HBS GLOBAL corporation

THE STATE OF MULTIFAMILY DEBT

How leverage, loan structure, and refinancing risk are reshaping institutional multifamily

A national review of professionally financed multifamily properties with 50 or more units

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EXECUTIVE SUMMARY

The relationship between a multifamily owner and its lender is being tested by a market that looks healthy at the property level but far less forgiving at the capital-stack level. Apartment demand remains substantial, financing activity has recovered, and the largest agency loan books continue to report comparatively low delinquency. Yet many properties acquired or refinanced near the market peak now face a different reality: higher debt costs, lower valuations, more conservative underwriting, and lenders focused intensely on cash flow, reserves, and the borrower's ability to refinance at maturity.

THE HBS VIEW

This is not one national debt crisis. It is a series of borrower-specific refinancing tests. The properties most exposed are those combining weak operations, aggressive leverage, floating-rate debt, and a near-term maturity.

CORE CONCLUSION

Retention is earned operationally, tested economically, and closed administratively.

At the end of the first quarter of 2026, U.S. multifamily mortgage debt stood at approximately $2.32 trillion. Lending activity improved sharply during 2025: the Mortgage Bankers Association (MBA) estimates $413 billion of multifamily originations, the highest volume among all commercial property types. At the same time, 13 percent of non-bank multifamily mortgage balances are scheduled to mature during 2026. The market is therefore originating new debt and confronting old debt at the same time.

Loan performance depends heavily on capital source. Agency and life-company portfolios remain comparatively stable, while CMBS multifamily delinquency is materially higher. These figures must be interpreted carefully because lender groups use different definitions and most published rates are balance-weighted rather than property-count measures.

WHAT “QUICKLY” SHOULD MEAN

Market indicator	Current reading	Interpretation
Multifamily debt outstanding	$2.32 trillion	Large, systemically important financing market
2025 multifamily originations	$413 billion	Liquidity returned after the 2023–2024 slowdown
2026 multifamily maturities	13% of covered balances	A substantial annual refinancing test
Typical stabilized LTV	Approximately 60%–70%	Generally below program maximums
Typical permanent-loan term	5–10 years	Often paired with 25–30 year amortization
Bridge-loan term	Usually 2–3 years	Extensions can delay, but not eliminate, the exit test

Sources: MBA, Federal Reserve, Fannie Mae and market program terms. “Typical” figures are underwriting ranges, not a census of every outstanding loan.

WHAT OWNERS SHOULD TAKE FROM THIS REPORT

- Leverage must be measured against today’s value and today’s net operating income—not the acquisition appraisal.
- Maturity risk can exist even when every monthly payment is current.
- Bridge exposure cannot be measured precisely from public records; portfolio-level estimates should be presented as ranges.
- The best lender strategy begins at the property: occupancy, collections, concessions, expenses, reporting, and execution credibility.

1: THE SIZE AND SHAPE OF THE MARKET

The multifamily debt market is both large and fragmented. Mortgage debt is held by banks and thrifts, Fannie Mae and Freddie Mac, CMBS trusts, life insurers, pension funds, FHA/Ginnie Mae programs, debt funds, mortgage REITs, and other investor-driven lenders. The same physical property can also carry a senior mortgage, mezzanine financing, preferred equity, or supplemental debt, making property-level leverage more difficult to observe than the first mortgage alone suggests.

MBA reported that commercial and multifamily borrowing and lending totaled an estimated $706 billion in 2025, up 40 percent from 2024. Multifamily accounted for approximately $413 billion, or roughly 58 percent of the total. First liens represented 95 percent of the dollar volume closed by dedicated mortgage bankers. This rebound is constructive, but it should not be confused with easy money: the availability of capital varies significantly by property quality, sponsor strength, market, debt-service coverage, and the clarity of the business plan.

KEY DISTINCTION

Debt availability has improved, but proceeds remain constrained by property cash flow. A property may qualify at an acceptable LTV and still fail the lender’s DSCR test.

2: HOW MUCH ARE OWNERS BORROWING?

Loan-to-value (LTV) is the outstanding loan balance divided by the property’s current value. Loan-to-cost (LTC) compares the loan with the acquisition price and planned capital program. Debt-service coverage ratio (DSCR) compares net operating income with annual debt service. Institutional lenders generally underwrite all three, but DSCR has become the binding constraint for many borrowers in a higher-rate environment.

For stabilized conventional multifamily, observed underwriting commonly falls near 60 percent to 70 percent LTV, although agency and other programs may permit higher maximums. Fannie Mae’s conventional fixed-rate program currently allows up to 80 percent LTV with a minimum DSCR of 1.25x. Its structured adjustable-rate program for conventional properties is capped at 65 percent LTV and requires sizing against a maximum note rate. These are program ceilings—not evidence that the average borrower actually closes at the maximum.

