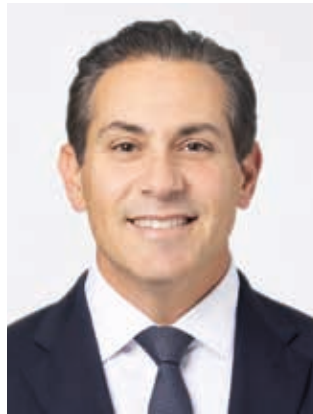


# KEYNOTE INTERVIEW

## Discipline and creativity define the best risk-reward in real estate credit



*A relative value approach to investing across public and private markets, combined with the ability to structure bilateral deals and maintain control, is how to drive outperformance, argues Lee Levy, head of real estate debt at Kayne Anderson*

The US commercial real estate lending market matched its 2021 peak volume in 2025, but there is still over a trillion dollars of loans maturing through 2027. A significant portion of these were originated at peak real estate valuations and in a zero-interest-rate environment.

Refinancings will continue to account for more than two-thirds of the origination volume this year with the expectation that asset sales will continue to trend towards peak transaction volume, suggests Lee Levy, head

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of real estate debt at Kayne Anderson. Among them will be opportunities to generate outsized risk-adjusted returns by providing solutions for situations with over-leveraged capital stacks held by lenders tired of extending.

**Q How liquid are US real estate credit markets right now?**

The last 12 months have been marked by episodic volatility, geopolitics, interest rate uncertainty and uneven economic data. But real estate credit markets have been resilient due to all the liquidity in our space. Investors have kept deploying wherever they can find attractively priced opportunities.

Last year, around \$850 billion of loans originated in the US, which is close to the peak of the market in 2021 and more than double the low point of \$400 billion. A lot of that was driven by refinancings. Investment sales volume

hasn't yet picked back up to where we were in 2021, which shows that buyer and seller price expectations still don't align. Despite the periodic noise in the capital markets, real estate credit has held up well.

In terms of liquidity, there is \$250 billion-\$300 billion of dry powder in real estate equity and debt funds. Money center banks and life insurance companies are open for business, after muted activity from 2021 to 2023, and the CMBS and CLO markets have been very well bid.

There are plenty of players willing to provide debt. The hardest thing to navigate right now is loan proceeds being pushed higher at tighter spreads. That's where a relative value approach matters, comparing where bonds are trading and how the spread premium and risk profile compares to writing or buying loans ourselves, then overlaying the asset class and leverage point.

### Q What is the nature of the refinancing situations you're seeing?

There is a bifurcation among the loans originated in 2020 through the first half of 2022 that are now coming due. The majority will refinance with regular debt, but some situations are over-levered, particularly in office and multifamily. These asset classes hit their peak cycle values in 2021 and 2022. Sponsors are much more realistic today about where values sit, having come to the realization that 2021-22 pricing is behind us and interest rate cuts aren't going to save the day.

We have seen multifamily deals coming up for refinancing with what I would call an upside-down capital structure, in which the senior mortgage and subordinate debt is now at an attachment point close to or through the value of the real estate. That is in part because they were highly levered at the time of acquisition, with subordinate debt taken in addition to mortgage debt.

In addition to the aggressive capital structures, the base rate is over 350



### Q What are the key considerations when underwriting loans?

Regardless of the state of the market, we always look at the real estate first. Don't get me wrong, sponsorship is incredibly important, but we are making non-recourse loans. We start with a real estate valuation, underwriting the market and the assets. Then we look at the sponsor. Sponsorship quality becomes even more important when we're looking at development deals or loans that are already experiencing distress.

When looking at buying loans, understanding the loan documents is especially crucial because they are loans we did not structure. The sponsor, loan structure, proceeds and pricing are all important, but for us it all starts with the real estate and our knowledge of the sectors.

On the topic of sector selection, Kayne Anderson focuses on multifamily, student housing, seniors housing, medical office, industrial and self-storage. These are the same asset classes that our equity team invests in. Choosing the asset classes we invest in is purposeful. Our strategy, sector experience and relative value lens across private and public markets allow us to be wherever the best risk-reward is.

We perform a deep dive on the submarket, the sponsor's ability to execute on the business plan and that the asset has enough of a presence in the market to be able to achieve our underwriting. Then it's a question of whether the loan makes sense. What's my basis compared to our view on value today and value in the future? Can I structure the loan to protect my downside?

We structure our loans with milestones and covenants, pre-leasing or lease-up thresholds that let us check in along the way. If the business plan starts to veer off course, those mechanisms allow us to come back to the table and re-establish alignment.

Every deal has its own structural nuances and our capital is flexible, so where the real estate is good, we figure out an approach that meets the sponsor's needs and makes sense from a risk-reward perspective for our investors.

basis points higher, which has put pressure on debt service coverage. Rental growth that was expected to continue at 3-5 percent has slowed or turned negative. Many sponsors can't sell at the prices they want, so they're looking to the lending community to buy more time.

We're seeing bridge loans being refinanced with new bridge loans instead of a sale or a refinance into permanent debt. That activity is coming both from sponsors and from lenders who have been sitting on assets that haven't hit their business plans.

Between now and 2027 there is approximately \$300 billion of loans maturing that have an LTV of 80 percent or higher, and of that about \$120 billion is in the multifamily sector. If you look at who provided those maturing loans, about a third came from banks.

### **Q What opportunities does that create for alternative lenders?**

It will be debt funds, not banks and life insurance companies, that do most of the refinancing in those situations. However, banks still play an important role, because they provide back leverage for firms like us, which allows us to provide liquidity and creative solutions to the market. Banks are still participating, but they are not taking the last dollar of risk.

Part of our focus is providing liquidity to the market and to banks who are dealing with assets that are over-levered. They need to access creative financing that offers them a way out of that situation.

Our capital is flexible, so we can create a loan that fits the business plan. We make bilateral deals and we deal directly with the sponsor on a case-by-case basis, so we create the structure and pricing we consider commensurate for the risk on that asset. We're not buying into a syndicated process where the economics are baked. We try to provide single-source execution,

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*“Remaining disciplined is key, not chasing pricing and structure downward to secure deals”*

so the sponsor doesn't have to find separate mortgage and mezzanine debt.

Alternative lenders like us also buy performing, sub-performing and non-performing loans. The smaller banks have a large exposure to commercial real estate, up to 30 percent of total assets, so they are more likely to be the sellers, particularly of troubled loans. Large, well-capitalized banks can absorb losses, so there hasn't been a catalyst to force them to sell. But we see situations where banks have already modified loans and given extensions – at some point, they need to move on and sell the loan if there is no repayment on the horizon. When a situation gets close to default, the capital charges become so high that selling the loan is the rational position.

### **Q Looking ahead, what do you expect to be the principal challenges and opportunities?**

Remaining disciplined is key, not chasing pricing and structure downward to secure deals. We do equity-style underwriting on every investment to ensure we are downside-protected through a secure basis and strong loan structure. We're leaning in on deals where we like our going-in basis, in asset classes and submarkets where we expect outperformance.

It helps that our capital is very flexible. We can make loans or we can buy loans, and in the bond market we can buy new issue or buy in the secondary market. Our business has the scale and capital base to enable us to step into larger deals. The banks are not chasing large, highly structured deals through the last dollar of risk.

Last year, a large portion of our investments were in the housing sector. In 2026 we are making a push into self-storage and into the large loan sector of the broader market. Self-storage has seen some pain for equity investors, but it can be an attractive debt investment for the right deal. ■