	0.492	33	Hartford	0.465	59	Albany	0.453
8	Greenville	0.489	34	Milwaukee	0.465	60	Phoenix	0.453
9	Baton Rouge	0.486	35	Charleston	0.464	61	Indianapolis	0.453
10	Los Angeles	0.486	36	Columbia, SC	0.464	62	Washington, DC	0.451
11	Chicago	0.485	37	Dallas/Fort Worth	0.464	63	Grand Rapids	0.450
12	New Haven	0.483	38	Atlanta	0.463	64	Sacramento	0.449
13	Philadelphia	0.481	39	Tucson	0.463	65	Dayton	0.449
14	Detroit	0.481	40	San Antonio	0.462	66	Bakersfield	0.448
	United States	0.481	41	Richmond	0.462	67	Minneapolis	0.448
15	Boston	0.479	42	St. Louis	0.461	68	Allentown	0.446
16	Sarasota	0.479	43	Greensboro	0.460	69	Portland	0.443
17	San Jose	0.478	44	Las Vegas	0.460	70	Oxnard	0.443
18	Seattle	0.478	45	Columbus	0.460	71	Omaha	0.442
19	Charlotte	0.475	46	El Paso	0.460	72	Worcester	0.441
20	Fort Myers, FL	0.474	47	Knoxville	0.459	73	Honolulu	0.441
21	Cleveland	0.473	48	Jacksonville	0.459	74	Virginia Beach/Norfolk	0.438
22	Austin	0.472	49	Fresno	0.458	75	Riverside	0.436
23	Tampa	0.471	50	San Diego	0.456	76	Stockton, CA	0.429
24	McAllen	0.471	51	Rochester	0.455	77	Boise	0.429
25	Cincinnati	0.471	52	Denver	0.455	78	Salt Lake City	0.419
26	Pittsburgh	0.470						

Source: U.S. Census Bureau. As of 2024.

Gini Index of Income Inequality ranges from 0, indicating perfect equality (where everyone receives an equal share), to 1, perfect inequality (where only one recipient or group of recipients receives all the income)

Income Inequality and the Implications for CRE (cont.)

Policy Response Proposals

Growing wealth and income disparity, and the accompanying affordability challenges, are leading to certain policy proposals involving higher taxes and rent control.

Among the most drastic is the threat of a California wealth tax, a ballot initiative that seeks to impose a one-time 5% tax on residents with over \$1 billion in net worth. Should the measure reach the ballot in November and win over voters, ballot backers estimate it would raise approximately \$100 billion. However, it may backfire and cause wealthy individuals to leave the state, further exacerbating the state’s budgetary challenges. Rhode Island is exploring a 3% surtax on incomes above \$640,000, targeting the top 1% of earners. New York City mayor Zohran Mamdani advocates increasing the top marginal income tax in New York City to 5.9% which would result in a combined state and city tax of 16.8% - the highest in the nation. He is also in favor of increasing the corporate tax from 7.25% to 11.5%.

Rent control is another reaction to affordability challenges. Officials in the country’s largest apartment markets often tout rent increase caps and other restrictions as a way of addressing ever-increasing rents. The following are two recent examples:

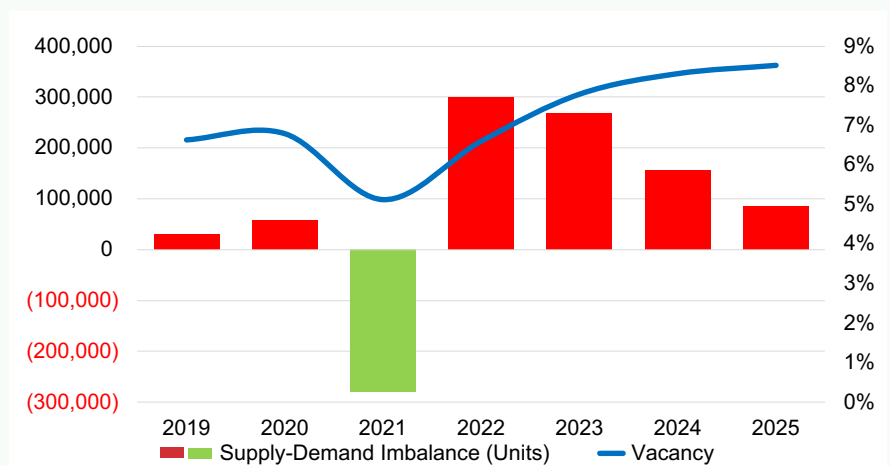
- **As of February 2026**, Los Angeles will restrict annual rent increases to between 1% and 4%, depending on the local inflation rate. That compares restrictions over the previous 40 years of 3% to 8% and impacts approximately three-fourths of the city’s rental stock.
- **New York City** mayor Zohran Mamdani rode to victory in November promising to freeze rent on approximately 1 million rent-stabilized units for four years. The Rent Guidelines Board will commence meetings in the spring, announce the range of rent increases under consideration, and set a final vote in the summer. Should a rent freeze be enacted, it would apply to leases as early as October 1st.

While some politicians hope to appease voter concerns regarding stubbornly high housing costs, many economists point out that rent control stifles investment and leads to undersupply in the long run, and thus creating more pressure on rents. A recent example is St. Paul, Minnesota, where restrictive rent-control laws enacted in the past few years drove new construction to a halt.

Impact on Commercial Real Estate

Rising inequality and eroding purchasing power can have consequences for property owners, especially in the apartment, retail, logistics (warehouse distribution), and lodging sectors. The aftermath of the pandemic saw a surge in new apartment construction across the country, primarily catering to higher income renters. Class A apartment completions totaled 2.4 million units between 2020 and 2025, accounting for more than 76% of all multifamily inventory growth during this period. However, decelerating income gains and upward pressure on overall consumer prices have weighed on apartment demand just as developers flooded markets with high-end, amenity-rich projects.

FIGURE 12
Multifamily CRE Fundamentals



Source: CoStar Group, as of January 2026.
Note: Positive Supply-Demand Imbalance means net new supply is greater than renter demand for a given year.

Income Inequality and the Implications for CRE (cont.)

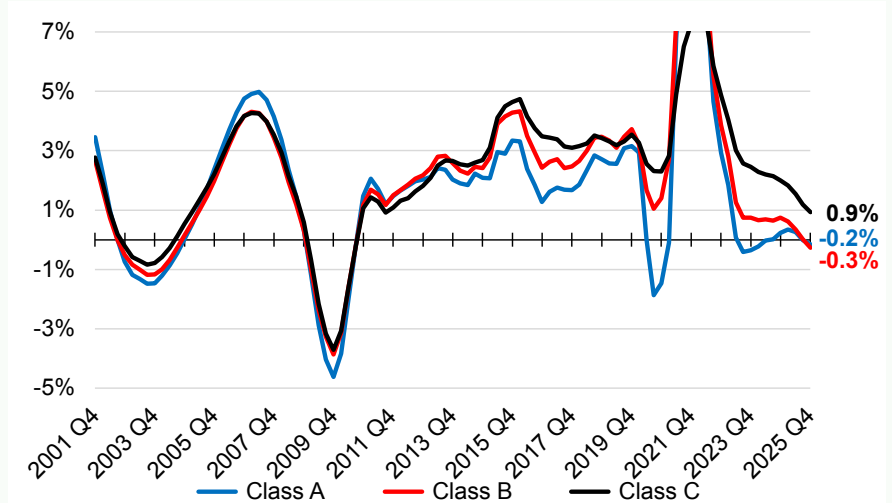
Net new supply has outpaced renter demand for the past four years, culminating in an all-time high national vacancy rate of 8.5% as of January 2026 according to CoStar. While the run-up in home values has helped build equity and buoy spending by the higher earners, it has also shut out first-time home buyers. These households are contending not only with high home prices and mortgage rates above 6% but also a shortage of mid-price apartment options, leaving renters priced out of an increasingly expensive rental market.

As the need for affordable housing has grown, Class C multifamily rent growth has outpaced that of Class A and B. Likewise, the vacancy rate of Class C multifamily has remained substantially lower than Class A and B.

The chronic mismatch between moderately priced apartment supply and demand leaves less disposable income for non-essential spending, which can drag on retail sales. Supported by a years-long lull in new construction, the retail market today enjoys tight vacancies, as developers remain challenged by high interest rates, elevated material costs and a labor shortage. While property fundamentals remain healthy, individual retailers may continue to see their margins pressured as they must spend more on inventory optimization, advertising and logistics. Retailers without the financial flexibility to compete risk bankruptcy, a trend that has claimed numerous high-profile companies over the past few years. The right tenant mix is crucial for shopping center owners, where a strong grocery anchor helps draw in steady foot traffic. This dynamic is also on display in the mall space, where proximity to high-earning households and a roster combining traditional and experiential tenants can help properties thrive.

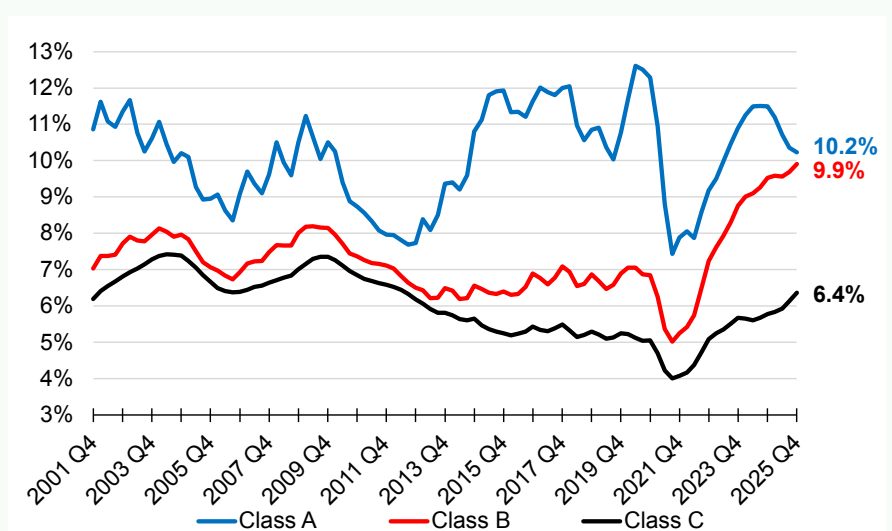
FIGURE 13
U.S. Multifamily Rent Growth by Class (% YOY)

COVID-Era Peaks: 8.0%, 10.8%, 11.5%



Source: CoStar Group. As of Q4 2025. Rent is effective rent.

FIGURE 14
U.S. Multifamily Vacancy Rate by Class (%)



Source: CoStar Group. As of Q4 2025

Income Inequality and the Implications for CRE (cont.)

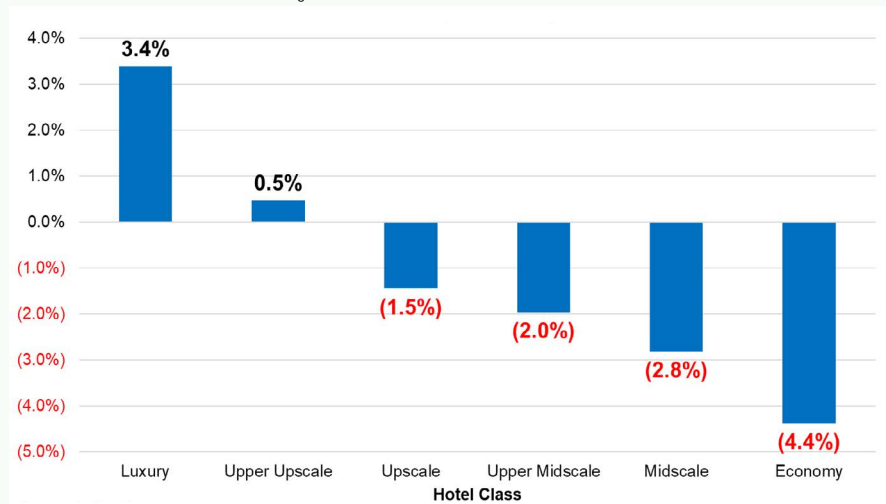
To improve occupancy metrics, mall owners have worked to streamline their portfolios by divesting underperforming properties, upgrading existing properties, and demolishing obsolete space. Malls are also leaning on middle-and lower-income consumers to boost sales, since wealthier people spend a smaller percentage of their income at malls than middle-class people.

In an environment where a narrow segment of households drives an outsized share of spending and derives confidence from asset prices, market movements can feed through to economic growth more quickly than in previous cycles. In addition to essentials-based grocery anchored shopping centers, discount oriented anchored retail, and conversely, high end malls become prudent investment targets. As e-commerce has grown more prominent, corresponding logistics facilities benefit from being situated in proximity to high-income and high-sales areas.

