Kayne Anderson

The case for US real estate credit in a changing market

US commercial real estate is navigating a period of elevated refinancing activity and evolving capital needs. In the following interview, **Lee Levy,** senior managing director and head of real estate debt at **Kayne Anderson Real Estate**, discusses why the current environment may offer an attractive entry point for real estate credit investors and why sector expertise, flexible capital and disciplined underwriting remain critical to capturing the opportunity.

What makes you bullish on US real estate debt today?

Real estate debt has the potential to offer investors a compelling combination of current income, structural downside protection and exposure to the long-term fundamentals of US real estate without requiring them to assume the full residual risk of an equity investment. The opportunity is particularly relevant today because the US market is undergoing a broad capital reset. Interest rates remain meaningfully above the levels at which many existing loans were originated, property values have adjusted unevenly, and a substantial volume of commercial mortgages must be refinanced. Approximately $875 billion of US commercial and multifamily mortgage debt is scheduled to mature in 2026 alone.

That does not mean every maturing loan represents a distressed opportunity. Many properties are performing and will refinance through conventional channels. However, the scale of the refinancing requirement creates a wide range of situations in which some sponsors need additional proceeds, greater structural flexibility, or more time to execute their business plans.

This is where experienced alternative lenders can play an important role. We can provide financing solutions that traditional lenders may be unable or unwilling to offer, while still structuring investments around a conservative basis, meaningful borrower equity and clearly defined protections.

If liquidity is returning to the lending market, why does the opportunity remain attractive?

The market has become more liquid and competitive for certain asset classes and loan types. Banks, life insurance companies, commercial mortgage-backed securities markets and debt funds are all active, and origination volume has returned to its prior cycle peak. That liquidity is constructive for the overall health of the market, but it does not eliminate the need for alternative capital.

Traditional lenders tend to compete most aggressively for straightforward, stabilised assets with modest leverage and straightforward business plans. The opportunity for alternative lenders is often found "outside the box": transitional properties, construction financing, value-add business plans, alternative asset classes and recapitalisations that all require a lender to understand multiple components of the capital structure and the asset's business plan.

The return of the banks has also created a more interconnected lending ecosystem. Banks may be less willing to hold the final portion of risk on a more complex or levered real estate transaction, but many have instead focused on providing financing to well-capitalised alternative lenders. This can expand the amount of capital available to the market and allow non-bank lenders to deliver larger or more flexible financing solutions.

At the same time, when markets grow more liquid, it requires greater investment selectivity. More capital pursuing loans can result in tighter spreads, higher proceeds and weaker loan covenants. Remaining disciplined is essential in navigating all markets but is even more acute when markets are competitive. We evaluate direct loan origination and loan purchases alongside traded real estate credit products, including commercial mortgage-backed securities and agency structured products. That relative-value framework across the private and public markets helps us determine whether we are being adequately compensated to originate a loan, purchase an existing loan, or invest in a security.

Where are the most compelling opportunities emerging?

We see opportunities across three broad areas.

Loan refinancings and recapitalisations continue to be the largest segment of the broader loan origination market. Many loans that are now maturing originated when base rates were close to zero, valuations were higher, and lenders were willing to provide more leverage. Even where the property continues to perform, today's interest expense and valuation environment may make it difficult to refinance the entire existing capital stack. A new lender can create a solution by resizing the debt, introducing structured capital, or providing additional time for the sponsor to complete leasing, stabilisation or another operational initiative.

Another area of focus for alternative lenders has been construction and transitional lending. New supply has slowed in several markets and property sectors as debt and equity capital have become more difficult to obtain. This is most prevalent with "large loans" that are greater than $200 million. That can create attractive lending opportunities for appropriately capitalised projects in markets where underlying demand remains durable. However, construction lending requires more than assessing a completed building's projected value. The lender must understand costs, contingencies, construction risk, leasing assumptions, guarantor capacity and the sponsor's ability to manage delays or market changes.

Finally, there are opportunities in the acquisition of existing loans, often sold in large portfolios. Banks, debt funds and other lenders may choose to sell performing, subperforming or nonperforming loans to reduce exposure, generate liquidity, or avoid committing additional resources to a prolonged workout. These investments can offer compelling returns, but only when the buyer has the necessary expertise to analyze the collateral, understand the documentation and manage a range of potential outcomes.

The common factor is complexity and deal size, which by itself does not create value, but which can reduce competition and allow an experienced investor to negotiate better economics and/or stronger covenants. Our focus is on situations where our expertise in the assets classes that we own and operate allow us to unpack the complex nature of the transaction, and where the real estate is supported by durable demand and limited supply.

How do you determine whether the potential return adequately compensates investors for the risk?

Before determining the relative value of potential returns, we do a deep dive into the real estate and then into our position in the capital structure and our covenant package.

We perform an equity-style underwriting because we need to understand what the property is worth today, what it could be worth following execution of the business plan, and how we mitigate any downside risks if that plan falls short. We assess the asset's competitive position, replacement cost, operating history, local supply and demand, tenancy and potential exit liquidity.

