PATTERSON
REAL ESTATE ADVISORY GROUP

CAPITAL VIEWS

PATTERSON PERSPECTIVE
LENDERS TAKE THE LEAD, EQUITY TRYING TO GET OUT OF THE STARTING BLOCKS

LANCE PATTERSON, *Chief Executive Officer*
lpatterson@pattersonreag.com

For those of us who have been around for many years, we usually hear that equity investors are quick to move, and lenders are usually slow. Slow to pick up on a good new thing and slow to get out of a quickly deteriorating thing. Which is why it's surprising to see how quickly lenders have become aggressive while equity investors remain on a protracted, albeit forward march towards being more active.

Let's wind the clock back to mid-2022 when both lenders and equity investors stepped out of the market. In the past few years, we've re-hashed the reasons for this in our newsletters so no need to get back into that. What's important is that through the first half of 2024, lenders continued to largely either: (i) fail to convince borrowers to take their terms, which weren't that good; and/or (ii) weren't that interested in making new loans, especially construction loans. Equity wasn't a lot different, although there was a slow but steady improvement in equity investor appetite for new transactions throughout the year.

There are multiple reasons for why lenders are so active now: (i) real estate lending has always been profitable – not making new loans has hurt lender profitability; (ii) most construction loans made by banks have now reached completion, allowing them to reduce regulatorily required capital reserves, freeing up capital to make new loans; and (iii) there has been a higher degree of loan payoffs the past six + months (coming from re-financings, not so much from property sales) and an anticipation that payoffs will increase rapidly in 2025.

The result? Debt terms are now very aggressive and favorable for borrowers. Construction debt, which struggled to get to mid-50% loan-to-cost early in 2024, is now readily available at 60% of cost. Pricing has declined by at least 50 basis points, recourse has reduced and/or gone away, and lenders are competing again for business. And not just for construction debt – bridge debt terms are really good. This is leading to a wave of debt financings. It's a good time to be a borrower.

Equity investors aren't anywhere as aggressive as debt, although as mentioned we have seen steady improvements. I personally believe the "slow but steady" increase in activity will become more rapid at some point in the near future, although we should expect capital will focus on deals with the best sponsors, in the best locations of primary markets and that achieve required return levels. Take a look at the below chart that we put together regarding multi-family supply and absorption.

The take-away is that while supply was at a high point in 2024, so was absorption. As supply deliveries are nearing their end, most equity investors recognize this

MULTIFAMILY DELIVERIES & ABSORPTION (PATTERSON MARKETS)

	ATLANTA				NASHVILLE				DALLAS				CHARLOTTE				CHARLESTON				TAMPA			
	Deliveries		Absorption		Deliveries		Absorption		Deliveries		Absorption		Deliveries		Absorption		Deliveries		Absorption		Deliveries		Absorption	
YEAR	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value
2025 FORECAST	7	9,809	5	9,423	7	5,821	7	4,798	10	16,986	9	13,844	3	10,625	3	9,491	13	1,316	10	1,930	7	5,664	10	3,589
2024	1	24,453	1	20,311	1	13,111	1	11,115	1	41,987	2	30,193	1	16,669	1	12,837	1	5,552	2	3,365	1	12,294	1	9,448
2023	2	21,848	10	5,887	2	12,486	3	7,065	2	32,605	10	12,231	2	13,442	7	6,686	6	2,993	9	2,132	4	7,053	8	4,119
2022	3	14,936	13	-1,579	3	8,714	11	3,860	8	23,310	13	2,837	7	8,670	12	4,272	7	2,933	8	2,486	2	8,132	13	1,381
2021	8	8,179	2	16,903	6	6,308	2	10,378	4	27,404	1	47,602	4	10,591	2	12,279	3	4,301	1	5,211	6	6,364	2	9,027
2020	4	14,498	3	16,701	5	7,030	10	4,021	5	25,815	5	21,769	5	10,275	6	7,702	4	3,734	4	2,952	5	6,605	3	7,143
2019	6	11,351	6	9,074	12	4,200	6	5,104	6	25,190	3	23,840	10	6,170	5	7,735	10	2,068	5	2,820	9	3,911	5	5,249
2018	10	7,298	4	10,091	9	5,771	5	6,478	7	23,390	4	22,149	8	8,278	4	7,883	5	3,139	3	3,207	3	7,552	4	5,505
2017	5	12,020	7	8,799	4	8,366	4	6,766	3	27,607	8	14,672	6	8,882	10	5,299	2	4,655	7	2,688	10	3,798	9	3,931
2016	9	7,676	11	3,513	8	5,817	12	3,571	9	21,402	7	15,563	11	5,837	9	6,551	12	1,340	13	742	11	3,364	12	1,464
2015	11	7,212	8	7,321	11	4,890	9	4,109	11	14,782	6	18,510	9	7,946	8	6,634	9	2,264	11	1,458	12	2,530	7	4,278
2014	12	5,281	12	3,080	10	4,964	8	4,225	12	12,917	11	11,619	12	5,576	11	4,548	8	2,703	6	2,776	8	5,363	6	4,489
2013	13	5,028	9	6,973	13	3,125	13	2,406	13	12,013	12	10,550	13	4,314	13	3,619	11	1,720	12	1,206	13	1,849	11	2,717

