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## Solving for volatility

*Alternative lenders were ready for a market reboot. What they got instead was a return of disruption, writes [Henry Leonard](#)*

The extreme volatility that upended equity and debt markets throughout March and April continues to reverberate across commercial real estate capital markets. As lenders juggle increased execution risk and pricing uncertainty, participants in *PERE Credit's* alternative lenders roundtable, held in New York on April 27, warn it may be several months before the full effect of the recent turmoil is clear.

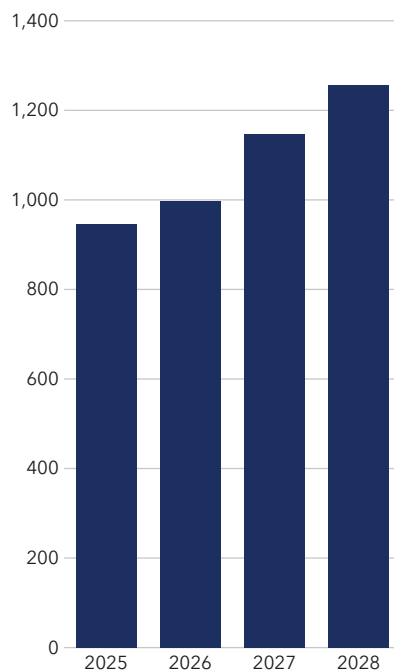
While the most liquid segments of the market – namely traditional bank finance and commercial mortgage-backed securities lending – were hit hardest by the turbulence, pricing has not gapped out as much as expected. Estimated widening averages are around 25 basis points, or 50bps in extreme instances depending on property type.

What is clear is that the recent nascent recovery has, for now, been halted. “People felt like transaction volumes had been going up, that there was a growing comfort in the market, and we were getting closer to full activity. Obviously, that’s not the case now,”

says Steve Fried, head of originations at Los Angeles-headquartered Mesa West Capital.

A slowdown could bring about a

**Borrowers continue to seek extensions on loans, which is reflected in the \$960bn of maturities expected this year (\$bn)**



Source: S&P Global

greater tilt toward high-quality deals, according to Katy Mao, a managing director at Oaktree Capital in New York.

“For private lenders, pricing may have widened a little, but lenders are still closing transactions. The CMBS/CLO market is where a real risk of execution exists,” says Mao. “Who knows where the market will be seven, or even two days from now? That’s what we’re seeing – more certainty on execution from the private lenders and high-quality deals that still have liquidity, but the more challenged ones are going to be even harder to get done.”

For Peter Gordon, head and chief investment officer of commercial real estate debt at AllianceBernstein, the current environment still offers alternative lenders a range of capital deployment opportunities. “If banks and CMBS lenders, who together make up more than 50 percent of the lending universe, are holding back from the market, then we as private lenders – who have capital that is neither bank-regulated nor driven by the securitized markets – have an opportunity to step in.”

AllianceBernstein is active across

PHOTOGRAPHY: ROBERT A RIPPS

**Yorick Starr**

Managing director,  
Invesco Real Estate

Starr leads Invesco Real Estate's East Coast loan origination, which focuses on institutional-quality non-recourse floating-rate senior and subordinate loans on transitional properties. Prior to Invesco, Starr held a series of senior roles at Wells Fargo Bank, including several years in the bank's special situations and real estate merchant banking groups.

**Katy Mao**

Managing director,  
Oaktree Capital  
Management

Mao, who joined Oaktree in 2019, leads East Coast originations for the firm's real estate debt platform. She joins the firm from BlackRock, where she targeted high-yield real estate debt opportunities. Mao has also held senior roles at Five Mile Capital, EuroHypo and Credit Suisse. She started her career at Morgan Stanley.

**Nasir Alamgir**

Head of US and  
European real estate  
debt, Barings

Alamgir leads the US and European real estate debt business at Barings across investment funds, regions and asset classes. Prior to this role, he headed US real estate debt portfolio management. Alamgir joined Barings in 2016 and has filled senior roles at Starwood Capital Group, Commerzbank/EuroHypo and Bank of America.

**Peter Gordon**

Head and chief  
investment officer,  
US commercial  
real estate debt,  
AllianceBernstein

Gordon oversees a portfolio of more than \$12 billion of capital from insurance companies, pension funds and banks. He joined the firm in 2016 from Angelo Gordon, where he oversaw the whole loan team. He has also filled senior positions at Goldman Sachs and Morgan Stanley, working across all aspects of the commercial real estate finance space.

