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CREFC High Yield, Distressed Assets, & Servicing Conference 2026 Recap

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KBRA Credit Profile (KCP) attended the CRE Finance Council’s (CREFC) annual High Yield, Distressed Assets, & Servicing Conference, held in New York City on March 10. The event attracted more than 300 commercial real estate (CRE) professionals and featured five panels along with a one-on-one discussion.

Key Takeaways

- Private credit continues to expand in CRE, helping to fill refinancing gaps as banks remain selective, with roughly \$3 trillion of CRE loans maturing over the next several years.
- Credit markets remain constructive, although more cautious entering 2026, as macro volatility and geopolitical uncertainty reinforce the need for disciplined underwriting.
- The recovery of New York City office remains bifurcated, with trophy assets attracting tenants and capital while older properties face vacancy and refinancing challenges.
- Office-to-residential conversions—amid limited new supply—are gradually reducing inventory, improving fundamentals for the highest-quality office buildings.
- The New York City multifamily sector continues to face operational and regulatory complexity, although the city’s structural housing shortage supports long-term demand.
- Stress in the hospitality sector is rising, particularly among mid-tier hotels, as higher borrowing costs, labor expenses, and renovation requirements weigh on refinancing prospects.
- Servicing and underwriting are becoming more complex, particularly for specialized assets such as data centers and life science facilities, which require deeper operational analysis.
- Distress is creating redevelopment opportunities, with lower acquisition prices enabling selective office-to-residential conversions and successful repositioning strategies.



Private Credit Expansion

The conference's opening panel focused on the continued expansion of private credit as a major force in CRE finance, set against a backdrop of higher interest rates and property values that remain roughly 20% below prior peaks. While 2025 was broadly considered a risk-on environment, speakers noted that early 2026 has taken a more cautious tone amid macro volatility, softer economic data, and geopolitical uncertainty. Even so, participants generally agreed that credit markets will remain relatively constructive if rates stay within a stable range, and strong investor demand for incremental yield should continue to support the asset class.

A key theme of the discussion was the scale of the refinancing opportunity ahead. Panelists cited an estimated \$3 trillion of CRE debt maturing over the next three years, much of it tied to loans originated in 2021 and 2022 when lower interest rates prevailed. With banks remaining cautiously selective, private lenders are increasingly stepping in to fill the financing gap, often originating loans in the 65%-75% loan-to-cost range and positioning themselves between senior bank debt and mezzanine capital. From this position in the capital stack, private lenders can benefit from approximately 30%-40% structural subordination while generating 10%-12% returns, even as spreads have compressed from the peak dislocation that followed the rate shock.

Panelists also emphasized the relative value of CRE private credit compared with corporate direct lending. Unlike corporate loans, real estate credit is backed by hard assets, offering greater transparency and a potentially more durable recovery profile. Many lenders said they are prioritizing stronger B and BB-type credit exposure and using leverage—including repo or warehouse financing—to enhance returns while maintaining discipline around higher-quality collateral. Transitional multifamily and industrial remain the most active lending sectors, although investors are also selectively exploring opportunities in retail, hospitality, and certain office segments, including trophy assets and office-to-residential conversions.

Overall, the panel struck a cautiously optimistic tone. Given significant refinancing needs, increased transaction activity, and available capital, private credit is likely to remain an important and growing part of the CRE financing landscape. At the same time, speakers emphasized that disciplined underwriting, valuation transparency, and a focus on high-conviction sectors—particularly housing-related assets and select industrial—will be essential as competition increases and underwriting begins to loosen modestly in some areas of the market.

NYC Office: Separating Signal From Noise in the Recovery

The next session examined the New York office market, where panelists described a recovery that remains highly bifurcated, with the top end of the quality spectrum showing the strongest momentum. Leasing activity improved in 2025, with approximately 33 million sf to 35 million sf signed market wide, driven by demand for trophy, highly-amenitized buildings in core submarkets such as Park Avenue, Hudson Yards, Midtown East, and select downtown locations. More than 300 leases above \$100 per sf were reportedly signed in over 125 buildings, while vacancy in the high-end segment remained below 7%, underscoring the continued flight to quality. Demand has been driven by traditional office tenants such as law firms and financial service companies, as well as artificial intelligence (AI) and technology. Speakers also noted that tenant profitability and historically low rent-to-revenue ratios in certain sectors have improved occupiers' willingness to commit to higher-quality space, contributing to rising effective rents as concessions dissipate.

Capital markets activity has also reflected improving sentiment toward certain New York City office assets, which accounted for approximately \$17 billion of single-asset single borrower (SASB) issuance in 2025, representing 19% of the SASB market and 10% of total commercial mortgage-backed securities (CMBS) issuance. The volume points to renewed investor appetite for well-located, stabilized assets with durable leasing profiles. Participants suggested that capital is gradually returning following the sector's significant repricing, although deployment remains concentrated in assets with strong sponsorship, institutional quality, and clear competitive advantages. That selectivity continues to reinforce the widening divide between top-tier buildings that attract both tenants and capital and older properties that remain under pressure.