Capital source / execution	Indicative leverage	Typical maturity	Common characteristics
Agency fixed-rate	Often 60%–75%; program maximum may reach 80%	5–10 years common; programs extend longer	Nonrecourse with carve-outs; 25–30 year amortization
Bank balance-sheet	Often 60%–70%	3–10 years	Relationship-driven; recourse varies; covenants may be tighter
Life company	Often 50%–65%	7–15 years	Lower leverage, strong assets and sponsors, fixed-rate focus
CMBS	Often 60%–70%	5–10 years	Nonrecourse; standardized servicing; limited flexibility
Bridge / debt fund	Often 65%–75% LTC/LTV; varies widely	2–3 years plus options	Floating rate; renovation, lease-up, or transitional business plan

Indicative market ranges compiled from agency program terms and common institutional underwriting practices. Actual terms vary by asset, sponsor, market, and date.

WHY THE ORIGINAL LTV MAY UNDERSTATE TODAY'S RISK

A loan that closed at 70 percent LTV can become an 80 percent—or higher—LTV loan without any additional borrowing if the property's value declines. Because value is a function of NOI and capitalization rates, even modest changes can materially alter leverage. For example, a property generating $2.0 million of NOI is worth $40 million at a 5.0 percent capitalization rate but only $33.3 million at a 6.0 percent rate. A $28 million loan moves from 70 percent LTV to 84 percent LTV even though the borrower has made every scheduled payment.

3: LOAN TERMS: MATURITY IS NOT AMORTIZATION

A recurring source of confusion is the difference between loan term and amortization. The term determines when the remaining balance is due. The amortization schedule determines how quickly principal is repaid. A ten-year loan amortized over 30 years still has a substantial balloon balance at maturity. Interest-only periods can further increase that refinancing dependence.

Structure	What it means	Owner implication
5–10 year term / 30-year amortization	Payments are calculated over 30 years, but the balance is due earlier	Refinancing or sale is normally required at maturity
Full- or partial-term interest only	Little or no principal reduction during the IO period	Cash flow improves now, but refinance leverage does not decline through amortization
Floating rate with cap	Rate changes with SOFR; borrower purchases a cap	Cap expiration or replacement cost can create a liquidity event
Short-term bridge loan	Temporary financing tied to renovation, lease-up, or repositioning	Exit depends on meeting NOI, occupancy, DSCR, and valuation targets

4: WHAT PERCENTAGE OF PROPERTIES ARE BEHIND?

No defensible national statistic currently measures the percentage of 50-plus-unit properties that are behind on debt payments. The best public measures report the percentage of unpaid principal balance that is delinquent within specific lender channels. Those measures use different thresholds and cannot be averaged without adjustment.

Lender / channel	Q1 2026 delinquency	Definition used
Banks and thrifts	1.24%	90+ days delinquent or in nonaccrual; commercial and multifamily
Life-company portfolios	0.38%	60+ days delinquent; commercial and multifamily
Fannie Mae multifamily	0.78%	60+ days delinquent
Freddie Mac multifamily	0.43%	60+ days delinquent
CMBS	7.28%	30+ days delinquent or in REO; commercial and multifamily

Sources: Mortgage Bankers Association, Commercial/Multifamily Mortgage Delinquency Rates, first quarter 2026. Definitions differ by investor group and rates are not directly comparable.

Trepp subsequently reported that multifamily-specific CMBS delinquency declined to 6.95 percent in May 2026 after a sharp April increase. That figure remains far above agency serious-delinquency rates. CMBS also offers less relationship flexibility than a traditional bank loan: servicing rules, bondholder structures, and special-servicer incentives can make workouts slower and more procedural.

DELINQUENCY UNDERSTATES BROADER DISTRESS

A current payment status does not necessarily indicate a healthy loan. A borrower may be funding shortfalls from reserves, operating under a temporary modification, negotiating an extension, facing an unaffordable rate-cap replacement, or approaching a maturity that cannot be refinanced at the existing balance. A more useful owner-level dashboard tracks:

- 30-, 60-, and 90-day delinquency
- special servicing or lender watch-list status
- maturity default and extension activity
- modified debt, reserve draws, and covenant waivers
- current DSCR, debt yield, and estimated refinance proceeds
- current LTV using a supportable market value rather than the original appraisal

5: HOW MUCH OF THE MARKET USES BRIDGE FINANCING?

Bridge financing is the least transparent part of the institutional multifamily debt market. There is no complete public database of bridge loans, and the term itself is inconsistently applied. Similar transitional loans may appear in bank portfolios, debt funds, mortgage REITs, CRE CLOs, or private lender accounts. Public datasets also measure loan balances more often than property counts.

REPORTING RECOMMENDATION

Do not publish a single national bridge-loan percentage unless it is tied to a defined dataset. Report an estimated range, identify the denominator, and disclose what the estimate excludes.

A credible HBS estimate should combine three observable pools: CRE CLO collateral, multifamily bridge portfolios disclosed by public mortgage REITs and debt funds, and short-term or floating-rate transitional loans reported by participating banks and originators. The estimate should then be tested against acquisition volume from 2020 through 2022, when many value-add transactions used short-term floating-rate debt based on rent-growth and renovation assumptions.

Until that dataset is assembled, the defensible conclusion is qualitative: bridge exposure represents a minority of total multifamily mortgage debt but a disproportionate share of near-term refinancing and extension risk. Its risk is concentrated because the loan typically depends on future stabilization rather than only current in-place income.