**Steve Fried (inset)**

Head of originations,  
Mesa West Capital

Fried joined Mesa West in 2005 and has been instrumental in helping the firm to expand its commercial real estate lending across the US. He oversees national loan originations teams based in Los Angeles, Chicago and San Francisco. Prior to Mesa West, Fried held a senior role in Deloitte & Touche's New York-based private equity group.

the credit spectrum. In his role, New York-based Gordon oversees nearly \$12 billion in raised capital from a mix of insurance companies, pension funds, family offices and high-net-worth individuals in the form of closed-end funds, separately managed accounts and a non-traded REIT.

“During these periods of volatility, some of our best deals can be made, as there is less capital competing for essentially the same number of deals,” he says. “If your positions are to be marked daily, then there is a reticence to lend in a volatile environment where you may take book losses soon after originating. But if you’re a hold-to-maturity lender, like many of us are, you can lean into periods of less competition and generally will get better covenants and maybe better pricing because you’ll not be competing against the lowest common denominator capital.”

Fried – who oversees originations nationally for debt-focused Mesa West – also sees opportunities for attractive yields with good credits. “In our spaces, where the CLO shops had previously been leaning in pretty heavily, there has been a lot of recent volatility. If you are a balance sheet lender using back leverage, it’s really creating an opportunity where you can find higher-quality real estate and high-quality sponsors.”

### Shifting pipeline

As the dust begins to settle on an eventful few weeks, one identifiable trend has been the steady pivot away from acquisition financing and back toward refinancing activity, according to Nasir Alamgir, head of US and European real estate debt at Barings, based in New York.

“In the first quarter, our pipeline was comprised of 65 percent refinancing and 35 percent acquisition financing. Now, when I look at our forward pipeline, it’s back to the 80-90 percent refinancing levels of the first quarter last year, and 10-20 percent – at best – acquisition financing,” says Alamgir.



*“The consideration now is whether or not there is going to be execution risk”*

**KATY MAO**  
Oaktree Capital Management

“It’s been a very quick shift.” Those levels are likely to put a dampener on potential productivity, just as the market had been hopeful of a recovery to full activity, he adds.

Reflecting on this shift, Gordon says: “In a normal market, where there are willing buyers and sellers, value is easier to pinpoint via comparable trades, which makes lenders feel good about their loan detachment points. However, when the market is disrupted, as it has been recently, refinancings become more prevalent and valuations become theoretical. Absent an

acquisition or a good comparable sale, values are range driven creating less certainty around detachments points. So while you can drive better loan terms during these times, lenders have to rely on their own conviction of value as opposed to multiple data points in a functioning marketplace.”

### Construction pressure

The Trump administration’s evolving trade policies are also raising questions on the impacts to the construction financing market, an area which has seen a sizable tilt toward non-bank activity



*“The periods where volatility is happening are where you can make some of your best deals, as there are fewer players in there”*

**PETER GORDON**  
AllianceBernstein



*“We’re definitely seeing more inquiries into our capital markets team from historically direct lenders who are now looking to increase their indirect business”*

**YORICK STARR**  
Invesco



in recent years as traditional bank lenders have pulled back from this segment of the market.

While higher tariffs could potentially disrupt supply chains and impact distributors, the administration's more aggressive stance on issues such as immigration and funding cuts may also trickle down and impact insurance, labor availability and overall demand. These combined pressures are likely to drive up construction costs and squeeze new activity, according to Mao.

Alamgir estimates a 25 percent tariff could potentially bring a 3-5 percent increase in construction costs. "From an equity perspective, that can have a fairly significant impact on your levered IRR," he says.

There are still opportunities, but they are fewer and farther between. "Existing projects already in the ground continue to be in the ground, and we're seeing some muted supply. This means new opportunities in construction lending are already coming down, because the cost of the capital to borrow construction dollars has

become more expensive for the last few years," Alamgir says.

Capturing the prevailing market sentiment, Fried, whose firm has historically had a strong focus on industrial construction, points to a "growing introspection" among market players.

"It feels like the sponsors and the owners are still figuring out what they want to do and where they want to be active," Fried says.

### Looming maturities

Beyond the recent macroeconomic shocks and geopolitical pressures, the rising wall of maturities in US commercial real estate – which is approaching \$1 trillion, according to estimates – continues to be a cause for concern.

Alamgir says that between 2023 and 2024, about \$270 billion in loans were rolled over. That increased the amount of loans maturing in 2024 from some \$480 billion to almost \$750 billion. Now, more than half of that \$750 billion – close to \$380 billion – was rolled into 2025.

"The maturity wall in 2025 was

originally \$573 billion – it's now closer to \$960 billion," Alamgir says. "The numbers are always moving, and it depends on the data set, but regardless of what the exact figure is, it's a massive number of loans that are constantly getting pushed back."

