



VIEWPOINT

Reality of Multifamily Restructuring:

More Deals Rely on Rebuilding
Capital Stacks Over Clean Refinances

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Multifamily debt is back. At least, that's the headline most owners and investors have been waiting for. Lenders are active again. Agency executions are competitive. And more capital is in the market today than at any point over the past two years.

On the surface, the refinancing environment looks meaningfully improved. For many borrowers, however, refinancing is still not straightforward. Capital is available, but getting a deal to pencil is the harder part. In many cases, the gap between the two is what's driving decisions.

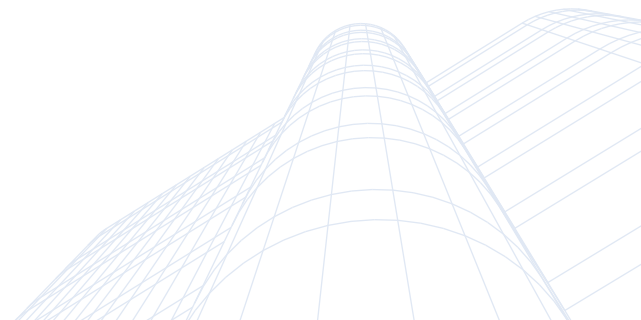
A market defined by proceeds, not access

Over the past 12 to 18 months, the lending environment has shifted. The constraint today is less about access to capital and more about how much debt the property's income can support.

Much of that traces back to how assets were originally financed. Many deals were underwritten with expectations of sub-4% rates and continued rent growth. Instead, the market delivered flat rents in many areas, rising expenses and a higher cost of capital. Net operating income has been compressed at the same time that financing costs have increased.

Today, most loans are sized based on debt service coverage rather than leverage targets. Even as rates have come down and spreads have tightened, that shift continues to limit proceeds relative to borrower expectations.

The result is a growing divide. While some assets can be refinanced cleanly under current terms, many cannot – at least not without changes to the capital structure.



When the refinance doesn't work

Refinancing today is less about replacing debt and more about reworking the capital stack.

When proceeds fall short, borrowers are making tradeoffs. Some are bringing new equity into deals to reduce leverage and meet lender requirements. Others are layering in preferred equity or other structured capital to bridge the gap. These approaches can preserve ownership, but they often come at the cost of lower cash flow and reduced returns to common equity.

Not every borrower is willing or able to make those adjustments. In those cases, the refinancing challenge is pushing owners toward a different decision. Assets that cannot be recapitalized are more likely to be brought to market, even as transaction activity and pricing remain uneven.

A clear split in borrower behavior

One of the more defining characteristics of the current market is how differently borrowers are responding. Those with flexibility, whether through liquidity or time, are often choosing to wait. They are holding out for improved operating performance, additional rate movement or both.

Others do not have that option. Maturities, capital structures or investor expectations are forcing action. For these borrowers, the conversation shifts quickly from whether a refinance is possible to how to execute one in a way that preserves value.

Reworking the capital stack in practice

A recent recapitalization highlights how this is playing out in real time.

A bridge loan put in place two years ago assumed continued rent growth and stable operating conditions. Instead, the property faced concessions, flat rents and rising expenses. The original loan structure no longer worked, and refinancing the asset as-is was not an option.

The solution required a full reset. By combining agency debt with preferred equity, the team was able to retire the bridge loan and lower the overall cost of capital, with a senior mortgage rate below 5% and preferred equity priced below 10%.

The structure came with tradeoffs, but it allowed ownership to stabilize the asset and maintain their position rather than being forced into a sale. This kind of outcome is becoming more common.

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Kristopher Wood
Managing Director



What this means going forward

The multifamily debt market is functioning again, but operating under a different set of rules. Capital is available, but it is more disciplined. Refinancing is achievable, but it often requires flexibility, creativity and, in many cases, new capital.

For owners and investors, the conversation has shifted. The focus now is on what a deal needs to move forward, not just whether financing exists.

For more information please contact:

Kristopher Wood | *Managing Director*

kwood@northmarq.com | (215) 484-0320

Lanie Beck | *Senior Director, Content and Marketing Research*

lbeck@northmarq.com | (918) 494-2690

Bianca Farrington | *Content Marketing Manager*

bfarrington@northmarq.com | (972) 637-2159

Northmarq

3500 American Blvd W
Suite 500
Minneapolis, MN 55431
(952) 356-0100
www.northmarq.com