The K-shaped economic recovery continues to shape performance trends within the U.S. hotel industry. In 2025, luxury hotels significantly outperformed other property classes, reinforcing the widening gap across segments. According to CoStar, demand from affluent consumers remained resilient, as travelers continued to prioritize premium experiences, driving a 3% increase in revenue per available room (RevPAR) for the luxury segment. Conversely, consumers with more limited discretionary income reduced both travel frequency and spending, resulting in a 4.4% decline in RevPAR for economy-class hotels, according to CoStar. This trend should continue in 2026.

FIGURE 15
Hotel Performance by Class

Revenue Per Available Room, Annual Change 2024 to 2025



Source: CoStar Group

Income Inequality and the Implications for CRE (cont.)

Conclusion

The ramifications of income inequality are three-fold. First, they may result in higher levels of taxation and rent control on the state or even the federal level. Second, the economy becomes more reliant on the resources of the affluent in the form of stock and residential equity and the negative implications of a significant decline of the same. Finally, geographic and property sector investment decisions must take income inequality into account when selecting where to deploy capital.

While the sources of increasing income inequality in the United States have been well documented, the policy prescriptions for leveling the playing field are uncertain and elusive, and often are counter-productive for states' and municipalities' growth.

The issue is bound to remain in the spotlight in 2026, as affordability is a central theme across for both political parties in a midterm election year. Some states and municipalities are pushing for tax increases and rent control proposals, though those can ultimately be self-destructive – higher taxes may increase out-migration and rent limits are likely to choke off new supply.

While it's tempting to pursue blanket rent control measures or one-time taxes on the wealthy to plug budget gaps, states must ultimately invest in their local economies to ensure jobs are plentiful and wages keep growing. No less important, it is vital that jurisdictions make it easier to add inventory and that "YIMBY" (Yes In My Backyard – which is shorthand for being pro-development) replaces "NIMBY" (Not In My Backyard – which is shorthand for being anti-development – especially on the local level) so that substantially more housing can be built. The natural law of supply and demand has never and will never be rescinded.

For investors, it is important to be cognizant of the reality of income inequality while tracking both effective and proposed efforts to assist those less fortunate. Understanding the geography of income inequality as well as the affected asset classes such as multifamily, retail, logistics, and lodging is key to avoiding investment mistakes. Opportunities exist for discerning investors especially in non-luxury multifamily developments, shopping centers in high income areas, essential needs-based retail, particularly grocery anchored, and select lodging facilities that are undervalued and have upside potential as well as more upper scale hotel projects.

The Darlings of Data: 2026 Redux

Christopher Cummings | *Managing Director, Credit and Asset Management* | Trimont



I penned an article in November 2024 on data centers and can't believe how fast this asset class has progressed since then. At Trimont, our servicing portfolio in ABS data center financing more than doubled in size from year end 2024 to year end 2025, from approximately \$5B in assets under management (AUM) to almost \$13B in AUM.

The pipeline for 2026 has become a little disjointed due to "international relations," but if and when the markets settle, the industry could see a repeat of 2025 at a minimum, with some experts predicting a doubling in volume between 2025 and 2026. Anecdotally, we are hearing that ABS executions will continue to dominate permanent capital preference, with CMBS coming in around 30% of total volume.

Given this year-over-year progression and the anticipated acceleration into 2026, it felt timely to share some observations and thoughts about 2026 and beyond. In 2025, the conversation was less about "if/when" and more about "how much/how fast." Below is a breakdown of some critical considerations driving the sector: power, construction costs, hyperscaler competition, capital and monetization.

Power: The Primary Constraint

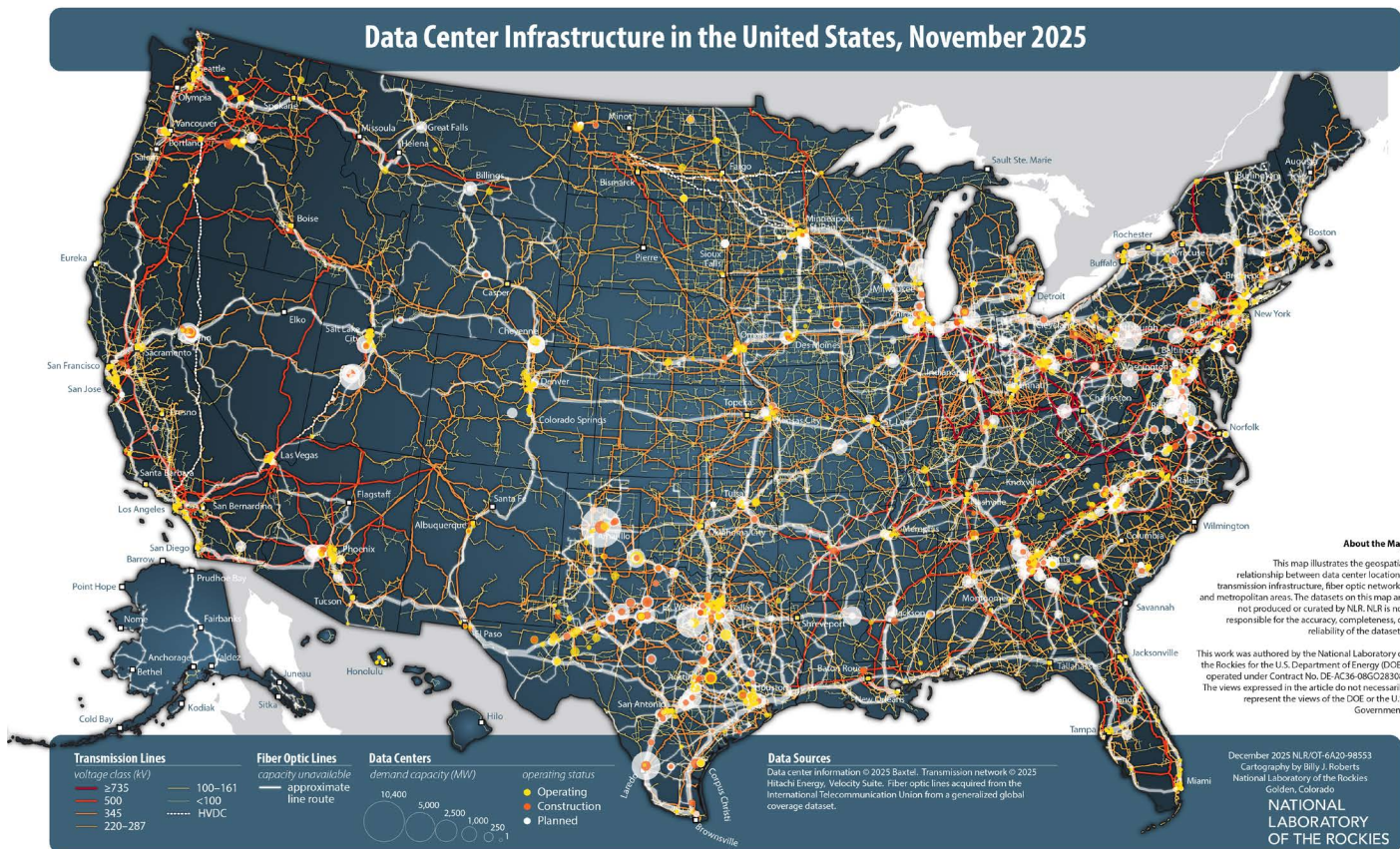
From every player in the data center space the mantra has been clear: power is the lifeblood of this industry. The capital is there, whether deployed as direct investment in ownership interests, development financing, longer-term debt capital, or all the above. But that powder remains dry without a viable asset, and without access to reliable power, our data center clients are unable to deliver. As we've seen, however, and as is noted below, these operators are finding a way.

Diligent, experienced data center developers are locking up land and transmission capacity years in advance, with the most successful landing the best sites - those with robust, scalable access to the grid¹. The National Renewable Energy Laboratory's latest maps show the usual suspects—Northern Virginia, Dallas, Phoenix—still leading the pack, but new hotspots are emerging where power procurement is less of a bureaucratic maze¹. We are seeing more interest in certain Midwest markets with superior connectivity and other markets in the Southwest with abundant power. In a recent article by Data Center Reviews posted on LinkedIn, South Dakota was mentioned as a viable market. Yes, that South Dakota – home to Mt. Rushmore and the Sanford Underground Research Facility!

To put the scale of the power market in perspective, North America reached an operational capacity of 18.5 GW in 2024, with 1.7 GW added in just the first half of the year. Power consumption is measured in kilowatt hours (kWh), with the typical four-person home consuming around 12,000 kWh per year. (One kilowatt (kW) is 1,000 watts, one megawatt (MW) is 1,000 kilowatts and one gigawatt (GW) is 1,000 megawatts.)

Converting 1GW to 1GWh translates to: 1GW x 24 hours/day x 365 days/year, or 8,760 GWh/year or 8,760,000,000 kWh/yr. That's roughly enough to power 730,000 single family homes for a year.

The Darlings of Data: 2026 Redux (cont.)



Given that a single hyperscale data center can consume between 20 MW and 100 MW, the IPI Partners portfolio, at 2.2 GW of potential leased capacity is enough to power nearly 1.6 million homes.

Data centers are immense consumers of power operationally, where cooling alone can account for up to 50% of a data center’s total power draw. You’ve likely noticed this specific category receives a massive amount of attention in data center design and technological innovation. I was lucky enough to recently tour a large data center campus in the desert where the majority of facilities utilized closed-loop cooling and/or featured a modular design that could accommodate either air or water cooling, or both. Redundancy is also critical, with the best facilities boasting uptimes above 99.8% and multiple built-in power sources to keep the lights (and servers) on¹. But this redundancy requires sometimes multiple levels of backup power sources and increased development cost.

In response to these challenges, we are seeing our data center clients getting more creative with interim power solutions (both generation and storage), engineering for more efficient cooling, and even partnering with regional power suppliers to subsidize capacity for their projects while trying to minimize the effects on other power customers.

Development Economics and Construction Costs

In terms of ground up construction and development, the numbers are almost inconceivable in comparison to historical commercial real estate projects. Construction costs for data centers were already steep, and have ballooned further thanks to inflation, supply chain headaches, and the relentless march of technology². The cost to construct a standard/enterprise shell-and-core data center in 2026 runs between \$10-12 million per MW. This gets you to a finished outer structure and envelope with a basic power/cooling backbone. For a hyperscale-optimized build (think AI), some sources cite costs of \$20M+ per MW, which includes liquid cooling and high-density racks. Tenant/IT fit-out can easily double this cost.

The Darlings of Data: 2026 Redux (cont.)

For a 50MW hyperscale facility with advanced cooling and multiple redundancy you could conceivably exceed \$1B before the tenant even fills a rack with processors. This is why we are seeing construction and project finance facilities hitting \$10B, \$15B or \$35B to develop a hyperscale campus.

OpenAI and its partners - including SoftBank, Oracle, CoreWeave, Blue Owl Capital, Crusoe, and Vantage Data Centers, have collectively taken on \$96 billion in debt to fund the next wave of AI infrastructure. OpenAI alone is eyeing \$1.4 trillion in spend over eight years, with Oracle's \$300 billion contract and potential \$100 billion in borrowing as just one example⁴. These are not small bets—they're moonshots, and they're reshaping the capital stack for the entire sector.

Hyperscalers as Market Makers

The big names—Amazon, Google, Microsoft, Meta, Oracle, Apple—are not just tenants; they're market makers. Five or six firms are driving most of the leasing activity, and while they could build their own, many still prefer to partner with specialists who can deliver speed and reliability¹. The competitive landscape is heating up, especially as AI leaders like OpenAI and Google race to outdo each other. OpenAI's "code red" to catch up with Google's Gemini is just the latest salvo in the battle for AI supremacy⁵.

The pace of the hyperscale race is driving tremendous amounts of capital into the system. Equinix recently announced a \$15 billion joint venture with CPPIB and GIC to build hyperscale data centers for the likes of AWS, Microsoft, and Google. Blue Owl Capital's \$1 billion acquisition of IPI Partners brings 82 data centers and 2.2 GW of capacity under its umbrella. Blackstone is investing £10 billion in northern England for a massive new campus, and Vantage Data Centers raised \$11 billion in nine months to fuel \$30 billion in new developments. Add to those numbers the ongoing costs associated with changes in technology and hyperscalers are expected to spend \$432 billion on capex in 2025, with projections hitting \$539 billion by 2029³. Again, the pace and scale are unprecedented.

Capital Markets Catch Up

On the back end, data center operators are finding takeout financing sources plentiful. This is true for both fully-leased hyperscale projects as well as critical colocation assets. In 2025, we saw \$11.5 billion in data center ABS issuance and another \$7.14 billion in CMBS². Bank of America is calling for \$35 billion in new issues and refinancings next year².

Vacancy rates are at historic lows, and power for new facilities is being snapped up almost as soon as it's available¹. Hyperscale deals are locking in long-term leases with near-100% utilization, while co-location and carrier hotels offer additional diversification of their income streams¹. Although co-location leases are generally shorter (2–3 years), carrier hotels and interconnection hubs offer higher barriers to entry and greater tenant stickiness, supporting long-term occupancy and stable cash flows across hundreds of tenants including large S&P 500 enterprises, with no single name dominating the pool.

