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REAL ESTATE

Apartment Landlords Have a $2 Trillion Debt Problem That Is Only Getting Worse

Property investors borrowed record sums at historically low rates. As the bill comes due and interest rates rise, 'the chickens are coming home to roost.'

By Rebecca Picciotto

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New apartment construction flooded the market postpandemic. ELIJAH NOUVELAGE/BLOOMBERG NEWS

Quick Summary

- U.S. apartment landlords face more than $1.8 trillion in debt coming due over the next decade, with about $757 billion maturing from now to 2028.

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Few investors are feeling more pain from rising interest rates than America's apartment landlords.

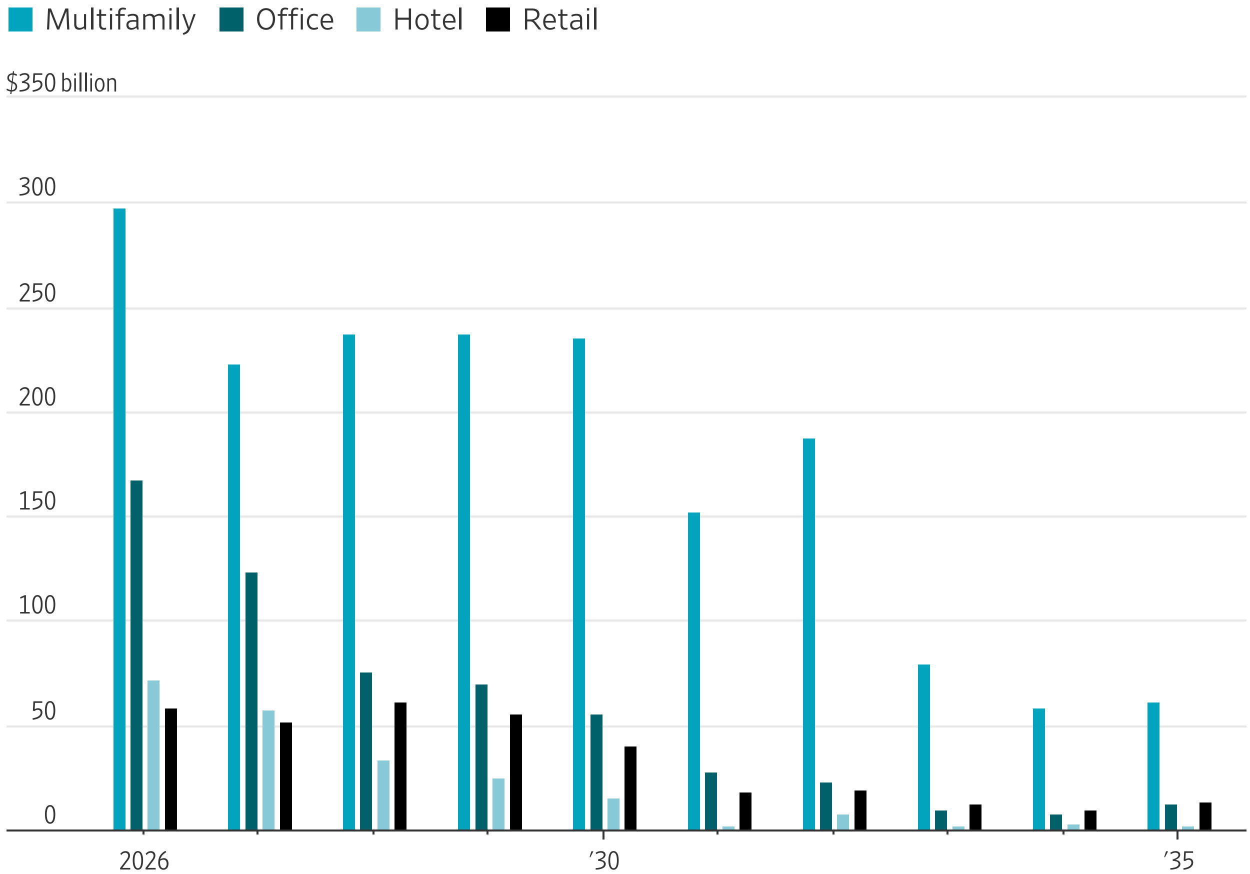
These property owners face a bill of more than $1.8 trillion in debt over the next decade. From this year to 2028, about $757 billion of those loans are coming due, according to the Mortgage Bankers Association. That is the most of any commercial real-estate sector.

Nearly $300 billion of those loans are maturing in 2026 alone. This follows a record-setting 2025, when $310 billion in loans came due, the highest the sector had seen in a single year since the Mortgage Bankers Association started tracking. Another $223 billion is due next year.

