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CRE Lenders Optimistic Despite Interest Rate Uncertainty

CRE lenders are gearing up for activity increasing this year, with a focus on strategic sectors and an eye on risk management.

This is according to Slatt Capital's recent lender sentiment survey, which noted that lenders are navigating a landscape with both opportunities and challenges. These include interest rate uncertainty, shifting market dynamics and competition for deals.

The trajectory of interest rates continues to be a key focus for lenders. About two-thirds of survey respondents believe the 10-year Treasury rate will settle between 4.25% and 4.75% by the end of the year. About 7% expect it to exceed 5%, the report said. Lenders were split on whether the inverse relationship between Fed Funds rates and the 10-year Treasury will persist, with 42.6% indicating they believe it will, while the same percentage said they are unsure.

Rising interest rates are the biggest obstacle to lending this year, according to nearly half of those surveyed. Market instability, including valuation challenges, as well as vacancy risks and rent trends are a concern for 22.1% of survey respondents. Competition among lenders was a factor for 16.2%.

Underwriting changes were not seen as a major challenge. Despite some issues there, 72.1% of lenders said they plan to increase their lending allocations this year, while only 3% said they will decrease them. Activity is expected to accelerate during the second half of the year.

Lenders are most attracted to the multifamily sector, with 41.2% of lenders naming it as their most competitive focus. Industrial followed at 25% and retail at 14.7%. Meanwhile, office continues its struggle, with 62% of lenders saying it will be their least competitive sector this year.

Lenders expect bridge lending to increase in volume led by debt funds and private lenders. Traditional banks and credit unions are expected to be the least competitive lenders in 2025 as they face headwinds, said the report.

“With lending allocations rising and private debt players expanding their foothold, 2025 is shaping up to be an active year,” said the report. “However, the industry remains divided on where interest rates will land, how much risk appetite will grow, and which sectors will outperform.”