While we have recently seen examples of investors being more selective, the fundamentals remain strong - especially for deals with high-quality assets, experienced management and well-structured contracts¹. The ability to dispose of or re-lease assets at maturity is critical, with location and tenant mix influencing re-leasing potential. Operators like Switch and Vantage are seeing their investment grade customer percentages grow with every issuance, and the tail of smaller enterprise customers is driving organic growth in net operating income².

Leverage points for top-tier assets in ABS transactions now range from 10.2x to 11.3x, with DSCRs for new deals at or above 1.4x². Single-A rated data center ABS paper, which previously traded at 200 basis points over the I-curve, has seen some trades in the 130s. CMBS ratings obviously go deeper down the bond stack and potentially offer broader investor interest, but for the time seem limited to hyperscale deals and a SASB-like execution. Both ABS and CMBS executions will be required to keep pace with capital requirements going forward.

The Monetization Question

Given the massive capital investments in equity, project finance and permanent debt, the logical questions become, "How do these investments ultimately get repaid? How are these investments ultimately monetized? And what headwinds may dampen or delay a return on this massive investment?"

Hyperscale cloud providers are reporting multi-billion-dollar contributions from AI, with AWS's AI revenue growing more than 100% year over year⁵. Drilling down further one needs to consider revenue generated beyond the direct-to-consumer model. Hybrid pricing models combining consumption-based fees and subscriptions are becoming more prevalent, allowing operators to capture value from AI features without overhauling existing revenue models⁶. Think Microsoft's Copilot integration into Office 365 which most US companies use as their productivity platform.

The Darlings of Data: 2026 Redux (cont.)

To wit, most companies appear to be moving through a three-phase journey: internal optimization, opportunistic monetization, and full marketplace monetization, with data-rich organizations poised to translate their scale into structural revenue benefits⁷. For those working within the Microsoft 365 platform, you've likely already learned to use CoPilot to transcribe and summarize your conference calls and unread emails and to create resultant action items from the information. It's also quite helpful to be able to feed multiple articles into an AI agent and have it layer data points into an online article – such as the one you are currently reading.

Whether this translates to a direct subscription to ChatGPT, Grok or some other platform beyond what is available at work remains to be seen. But the fact that companies are adopting this technology at an increasing pace with an eye toward productivity and cost savings may dwarf any contribution from end-user subscriptions.

We are, however, seeing headwinds emerging in this space. There has been a marked rise in NIMBYism where grass roots efforts have resulted in failed or delayed high profile projects in several jurisdictions. In response, some municipalities are changing zoning regulations to protect residential areas from noise pollution, whether due to extended construction hours, backup generators or other factors. Some are requiring a larger commitment to procuring energy from renewable sources, while others are paring back or eliminating tax incentives. But the sheer amount of capital – along with a relentless drive to be first to market, is simply shifting opportunities to different markets like Mesa, AZ and Reno, NV.

Some Final Thoughts...

Our daily lives are overflowing with data. We all rely on cell phones, cable TV and streaming subscriptions, online maps with real-time traffic updates, and tools that let us track our children's movements wherever they may be. We're on a first-name basis with Siri, Alexa, Gemini, or Grok, happily storing millions of photos in the cloud. Even our refrigerators and thermostats are now Wi Fi enabled, reminding us when it's time to buy milk.

Taken together, this data saturation and the role of AI in understanding, organizing and interpreting the data, strengthens the case for viewing data centers as true infrastructure—critical to how we live and function every day. As technology continues to evolve, so too will the role of AI. Its ability to assist with embedded, repetitive tasks at work and at home is still in its early stages of mainstream adoption. And no judgment if your own AI journey has so far been limited to animating old photos—or turning your pet into a superhero.

Regardless of our individual use cases, AI is becoming an essential element across nearly every facet of modern life. Stakeholders throughout the digital infrastructure ecosystem – chip makers, cloud storage providers, computer manufacturers, fiber providers, cellphone manufacturers and ultimately consumers - are all reaping the benefits of this investment. As long as demand continues to outpace supply, the depth, breadth and velocity of capital appear virtually limitless. Until they aren't. The point where supply meets demand will be the ultimate arbiter - and determine where the final "chips" land.

¹ GlobalCapital, "Financing a Digital Future: Opportunity, Risk and Reward in the US," October 2025

² Fitch Ratings, "US Data Center ABS/CMBS: 2025 Outlook," October 2025

³ BofA, MUFG, KBRA, S&P, Data Center ABS/CMBS Issuance Data, October 2025

⁴ MetLife Investment Management, "SEC Registration Commentary," October 2025

⁵ Janus Henderson, "AI Monetization Takes Shape," October 2025

⁶ ServiceNow, "Hybrid Pricing Strategies for AI," October 2025

⁷ McKinsey, "AI Monetization Roadmap," October 2025

Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs

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Equity real estate investment trust (REIT) borrowers were not immune to the relatively high cost of borrowing in the debt markets in 2022 and 2023. Nonetheless, Healthcare REITs and their financial institution lenders have recently been active in the debt markets amending and/or amending and restating existing credit facilities and entering into a variety of new credit facilities. Such activity in 2024 and 2025 has resulted in noteworthy credit facility trends:

- Increased borrowing capacity with upsizes of existing credit facilities
- Pairing of multi-bank revolving credit facilities with multiple term tranches to optimize tenor and pricing
- Greater use of unsecured credit facilities; semi-secured use as well
- Broad maturity extension options and greater flexibility in terms
- Continued divide in more favorable borrowing terms for investment-grade Healthcare REIT borrowers as compared to lower-rated or more challenged-credit Healthcare REIT borrowers

Healthcare REIT Sector Attractive to Lenders

Among REIT sectors, Healthcare REITs have emerged as particularly attractive to lenders due to the durability and transparency of their underlying real estate and cash flows. Healthcare REITs are specialized real estate investment trusts that are focused on the acquisition, ownership, leasing and management of healthcare properties in the United States; such properties include, hospitals, outpatient medical offices and complexes, skilled nursing facilities, retirement communities, assisted living facilities, and lab and research facilities.

In underwriting Healthcare REITs, lenders closely evaluate the fair market value and liquidity of the REIT's real estate assets, the consistency and resiliency of net operating income across monthly, quarterly, and annual periods, and the REIT's demonstrated ability to service operating, management, and portfolio level expenses as they come due. Lenders also focus on distribution and dividend practices, overall leverage and expense discipline, and the extent to which income is supported by long term demand for healthcare services rather than discretionary consumer spending.

While healthcare delivery models and reimbursement frameworks continue to evolve, the essential nature of healthcare services and the sector's relative insulation from economic cycles provide lenders with a degree of downside protection not always present in other asset classes. As a result, Healthcare REITs are often viewed as offering a compelling combination of asset stability, predictable income streams, and institutional grade collateral. According to the National Association of Real Estate Investment Trusts (Nareit), there are currently twenty one Healthcare REITs operating in the United States. Over the past five consecutive quarters, these Healthcare REITs have steadily increased their total share of assets under management as reflected in the table below. Assets under management in the Health Care sector rose from 14.5% in Q4 2024 to 18.9% in Q4 2025, representing the largest absolute increase of any sector over these five quarters. This suggests that capital has been flowing into healthcare REITs at a faster rate than into most other property types, likely reflecting investor confidence in the sector's fundamentals (e.g., aging demographics, post-pandemic recovery in senior housing, etc.).

Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs (cont.)

FIGURE 1
Property Sector Weights by Share of Assets Under Management

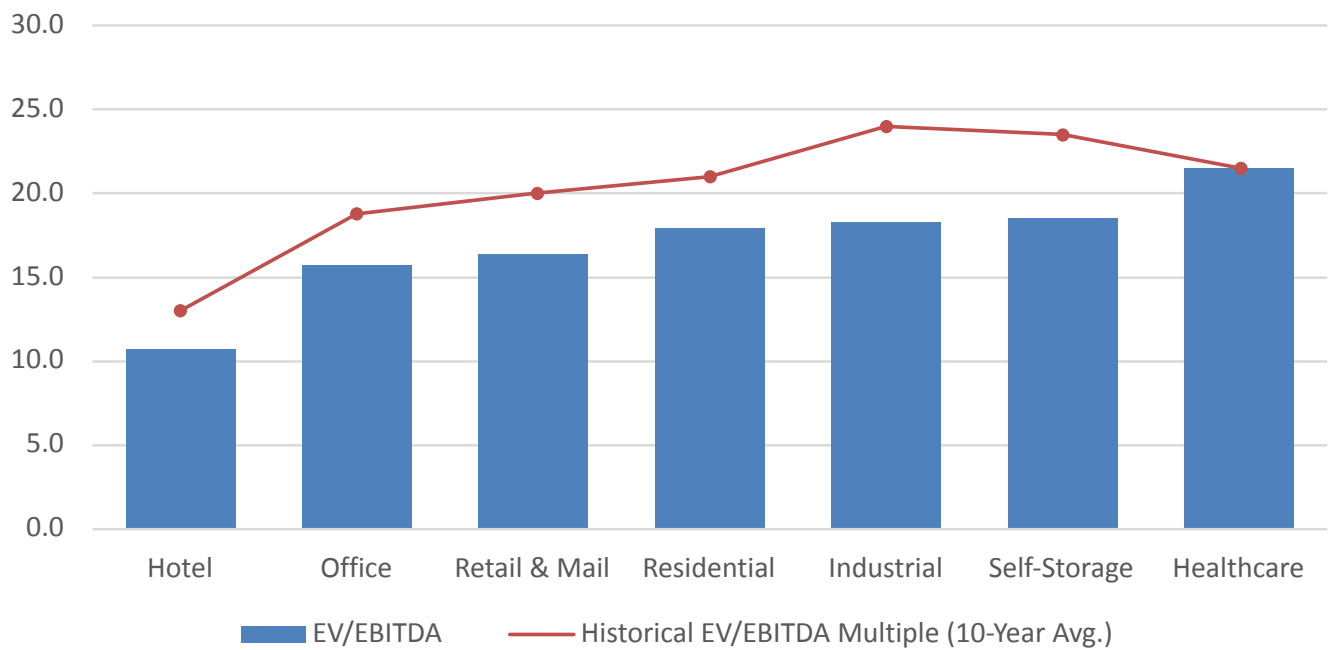
Property Sector	2024: Q4	2025: Q1	2025: Q2	2025: Q3	2025: Q4
Data Centers	13.1%	10.5%	11.7%	11.4%	12.5%
Diversified	0.2%	0.2%	0.0%	0.2%	0.2%
Gaming	3.1%	2.8%	2.3%	2.1%	1.3%
Health Care	14.5%	15.9%	15.4%	17.8%	18.9%
Industrial	10.2%	10.0%	9.4%	9.4%	9.7%
Lodging/Resorts	1.7%	1.3%	1.7%	2.0%	2.2%
Office	2.1%	2.3%	3.4%	3.9%	3.4%
Residential	16.7%	16.9%	15.7%	14.6%	13.4%
Retail	13.5%	11.9%	12.1%	12.1%	11.8%
Self-Storage	5.9%	6.9%	6.5%	6.2%	6.1%
Specialty	3.2%	2.8%	3.4%	3.9%	4.2%
Telecommunications	13.3%	16.0%	16.1%	14.5%	14.1%
Timberland	2.4%	2.5%	2.3%	1.9%	2.1%

Source: Nareit, Morningstar Direct.

¹ See Appendix I.

Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs (cont.)

FIGURE 2
Enterprise Value/EBITDA Multiples for Various REIT Sectors



Source: US REITs: 2025 Q4, Morningstar Direct, Industry Pulse December 2025

With increased property sector weights and enterprise value as compared to other REIT sectors, Healthcare REITs have the ability to generate attractive return on lending for credit facility lenders.

Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs (cont.)