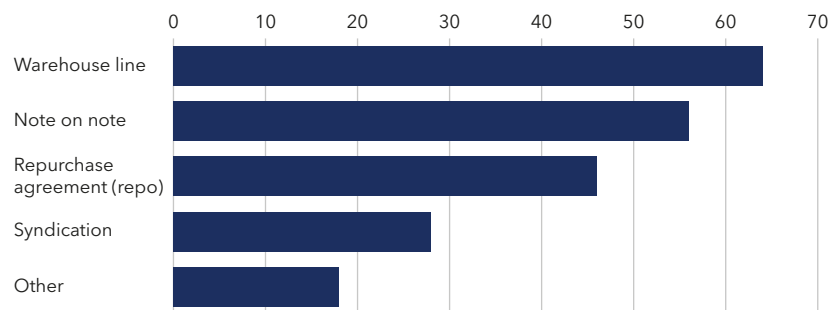
An estimated 35-40 percent of what is maturing is multifamily loans, which panelists agree is more easily addressed than office lending. Loans on the latter asset class make up more than 20 percent of the maturity wave and contains a sizable chunk of agency and bank balance sheet lending.

Yorick Starr, managing director at Invesco Real Estate, underlines the importance of lending discipline, noting how Invesco largely avoided deals in certain markets, such as Florida, which involved syndication-type sponsors. "That helped us avoid some of the problems today," he says. "Not to say that we did not originate loans where stabilized debt yields are low relative to where cap rates are today. But, I think there's more comfort around how to underwrite multifamily and the

*"People felt like... there was a growing comfort in the market, and we were getting closer to full activity. Obviously, that's not the case now"*

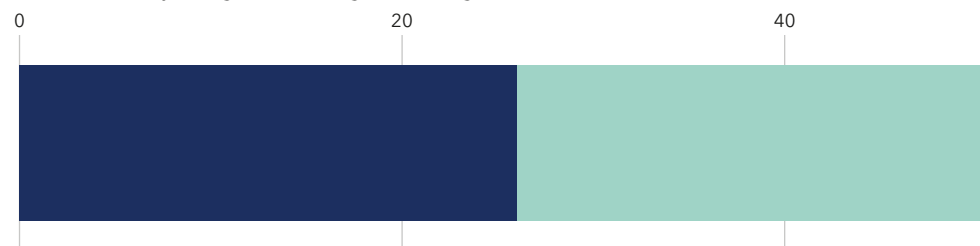
**STEVE FRIED**  
Mesa West Capital

Which of the following types of back leverage does your organization use? (Multiple answers allowed, %)



Source: PERE Credit Alternative Lender Barometer 2025

To what extent is your organization using back leverage? (%)



Source: PERE Credit Alternative Lender Barometer 2025

## Industrial discomfort

### The sector is emblematic of rising uncertainty over what makes for a 'safe' investment

There is a growing perception that there is no one single safe place to be in the current cycle. Panelists point to the mood shift and slowdown in industrial assets – a sector that had previously been considered “one of the last vestiges of safety,” according to AllianceBernstein’s Peter Gordon. “But people are now feeling much more uncomfortable about industrial,” he observes.

Invesco’s Yorick Starr says his firm is now taking a much more cautious and considered stance toward industrial. “What’s the execution risk and leasing risk around industrial? Which assets are more exposed – West Coast versus East Coast? We’re being much more thoughtful around all the dynamics and knock-on effects from the tariffs that should be coming to a head over the next several months.”

On the flipside, senior living is garnering closer interest. Barings’ Fried points to the financings the firm has recently completed with high-quality sponsors in the sector where occupancy rates were between 80 percent and 85 percent, while Mao says senior housing is one of the few asset types where equity can still achieve close to 20 percent IRR.

“It’s pretty amazing how quickly senior housing has firmed up – it’s more interesting today than it was two years ago,” says Invesco’s Starr. “Occupancies have come back very quickly along with pricing power – every nine or so months tenants are seeing a 5 percent price hike – and tenants are staying put, because there are not a lot of options out there.”

Elsewhere, sentiment is decidedly mixed. Gordon says the office market is still reeling from one of the worst demand shocks and price corrections on record, which has transformed fundamentals. Starr is constructive across different subsectors of residential assets, where supply-demand fundamentals remain “still relatively interesting” but where “the caps need to be correct.”

Zeroing in on the increasingly disjointed nature of the market, Gordon – whose firm is active across the credit spectrum – sees the evolving opportunity set defined less by the property type and asset class, and more by the need to create the right capital structure for the right property type. “Just because it’s a great property, I don’t like leaning into the credit so hard – ie, on the higher end of my value range – that we could be exposed to another sell off in treasuries and a corresponding drop in values, because one quick move in the treasuries and that asset has repriced again.”

improving supply/demand dynamics to address stretched capital stacks.”