We then evaluate the sponsor. Relevant considerations include experience within the property sector and market, execution history, liquidity, balance-sheet capacity and the amount of capital at risk. In construction or transitional loans, the sponsor's ability to fund cost overruns or carry the property through a slower-than-expected lease-up can be particularly important.

Finally, we design the loan. A lender's protection is determined by more than its stated loan-to-value ratio. The initial funding, future advances, collateral package, covenants, reserves, guaranties, cash-management provisions and extension conditions can all influence the ultimate outcome.

We use milestones and covenants to preserve alignment as the business plan progresses. For example, additional proceeds may be conditioned on construction completion, leasing performance, or the sponsor contributing further equity. These mechanisms allow the lender to respond before a modest underperformance becomes a more significant capital problem.

Why does property-sector expertise matter so much for a real estate debt investor?

A loan is only as sound as the real estate supporting it. A lender cannot rely entirely on a sponsor's projections, an appraisal, or the assumption that the asset can be sold if the business plan does not perform as expected.

Different property sectors have distinct demand drivers, operating requirements and risks. Student housing is influenced by university enrollment, proximity to campus, pre-leasing velocity and the quality of the university. Seniors housing requires an understanding of demographics, labour, healthcare needs and operating requirements. Medical office demand is connected to health-system strategy, physician alignment and the migration of care into outpatient settings. Light industrial properties require proximity to customers and labour in urban infill locations, and operational expertise to meet the evolving demands of their tenants. Self-storage and multifamily properties each have their own supply dynamics, customer behavior and operating characteristics.

Kayne Anderson Real Estate's debt platform focuses on sectors in which the broader platform also has extensive equity investment and operating experience, including multifamily, student housing, seniors housing, medical office, self-storage and light industrial real estate. That vertical integration provides our debt team with a more informed view of rents, expenses, capital requirements and property-level execution. It can also improve decision-making if a loan requires modification, additional capital, or a more active resolution.

For investors outside the United States, this local and sector-specific knowledge is particularly important. US real estate is not a single homogeneous market. Performance can vary materially among cities, submarkets, sectors and individual assets. A national sourcing platform must therefore be paired with the ability to evaluate risk at a highly granular level.

What should investors look for when selecting a US real estate debt manager?

The first consideration should be the manager's track record across market cycles. Investors should assess whether the firm has demonstrated that it can deliver strong risk-adjusted returns and remain selective when competition increases, rather than expanding leverage or weakening structures to maintain deployment volume.

Second, investors should examine the manager's sourcing capabilities. A broad network of borrowers, banks, brokers and other market participants can increase access to opportunities, but volume alone is not enough. The manager must be able to select the transactions in which their knowledge or capital flexibility creates differentiation.

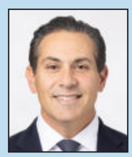
Third, the platform should have the resources to underwrite and manage the underlying real estate. Real estate debt investing is sometimes described as a financial exercise, but the lender may ultimately need to make decisions that resemble those of an owner. Sector expertise, asset-management capabilities and experience navigating challenged situations can therefore be as important as loan-origination skills.

Fourth, investors should consider the breadth of the investment mandate. The ability to originate loans, acquire loans and invest across public and private markets can allow a manager to pursue relative value rather than depend on a single channel.

Finally, alignment matters. Investors should understand how the manager evaluates risk, uses leverage and balances the desire to deploy capital against the need to preserve i

The current environment offers significant potential, but the opportunity is not uniform. There will be loans that refinance conventionally, situations that require creative capital and assets whose economics no longer support their existing capital structures. In our view, the managers best positioned to navigate that dispersion will be those that combine flexible capital with deep real estate expertise and a willingness to remain disciplined when others become more aggressive.

CONTRIBUTOR



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Lee Levy is head of real estate debt and senior managing director for Kayne Anderson's real estate group. Levy brings almost 25 years of real estate debt experience and serves as portfolio manager for the debt platform. He is responsible for sourcing, underwriting, acquiring and managing the portfolio of commercial real estate-related debt and securities.

Prior to joining Kayne Anderson in 2024, Levy was managing director and co-head of US real estate credit investing at Goldman Sachs Asset Management. Before joining Goldman, Levy served as managing director and founding member of TPG Real Estate Finance, a carve-out of Deutsche Bank's Commercial Real Estate Special Situations Group. Levy oversaw $7.8 billion in direct loan origination and secondary loan purchases in his combined tenure at Goldman and TPG. Levy previously held positions at Centerbridge, Morgan Stanley, and LNR Property Corp.

Levy earned a B.S.B.A. in Finance, magna cum laude, from the University of Florida.

COMPANY OVERVIEW

Kayne Anderson Real Estate is a leading real estate investment firm, managing nearly $22 billion in assets under management across opportunistic equity, core equity, and real estate debt, with sector expertise in medical office, seniors housing, off-campus student housing, multifamily housing, self-storage and light industrial (as of June 2026). For more information, visit www.kayneanderson.com/real-estate/.

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