Typical Credit Facility Features for Healthcare REITs

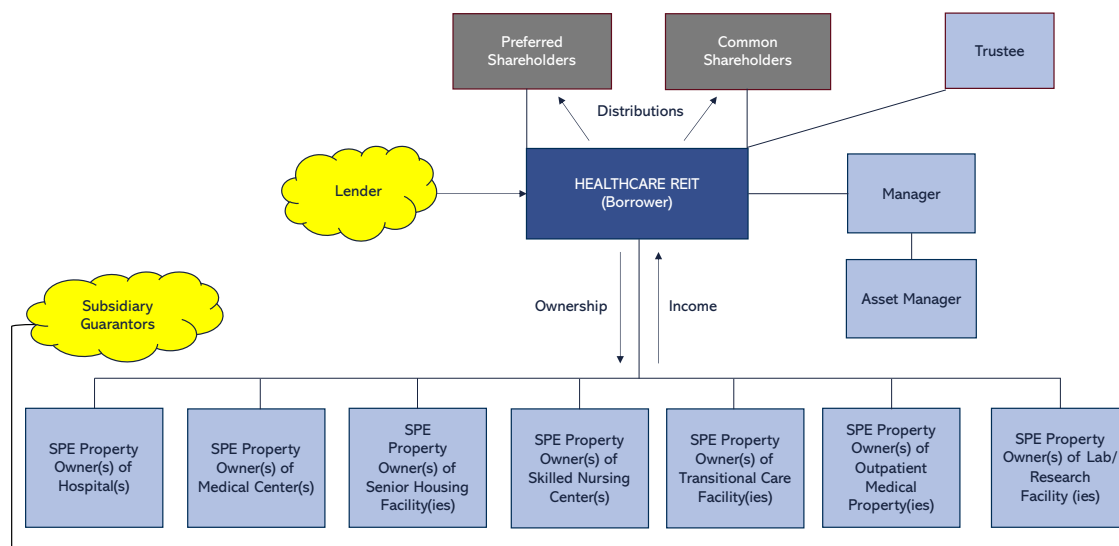
Debt financing for Healthcare REITs via credit facilities is often determined by the net asset value of the Healthcare REIT's portfolio, in which the lenders will assess the portfolio's real estate investments for their security, borrowing capacity, and cash flows. As such, it is not uncommon to routinely see credit facilities for Healthcare REITs structured as net asset value facilities and/or unencumbered asset pool credit facilities.

Typical features of a net asset value facility and unencumbered asset pool credit facility include:

- Senior ranking credit facility comprised of one or more term loan facilities, revolving credit facilities or combinations of both term loan facilities and revolving credit facilities under which borrowing capacity determinant on a pool of qualified properties
- Repayment primarily from cash flows from the real estate investments with mandatory repayment triggers for asset sales subject to certain pro forma financial covenant levels are met
- Pricing margins can be variable or fixed and may be based on investment-grade rating, loan-to-value or leverage ratio covenant levels
- Not always secured. To the extent secured, the collateral package is typically more limited than the standard cash-flow facility, as discussed further in the next section of this article
- Portfolio level financial covenant tests, including, tangible net worth, total leverage ratio, secured debt leverage ratio, unsecured leverage ratio, and fixed charge coverage ratio
- Targeted pool concentration limits and pool financial covenant tests, including, occupancy rate, unsecured debt to unencumbered asset value ratio, debt service coverage ratio, unencumbered net operating income to unsecured interest expense
- Inclusion of lender protections primarily through property restrictions and covenants

FIGURE 3
Illustrative Loan Party Structure for a Healthcare REIT

Reflecting a DownREIT ownership of real estate investments via special purpose entities (SPEs); partnerships, joint ventures, and taxable REIT subsidiaries not shown for simplicity



Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs (cont.)

Please see Appendix II for recent illustrations of applications and negotiated modifications of these features for Healthcare REITs, including applications of borrowing capacity, various credit facilities and tranches therein, financial covenants, and maturity components.

To Secure or Not Secure – Not a Pressing Question

To mitigate lending risk, lenders to Healthcare REITs under net asset value facilities and unencumbered asset pool credit facilities have a number of security options available to them. Considerations for lenders in determining the nature of the collateral package include the nature of the underlying portfolio assets, consent requirements with respect to equity pledges, and of course, the financial viability of the REIT borrower and its subsidiaries.

Full security option will include mortgages over the real estate investments, together with assignments of plans, leases, rents, property management agreements, environmental indemnities, assignments of contractual rights to direct the sale and disposition of investments/assets, equity pledges of the direct and indirect SPE property owners that own the real estate investments and/or pledges of deposit and operating accounts in which distributions and proceeds from the investments are deposited. Whereas, the semi-secured option will typically only include equity pledges of the direct and indirect SPE property owners that own the real estate investments and/or pledges of deposit and operating accounts in which distributions and proceeds from the investments are deposited.

Structuring Healthcare REITs under an unsecured credit facility is the prevailing model among larger and/or more established Healthcare REITs, including Ventas, Inc. (expanded its unsecured revolving credit facility 2025), Healthcare Realty Trust (recast its unsecured revolving credit facility and unsecured term loan facility in 2025), Omega Healthcare Investors, Inc. (obtained a new senior unsecured revolving credit facility and a new unsecured delayed-draw term loan facility in addition to amending its unsecured term loan facility in 2025), Global Medical REIT (amended and restated its existing credit facility in 2025), and National Healthcare Properties, Inc. (obtained a new unsecured revolving credit facility and a new term loan facility in 2025).

Notably, Flagship Healthcare Trust, Inc. entered into a new aggregate \$500 million senior credit facility in August 2025 utilizing a semi-secured structure secured by equity pledges of the direct SPE property owners that own the properties in the unencumbered pool with an aggregate fair market value of approximately \$600 million at the time of closing. While Flagship Healthcare Trust, Inc.'s prior credit facility was fully secured with mortgage liens on the pooled properties, the 2025 credit facility reflects an intermediate security structure that balances lender protection with operational flexibility for the Healthcare REIT borrower.

Flagship Healthcare Trust, Inc.'s President and CEO, J. Brannen Edge III, remarked at the time "moving to a semi-secured structure provides us with additional flexibility and demonstrates our lending partners' recognition of the continued growth and strength of Flagship's portfolio, platform, and team." Flagship's 2025 credit facility attracted participation from eight financial institutions and was led by lead arranger Fifth Third Bank, National Association.

A Continuing Divide in Investment Grade vs Non Investment Grade Healthcare REITs Borrowers

Investment grade Healthcare REIT borrowers have continued to employ large, unsecured bank credit platforms as a central component of their debt capital structures, with recent transactions reflecting a consistent emphasis on scale, flexibility, and balance sheet optionality. As described below, such Healthcare REITs have maintained or expanded sizeable unsecured revolving credit facilities, frequently paired with multiple unsecured term loan tranches. These facilities commonly feature ratings based pricing grids, extended maturities with embedded extension options, and significant accordion capacity, allowing borrowers to manage liquidity and refinancing risk without materially encumbering assets. The summary activity further reflects the widespread use of maturity laddering and interest rate hedging in connection with unsecured term loans, underscoring the role of unsecured credit facilities as both liquidity backstops and long term financing tools for investment grade platforms.

Healthcare REIT borrowers that do not carry investment grade ratings, or are experiencing portfolio level or operational stress, have also remained active in the debt markets. Credit facilities for these Healthcare REIT borrowers have incorporated reduced commitments, higher pricing, enhanced deleveraging mechanics, modified covenant packages, and, in certain cases, a transition toward secured or collateral supported structures designed to mitigate lender risk during periods of balance sheet repair. Together, these transactions demonstrate how Healthcare REIT credit facilities continue to be tailored to borrower specific credit profiles while remaining a critical source of liquidity and capital across the sector.

Market Outlook

As debt markets continue to recalibrate, Healthcare REITs remain well positioned to attract lender capital due to the essential nature of their assets, the durability of their cash flows, and the increasing sophistication of credit facility structures tailored to their portfolios. The continued evolution toward flexible, largely unsecured or semi secured facilities underscores lender confidence in the sector's asset quality, governance, and long term fundamentals. Taken together, these trends suggest that Healthcare REITs will remain active and attractive participants in the debt markets, even amid broader market volatility.

Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs (cont.)

APPENDIX I Healthcare REITs

Healthcare REITs	FTSE Nareit US Real Estate Index
Alexandria Real Estate Equities, Inc.	Yes
American Healthcare REIT, Inc.	Yes
CareTrust REIT, Inc.	Yes
CNL Healthcare Properties Inc.	No
Community Healthcare Trust	Yes
Diversified Healthcare Trust	Yes
Flagship Healthcare Trust, Inc.	No
Global Medical REIT	Yes
Healthcare Realty Trust	Yes
Healthpeak Properties, Inc.	Yes
LTC Properties, Inc.	Yes
Medical Properties Trust Inc.	Yes
National Health Investors, Inc.	Yes
National Healthcare Properties, Inc.	No
Omega Healthcare Investors, Inc.	Yes
Sabra Health Care REIT, Inc.	Yes
Sila Realty Trust, Inc.	Yes
Strawberry Fields REIT	Yes
Terravet REIT Inc.	No
Ventas, Inc.	Yes
Welltower Inc.	Yes

Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs (cont.)

APPENDIX II

Illustrative Summary of New Features for Healthcare REITs in 2025

Healthcare REIT	Certain New Credit Facility Features*
Alexandria Real Estate Equities, Inc.	<ul style="list-style-type: none"> Removed prior agreed covenant relief period and financial covenants minimum consolidated tangible net worth, maximum unsecured indebtedness to unencumbered asset value and minimum unsecured net operating income to unsecured interest expense Financial covenant level resets: total leverage ratio at 60%, secured leverage ratio at 40% Added collateral coverage tests with mandatory prepayment triggers Credit facility secured pari passu with notes offerings
Sila Realty Trust, Inc.	<ul style="list-style-type: none"> New \$600 unsecured revolving credit facility (replacing prior \$500 million facility) with accordion feature permitting increases up to \$1.5 billion Aligned covenants in unsecured term loan facility with covenants in revolving credit facility Tangible Net Worth Financial covenant level reset
Ventas, Inc.	<ul style="list-style-type: none"> Increased unsecured term loan from \$500 million to \$700 million New \$550 million unsecured delayed draw term loan facility Extended maturity Expanded accordion capacity to \$1.75 billion Added 9 new participating lenders
CareTrust REIT, Inc.	<ul style="list-style-type: none"> Added new unsecured \$500 million term loan facility alongside existing unsecured \$1.2 billion revolving credit facility
Healthcare Realty Trust	<ul style="list-style-type: none"> Implemented five unsecured term tranches totaling over \$2.5 billion Extended revolver maturity
LTC Properties, Inc.	<ul style="list-style-type: none"> Added four unsecured term tranches totaling \$800 million New unsecured \$600 million revolving credit with incremental facility capacity Maturity extension options at borrower's discretion Implemented interest rate swaps for each tranche

* Removal of 10 basis point Secured Overnight Financing Rate (SOFR) credit spread adjustment generally effected.

Active Debt Capital, Essential Real Estate: Credit Facility Financings for Healthcare REITs (cont.)

APPENDIX II

Illustrative Summary of New Features for Healthcare REITs in 2025 (cont.)

Healthcare REIT	Certain New Credit Facility Features*
Sabra Health Care REIT, Inc.	<ul style="list-style-type: none"> • New \$500 million unsecured term loan facility with accordion up to \$1.0 billion • Interest rate swaps executed contemporaneously
Flagship Healthcare Trust, Inc.	<ul style="list-style-type: none"> • New \$500 million credit facility replacing prior credit facility • Semi-unsecured structure secured by equity pledges
Omega Healthcare Investors, Inc.	<ul style="list-style-type: none"> • New \$2.0 billion unsecured revolving credit facility (replaces prior \$1.45 billion revolving credit facility) • New \$300 million unsecured delayed draw term loan facility • 35 bps margin reduction on \$428.5 million unsecured term loan facility
Global Medical REIT	<ul style="list-style-type: none"> • Extended revolver maturity • Split \$350 million term loan A into 3 tranches • Entered into \$350 million forward starting swaps to hedge term loan A tranches
National Healthcare Properties, Inc.	<ul style="list-style-type: none"> • Replaced prior secured credit facility with \$500 million unsecured credit facility with ability to upsize to \$1 billion

* Removal of 10 basis point Secured Overnight Financing Rate (SOFR) credit spread adjustment generally effected.

Single-Borrower CMBS Default and Loss Study: Weathering the Storm

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Kevin Lagerquist | *Senior Analyst, CMBS* | KBRA



The single-borrower (SB) CMBS sector has existed for over three decades and has historically experienced very few defaults and minimal losses over that period. However, the perfect storm was brewing as the convergence of pandemic-driven deterioration in commercial real estate (CRE) fundamentals and the rapid, unprecedented rise in interest rates during 2022-23 left its mark on the sector's credit performance.

This series of events disrupted cash flows, values, and refinancing prospects, initially for lodging and retail, and then more severely for office properties, where the structural shift towards remote and hybrid work models triggered weakened demand for office space.

As a result, there has been an increasing number of loan defaults and losses, particularly in the office sector. KBRA conducted a study that explored SB CMBS defaults and losses consisting of loans securitized from August 1993 to September 2024 that had at least one year of seasoning, with performance tracked through September 2025.

Key Takeaways

- There were 111 defaults during the study period, resulting in a 12.9% cumulative default rate, by count.
- All but eight of these occurred after the onset of the pandemic in 2020 with 19.8% (22 loans) defaulting in 2020 during the height of the pandemic, and more than two-thirds (71.2%, 79) defaulting in 2022 or later.
- Office, which is nearly one-quarter of the study population, has the highest cumulative default rate at 19.7%, along with the greatest number of defaulted loans. It also had four of the six highest loss severities.
- Of the 29 resolutions, 21 were resolved with no losses or losses of less than 1%, while the other eight had losses of 3.9% on one loan, 20-50% on four loans and greater than 50% on three loans. The average loss severity of all resolved loans was 11.2%, and the average time from default date to resolution was 24.0 months.