Now, after the Federal Reserve raised rates a quarter point and with bond yields rising, that debt is about to become a much bigger burden. Landlords are having to refinance when borrowing rates are roughly twice the level of five years ago, when many of these loans were made.

When apartment-mortgage rates tumbled to historic lows of around 3% in 2020 and 2021, multifamily buildings were the hottest investment in commercial real estate. Office and retail properties suffered after urban downtowns were hollowed out by remote work. The lodging business took a hit when travel activity drooped during the pandemic, while soaring operating costs and plunging occupancy rates caused hundreds of senior housing facilities to close.

Commercial Loan Maturities by Property Type



Source: Mortgage Bankers Association

Apartment rents, meanwhile, were surging at double digits nationwide. Multifamily became a refuge for real-estate investors amid the doom spiral in other sectors.

"There was a sense of relative euphoria," said Mike Wolfson, Newmark's managing director for multifamily capital-markets research. "But things turned very quickly."

New apartment construction flooded the market, mostly concentrated in the Sunbelt region. Cities such as Phoenix, Denver, Atlanta and Austin, Texas, were inundated with new luxury apartments and not enough people to fill them.

Fast forward, many of the same apartment landlords riding high are now preparing to sell at a loss, hand back the keys to their lenders or reconfigure their balance sheets to shoulder millions more in mortgage payments after refinancing.

The financial strain is already causing developers to pare back on new construction and instead buy distressed properties at a sharp discount.

“The chickens are coming home to roost for a lot of people,” said Sean Burton, chief executive of the multifamily firm Cityview.

At times, landlords’ loan distress has become renters’ problem, too. To pay off their debts, apartment owners might try to increase rents or add new fees. Or they may cut back on building repairs and other upkeep to reduce expenses. The Tenant Union Federation, a national tenant group, has organized several rent strikes in financially distressed buildings where landlords had deferred maintenance or raised rents to pay their mortgage.

For years, debt-saddled investors have survived on lenders’ willingness to extend the life of the loans. Creditors and borrowers hoped that rent growth would rebound, the Federal Reserve would cut rates and lenders would get their money back.

That hasn’t worked out, and lenders’ patience is running dry.

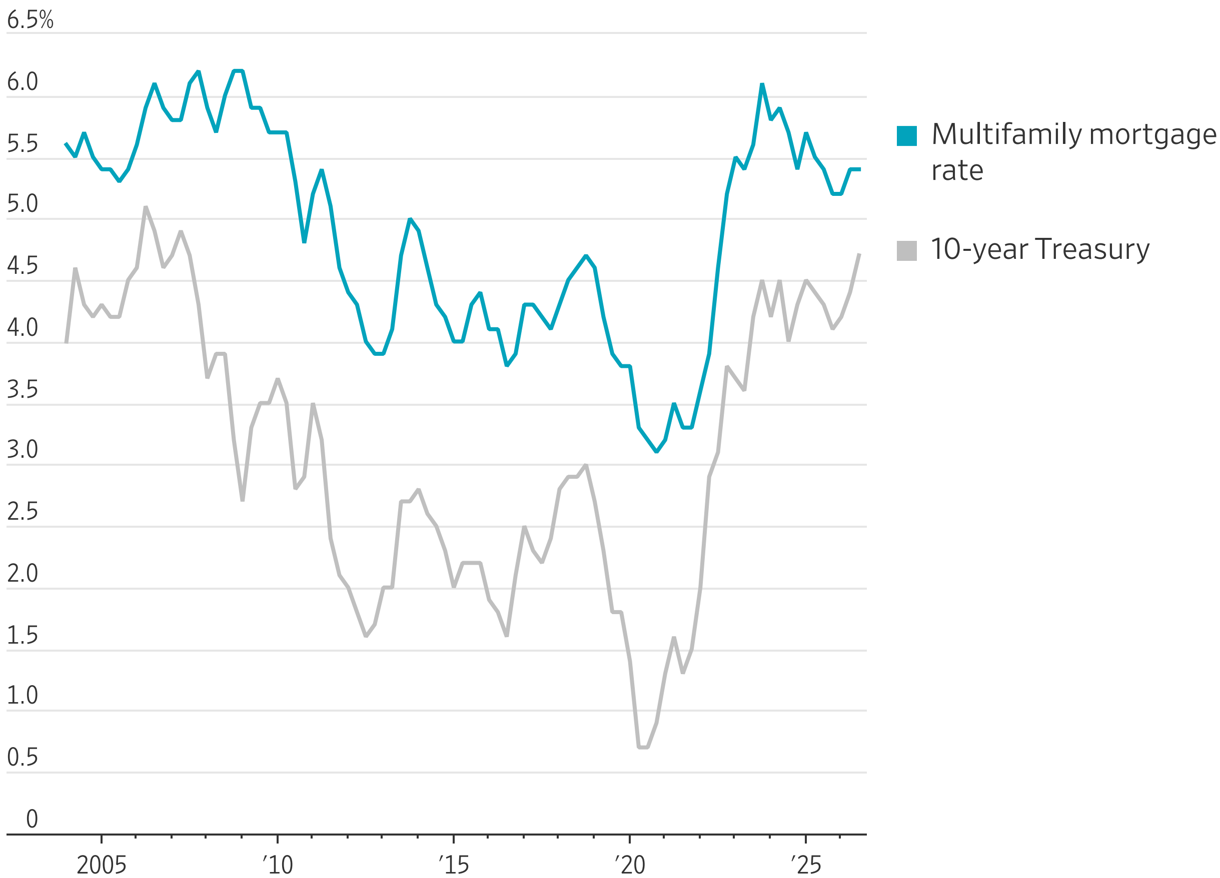
“Lenders have gotten a lot more aggressive,” said Ryan Cotton, Bain Capital’s head of real estate. “That could lead to some real turbulence as you see distress start to manifest.”