is a good time to start a new project. Couple that with the tremendous amount of capital available to invest in commercial real estate and the decent product level performance, and we have an environment that feels pretty good for new deals to get done.

SUMMARY - ACROSS ALL MARKETS

Year	DELIVERIES Rank Value	ABSORPTION Rank Value
2025	**8.1**	**7.3**
2024	1.0	1.3
2023	3.7	7.8
2022	6.1	11.7
2021	4.7	1.7
2020	4.4	5.2
2019	8.3	5.0
2018	6.6	4.0
2017	5.6	7.5
2016	10.3	10.7
2015	10.0	8.2
2014	9.7	9.0
2013	12.4	11.7

OTHER THOUGHTS ABOUT 2025

- Regardless of what happens to construction costs, we'll continue to be buffeted by operating costs – payroll, insurance, property taxes, etc.

- With the exception of office, almost everyone has concluded that there won't be much in the way of distressed assets that are worth investing in. Regarding office, we're seeing signs of interest among investors, but I remain convinced that office has a long road to recovery.

- It's hard to see the Fed cutting the Fed Funds rate again anytime soon, which means short-term rates will remain unchanged. Regarding long-term rates, it's hard to make a case that we'll see a substantial decline. If I had to guess, I'd say best case is that the 10-year Treasury falls to 4% but more likely continues to be close to current levels in the mid 4% range. At this point, the higher Treasury rate environment is holding back investment sales. This is the largest factor that explains the overall muted equity investor activity.

- CMBS delinquencies have been rising steadily but are well short of record levels experienced in the GFC.

- Retail, shallow bay industrial, data centers, and infrastructure are "hot." Conversely, we wonder if the other "alternatives" that we've talked about the past few years have run their course? A lot of investors think so, although we did recently hear of two new alternatives – veterinary clinics and funeral homes. Feels like we're reaching the bottom of the barrel!

US

In January, we announced the promotions of Bill Mealor and Todd Flaman to co-managing partners of our firm. Both have been with the company for years and have been instrumental in our growth and success. I am grateful for Todd and Bill and for their leadership. I will now focus even more time with our clients and capital sources and on the strategic direction of the company. We also celebrated our 15th year anniversary, a testament to all of the great people who work with us and to our friends outside of the firm. I'm looking forward to our next 15 years!

