

## KEYNOTE INTERVIEW

# The future of commercial real estate and mortgage REITs



*Evolving market dynamics, rising interest rates and sector-specific challenges are reshaping lending strategies and unlocking targeted opportunities, says FBRT's Richard Byrne*

The commercial real estate sector is undergoing a period of adjustment, marked by asset repricing, tight liquidity and a growing wall of debt maturities. Despite these headwinds, opportunities are emerging, particularly for lenders with fresh capital focused on resilient sectors. According to Franklin BSP Realty Trust CEO Richard Byrne, these evolving dynamics are redefining the role of commercial mortgage REITs and reshaping the broader lending landscape.

**Q How would you characterize the state of the commercial real estate market?**

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The commercial real estate market remains in a state of transition, following a series of significant, concurrent disruptions. One of the most impactful was the sharp rise in interest rates in 2022, which came on the heels of record-breaking transaction volume in 2021. As borrowing costs increased, cap rates moved higher, resulting in meaningful valuation declines across asset classes.

The office sector, in particular, continues to face the greatest challenges. While performance varies by market

and asset, the overall outlook is weak. Many suburban office markets as well as troubled locations, such as San Francisco and Portland, have seen office property values severely impacted. Taken together, the broader market correction and sector-specific stress have created potential losses for owners and growing pressure on lenders with office exposure.

**Q Do you believe commercial real estate is on the path to recovery this year? And if so, what might that recovery look like?**

We do not believe we will see a broad recovery in commercial real estate this

year. Two key factors continue to weigh on the market: the lingering effects of higher interest rates and the persistent challenges in the office sector.

The office market, in particular, faces a longer road to stabilization. It could take another two to four years for the sector to reach a more balanced state. That said, the absence of new office construction is ultimately a positive – it allows time for supply and demand to realign.

Separately, the impact of elevated interest rates remains significant. There has been considerable attention on the looming debt maturity wall, estimated at up to \$3 trillion, but many of those loans have simply been extended rather than resolved. Much of the market has been kicking the can down the road, and the maturity wall continues to grow.

Sooner or later, it will need to be addressed. A meaningful decline in interest rates could help accelerate resolution, but even in that scenario, working through the backlog will take time. In the interim, many borrowers will need to contribute additional capital to fill the gap.

### **Q How has the current market dislocation, particularly around interest rates and the office sector, impacted performance for mortgage real estate investment trusts?**

The commercial mortgage REIT sector has faced significant headwinds stemming from elevated interest rates and ongoing challenges in the office sector.

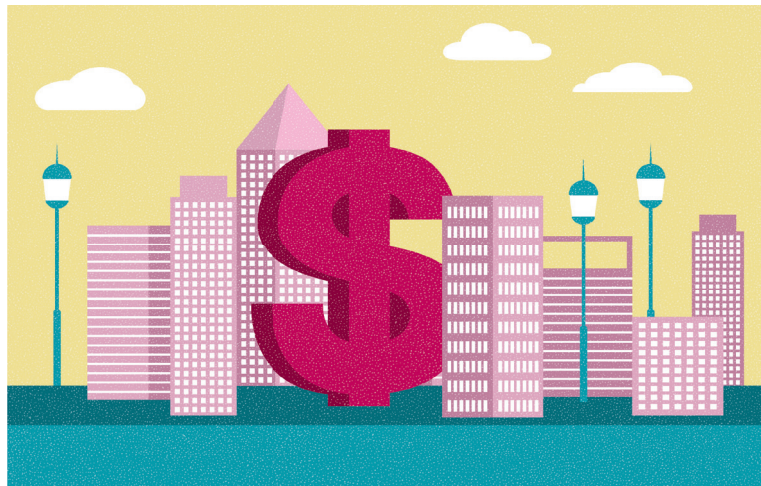
On average, mortgage REITs had approximately 25 percent exposure to office assets. Many of these legacy loans still need to be either resolved or marked down, which has led many lenders to preserve liquidity and proceed cautiously.

Higher interest rates have also slowed the return of capital. Many borrowers have opted to modify or

### **Q Will multifamily remain a focus in the industry, or are other sectors gaining attention in commercial real estate debt?**

While multifamily continues to be a core focus, we continue to see opportunity in the hospitality sector, particularly hotels. That said, underwriting discipline is critical. Not all hospitality assets are created equal. Business-oriented hotels located in central business districts often have performance closely tied to the office market, which remains under pressure.

Our approach emphasizes destination-driven hotels in regional markets, where demand is supported by leisure travel and local economic fundamentals rather than office-related foot traffic. These opportunities are asset-specific, requiring detailed understanding of each property's positioning and market dynamics.



extend existing loans, effectively delaying repayment. This limits the ability of lenders to recycle capital into new opportunities, as fresh deployment largely depends on the return of existing capital.