Starr adds: “You’re still seeing trades occurring at cap rates that are well inside of where the 10-year treasury plus the historical spread for multifamily would indicate pricing should be, and well inside of where our debt yield levels are. In Boston, for example, we saw a deal trade that was sub-five. That helps address some of that maturity wall in multifamily.”

Mesa West has some multifamily deals where borrowers are showing up with cash for refinancing.

“If you financed syndications with some weaker borrowers, that’s not going to be an option, but if you have high-quality borrowers, it is more of an option,” Fried adds.

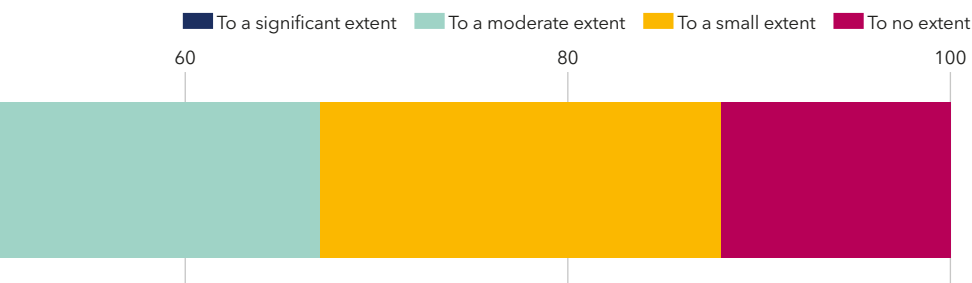
### The case for optimism

Despite the lingering uncertainty, the panelists remain optimistic on the opportunity set. They highlight both the rapidly approaching Basel III Endgame implementation on July 1, as well as the ongoing retreat in regional banking lending, where smaller community lenders have slashed originations. This in turn is opening up opportunities for mid-market lending.

Oaktree invests in both private and public markets, with the firm’s activity spanning levered bridge loans, mezz, preferred equity, secondaries and more. Mao explains how the firm is now strategically partnering with certain niche lenders who specialize in small balance loans, where regional lenders had previously dominated. This includes a joint venture multifamily lending platform with a New York-based landlord.

“In addition to mid-market lending for Oaktree, we also remain constructive in the residential sector and have formed JVs with experienced single-family, fix-and-flip transitional lenders. While getting those JVs set up is time consuming, it pays off once they are up and running,” Mao adds.

Meanwhile, the Basel III Endgame implementation offers a “generational



opportunity” for the private credit sphere to turbo-charge its commercial real estate lending activity.

Starr sees Basel III as a net positive for alternative lenders. He says it is reportedly more profitable than direct lending, highlighting the capital reserve efficiencies, which in turn benefits the alternative lenders from a more competitive back leverage standpoint.

“We’re definitely seeing more inquiries into our capital markets team from historically direct lenders who are now looking to increase their indirect business,” says Starr. “Banks are

realizing, from an ROE standpoint, that this is actually profitable and a complimentary way to grow their commercial real estate business without adding materially to their direct lending exposure.”

Traditional bank financing accounts for about 35-40 percent of the overall \$5 trillion commercial real estate debt market, Gordon notes. “If you change that by just one percentage, that’s a lot of gap to fill on a relative basis,” he says.

Looking ahead, the broader market outlook is less certain in the aftermath of Q1’s chaos, but panelists are quick

to acknowledge that the challenges in real estate debt markets stretch back far longer than the past few months.

“At the macro level, I’d be worried that everybody becomes a little insensitive to all of this volatility,” Alamgir says. “If you’re out sailing, and you enter rough waters, in the first couple of days, you don’t feel so good. But if you’re on those rough waters for six months, it starts to feel normal. So, I worry that the market accepts all of this volatility as normal – and that ends up creating more risk.”

Fried concurs, noting volatility across the board is common and there are fewer, shorter breaks in between these bouts.

“But in times like this, when you have volatility in the moment, we’re also seeing higher yields on the high-quality loans that we want to be making with the right sponsors in the right markets. This is something we’ve navigated successfully before, and I think that’s what we’ll continue to be able to do. It feels like every 18 months there’s something to deal with, but I also think that’s why it’s a great time to be in debt,” Fried says.

Mao notes, however, that Oaktree is more intrigued by the potential for investment than it was in January.

“From a credit perspective, I think this disruption is going to give alternative lenders, who historically have been a little more expensive, an opportunity to get higher quality deals,” she says.

Gordon adds: “I think you’d rather be in debt today than equity. Opportunistic equity investors have historically targeted 20 percent IRRs and 2x their equity over the life of their funds. In recent years those return expectations have come down, and from some perspectives it feels as though their risk has gone up. On the other hand, debt fund returns have stayed fairly constant, or even improved slightly as financing options become more prevalent, and we continue to be protected by 30-35 points of equity before losing principal.” ■

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**NASIR ALAMGIR**  
Barings