RECENT TRANSACTIONS

CLIENT	**THE BEACH COMPANY**
PROJECT	**THE STERLING AT CENTER POINT**
MARKET	Wilmington, NC
TYPE	Apartments (265-Unit)
ASSIGNMENT	Construction Equity

CLIENT	**ASANA PARTNERS**
PROJECT	**GEORGIA AVENUE PORTFOLIO**
MARKET	Atlanta, GA
TYPE	Retail (+48,000 SF)
ASSIGNMENT	Bridge Debt

CLIENT	**IMPACT DEVELOPMENT PARTNERS**
PROJECT	**HÔM AT RIVER HILLS**
MARKET	Tampa, FL
TYPE	Apartments (330-Unit)
ASSIGNMENT	Construction Debt and Equity

CLIENT	**THE SPECTRUM COMPANIES**
PROJECT	**SPECTRUM INDIAN TRAIL**
MARKET	Charlotte, NC
TYPE	Apartments (320-Unit)
ASSIGNMENT	Construction Equity

CLIENT	**VISTA RESIDENTIAL**
PROJECT	**TRAILHEAD VISTA**
MARKET	Columbus, OH
TYPE	Apartments (308-Unit)
ASSIGNMENT	Construction Equity

CLIENT	**PRIME WEST AND COLUMNAR HOLDINGS**
PROJECT	**TRAER CREEK**
MARKET	Avon, CO (Vail Valley MSA)
TYPE	Apartments (242- Unit)
ASSIGNMENT	EB-5 Pref Equity

CLIENT	**TRUX**
PROJECT	**6860 STATE LINE RD**
MARKET	Olive Branch, MS (Memphis MSA)
TYPE	IOS (10-Acre)
ASSIGNMENT	Equity

CLIENT	**ONESTREET RESIDENTIAL**
PROJECT	**HAYLOFT COTTAGES**
MARKET	Holly Springs, GA
TYPE	Active Adult (115-Unit)
ASSIGNMENT	Construction Debt

CLIENT	**ATLANTIC RESIDENTIAL & RED CLAY DEV PARTNERS**
PROJECT	**LUMEN|LEGACY PARK**
MARKET	Davenport, FL (Orlando MSA)
TYPE	Apartments (219-Unit)
ASSIGNMENT	Construction Debt and Equity

CLIENT	**NEWSTAR**
PROJECT	**CHARLOTTE PORTFOLIO (5 DEVELOPMENT SITES)**
MARKET	Charlotte, NC
TYPE	Build-for-Rent Portfolio
ASSIGNMENT	Construction Debt and Equity

CLIENT	TRUX
PROJECT	7132 WEST TARGEE STREET
MARKET	Boise, ID
TYPE	IOS (14-Acre)
ASSIGNMENT	Equity

CLIENT	MADISON CAPITAL GROUP
PROJECT	MADISON CHARLOTTESVILLE
MARKET	Charlottesville, VA
TYPE	Apartments (86-Unit)
ASSIGNMENT	Construction Debt

CLIENT	LEGACY SOUTH
PROJECT	DAVIDSON MEADOWS
MARKET	Chattanooga, TN
TYPE	Horizontal Land Development (95-Lot)
ASSIGNMENT	Equity

CLIENT	ALBANY ROAD
PROJECT	CAPITAL CIRCLE COMMERCE PARK
MARKET	Tallahassee, FL
TYPE	Industrial and IOS (181,105 SF)
ASSIGNMENT	Bridge Debt

CLIENT	NORHAVEN PARTNERS
PROJECT	DOGWOOD DRIVE
MARKET	Hapeville, GA
TYPE	Build-for-Rent (58-Unit)
ASSIGNMENT	Development Partner

CLIENT	LEGACY SOUTH
PROJECT	TAYLOR
MARKET	Nashville, TN
TYPE	Horizontal Land Development (86-Lot)
ASSIGNMENT	Equity

Since inception, Patterson has closed more than 500 transactions encompassing over $11.6 billion in capital placement.

DEVELOPMENT DOLLARS

TODD FLAMAN, *Co-Managing Partner*
tflaman@pattersonreag.com

The most frequent question I receive from clients is, "What are you seeing from LP equity?" In 2023, it was a rather quick conversation, leading our developer clients to follow with, "Ok, tell me more about preferred equity..." 2024 started similarly to 2023 with very few LP executions and more activity in the preferred equity space. Having closed nine different preferred equity transactions in 2024, the Patterson team has a strong handle on this pocket of capital and knows the right partners and market terms. We believe preferred equity will continue to play an important role in closing development transactions this coming year, but 2024 did not end the way it started. There was a material shift about midway through the year as it relates to LP capital providers.