Supply-side dynamics were also cited as an incremental tailwind for the market, as limited new construction and gradual inventory reduction have begun to support fundamentals for better-located assets. Elevated construction costs, tighter underwriting, and reduced development feasibility have constrained the pipeline of new office deliveries, while office-to-residential conversions are slowly shrinking the competitive set. Since 2020, approximately 4 million sf of office space has been converted, with another 15 million sf permitted or under construction. These figures exclude additional space under consideration, primarily in downtown Manhattan. Over the next several years, conversions are expected to outpace new office construction, tightening availability and supporting rent growth in the highest-quality segment, particularly for large blocks of space. Panelists stressed that conversion activity remains difficult to scale due to structural, design, and economic limitations, and many older assets lack the physical characteristics required for successful residential repositioning. As a result, while conversions may incrementally improve the supply backdrop, a significant portion of the city's aging inventory is likely to remain in the market and will continue to face competitive pressures.

Despite these encouraging trends, challenges remain across the broader market. While premier buildings continue to benefit from tenant demand for modern amenities, flexible layouts, strong transit access, and high-quality food and beverage and collaborative spaces, many aging assets lack the capital needed to fund upgrades or repositioning strategies. As a result, lower-quality properties continue to face pressure in attracting tenants and obtaining financing. Panelists cautioned that rising rents at the top end of the market could push some occupiers toward lower-cost locations, such as Dallas or Miami, particularly if premium New York City space becomes increasingly concentrated among larger tenants. Overall, the outlook through 2026 remains constructive for trophy and best-in-class assets, but the recovery is likely to remain uneven.

The NYC Multifamily Squeeze: Managing Opportunities

Continuing the conversation on New York City, the next session focused on the challenging operating environment for multifamily assets. Higher interest rates, regulatory oversight, and conservative lending conditions have collectively made transaction execution and underwriting more complex. Lenders are approaching the sector cautiously, placing greater emphasis on tenant collections, operating costs, and documentation quality while tempering expectations around rent growth. Panelists also noted that much of the middle market multifamily activity typically involves properties in the \$1 million-\$10 million range, where operational expertise and local market knowledge are particularly important.

Operational discipline emerged as a recurring theme. Compliance, rent registrations, and accurate building documentation have become critical components of underwriting and servicing. Many multifamily properties constructed prior to 1974 are subject to rent stabilization, adding another layer of regulatory complexity for owners and lenders when evaluating potential investments. Incomplete filings or unresolved violations can create uncertainty around legal rents and asset performance, at times requiring lenders and servicers to reconstruct rent histories when assessing collateral or resolving distressed situations.

Panelists noted that some outer borough markets have seen a higher frequency of transfers to special servicing, reflecting operational challenges such as collection issues, compliance gaps, or limited borrower resources to address property-level problems. Even so, participants emphasized that New York City's structural housing shortage and strong demand for rental housing will continue to support the market over the long term. In this environment, opportunities may arise for experienced operators able to navigate the city's regulatory framework, address operational inefficiencies, and stabilize assets where prior ownership struggled to keep pace with evolving requirements.



Heads in Beds, Stress in the Stack: Hospitality Deep Dive

The hospitality sector is experiencing a gradual increase in stress, although distress has emerged more slowly than many market participants initially anticipated. Rather than triggering widespread forced sales, many challenged assets are working through the system as loans transfer to special servicing and updated appraisals prompt owners to test the market. Hotel values remain meaningfully below pre-pandemic levels, complicating refinancing efforts for properties financed during the low-rate environment of 2020 and 2021. Many of these assets, acquired with leverage of 65%-70% and interest rates near 5%, now face materially higher borrowing costs alongside rising operating expenses, particularly labor. At the same time, costs to complete required property improvement plans (PIP) have increased significantly—often exceeding \$50,000 per key—placing additional strain on owners of aging properties where the expected return on renovation capital may not justify the required investment.

Operating fundamentals remain uneven across the sector. Luxury and upper-upscale hotels have generally continued to perform well, supported by strong liquidity and the ability to raise room rates faster than operating costs. At the other end of the spectrum, lower-end budget lodging is attracting opportunistic buyers at discounted valuations. The greatest pressure appears concentrated in the middle of the market, particularly among older limited service to upper-midscale hotels built between the 1970s and the early 1990s. Many of these properties face aging infrastructure, brand uncertainty, and renovation needs that are increasingly difficult to justify given modest revenue growth, leading some owners to walk away rather than fund upgrades or contribute additional equity.

Market conditions also vary significantly by geography. Stronger performance has been observed in markets such as New York City and West Palm Beach, Florida, while others, such as Los Angeles and Minneapolis, are viewed as carrying greater operational and investment risk. Transaction dynamics have shifted as buyers increasingly prefer to evaluate individual assets rather than acquire large hotel portfolios, prompting some owners to split portfolios to improve liquidity and facilitate price discovery.