Single-Borrower CMBS Default and Loss Study: Weathering the Storm (cont.)

SB Recent History and Study Pool

SB issuance volume climbed to \$80.3 billion in 2021, almost doubling the 2019 record of \$43.7 billion (see Figure 1). However, there was a meaningful decline in issuance between 2022 and 2023, given the rising interest rate environment and high inflationary period. Issuance then rebounded in 2024 to \$68 billion and surpassed 2021 levels in 2025 to its highest annual level of \$91.1 billion.

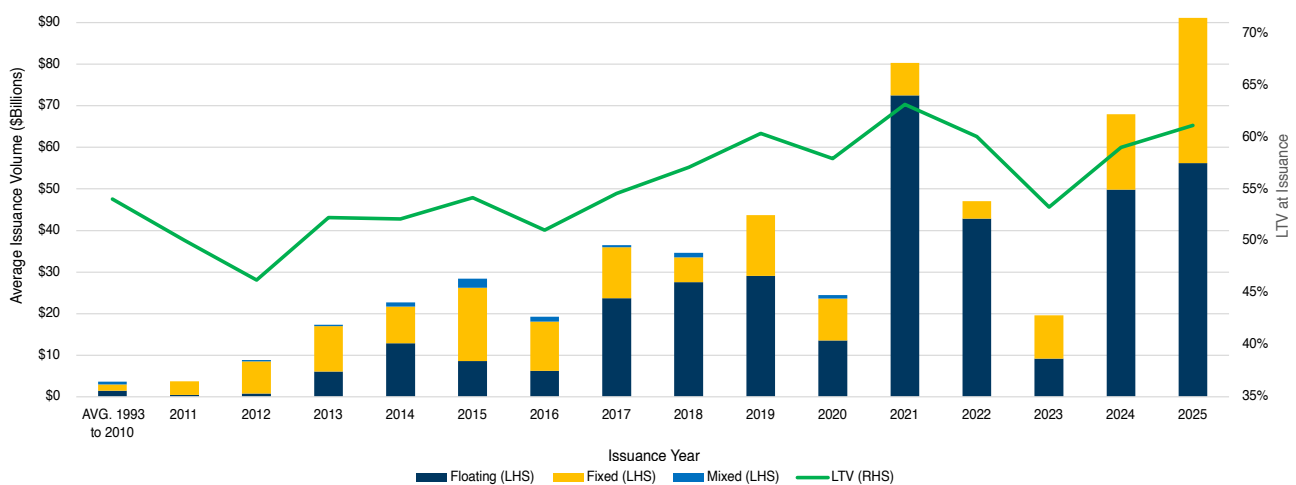
The loans had an average securitization balance of \$573.6 million (ranging from \$50 million to \$7.4 billion) and, by rate type, included floating rate loans (497 loans, 57.7%), fixed rate loans (344, 40.0%), and loans in SB deals structured with a combination of fixed and floating rates (20, 2.3%)¹.

The average in-trust loan-to-value (LTV) across the population was 56.7%, based on data available in 830 of the 861 loans. LTVs have been rising steadily to 61.1% for the 2025 vintage from a low of 46.2% for the 2012 vintage. The 2021 vintage has the highest average LTV of 63.1%.

LTVs generally reflect the number reported by the issuer at issuance and are typically based on in-trust amounts together with *pari passu* debt, as well as appraisal values available at the time of securitization.

The study population’s top three property types by balance include lodging (244, 28.4%), office (203, 23.6%), and retail (145, 16.8%). However, the composition of issuance has fluctuated greatly with market conditions. For example, while lodging averaged 26.5% of annual issuance dollar volume since 2010, its annual share has ranged from 8.9% to 45.5%. Similarly, office which averaged 17.8% of annual issuance since 2010—had limited issuance in 2023 and 2024 (1.6% and 4.5%, respectively) as office demand weakened and valuations declined. Retail also experienced major declines in its share of issuance as regional mall securitizations, which dominated post-global financial crisis (GFC) issuance, have faded except for the highest-quality malls. More recently, other property types such as data centers and self-storage have represented a larger share of issuance.

FIGURE 1
Annual SB Issuance



Sources: KBRA, Trepp, Green Street

¹ For this study, loan-level data was generally sourced from Trepp, LLC, which was supplemented with information from offering documents, if available; data in our proprietary databases for KBRA-rated transactions; and data from KCP, a division of KBRA Analytics.

Single-Borrower CMBS Default and Loss Study: Weathering the Storm (cont.)

Determining Defaults

There were 111 defaults in the study population, resulting in a cumulative default rate of 12.9% by loan count. Below is a summary of the general criteria KBRA used to determine defaults for the purposes of this study (the “default criteria”):

- Loans reported 60+ days delinquent for at least one remittance period, or those reported with foreclosure (FCL) or real estate owned (REO) status.
- Matured performing or nonperforming loans, unless they were never reported delinquent and paid off within six months of the maturity date with no loss.
- Loans that received debt relief through a modification that directly and meaningfully altered expected payment streams to investors, even if they were never reported delinquent. This includes reductions in the current payable interest rate and extensions beyond any fully extended or original final maturity date.
- Borrower bankruptcy.

In determining whether a loan defaulted, we generally reviewed loans that were transferred to the special servicer. In the study population, a total of 146 loans (17%) were transferred to the special servicer; however, a loan was generally not considered a defaulted loan unless it met the default criteria.

In addition to special servicing transferred loans, the study population included another 42 loans that received modifications but were not considered a default. As with specially serviced loans, if a loan was reported as modified by the servicer but did not meet the default criteria, it was not considered a defaulted loan.

Default Timing

We determined, as shown in Figure 2, that almost all the defaults occurred from 2020 onward (103 of the 111). The wave of defaults began with the economic impact of pandemic-related lockdowns and travel restrictions on the CRE sector in 2020. Notably, more than one-half of the lodging defaults (16 of the 31) occurred in 2020. However, the larger driver of defaults has been the period that followed, marked by the record rise in interest rates from 2022-23 and their sustained elevated levels, combined with the high inflationary pressures on CRE operating expenses. These conditions made refinancing significantly more costly and created uncertainty around stabilized cash flows and valuations. In addition, there was a meaningful reduction in office demand due to the increased adoption of remote work. In fact, office has the highest number of defaults and all but one occurred after 2021.

FIGURE 2
Year of Default by Property Type

Property Type	<= 2019	2020	2021	2022	2023	2024	YTD 9/25	Total
Office	--	--	1	6	22	9	2	40
Lodging	5	16	--	2	2	2	4	31
Retail	3	5	1	4	1	1	3	18
Mixed-Use	--	1	--	--	5	5	1	12
Multifamily	--	--	--	2	1	3	1	7
Other*	--	--	--	1	--	1	1	3
Total	8	22	2	15	31	21	12	111

*Other includes loans secured by production studios space, leased-fee property, and furniture showroom/warehouse space.
Sources: KBRA, Trepp, issuance documents, and trustee and servicer remittance reports

Single-Borrower CMBS Default and Loss Study: Weathering the Storm (cont.)

Default Rates by Property and Loan Characteristics

Property Type and Single vs. Multi-Property Loans

Office, which is nearly one-quarter of the study population, has the highest cumulative default rate at 19.7%, along with the greatest number of defaulted loans (see Figure 3). Mixed-use (8% of the study population), which includes loans secured by single mixed-use properties (often with an office component) and multi-property portfolios of mixed types, had the second-highest default rate at 16.7%. Lodging had the third-highest default rate at 12.7% and represented the largest portion of the study population (28.3%). Retail, which largely consists of regional malls, had the fourth-highest default rate at 12.4%, followed by multifamily at 11.3%, with both falling below the population’s overall default rate of 12.9%. There have been zero industrial defaults to date.

The population is evenly distributed between loans secured by single properties (434, 50.4%) and those secured by multiple properties (427, 49.6%). While the overall default rate for single-property loans (14.3%) was slightly higher than for multi-property loans (11.5%), property-type seems to be the bigger determinant of default. For example, in lodging, single-property loans defaulted far less than multi-property loans (7.8% vs. 16.3%, respectively), a pattern that also holds true in office and multifamily. Since Industrial and All Other property types account for a large portion of the multi-property population (135 loans with three defaults), these can be considered a skew and thus removed; as a result, the multi-property default rate increases to 15.8% (303 loans with 48 defaults). This implies that property type may have a greater influence on loan performance than portfolio diversification.

FIGURE 3
Defaults by Single-Property vs. Multi-Property

Property Type	Single Property			Multi-Property			Totals		
	Loans	Defaults	Default Rate	Loans	Defaults	Default Rate	Loans	Defaults	Default Rate
Lodging	103	8	7.8%	141	23	16.3%	244	31	12.7%
Office	161	29	18.0%	42	11	26.2%	203	40	19.7%
Retail	95	13	13.7%	50	5	10.0%	145	18	12.4%
Industrial	2	--	--	73	--	--	75	--	--
Mixed-Use	43	8	18.6%	29	4	13.8%	72	12	16.7%
Multifamily	21	2	9.5%	41	5	12.2%	62	7	11.3%
All Other*	9	2	22.2%	51	1	2.0%	60	3	5.0%
Total	434	62	14.3%	427	49	11.5%	861	111	12.9%

*All Other includes self-storage, health care, data centers, manufactured housing, and properties characterized as “other” by Trepp.

Sources: KBRA, Trepp, issuance documents, and trustee and servicer remittance reports

Single-Borrower CMBS Default and Loss Study: Weathering the Storm (cont.)

FIGURE 3
Defaults by Single-Property vs. Multi-Property

Amortization Type	Fixed			Floating			Mixed			Total		
	Loans	Defaults	Rate	Loans	Defaults	Rate	Loans	Defaults	Rate	Loans	Defaults	Rate
Full-Term IO	256	32	12.5%	471	65	13.8%	15	4	26.7%	742	101	13.6%
Amortizing Balloon	65	2	3.1%	25	4	16.0%	4	--	--	94	6	6.4%
Partial-Term IO	23	4	17.4%	1	--	--	1	--	--	25	4	16.0%
Total	344	38	11.0%	497	69	13.9%	20	4	20.0%	861	111	12.9%

Sources: KBRA, Trepp, issuance documents, and trustee and servicer remittance reports

Loan Characteristics

Partial-term interest-only (IO) loans exhibited the highest default rate, followed by full-term IO loans, with amortizing balloon loans unsurprisingly experiencing the lowest default rate. Both the partial-term and full-term IO default rates are more than double the amortizing default rate (see Figure 4). Floating rate loans, which generally can be influenced more by interest rate movement than fixed rate loans, had a higher default rate.

There were also a small number of loans with both floating and fixed rate components (mixed rate loans, 2.3% of total loans).

Loan-to-Value

Loans with higher in-trust LTVs generally had a greater likelihood of default (see Figure 5). For example, the default rate increased from 6.5% for loans with LTV ≤40% to 9.9% for loans between 40% and 50% LTV, and up to 26.3% for loans with LTVs >70%. The LTVs generally reflect the issuance appraisal value of the properties.

FIGURE 5
Defaults by LTV

LTV (%)	Total		
	Loans	Defaults	Default Rate
≤40	46	3	6.5%
40-50	172	17	9.9%
50-60	272	32	11.8%
60-70	260	38	14.6%
>70	80	21	26.3%
NAV	31	--	--
Total	861	111	12.9%

Sources: KBRA, Trepp, issuance documents, and trustee and servicer remittance reports

Single-Borrower CMBS Default and Loss Study: Weathering the Storm (cont.)

Debt Service Coverage

KBRA examined issuer-reported net cash flow (NCF) debt service coverage (DSC) and found that higher DSCs generally resulted in lower default rates. (see Figure 6). The majority of the loans in this category are from the newest vintages, with 70.3% (29 of 41) having less than two years of seasoning, including 26 floating rate loans that were still in their initial term as of the study cutoff date.

FIGURE 6
Defaults by NCF DSC

DSC	Total		
	Loans	Defaults	Default Rate
<=1.2x	41	2	4.9%
1.2x-2.0x	185	38	20.5%
2.0x-3.0x	276	50	18.1%
3.0x-4.0x	134	11	8.2%
>4.0x	95	4	4.2%
NAV	130	6	4.6%
Total	861	111	12.9%

Sources: KBRA, Trepp, issuance documents, and trustee and servicer remittance reports

Market Tier

KBRA stratified the population by market distribution into primary, secondary, and tertiary market categories. KBRA defines primary markets as the 17 largest metropolitan statistical areas (MSA), with secondary markets consisting of the 18th to 100th largest MSAs, and all other MSAs categorized as tertiary. The primary markets will generally have the deepest and most diverse economies while tertiary markets tend to be less diverse and more vulnerable to volatility during economic disruptions.