To build off Lance's comments, I want to start by echoing some of his sentiments and then get into the details of the LP world. First, it is important to tip our hats to the construction lenders. In 2024, commercial banks recorded the slowest commercial real estate loan growth in over a decade of 1.4% YoY. Seeing the slowdown in real time and eager to change the growth trajectory, banks came back en masse in the second half of 2024, and the market got competitive for both bank and non-bank lenders. The 100-basis point reduction in the Fed Funds Rate has also helped underwriting metrics to the point we are now consistently seeing 60% LTC on construction loans, sometimes higher. The additional leverage and lower interest rates have helped desktop underwriting for developers and capital providers. Additionally, twelve months ago, we were trying to get creative on how to structure around onerous recourse and deposit requirements from lenders, whereas now we are starting to see non-recourse quotes again and deposit requirements have largely faded into the background. Beyond the lenders' appetite for new construction loans, lenders, for the most part, have also continued to be lenient with their borrowers on existing construction loans.

Lender leniency has, in turn, meant fewer distressed situations or even forced sales or recapitalizations. In 2020, LP capital mobilized quickly to raise distressed and rescue capital, and that trend resurfaced in '22 and '23 as rates jumped; however, in both cases, not enough of these deals materialized. LP capital also pivoted to seeking acquisitions below replacement cost – but, again, not enough transactions materialized. That brings us to now – LP capital appears to be "development curious." We heard this term recently from an equity group that was in our office, and it aligns well with what we are seeing and hearing in the market.

I can count on one hand the number of development transactions we closed in 2023 that had LP equity in the capital stack. We weren't very popular that year. Our pipeline had not changed from 2022, just investors' appetite. It wasn't until the middle of '24 when we noticed more equity groups visiting our office and wanting to talk about development deals again.

Since the beginning of 2024, Patterson has now closed fourteen development transactions with LP equity totaling $240 million – with the majority of these closings coming in the last six months. Equity checks ranged from $4 million to as large as $40 million. Two of the fourteen deals were “Senior LP” deals. I’m not sure this is accepted nomenclature yet, but this was my favorite term for the following structure. A Senior LP deal mirrors all aspects of a traditional LP venture, but in the first tier of the waterfall, the capital provider receives its capital back and a preferred return on that capital, and then in the second tier of the waterfall the sponsor receives its capital back and the same preferred return. I suspect we will see a few more of these Senior LP structures as LP capital wades back into the market.

What LP capital is looking for has not materially changed nor have their return thresholds. Low density and low basis continue to drive most of the residential conversations as does shallow bay on the industrial side; primary markets and well-located sites in secondary markets remain in favor over tertiary markets. As far as the LP venture terms, the negotiation pendulum has swung in favor of the capital provider. In 2021 and 2022, we saw more LP groups willing to share in pre-development costs and cost overruns. Those are two items that are harder to negotiate at the moment. As far as fees, we are seeing LP groups pay closer attention to the amount of development, construction management, and/or overhead fees in deals. While we have never seen egregious fees from our clients, LP groups had been more lenient in years past. The LP providers producing term sheets currently have the leverage simply due to the lack of entrants off the sidelines. As with all cycles, this will change. We do find it interesting that aside from the “Senior LP” structure, the waterfalls have not materially changed. Most waterfalls still start with a preferred return in 9 – 10% range with a few promote tiers from there.

Looking ahead, we expect capital markets to continue to improve, albeit slowly, in 2025 despite the noise outside of our industry. Transaction volume across the US was only up 9% YoY in 2024 according to MSCI, Inc. Total volume was $420 billion, which is about half of the volume seen in the height of 2021. Distressed opportunities will remain limited, and acquisitions will remain tough – which leaves a lot of capital that still needs to be put to work. With that, we expect more LP capital to become development curious… and look forward to that curiosity continuing to evolve into activity.