That said, a new and compelling vintage of loans has emerged in this higher-rate environment, offering some of the most attractive opportunities we have seen in over a decade. One of the key metrics we track is the percentage of our portfolio originated after interest rates began to rise. Nearly 60 percent of our loans fall into this post-rate-hike category.

These new loans are often secured by the same underlying properties as prior vintages, but at meaningfully

reduced valuations – typically 20-25 percent lower. We are originating at 60-65 percent loan-to-value based on these adjusted figures, which effectively puts our true LTV exposure below 50 percent.

As the market moves toward normalization, lenders are likely to become more active, but that process will take time. Many banks, which collectively hold about half of all outstanding commercial real estate debt, remain constrained. Roughly 70 percent of that exposure sits with smaller regional banks. While these institutions are eager to re-enter the market, many remain sidelined by legacy office loan exposure that has yet to be fully worked through.

### **Q Where are you seeing the most compelling opportunities in today's market? Are there any areas or sectors that stand out right now?**

One of the most compelling dynamics in today's market is the shortage of active lenders relative to the volume of capital that has exited the system. This dislocation presents a meaningful opportunity; one we believe will endure for some time.

Our preferred way to capitalize on this environment is by originating first-lien loans. While much of the new capital entering the market is being deployed through mezzanine or distressed equity strategies, we remain focused on the top of the capital stack, typically in the 60–65 percent loan-to-value range.

We are particularly focused on the multifamily sector, especially in high-growth US Sun Belt markets such as Texas, Florida, Georgia and the Carolinas – places where people want to live. We prioritize investments in Class A or high-quality Class B assets. At today's reset valuations, we believe these investments represent a highly resilient portfolio foundation.

Multifamily is our highest conviction sector because the fundamentals are incredibly strong. Single-family housing is underbuilt. With home prices on the rise and interest rates still elevated, ownership is increasingly unaffordable for many. There remains a healthy amount of liquidity in the market for multifamily assets. Whenever we sell a multifamily property, there are multiple bidders.

Given the limited new supply today and lack of construction, we expect to see rent growth in the coming years. While a wave of new construction may eventually create a supply glut, we believe in what Wayne Gretzky once said, "You skate to where the puck is going to be." In this case, that means positioning for the next phase of growth in multifamily.

### **Q FBRT announced the acquisition of agency multifamily lender NewPoint that closed in Q3 2025. What are the synergies and new opportunities in the multifamily market that this acquisition provides?**

We view this acquisition as a highly complementary and strategic fit, one that aligns closely with our strong conviction in the multifamily sector. NewPoint is one of only 19 multifamily lenders approved by all three government-sponsored enterprises: Fannie Mae, Freddie Mac and the US Department of Housing and Urban Development. Their agency expertise aligns with our focus on transitional multifamily lending.

The loans we originate are typically structured at the front end of the lifecycle, often requiring capital improvements or lease-up before stabilization. The natural takeout for these loans is agency refinancing. With this merger, we are creating a seamless platform that spans the entire lending continuum, from transitional bridge lending through to long-term agency financing.

*"Multifamily is our highest conviction sector because the fundamentals are incredibly strong"*

We also see strong cross-platform referral potential. Many of the loans across our portfolio are candidates for agency execution, and likewise, NewPoint's relationships can generate opportunities for transitional lending. In addition, a robust servicing platform brings a predictable stream of long-term fee income through mortgage servicing rights. Ultimately, the combined platform will offer both stability and scalability, with the ability to grow agency originations while maintaining book value, positioning the post-merger entity for long-term success in the multifamily lending space.

### **Q How do you see the evolving landscape of mortgage REITs in private equity real estate over the coming years, particularly with the rise of alternative lending platforms and potential regulatory changes?**

Commercial mortgage REITs will remain an essential component of the real estate financing ecosystem, particularly as traditional bank lending becomes more constrained. In periods of volatility, the role of non-bank capital providers becomes even more critical, offering much-needed liquidity and flexibility across the market. We believe well-capitalized and strategically managed mortgage REITs will continue to gain market share, while less competitive platforms may ultimately consolidate into stronger entities.

Capital will increasingly flow toward scaled platforms with proven track records, robust balance sheets and the ability to navigate complexity.

Periods of disruption, while operationally demanding, also provide opportunities to differentiate. Our mortgage REIT has performed consistently well, in large part due to disciplined underwriting and limited exposure to challenged sectors like office. In today's environment, performance is driven not only by access to capital, but by the ability to allocate it thoughtfully. ■