Generally, loans collateralized by properties in primary markets had a slightly lower default rate (16.6%) than those in secondary markets (17.2%) (see Figure 7). However, loans collateralized by properties in multiple market tiers (the “Various” category) had the lowest default rate (11.8%), excluding tertiary markets (10%), which only had a small sample population. The stronger performance of this category may be influenced by the economic diversification inherent in cross-market portfolios.

FIGURE 7
Defaults by KBRA Market Tier

Market Tier	Total Loans	% of Total	Defaults	Default Rate
Primary	307	35.7%	51	16.6%
Secondary	87	10.1%	15	17.2%
Tertiary	20	2.3%	2	10.0%
Various	365	42.4%	43	11.8%
NAV	82	9.5%	--	--
Total	861	100.0%	111	12.9%

Sources: KBRA, Trepp, issuance documents, and trustee and servicer remittance reports

Despite the slightly better performance in primary markets compared to secondary markets, the four markets with the highest number of defaults are New York (23 defaults), Los Angeles (seven), San Francisco (six), and Chicago (five), with cumulative default rates for these markets at 15.3%, 25%, 33.3%, and 29.4%, respectively. These outcomes were driven largely by the decline in office, which accounted for 56.1% of the defaults in these markets, with lodging a distant second at 14.6%.

Single-Borrower CMBS Default and Loss Study: Weathering the Storm (cont.)

Loan Balance

KBRA analyzed loan balances including *pari passu* debt held outside the SB transactions. In determining the entire *pari passu* loan balances, KBRA utilized the reported LTVs and appraisal values at securitization, as the actual *pari passu* loan balance is not easily and consistently available. If the LTV and appraisal value was not available, we defaulted to the reported loan balance in the securitization. Generally, a higher loan balance correlated with a lower default rate (see Figure 8).

FIGURE 8
Defaults by Loan Balance

Balance (MM)	Count	Total	
		Defaults	Rate
<= \$250	168	26	15.5%
\$250-\$500	337	46	13.6%
\$500-\$1000	234	28	12.0%
>\$1000	122	11	9.0%
Pop. Total	861	111	12.9%

Sources: KBRA, Trepp, Issuance documents Trustee and Servicer Remittance Reports

Resolutions and Losses

Figure 9 shows the current status of the 111 defaulted loans. Approximately one-half (53) remained with the special servicer and were still being worked out as of end of Q3 2025. The remaining loans were either reperforming (29)—generally loans brought current and/or modified and returned to the master servicer—or resolved (29), which includes all defaulted loans no longer outstanding with or without loss. Almost 80% of the reperforming loans (23 of 29) had their final maturity dates extended and are current on payments. The remaining six reperforming loans were modified and brought current, although two involved reduced interest payable, resulting in some certificateholders not receiving full interest accruals. In total, resolved loans account for over one-quarter (29 of 111) of the defaults.

FIGURE 9
Current Status of Defaulted Loans

Current Status	Count
Active Workout Ongoing	53
Reperforming	29
Final Maturity Extension	23
Other Modification	6
Resolved*	29
No Loss	21
With Loss	8

*Resolved loans with losses of less than 1% of original principal balance are categorized as No Loss.

Sources: KBRA, Trepp, Issuance documents Trustee and Servicer Remittance Reports

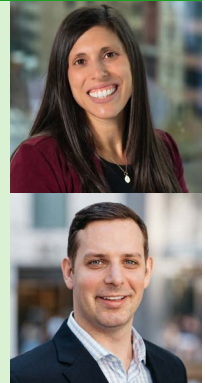
Among the resolved loans, KBRA determined that 21 had either no loss or a *de minimis* (<1%) loss to certificateholders, while the remaining eight loans incurred meaningful principal losses. However, in both categories, there may have been losses on subordinate debt held outside the transaction, and such information is generally not available. Of the eight loans with losses of ≥1%, one-half were collateralized by office (four), followed by lodging (two), multifamily (one), and retail (one).

Overall, the average loss severity of all resolved loans was 11.2%, while the loss severity of the eight loans with losses exceeding 1% was 40.3%. Among these eight, one loan incurred a loss of 3.9%, four had loss severities between 20% and 50%, and three had losses of greater than 50%.

The average time from default date to resolution was 24.0 months. Loans resolved with no or *de minimis* losses generally took longer (24.9 months) than those with losses above 1% (21.7 months). The longer time frame reflects a higher incidence of maturity extensions that delayed final payoff, even though the borrowers ultimately repaid those loans in full.

Changing Policy and Regulations in New York Multifamily Market: Is the Sector Facing the Perfect Storm?

Ariel Levin | Senior Vice President | CW Asset Management
 Rob Eslick | Vice President | CW Asset Management



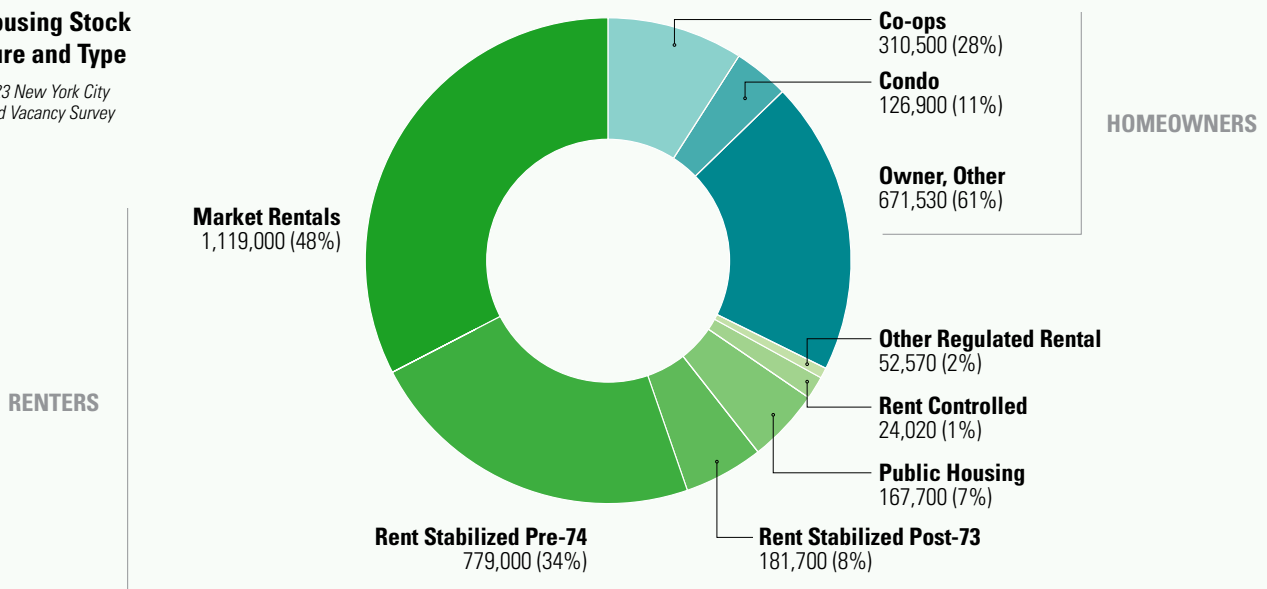
The New York multifamily market has long demonstrated resilience. It has withstood recessions, capital retrenchment, natural disasters, and historic tragedies such as the September 11 attacks, emerging stronger each time. Today, however, it faces a new and more complex test: a convergence of pressures, including structural regulatory reform, higher-for-longer interest rates, lender contraction, and rapidly rising operating expenses, rather than a single headwind.

Any one of these factors would have been manageable on its own. Together, they have transformed the economics of rent-stabilized housing and forced smaller scale generational owners, lenders, and investors to carefully reassess the path forward. Multiple structural and market-driven forces are colliding, creating a uniquely challenging environment for multifamily investors. Across New York City's housing stock, roughly 68% of units are renter-occupied, and approximately 42% of rental units are rent stabilized. This collection of units is facing pressure on its operating margins and net operating income. Increasing regulation has made multifamily operations more complex than they have been in years.

The recent transition to the Mamdani administration has added another layer of uncertainty, as investors and lenders evaluate how housing policy priorities may evolve and what additional tenant-protection or regulatory initiatives could emerge.

FIGURE 1
NYC Housing Stock by Tenure and Type

Source: 2023 New York City Housing and Vacancy Survey



Changing Policy and Regulations in New York Multifamily Market: Is the Sector Facing the Perfect Storm? (cont.)

A Regulatory Reset That Changed the Playbook

The Housing Stability and Tenant Protection Act (HSTPA), enacted in June 2019, fundamentally changed the revenue model for rent-stabilized assets. Prior to 2019, many investors relied on a well-understood value-add strategy: acquire rent-stabilized buildings, renovate units, deregulate them through permitted mechanisms, and gradually transition rents to market levels. That pathway has largely been eliminated. Rent increases are now tightly capped, and deregulation has become significantly more constrained and documentation-driven.

It is important to note that rent regulations have existed in various forms since WW1, and in many ways, are beneficial to tenants. That said, current regulations are not designed to withstand the supply-and-demand imbalance and the demands of today's market. It's too soon to say how future or pending regulations like COPA may impact future stability, but it remains a factor that buyers and sellers alike should monitor closely.

The implications are structural. Owners can no longer rely solely on operational upgrades to drive revenue growth. In some cases, units rent for under \$1,500 per month while property taxes, insurance, utilities, and labor costs continue to rise past that amount. The prospect of a rent freeze would only compound that imbalance.

At the same time, compliance requirements have expanded. New York's extensive local-law framework, encompassing lead-based paint testing and façade inspections, as well as emissions standards, gas-line mandates, and parking-structure inspections, has increased both capital expenditures and administrative burdens. These requirements serve important safety and public policy objectives, but they also represent real and recurring costs.

As such, operating expenses, including insurance, property taxes, maintenance, and utilities, have increased by 54%* since 2016, according to the [RGB Price Index of Operating Costs reports](#). Operational costs have shifted from the relatively predictable increases of the early 2020s to a more volatile and aggressive growth cycle.

Under the new administration, market participants are closely watching for additional housing policy initiatives that could further affect rent regulation, enforcement laws, or compliance obligations. Even the anticipation of policy expansion can influence investor sentiment, underwriting assumptions, and capital allocation decisions.

For investors, this means underwriting assumptions must reflect structurally capped revenue growth and elevated recurring compliance costs. The old value-add model is no longer a reliable driver of returns, and the valuation of New York City rent-stabilized properties has shifted from a "growth-based" asset to a "yield-constrained" asset.

Institutional capital has largely retreated from the rent-stabilized sector, leaving the market to local private operators who often capitalize on declining valuations to secure properties at deep discounts. The investment thesis has shifted from capital appreciation to proactive cost management, with buyers seeking immediate cash-on-cash yields to offset rising interest rates and regulatory headwinds.

Capital Markets Headwinds Add to Pressure

Mounting concerns about elevated interest rates and tightening market conditions are exacerbating regulatory reform and creating a risk-averse mood in the New York City multifamily market.

Many multifamily acquisitions in the early 2020s were financed with floating-rate debt at 2.5% to 3% and underwritten at cap rates of 4% to 5%. Today, higher borrowing costs have pushed cap rates upward and valuations downward. Refinancing risk has become a central concern, particularly for assets approaching loan maturity.

Liquidity has also narrowed as traditional lenders have retrenched from the rent-stabilized sector. Financing options have become more limited, with fewer banks actively originating loans in this space and a greater reliance on agency lenders and CMBS executions. Owners now face a more concentrated lending landscape, primarily consisting of select banks, agency lenders, and CMBS.

At the same time, underwriting standards have tightened. Lenders are applying increased scrutiny to rent rolls, historical rent increases, lease documentation, and regulatory compliance records, making refinancing more complex and, in some cases, less certain.

Investors should expect more conservative leverage, deeper diligence, and greater emphasis on documentation quality. Assets with incomplete records, unresolved violations, or negative cash flow face a materially smaller pool of buyers and lenders.

*The figure was calculated using data from RGB's Price Index of Operating Costs reports published over the last 10 years.

Changing Policy and Regulations in New York Multifamily Market: Is the Sector Facing the Perfect Storm? (cont.)

Operational Complexity and Execution Risk

Beyond regulation and capital markets, operating rent-stabilized housing in New York has become increasingly complex.

Evictions for non-payment, for example, can take significantly longer than in prior cycles due to court backlogs, procedural requirements, and tenant protections. Extended lead times have suppressed collection rates. Addressing building violations can also be slower. If violations occur within occupied units, remediation often requires scheduling access with tenants, coordinating contractors, and complying with notice requirements. Limited access or missed appointments can prolong correction timelines. Until violations are cleared, owners may face additional fines, restrictions, or barriers to refinancing.

In this environment, documentation is more than an administrative exercise; it directly affects value. Clean rent histories, properly executed lease riders, and complete regulatory filings are increasingly scrutinized in refinancing and sale processes. Lenders and buyers are examining these records closely, and gaps or inconsistencies can meaningfully narrow the available capital pool and weigh on pricing.

Strong management, legal expertise, and proactive compliance have become crucial differentiators. Investors evaluating opportunities in this market should prioritize operational capability as heavily as basis and location.