Patterson represents commercial real estate owners and developers seeking to invest in real estate opportunities or navigate a challenging economic environment. Our primary focus is helping clients across all property types access investors at all levels of the capital stack, matching the specific need with the appropriate capital providers.

CONFERENCE ROUNDUP

The first two months of each year is conference season in the CRE world. It's a great opportunity for Patterson to engage a large mix of clients and capital sources as we work to stay on top of market trends and factors influencing investor interest. Numerous team members travel to participate in the conferences and return with key takeaways which we share with you below.

CRE Finance Council
The Voice of Commercial Real Estate Finance

BILL MEALOR
Co-Managing Partner (Atlanta)

CRE Finance Council (CREF-C) met in early January to kick off the year with originators from debt funds, banks, life companies, and CMBS desks meeting in Miami. The conference is also well attended by preferred equity, mezzanine and common equity investors. The year started with much optimism for greater liquidity and deal flow.

- Lenders are well capitalized and eager to deploy capital.
- Debt liquidity is being driven by the re-emergence of banks, which are providing leverage to debt funds and lending into direct deals with greater appetite than they did last year.
- Debt funds' ability to lever their positions is resulting in tighter spreads and broader interest in deals.
- The greatest interest remains in pre-stabilized multifamily or industrial deals coming out of construction or nearing completion. Depending on levels of leasing, debt fund spreads can range from high 100s to mid-200s over SOFR.
- As spreads tighten and more lenders return to the market, lenders who typically seek higher yields are turning their focus to other product types, including land, certain office assets and hairier deals.
- While there is a healthy amount of optimism with an expectation of increased deal volume relative to recent years, credit committees are still cautious, and transaction volumes are anticipated to be below 2021-2022 levels.

NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

DYLAN SUTH
Associate Director (Nashville)

Fresh off NMHC (National Multi Housing Conference) in Las Vegas in late January, one thing is clear—the market is still in a holding pattern, but momentum is picking up. Conversations on the ground reflected cautious optimism, with LP equity re-entering the market, construction debt getting more aggressive, and institutional groups starting to revisit development. While there is ample dry powder to deploy, interest rates and cost basis remain the dominant force shaping investor appetite and transaction activity.

- After an extended slowdown, LP equity is becoming more active, primarily in basis-oriented multifamily, build-to-rent (BTR) projects in suburban markets, and mid-sized industrial developments, with investors favoring best-in-class locations and defendable rents. While equity investors remain focused on basis, Patterson has recently closed several strategic infill transactions, demonstrating that capital is still available for opportunities with an irreplaceable location and compelling investment thesis.
- Preferred equity remains competitive, and construction lending is re-emerging, as regional banks ease constraints and debt funds stay active, though costs and coverage metrics still challenge underwriting. Preferred equity leverage has climbed, with many groups now providing financing up to 85% LTC, while coupons and multiples continue to tighten. Banks, driven by a growing appetite to expand loan volume, are more consistently reaching 60% LTC with spreads dipping below 3.00%.
- Bridge lenders are highly interested in newly built multifamily and industrial assets, while traditional value-add deals are selectively trading in high-income suburban areas.
- The bid-ask spread continues to stall transactions, with

sellers holding firm on pricing while buyers look for distressed or newly built assets below replacement cost.

- Although a supply wave is looming, limited new starts could drive future rent growth once the new product has been absorbed. Patterson's key Southeast markets have seen record absorption levels, and new deliveries are expected to fall off a cliff in Q1-Q2 2026. As a result of the tightening supply-demand dynamics, equity investors are beginning to gain confidence in underwriting rent growth for 2026 and 2027.

While the market remains subdued, the tides are starting to turn. Fundamentals are showing signs of strength driven by record absorption in key markets, improving bank financing, and a sharp decline in new supply. With these tailwinds building, the stage is set for increased deal flow in the near future as investors become more active.

