PRESS RELEASE

SLATT CAPITAL

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Banks and Life Companies Compete for Bridge

Bridge lending will become more competitive heading into 2027 as more new lenders enter the space. Look for debt funds and private lenders to be the most active, although keep an eye out for several life companies and other institutional balance-sheet lenders competing for short-term floating-rate and transitional loans, often at lower leverage but with more competitive pricing than the debt funds. Banks have also reentered the space and hope to pick up market share. Bridge demand will increase as borrowers do not want to lock into a long-term fixed rate without the flexibility of repayment. Also, cap rates are increasing, which is decreasing the underwritten values of many properties.

Most bank and life company lenders will max leverage in the 65% to 70% range for the very best deals. Loans with recourse will see spreads as tight as 100 basis points over the index, with non-recourse transactions in the low to mid-200 basis points to 300+ basis points over SOFR range based on leverage, sponsor profile, risk and market.

Banks such as Goldman Sachs, KeyBank, BofA, Wells Fargo, Bank OZK, Regions, Axos Bank, Banc of California, First National, Beal Bank, Centennial Bank, Columbia Bank (who recently acquired Pacific Premier), Northeast Bank, SouthState Bank and Valley Bank will become more active going forward. Life companies such as PGIM, Barings, Pacific Life, Principal, MetLife, New York Life, Voya, Symetra, Ameritas, American Life Financial and StanCorp Mortgage Investors will also play in the bridge space. Life company rates will be around 6% to 6.75%, with exit cap rates at or above going-in caps. Projected underwriting NOI will be utilized.

Count on these lenders to heavily scrutinize the exit. They will want to know if it will be a sale or refinance and how they are getting out of the loan to ensure the short-term nature of a bridge does not turn into a long-term loan. Watch for them to underwrite exit assumptions more conservatively because of ongoing uncertainty about property values and cap rates. These lenders will stress test debt yields, takeout financing assumptions and exit cap rates in response to recent bond yields gapping out.

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Multifamily will see the most bank and LC interest as it has the clearest exit. Industrial, student and senior housing will also attract bridge capital, along with anchored retail, self storage and office where there is a compelling basis. Multifamily in overbuilt markets, especially the Sun Belt, will need bridge capital as sponsors wait for absorption to catch up and rates to fall. Lenders are shying away from assets in markets with uncertain tax liabilities and rent-regulation exposure. Lease-up office requests are challenging as lenders have pulled back on office lending, especially in markets with oversupply.

Capital will seek markets with limited new supply and steady rent growth, especially throughout the Midwest and Northeast, while banks and life company lenders will be cautious in many oversupplied Sun Belt metros until 2027 deliveries clear. Cities with strong net absorption, net migration and job growth fundamentals, such as Phoenix, Dallas-Fort Worth, Atlanta and Greenville-Spartanburg, South Carolina, will be desired. Also, watch for New York/Northern New Jersey, Chicago and the San Francisco Bay Area to be sought after. These markets have extensive existing inventories, active investors and opportunities to finance lease-up, acquisitions, TIs and recapitalizations. On the other hand, Austin, Denver, Seattle, Charlotte, North Carolina, and Tampa, Florida, will be tougher when it comes to multifamily bridge loans because of oversupply, rent concessions and uncertain stabilization in those markets.

Experience is a must in the current market. These lenders will target sponsors with proven and verifiable experience, especially for office properties and deals requiring a heavy lift. Recourse requirements will vary. Most larger transactions will be structured as non recourse, while loans below $10M will vary depending on property type and perceived risk. If the property has cash flow, then non recourse will be available. Borrowers can often obtain better pricing and higher proceeds if willing to provide a guarantee. Net worth needs to at least equal to loan amount with 10% in liquidity. Some lenders are able to accept a lower net worth with enhanced liquidity. Banks could require some deposits.

About Slatt Capital

Slatt Capital is a long-standing, respected institution with 55 years of experience in commercial mortgage banking. It has correspondent relationships with the country's most prestigious capital sources, providing custom-tailored solutions for sponsors' needs. In addition to assisting clients with debt and equity placement nationwide, Slatt Capital manages a $5.2 billion servicing portfolio. To learn more, visit us at www.slatt.com or follow us on LinkedIn.

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