Turning Turbulence into Tailwinds: Despite the challenges, opportunity remains in New York City. It continues to exhibit deep housing demand, constrained supply, and global economic relevance. The current environment calls for disciplined underwriting, conservative leverage, and a clear understanding of regulatory exposure, but it can be navigated. Investors can no longer rely on rent growth assumptions to guarantee performance. The current environment demands greater attention to how managers operate, document, and finance multifamily assets.

In practical terms, preserving performance in this market often comes down to:

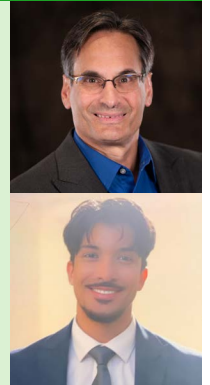
- **Hands-on asset engagement:** Closely reviewing collateral, financial reporting, and property-level performance to identify emerging pressure points early.
- **Local regulatory navigation:** Working with experienced local counsel and advisors to manage compliance requirements and respond effectively to policy changes.
- **Operational streamlining:** Ensuring qualified management teams are in place, tightening expense oversight, and improving day-to-day building operations.
- **Preparing for the long haul:** For those willing to weather the current storm or have flexible selling timelines, there are still massive opportunities in New York City. There's no place like it, and demand for assets there will always exist. Profit is less of a matter of if and more a question of when.

Bottom line: This is a perfect storm moment, defined by the convergence of regulatory reset, capital-market tightening, and operating-cost escalation. Investors who understand these structural shifts, underwrite conservatively, and align with experienced operators will be best positioned not only to endure the cycle but to capitalize on it in the years ahead.

*The figure was calculated using data from RGB's Price Index of Operating Costs reports published over the last 10 years.

Affordable Outperforms Market Rate Multifamily in 2025

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The misconception that affordable housing is a niche sector for non-profits has been dispelled by recent performance indicating otherwise. Income-restricted affordable multifamily properties (those in which at least 90% of units have rent restrictions tied to area median income in connection with a subsidy program such as “LIHTC”) produced 5.7% average growth in net operating income (“NOI”) in 2025, more than double the NOI growth of market rate properties, according to Yardi Matrix Expert.

On the back of stronger income growth, affordable properties outperformed market rate properties in 2025, according to data from Yardi Matrix Expert. Affordable projects nationally recorded an average 5.7% income growth in 2025, compared to 2.1% for market rate properties, per Yardi Matrix Expert. That helped produce 8.7% growth in NOI for income-restricted affordable multifamily units in the U.S., while market-rate units saw NOI increase by only 2.2%.

2025 marks the second year in a row income-restricted affordable properties outperformed market rate properties. The formulas used by the Department of Housing and Urban Development (HUD) that govern affordable property rents increased more than usual in 2024 and 2025, reflecting higher post-pandemic inflation and wage growth.

In 2025, the average allowable increase by HUD was more than 6.0%, with the highest rate at 9.2%. More than 70% of areas were allowed to raise rents by 5.0% or more, while a small number of areas had no growth. HUD’s numbers serve as a limit, so individual properties don’t necessarily increase rents by the full amount on renewals, but that allowable increases were relatively high demonstrates why income growth was strong.

In contrast, market-rate asking rent growth has cooled in many markets since the sharp rent surge in 2021 and 2022, particularly those absorbing heavy new supply. Market conditions can and will change.

Even so, studies over long periods have shown affordable housing to be a solid investment. The positive national numbers do not mean affordable housing properties are immune from struggling. A significant number of affordable properties have cash flow issues due to rapidly growing expenses, difficulty collecting rents and, in some markets, increasing competition with market rate properties. A study published in November by advisory firm CohnReznick found that although the median occupancy rate of LIHTC apartment properties is 97%, with few assets having occupancy rates below 90%, and a minuscule historical foreclosure rate of 0.5%, roughly one in four LIHTC properties report operating deficits.

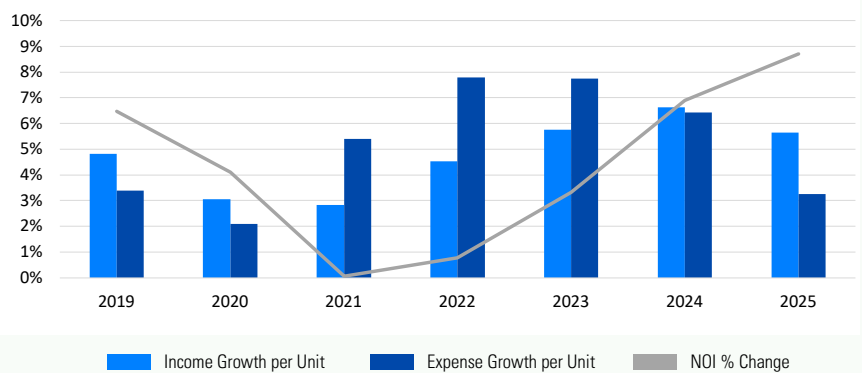
¹ U.S. Bureau of Economic Analysis

Affordable Outperforms Market Rate Multifamily in 2025 (cont.)

Affordable housing is mission-driven, but it is also an institutional asset class with durable occupancy and competitive long-run cash flow performance. Matrix Expert data show that over the last eight years, income-restricted affordable and market-rate properties were evenly split in terms of which segment generated higher annual NOI per unit.

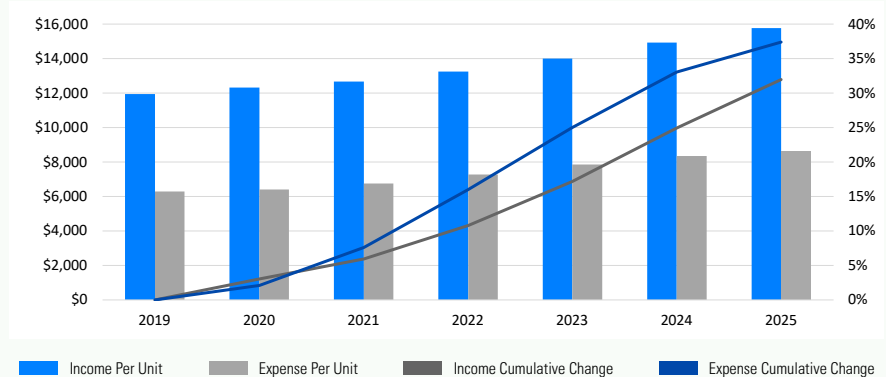
Matrix's database encompasses 120,000 multifamily properties with more than 20 million units across the U.S., including 26,000 income-restricted affordable properties with more than 3.5 million units.

FIGURE 1
YoY Change in Income, Expense, and NOI per Affordable Housing Unit



Source: Yardi Matrix Expert

FIGURE 2
Total Income, Total Operating Expense and Cumulative Change per Affordable Housing Unit



Source: Yardi Matrix Expert

Affordable Outperforms Market Rate Multifamily in 2025 (cont.)

Cooling Expense Growth

Multifamily properties have benefited from the easing of rapid expense inflation that occurred in the wake of the pandemic. Affordable property expenses rose an average 3.3% per unit in 2025, down from the 7.8% peak in 2022 and 2023, per Yardi Matrix Expert. Total expenses at affordable properties were \$8,627 per year at year-end 2025, up \$272 per unit over the course of the year, per Yardi Matrix Expert. Average income per unit rose even more, by \$844 to \$15,763.

The affordable property expense category that rose the most on a percentage basis in 2025 was marketing, which increased by 15.1%. Marketing expenses grew the most in the Southwest and in secondary markets, an indication that increasing competition with market-rate properties forced affordable operators in those areas to spend more on advertising to attract tenants. However, marketing is a relatively small part of the expense pie, averaging \$57 per unit per year.

Other affordable property categories with above-average growth in expenses in 2025 were repairs and maintenance and utilities, which both increased by 4.2% during the year, and payroll, which increased by 3.9%. Those three categories represent the largest chunk of expenses, led by payroll (\$2,176 per unit annually), repairs and maintenance (\$1,683 per unit) and utilities (\$1,519 per unit).

On the other end of the spectrum, affordable property insurance increased only 0.2% per unit and taxes 0.8% per unit. Both of those categories are also relatively small, with insurance averaging \$846 per unit annually as of year-end 2025 and taxes \$624 per unit.

The easing of insurance premiums comes as a relief after several years of explosive growth. Nationally, insurance costs at affordable properties have climbed an average of 126.2% since the start of the decade, with increases of 15% or more each year between 2020 and 2024. Insurance premiums were an average \$366 per unit in January 2020, and increased by \$480 per unit since.

FIGURE 3
2025 Expenses by Category

Category	YOY % Change	Dollar Amount
Total Expense	3.30%	\$8,627
Payroll	3.90%	\$2,176
Repairs/Maintenance	4.20%	\$1,683
Utilities	4.20%	\$1,519
Administrative	3.20%	\$942
Insurance	0.20%	\$846
Management	2.60%	\$739
Taxes	0.80%	\$624
Marketing	15.10%	\$57
Other	-3.10%	\$40

Source: Yardi Matrix Expert

Insurance costs started to level off in 2024 and flattened in 2025 as the higher premiums and a decline in large payout events helped insurers and re-insurers get a handle on balance sheets. Meanwhile, property owners took a variety of actions to reduce bills such as restructuring insurance in properties and portfolios, increasing deductibles, renegotiating loan terms and making property improvements. Some property owners in recent months report that insurance renewals are coming in a 5-10% discount to the previous year, making it likely that insurance costs should remain flat or even drop in 2026.

Affordable Outperforms Market Rate Multifamily in 2025 (cont.)

NOI Gains Led by Northeast, Southeast

Affordable housing income and NOI growth varied by region and metro in 2025, being highest in the Northeast and Southeast, and lowest in the Southwest. NOI at affordable properties rose an average of 12.9% per unit in the Northeast during the year, with 7.4% income growth outstripping 3.8% expense growth. The Southeast also outperformed the national average, with 11.3% NOI growth per unit in 2025. In that region, income rose 6.0% and expenses only 2.1%.

Northeast metros with high rents and large populations such as New York City, Boston and Philadelphia generally have a large gap between market rate and affordable property rents, creating plentiful demand for affordable units since many market rate properties are well beyond the reach of low- and moderate-income households. Affordable properties in those markets can raise rents at or near the maximum levels allowed by HUD and still be far less expensive than market-rate apartment options.

Affordable property performance was most subdued in the Southwest, where the average NOI rose 2.5% per unit in 2025, with income and expenses each increasing 2.5% as well. Affordable properties in some Southwest metros are facing growing competition from market-rate properties. Examples include Dallas and Austin, where the heavy new market rate apartment delivery pipeline is putting pressure on rents and making it harder to attract and retain tenants in affordable multifamily properties. The average income at Austin affordable properties fell 5.2% in 2025, and, combined with a 6.8% rise in expenses produced -18.9% change in NOI. The average income at Dallas affordable properties was relatively flat at 0.1%, with expenses rising 1.8% and NOI down 2.2%.

FIGURE 4
2025 Expenses by Region

Market	Income Per Unit T12 % YoY Growth	NOI Per Unit T12 % YoY Growth	Expense Per Unit T12 % YoY Growth
Northeast	7.40%	12.90%	3.80%
Southeast	6.00%	11.30%	2.10%
National	5.70%	8.70%	3.30%
Midwest	5.10%	8.30%	3.40%
West	5.30%	6.60%	4.00%
Southwest	2.50%	2.50%	2.50%

Source: Yardi Matrix Expert

Affordable Outperforms Market Rate Multifamily in 2025 (cont.)

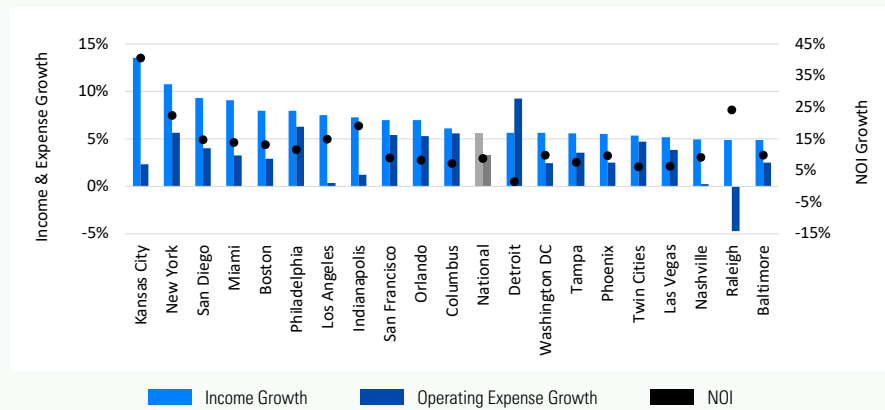
Pacific Northwest metros Portland and Seattle also recorded poor performance in 2025 as expenses far outgained income. The average affordable property NOI in Seattle decreased by 5.6%, with income rising 0.6% and expenses by 8.1%. Portland's average NOI fell 3.6%, with income up 0.4% and expenses 6.3%. Rent collections have been a challenge in the Pacific Northwest, even though post-pandemic eviction bans have ended. Both metros had above-trend expense increases in 2025, albeit in different categories. Seattle's insurance costs rose 14.5% in 2025, bucking the national deceleration, and the metro also saw high growth in repairs and maintenance, marketing, utilities and payroll. Portland saw rapid growth in repairs and maintenance and marketing.

