FirstNational

INSIGHTS

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Commercial Real Estate Lending: The Outlook Through Year-End 2026

Commercial real estate financing remains available across the United States, but lenders are increasingly distinguishing between properties with durable cash flow and transactions dependent on improving market conditions. Loan structure, leverage, sponsor liquidity and a credible repayment strategy continue to determine both availability and price.

Capital Is Available, but Selective

Banks, insurance companies and private credit providers remain active, although their appetite for risk varies. Stabilized properties with consistent net operating income and reasonable leverage generally attract more competitive financing. Transitional assets, including hotels undergoing renovation, face closer scrutiny of operating performance, capital expenditures, completion schedules and reserves. Refinancing proceeds may fall short of existing debt even when a property remains fundamentally sound.

Understanding SOFR and Lending Spreads

Many floating-rate CRE loans are priced at one-month Term SOFR plus a credit spread. The two components move independently: a lower benchmark does not guarantee a lower lender spread. Selected competitive bridge and debt-fund loans have been discussed at approximately SOFR plus 275–375 basis points, but that range is illustrative, not a general quotation. Riskier hospitality, construction and transitional financings can command materially wider spreads. Fees, reserves, prepayment provisions and advance conditions also affect the true borrowing cost.

The Next 60 Days

Through year-end 2026, our central expectation is for generally firm credit spreads, with some widening possible for loans involving elevated leverage, renovation, leasing or refinancing risk. Stronger credits may continue to benefit from lender competition. Changes in Term SOFR will reflect short-term interest-rate expectations, while credit spreads may respond to year-end capital constraints and transaction-specific risks. Neither component should be forecast with certainty.

Preparation Is the Borrower's Advantage

Owners facing maturities should begin discussions early and assemble current financial statements, rent rolls, capital budgets and evidence of available equity. Acquisition and renovation plans should be tested against conservative debt proceeds and sustainable cash flow rather than assumed future rate reductions. For hospitality and other operating-intensive properties, realistic budgets, third-party oversight and defined funding conditions are particularly important.

As 2027 approaches, disciplined underwriting and a well-supported exit strategy remain more valuable than speculation about the next rate move. At First National, we believe carefully structured financing remains achievable for transactions supported by sound fundamentals.

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