Creditors were already putting pressure on smaller firms that have been struggling with this historic debt balance. But now, even real estate’s biggest investors aren’t immune from rising rates.

In June, Blackstone defaulted on a $90 million loan from Ares Real Estate for an apartment building in Northern Dallas that the firm bought at the peak of the market in 2021 before interest rates rose.

“No one is spared here,” said Bob Hart, CEO of TruAmerica Multifamily Investments, who is working through his own pile of short-term apartment debt. “We’re seeing a lot of ‘time’s up’ situations.”

Borrowing Costs



Source: Cushman & Wakefield

Time is up for one of Hart's properties in Raleigh, N.C. He acquired the property five years ago and its loan is coming due. If he wants to keep the property, he would have to refinance the loan from its current 3.5% rate to today's 6% level. He said he is considering selling rather than writing "a large check to rebalance it."

The surge in debt coming due, along with other rising costs, is playing a role in recent industry consolidation. Multifamily giants AvalonBay Communities and Equity Residential in May agreed to combine in a $69 billion megamerger. Part of the rationale, the firms said, was to rely less on expensive debt and use more of their revenue to finance projects.

The delinquency rate for multifamily loans in commercial mortgage-backed securities jumped from 1% in October 2023 to 7.1% this year, the biggest increase of any major property type, a Morgan Stanley report found. About 3% of the loans coming due this year that cannot be extended are in some kind of distress, the highest level over the past five years, according to Trepp.

Some lenders have reasons besides interest rate hikes to get more aggressive with their borrowers. For one, rent growth is expected to regain momentum next year. Real-estate data firm CoStar expects rents to increase by 1.9% by the end of this year, a sharp increase from its previous forecast of 0.5%.

That gives lenders renewed hope for some struggling properties—and a better reason to take back the keys. Banks also have stronger balance sheets than they did several years ago, giving them more of a cushion to take on multifamily risk.

“They are starting to believe that we can take some of the real estate back and make a play for that recovery” of rent growth, said Cotton of Bain Capital.

Apartment values fell about 3.5% in the past month and are more than 20% below their 2022 peak, according to Green Street. Syndicator firms that went big on multifamily during the pandemic are now barely afloat.

S2 Capital, a Dallas-based syndicator firm, has racked up $400 million in loan defaults on its Sunbelt apartment portfolio. Earlier this summer, CEO Scott Everett dissolved the multifamily fund and informed investors that they wouldn’t see their money back.

He is being personally sued by his lenders and recently put his Dallas home up for sale for $45 million. The firm plans to sell six of the properties in default for $290 million and is working to refinance hundreds of millions more of distressed loans. Everett said he expects the lawsuit to be resolved by the end of this month.

Meanwhile, cash-flush buyers are circling these distressed properties. Burton of Cityview is one of them.

Cityview is buying directly from lenders who have assumed control of properties, something the firm hasn't done in years, Burton said. Cityview is getting a roughly 40% discount for a newly renovated apartment complex in the Dallas metro area that was foreclosed on.

"It's some of the best buying opportunities I've seen in my career," he said.

Rebecca Picciotto writes about the residential rental market and housing policy on The Wall Street Journal's Real Estate team based in New York. She interned on WSJ's Real Estate desk during the summer of 2022. Rebecca also worked as a politics reporter at CNBC, where she covered economic...

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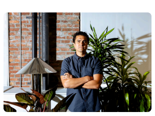

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