Affordable Multifamily's Steady Performance

While the big-picture numbers for income-restricted affordable properties are healthy, the industry faces challenges that require operators to be diligent and focus on efficiency. Many properties are still dealing with the impact of several years of above-trend expense growth. The bifurcated economy has taken a toll on the financial wherewithal of lower-income families, increasing the difficulty in collecting rent in some markets including Atlanta, Charlotte and Washington D.C.

And the growing competitive environment for affordable owners in high-supply metros where market rate property rents have decreased is not going away. Matrix forecasts that rent growth will likely remain soft in 2026 in many markets, particularly in the Sun Belt, which means the ability of affordable owners to increase rents will continue to be limited.

FIGURE 5
Year-Over-Year Affordable Housing Income and Expense Growth by Metro



Source: Yardi Matrix Expert

Yardi Matrix's study is the latest data to demonstrate the steady long-term performance of housing targeting low- and moderate-income tenants. Other findings over the years have come to similar conclusions. For example, a 2021 study by the Texas Housing Conservancy, University of Texas associate professor Jake Wegmann and Southern Methodist University real estate researcher Mark Roberts, using National Council of Real Estate Investment Fiduciaries data, found that "moderate income apartments," those aimed at tenants making less than 80% of area median income, outperformed assets targeting higher-income renters over a 10-year period. The Texas study is not a precise apples-to-apples comparison, because the moderate-income apartments in the NCREIF study did not employ subsidy programs. However, it does illustrate the consistent demand for low-cost housing and that it can be a stable product for institutional investors.

The 2026 Election Outlook: Risks and Opportunities for CRE and Multifamily Finance

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Midterm elections, divided government, and a crowded CRE policy agenda: What the 2026 electoral map means for the issues that matter most to commercial real estate finance.

Midterm elections are historically unkind to the party that holds the White House, and 2026 appears unlikely to break that pattern. With President Trump's approval ratings under pressure and generic congressional ballots tilting toward Democrats, the prospect of a change in congressional control in one or both chambers is drawing serious attention from industry participants who track the legislative and regulatory environment. For the CRE and multifamily finance community, the stakes are real: a range of priority issues, from bank capital rules to tax policy to GSE reform, could see their trajectory shift significantly depending on November's outcome.

That said, the political picture is more complicated than a simple wave-or-no-wave binary. District-level competitiveness, ongoing redistricting, and the unusual ideological composition of both parties mean that even a Democratic majority would not necessarily produce uniform outcomes across the CRE policy agenda. Some of the greatest risks for the industry may come from unexpected bipartisan convergence rather than straightforward partisan opposition.

Election Math: A Complicated Map

The House

The House is widely considered the more likely chamber to flip. Republicans entered 2025 with one of the narrowest majorities in modern history—220 seats to Democrats' 215—meaning Democrats need a net gain of just three seats to reclaim the majority. Historical precedent is instructive: the president's party has lost between nine and sixty-three House seats in each of the last four midterm elections, suggesting even a modest political headwind could be sufficient.

The countervailing factor is structural. Fewer House districts are genuinely competitive than in prior cycles, and fewer exhibit a party mismatch between presidential and congressional results. Partisan redistricting in California, Missouri, Ohio, North Carolina, Texas, and Virginia adds further complexity. Current assessments suggest a modest net benefit for Democrats from those changes.

The Senate

The Senate, by contrast, initially appeared to be a strong map for Republicans, who hold a 53-47 advantage and are defending numerous seats in states President Trump carried comfortably. Only about one-third of Senate seats are up in any election. Democrats must achieve a net gain of four seats to break a 50-50 tie, since Vice President Vance would cast the deciding vote in a deadlocked chamber.

Despite those starting conditions, several Senate races have moved into competitive territory. A combination of retirements, recruiting success by Democrats, and the broader political environment has put Republican-held seats in Alaska, Maine, North Carolina, and Ohio in play. Democrats simultaneously face genuine exposure in Georgia and Michigan, both states Trump carried in 2024. The net result is a Senate outcome that analysts now treat as a genuine toss-up, with meaningful probability on both a sustained Republican majority and a Democratic flip.

The 2026 Election Outlook: Risks and Opportunities for CRE and Multifamily Finance (cont.)

What Divided Government Means for Legislation

The conventional expectation in a divided government scenario is gridlock with stalled nominees, blocked legislation, and a greater executive emphasis on regulatory and administrative action. That baseline is largely accurate, but it does not tell the whole story.

On nominations, a Democratic Senate majority would be in a position to block executive branch and judicial appointees, including financial regulators should vacancies arise at the Federal Reserve, OCC, FDIC, and FHFA. Even a Republican majority with a tighter margin could create confirmation difficulties for nominees seen as controversial within the caucus. Regulatory leadership vacancies can slow or pause ongoing deregulatory workstreams, a dynamic the industry experienced at various points during the first Trump administration.

The more significant procedural constraint involves budget reconciliation. Reconciliation allows tax and spending legislation to pass the Senate on a simple majority vote, bypassing the 60-vote threshold ordinarily required for cloture. It has been the vehicle for landmark legislation across both parties—including the Tax Cuts and Jobs Act, the Inflation Reduction Act, the American Rescue Plan, and the One Big Beautiful Bill. Without a party trifecta, reconciliation is unavailable to the administration's party, and major tax and spending changes become substantially harder to enact.

Gridlock is not uniformly negative for industry. If a divided Congress prevents expansion of regulatory burdens through legislation, that may be preferable to the alternative. The tradeoff is that constructive legislative priorities, including permanent program reauthorizations, tax code improvements, and targeted reforms face the same obstacles. Must-pass vehicles, including government funding bills, defense authorizations, and debt ceiling legislation, become the primary legislative lanes where deal-making remains feasible.

The 2026 TRIA reauthorization, for example, is a candidate for exactly this kind of bipartisan, must-pass action regardless of which party controls which chamber. History offers some precedent: even during the divided government of Trump's first term, Congress enacted multiple COVID relief packages and a seven-year TRIA reauthorization with bipartisan support.

A less-discussed dynamic is worth monitoring: **the growing overlap between GOP populists and progressive Democrats on certain financial policy issues.** Both wings have shown skepticism toward large financial institutions, institutional investors in residential markets, and certain capital markets practices. Bipartisan coalitions of this kind tend to be unpredictable and can move quickly. The Section 901 institutional SFR provisions in H.R. 6644 are one example; carried interest taxation is another perennial candidate. Industry participants should not assume that a divided Congress is uniformly protective.

CRE and Multifamily Policy: Issue-by-Issue Outlook

Banking and Capital Markets Regulation

Regulatory actions on bank capital, including the Basel III Endgame rulemaking, risk-weight frameworks for CRE exposures, and targeted SEC actions affecting CMBS securitization are administrative in nature and will continue regardless of congressional composition. Congress does have mechanisms to repeal rules through the Congressional Review Act, but a presidential veto of any rollback of his own regulators' actions makes that pathway largely theoretical. The more meaningful variable is nominees: a Democratic Senate that slows or blocks financial regulatory appointments could interrupt the pace of deregulatory action, particularly if vacancies occur at critical agencies.

The administration's parallel effort to reduce federal spending through DOGE-era agency cuts has already affected staffing and operational capacity at HUD, FHA, and Ginnie Mae. These agencies play a central role in multifamily finance. FHA and Ginnie Mae together backstop a substantial share of affordable and workforce housing production. Capacity constraints at these agencies, independent of any congressional action, represent an ongoing operational risk for multifamily lenders and developers. A Democratic Congress would likely use appropriations and oversight authority to scrutinize and potentially reverse some of those reductions, though the administration has been unafraid to defy Congress on attempts to undue executive actions.

TRIA Reauthorization

CREFC and a broad coalition of industry stakeholders are seeking a clean reauthorization of the Terrorism Risk Insurance Act ahead of its 2027 expiration. The political dynamics here are relatively favorable regardless of which party controls Congress. TRIA has historically attracted bipartisan support, and a Democratic majority would be no less likely to prioritize reauthorization. The greater risk is that TRIA becomes entangled in broader legislative negotiations or government funding disputes, where must-pass bills can attract unrelated policy riders. The industry's interest is in keeping reauthorization clean and moving it before the 2026 election cycle fully consumes legislative bandwidth.

Tax Policy

The 2025 One Big Beautiful Bill made several key investment incentives permanent, reducing but not eliminating fiscal cliff risk going forward. The more significant tax vulnerabilities for CRE exist at the intersection of expiring provisions and a divided Congress willing to use fiscal pressure points as negotiating leverage.

The 2026 Election Outlook: Risks and Opportunities for CRE and Multifamily Finance (cont.)

Several tax provisions important to real estate investment have been targets in Democratic fiscal proposals in recent years: the carried interest treatment for fund managers, like-kind exchange rules under Section 1031, and opportunity zone benefits. None of these was eliminated in the 2025 legislation, and a divided Congress makes near-term statutory changes less likely but it also makes them available as bargaining chips in any grand fiscal negotiation. The industry should monitor any scenario in which a debt ceiling or government funding impasse creates pressure for a revenue package, as these provisions tend to resurface in those contexts.

On the other side of the ledger, Democratic majorities have historically been more willing to expand housing-related tax credit programs. The Low-Income Housing Tax Credit has maintained bipartisan support, and a boost was included in the 2025 Republican reconciliation bill. A Democratic majority might advance middle-income housing tax credit proposals or expanded conversion tax credits with greater urgency. Progressive skepticism toward public-private partnerships, however, could complicate some of those arrangements even within a Democratic majority.

Housing Policy and Institutional SFR

Housing affordability and supply have emerged as genuinely bipartisan concerns this Congress, though the preferred policy mechanisms diverge significantly by party. The White House's push to limit large institutional investors from purchasing single-family homes to rentrepresents one area where a Republican administration and progressive Democrats may find common cause, as noted in CREFC's prior analysis of that provision. A Democratic Congress would not necessarily be more protective of institutional SFR investment than a Republican one.

Democratic majorities historically favor increased federal spending on housing supply such as assistance programs, and infrastructure grant but also well as greater regulatory requirements on lenders and servicers. Congressional oversight of fair lending, appraisal bias, and community reinvestment could intensify under Democratic committee leadership, adding compliance considerations for CRE lenders with residential exposure.

GSE Reform and Conservatorship

Administrative efforts to release Fannie Mae and Freddie Mac from federal conservatorship are likely to continue regardless of the election outcome, as they are within the executive branch's discretion. Legislative action on comprehensive GSE reform is never easy to accomplish given the complexity of the mortgage finance market and becomes even less likely in a divided Congress.

A Democratic Congress theoretically could use hearings and legislation to advance their own vision of GSE reform, including expanded affordable housing mandates, changes to guarantee fee structures, or new capital requirements. The GSE question in a divided government could reframe the terms of the debate in ways that affect CRE lending conditions and secondary market access.

Government Spending and Shutdown Risk

Shutdown risk is elevated regardless of who controls Congress. The current Republican majority has already encountered sustained difficulty passing government funding legislation, and a divided Congress would intensify those dynamics. Both parties may calculate that shutdown standoffs serve their political interests, creating episodes of policy uncertainty that complicate long-term investment planning. The debt ceiling was raised in reconciliation by \$5 trillion and is expected to hold to 2027. If left unresolved before a power shift, the issue could become a particularly high-stakes negotiation in a divided government scenario. For the CRE finance community, which depends on stable credit markets, extended government funding disruptions could pose macro and operational risks.

Conclusion: Positioning for Uncertainty

Six months is a long time in politics, and the 2026 electoral landscape will continue to evolve as candidate fields solidify, redistricting litigation resolves, and the administration's policy record becomes the central campaign question. What the current environment already makes clear is that CRE and multifamily finance interests are not neatly served by any single electoral outcome.

A sustained Republican trifecta offers the clearest path to continued deregulatory action and a favorable tax environment, but carries the risk of populist legislative initiatives that could impose significant compliance costs on the broader industry. A Democratic Congress introduces pressure on certain tax provisions and expands oversight activity, but it may also produce constructive outcomes on housing supply and TRIA reauthorization. Divided government most likely produces gridlock on the biggest structural questions, while concentrating the policy action in regulatory agencies and must-pass legislative vehicles.

For industry participants, the practical implication is to engage across all of these scenarios rather than to bet on a single outcome. The issues that matter most to CRE finance—capital rules, tax treatment, GSE policy, TRIA, housing supply—are all live regardless of November's result. The question is which levers are available in which configuration.

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