6: THE 2026 REFINANCING TEST

MBA estimates that 13 percent of multifamily mortgage balances covered by its non-depository maturity survey are scheduled to mature in 2026. Maturity does not equal default; many high-quality properties will refinance normally. But the volume creates a broad test of whether current NOI and valuation support the existing debt balance under today's underwriting standards.

The refinance challenge is most acute when several conditions occur together:

- The loan was originated at a low fixed rate or with an inexpensive floating-rate cap.
- The property has not achieved the rent growth, occupancy, or renovation premiums assumed at acquisition.
- Operating expenses — particularly insurance, taxes, payroll, utilities, or repairs — have grown faster than revenue.
- Higher capitalization rates have reduced value even if NOI is stable.
- The borrower lacks liquidity for a principal paydown, new reserves, or closing costs.

A PRACTICAL REFINANCE STRESS TEST

Test	Calculation	Warning signal
Current DSCR	Current NOI ÷ annual debt service	Below lender requirement, often 1.20x–1.30x
Debt yield	Current NOI ÷ loan balance	Below lender or market threshold
Current LTV	Loan balance ÷ current value	Above likely refinance proceeds
Refinance gap	Current payoff less expected new loan	Borrower must contribute new equity
Rate sensitivity	Debt service at several plausible rates	Coverage fails after a modest rate increase
Maturity runway	Months until maturity	Insufficient time to improve NOI or execute alternatives

7: WHAT BANKS WANT FROM OWNERS

A lender's first concern is repayment, but confidence is shaped by more than the monthly payment. Banks want early communication, reliable financial reporting, a realistic operating plan, and evidence that the sponsor understands the property at the unit level. Surprises damage credibility. A borrower who identifies the problem, quantifies it, and reports against a corrective plan is in a stronger position than one who waits until maturity or covenant failure.

Lender concern	Evidence the owner should provide
Collections	Aged receivables, delinquency trends, evictions, bad-debt write-offs, and recovery plan
NOI and DSCR	Monthly actual-versus-budget results with variance explanations and rolling forecast
Capital condition	Prioritized capital plan, bids, reserve needs, and effect on rent or retention
Refinanceability	Updated valuation range, debt-yield and DSCR sizing, maturity timeline, and equity requirement
Management credibility	Named owners for each initiative, deadlines, measurable targets, and consistent reporting

8: THE HBS VIEW: OPERATIONS ARE PART OF THE CAPITAL STRATEGY

Owners cannot directly control benchmark interest rates, lender regulation, or market capitalization rates. They can control the quality and speed of the operating response. For a property approaching refinance, each incremental dollar of sustainable NOI can improve DSCR, increase potential loan proceeds, reduce the refinance gap, and strengthen the borrower's negotiating position.

The highest-value intervention is not simply cutting expenses or raising rents. It is developing a property-specific plan that distinguishes between revenue the market will support and revenue that exists only in the underwriting model. HBS recommends a 90-day operating and lender-readiness program built around five workstreams:

- Verified listings and review alerts are active.
- The top three review-producing operational problems have owners and deadlines.
- Request language is neutral and approved.
- Eligibility is based on objective resident touchpoints, not predicted sentiment.
- Staff can locate and use the correct direct-review link.
- Every review has a response owner and response-time standard.
- Sensitive resident information never appears in a public response.
- Suspected policy violations are documented and reported through the platform process.
- Weekly reporting includes both reputation results and operating causes.

BOTTOM LINE

A lender relationship is strongest when the borrower can show what happened, what is being done, who is responsible, and when the numbers will improve.

CONCLUSION

The institutional multifamily debt market is not uniformly distressed. Agency and life-company performance remains comparatively strong, lending volume has recovered, and well-operated properties continue to attract capital. The risk is concentrated in loans whose structure and business plan no longer fit the property's actual cash flow — particularly highly leveraged, floating-rate, transitional, and near-maturity debt.

For owners, the practical question is not whether national delinquency rises or falls by a few basis points. It is whether their property can support its existing balance under current underwriting and whether the lender believes management has a credible plan. That question should be answered months — not weeks — before a maturity, covenant problem, or liquidity event.

ABOUT HBS GLOBAL CORPORATION

HBS Global Corporation provides executive advisory services to multifamily owners seeking to improve property performance, strengthen operating discipline, and increase asset value. HBS works alongside ownership and management teams to diagnose underperformance, develop practical turnaround strategies, improve occupancy and revenue, and create measurable accountability at the property level.

Our approach combines an owner's perspective with hands-on operating experience. Engagements are tailored to the needs of each asset—from focused leasing and reputation initiatives to broader operational turnarounds and value-creation plans.

Sources and Methodology

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Definitions

Bridge loan: Short-term financing used for acquisition, renovation, lease-up, repositioning, or another transitional period before sale or permanent financing.

Debt yield: Property NOI divided by the outstanding loan balance.

DSCR: Net operating income divided by annual debt service.

LTC: Loan amount divided by total acquisition and project cost.

LTV: Loan balance divided by property value.

Maturity default: Failure to repay the outstanding balance when due, even if all scheduled monthly payments were made before maturity.

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