Looking ahead, revenue per available room (RevPAR) growth is expected to remain modest, with projections below 1%. The FIFA World Cup is expected to provide a temporary 1%-2% boost to RevPAR, suggesting that underlying growth may be negative once that event-driven demand is removed. At the same time, investors continue to monitor the unusual divergence between cap rates and interest rates in the sector. Despite interest rates declining by roughly 175 basis points (bps) since 2024, hotel cap rates have continued to rise, reflecting investor caution and the limited pool of buyers for hospitality assets. As a result, lenders and investors are placing greater emphasis on asset-level underwriting, submarket fundamentals, and renovation economics when evaluating hospitality investments.

Beyond the Box: Servicing Complex and Emerging CRE Assets

Panelists, including special servicer and ratings agency representatives, discussed how servicing CRE is becoming increasingly complex as collateral pools have greater exposure to more specialized property types and transitional business plans. Across sectors, participants noted that traditional valuation metrics such as rent rolls, operating expenses, and in-place cash flow are no longer sufficient on their own. Instead, servicers are placing greater emphasis on operational analysis and sustainable performance, including whether cash flow is supported by above- or below-market leases, the durability of tenant demand, and the long-term viability of a borrower's business plan.

Data centers were highlighted as one of the clearest examples of this shift. Panelists noted that power capacity has effectively become the starting point for evaluating these assets, followed by other critical considerations such as redundancy, latency, hyperscale infrastructure, tenant use cases, and tenant credit quality. Data center issuance within CMBS has seen meaningful growth, with average SASB transactions now approaching \$2 billion, reflecting strong investor appetite for the sector. However, long-term performance remains difficult to underwrite and service because it is closely tied to rapidly evolving technology, including advancements in chip development, energy consumption, and cooling systems, which creates uncertainty around future physical space requirements.

Life sciences assets were described as similarly challenging due to their highly specialized buildouts, high development costs, and market-specific demand drivers. Performance in established hubs has generally remained stronger relative to markets with weak leasing demand and slower absorption. More broadly, panelists emphasized



that valuation remains a major issue across emerging asset classes, particularly where limited comparable sales and rapidly shifting tenant requirements make price discovery and long-term cash flow assumptions more difficult.

Similar challenges are also playing out for transitional CRE collateralized loan obligation (CLO) collateral, where business plans structured with nine- to 12-month horizons are taking longer to execute due to labor shortages, tariffs, supply chain disruptions, and rising material costs. As timelines extend, servicers are increasingly focused on sponsor liquidity, interest reserve burn, and whether projects can stabilize before capital is exhausted. Participants also noted the need to reassess market absorption risk if fundamentals change during the delay.

Office properties remain another major area of focus, with panelists describing the sector as still working through a recovery and increasingly bifurcated between top-tier assets and lower-quality buildings. Participants noted that office delinquency is already elevated at roughly 8% in some servicing portfolios and could rise closer to 10%, leading to more modifications, dispositions, and creative resolution strategies—including partial releases and collateral restructurings—to facilitate repositioning or conversion efforts. Overall, the panel underscored that as CRE asset types and capital structures become more operationally intensive and specialized, servicing teams must adapt their underwriting and resolution frameworks beyond traditional real estate analysis.

Reimagining Urban Real Estate

The conference wrapped with a one-on-one discussion with GFP Real Estate Co-CEO Brian Steinwurtzel, who shared a constructive outlook on New York City real estate, highlighting the firm's active development pipeline of roughly 5,000 residential units and its willingness to invest during periods of market uncertainty. He noted that sentiment around development in the city has improved in recent years, with increased dialogue between developers and city officials regarding opportunities to address housing shortages and reposition underutilized properties.

A key focus of the discussion was the growing role of office-to-residential conversions as a means of revitalizing urban real estate. Steinwurtzel emphasized that the feasibility of these projects is highly asset-specific and often depends on the capital stack and acquisition basis, with distressed pricing frequently enabling redevelopment opportunities alongside tax abatements and other incentives that help support project economics. He cautioned that overly aggressive underwriting assumptions can create risks if timelines or construction costs deviate from expectations. These factors alongside the ability to achieve the appropriate unit mix were cited as critical considerations when evaluating potential conversions.

The discussion also touched on the broader outlook for the office market. Steinwurtzel noted that newer office assets have generally performed well, while many Class B buildings continue to attract demand from tenants seeking more affordable alternatives. However, older assets may require significant reinvestment to remain competitive. More broadly, he suggested that as companies continue adjusting their workplace strategies following the pandemic, some tenants are beginning to modestly expand footprints again as hybrid work schedules evolve. Overall, Steinwurtzel expressed optimism that New York's strong employment base, housing demand, and continued investment in redevelopment projects will support the long-term vitality of the city's real estate market.



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