AMERICAS LODGING INVESTMENT SUMMIT
ALIS
BY NORTHSTAR

BARRY OLSON
Senior Managing Director (Dallas)

It's risky to write blanket commentary on the whole hospitality industry. If you own a business hotel in a major market, for instance, you might not like the current operating environment, but if you own a resort destination hotel you may have a totally different perspective. What I think all participants at the January ALIS (Americas Lodging Investment Summit) conference in Los Angeles can agree to is the following:

- The transaction market in 2024 was muted, and market participants don't see an immediate catalyst for a pickup in 2025.
- Margins are generally being squeezed as top line revenues are growing slower than the pace of inflation and major expense categories (labor and property insurance) are growing faster than inflation.
- New development activity was muted in 2024, but there are markets in which new hotels make good sense.
- Developers of hotels aren't immune to what the rest of the real estate industry is experiencing with the cost of new development at levels which make the numbers hard to pencil.
- The availability for debt seems measured but is getting better given the number of debt funds seeking yield and for stabilized properties with well-functioning SASB and CMBS markets as well as a return of the banks with their bridge loan products.

Overall, the hotel industry is a resilient one. Owners, hotel managers, and asset managers have become very adept at operating in choppy environments, and they no doubt will do the same in 2025.

MBa
MORTGAGE BANKERS ASSOCIATION

EMILY SHELTON AND JAMIE CAMPBELL
Associate Directors (Atlanta)

The annual MBA (Mortgage Bankers Association) conference was hosted in San Diego in mid-February, marking the grand finale of the real estate industry's conference season. Patterson had the opportunity to connect with a diverse group of lenders—ranging from banks to debt funds to life companies—gaining market insights and their appetite for the upcoming year. Many of the themes echoed those from other conferences, but overall debt capital remains readily available, terms are becoming more competitive, and lenders are having to get creative to meet allocation goals.

- The end of 2024 was very active for lenders, with most of their annual allocation put out in the last quarter. Many hope this pace will continue through 2025.
- Lenders are cautious but optimistic for 2025; allocation goals are larger than 2024 but not expected to reach 2021 or 2022 levels quite yet.
- Debt capital is readily available across the board, but it's still hard to find the right deal.
- Multifamily and industrial continue to be key focuses, but lenders have become more open to other product types.
- Interest rate spreads are competitive. All lenders are aware of this and realize they will need to be more aggressive to win deals.
- Lenders are trying to be more creative (creating new buckets of capital, open to new markets, flexibility on check sizes, etc.).
- C-Pace is becoming more accepted across different states and senior lenders.
- Groups started to see more payoffs at the end of 2024 (mainly through refinances) and are hopeful that will continue.
- Lenders think they are through the worst of their asset management issues and have seen overall portfolios improve.

CONNECT WITH US

LANCE PATTERSON
Chief Executive Officer
lpatterson@pattersonreag.com
404.504.6683 | Atlanta, GA

BILL MEALOR
Co-Managing Partner
bmealor@pattersonreag.com
404.504.6687 | Atlanta, GA

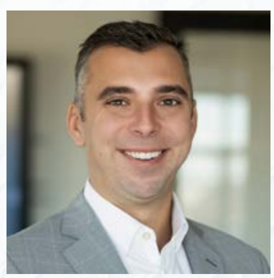
TODD FLAMAN
Co-Managing Partner
tflaman@pattersonreag.com
404.504.6677 | Atlanta, GA

KEN GRIMES
Senior Managing Director
kgrimes@pattersonreag.com
404.504.6685 | Charleston, SC

BARRY OLSON
Senior Managing Director
bolson@pattersonreag.com
214.347.4094 | Dallas, TX

LAURA CLOUD
Senior Managing Director
lcloud@pattersonreag.com
615.410.9815 | Nashville, TN

LAUREN HANLEY
Managing Director
lhanley@pattersonreag.com
813.658.3230 | Tampa, FL



AUSTIN SMITH
Market Director
asmith@pattersonreag.com
404.504.6676 | Charlotte, NC

LAURA FRIDDELL
Managing Director
lfriddell@pattersonreag.com
404.504.6693 | Atlanta, GA

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REAL ESTATE ADVISORY GROUP

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