KEYNOTE INTERVIEW

US residential bridge lending offers resilience

Private credit allows investors to hedge against equity market volatility, suggests Stormfield Capital's Wesley Carpenter

Stormfield Capital is one of the most active fix-and-flip and bridge loan lenders in the northeast US with over $1.75 billion in loan originations. The Southport, Connecticut-headquartered firm specializes in providing short-term, first-position real estate loans of $1 million-$25 million for investors and developers seeking capital for acquisitions, renovations and value-add strategies.

Co-founder and partner Wesley Carpenter surveys the current state of play in the US residential transitional loan (RTL) space and argues that this is a "compelling moment" for investors to commit capital to a market that offers steady returns and a conservative risk profile.

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Q Why is now an attractive time to be allocating to private credit, and specifically residential bridge lending?
One of the notable characteristics of the real estate secured private credit universe is that there are many different risk profiles that investors can pursue within the broad asset class. That allows investors to pivot between sub-strategies depending on what stage we are at in the economic cycle.

Right now, securitization markets, including CMBS and CRE CLOs, are really firing, so it isn't the best time to concentrate on originating loans that compete with securitization. However, for a short-term bridge lender there is always opportunity somewhere else in the market. It is a very resilient strategy that is often counter-cyclical.

A bridge loan can be pro-cyclical in nature, aimed at facilitating an opportunity such as construction, but it can also be counter-cyclical, in that it solves a problem. For example, a situation we see frequently is that a developer has completed a condominium project, but they haven't met their original timeline for selling the units before their bank loan comes to maturity.

Meanwhile banks, particularly regional banks, are facing liquidity challenges, so their CRE lending activity has been tepid lately. They often want to pull back their capital, so they don't want to extend the condo developer's loan for a year or two while they wait for the units to sell up.

That creates an opportunity for a bridge lender to step in to give the sponsor extra time by making a short duration loan. By doing so the lender gets access to attractive assets – for example, newly constructed, single-family condominiums – in a situation that has already been largely derisked and which will continue to derisk further as the condo units sell.

Q What is top of mind for borrowers in this environment?

Borrowers are most concerned with where their properties are pricing relative to interest rates. For some bridge loans the exit strategy is a refinance, but for many it is a sale of the property. Borrowers are highly dependent on the for-sale market, so the crucial factor is the cap rates that buyers are paying relative to the rates at which they can raise finance.

Over the past four to six months, borrower sentiment in the US has shifted materially. There is a growing belief that markets have reached their low point and so investors are feeling a little bit more confident to start bidding on new projects. Everyone has been using their cash to work out their troubled deals, but now more investors are getting on their front foot.

That is helped by the fact we have just seen the Fed cut the base rate and there is talk of one more reduction before the year ends. What complicates the picture is the long end of the interest rate curve, where 10-year Treasury yields remain elevated, because that is what will ultimately dictate financing costs and cap rates.

Nonetheless, sentiment has become more positive overall. Meanwhile, a lot of private equity borrowers are coming to the end of their fund vintage. They were hoping to exit at 2022 values, and they have spent the last couple of years trying to increase revenue and manage expenses in the hope of creating more asset value.

Cap rates have shifted though, so they aren't meeting their original underwriting expectations. Now they are in their harvest period, and they need to sell anyway and return capital to their investors. That's a natural stage of the market cycle, and it should enable some resetting in the multifamily market that helps to drive renewed activity.

Q How have your underwriting criteria shifted over the last 12-18 months? What risk factors are you weighing more heavily today?

As a bridge lender, the first question is always "are we at the right loan to value?" The second question is whether the exit strategy is viable. Markets are more challenging today, so it is more important than ever to be able to underwrite the borrower's exit strategy.

Capital markets are fragile. Four or five years ago there were an abundance of exits for residential property. Today, the agencies, CMBS and banks have all reduced their risk exposure. Before we make a bridge loan, we want to understand the future path for the borrower and the asset, based on current market conditions.

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Q Are there geographic regions or asset classes where you're seeing outsized opportunity?

As a debt investor we don't want to

chase markets with outsized returns – we leave that to equity investors. We have always been very comfortable to lend in the most mature markets across the US, specifically the coastal markets: the suburbs of New York, suburbs of Boston and some of the smaller secondary markets on the east coast.

If you look across the US real estate landscape, it is mature markets on the northeast and west coasts that have demonstrated the most stability during a period that has been marked by price divergence.

Up until 2022, most US real estate markets had appreciated significantly since the covid pandemic. A lot of capital flooded toward the Sun Belt, leading to that region becoming over-invested on both the equity and debt side. Values in those markets are now starting to decline across single family, multi family, and other commercial asset classes.

For example, on the west coast of Florida, from Tampa down through Naples, single family prices are down 10-15 percent off their highs. Juxtapose that with Manhattan, where single family home prices are up 5 percent and rental rates are up 4 percent.

Among the residential sub-asset classes, which make up more than 90 percent of our business, single family and small, sub-30 unit multifamily have been most resilient. The buyers for those assets are not usually institutions; they tend to be more mom-and-pop local investors who buy not just according to cap rates, but for a broader kind of value proposition. There is more of an emotional overlay associated with buying assets within their community.

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Q In a competitive lending landscape, how can private credit managers win deals beyond just pricing?

It starts with brand reputation and the way you conduct yourself in the market. Approximately 60 percent of the dollars we invest come through mortgage bankers, brokers and advisers who bring their clients to us.

In the bridge lending space, execution is paramount. If a client needs to close a transaction in 30 days, the adviser is not going to trust a new relationship for that situation. They are going to want to transact with a lender that has performed in the past and has conducted themselves ethically and honestly.

We also invest heavily in our digital presence. While mortgage bankers and brokers remain at the core of our origination network, we have seen that many borrowers now begin their search for financing online. Our goal is to ensure that when they do, Stormfield is represented as a credible, reliable option – and that our broker partners benefit from that visibility and brand strength.

The sub-$2 million RTL market is rapidly evolving through technology. Lenders that embrace digital tools will be best positioned to serve borrowers efficiently and scale their platforms. The owner-occupied mortgage space in the US has already moved to a digital-first model, and we believe residential transitional lending is heading in the same direction.

Q What is the outlook for real estate credit as we see out the year and move into 2026?

There will be a continued retrenchment by US regional banks with private credit filling that void. And in the residential markets specifically, more clarity on the trajectory of interest rates will encourage value-add capital back into the multifamily market. That should lead to an increase in transaction volumes in 2026.

This is an extremely compelling moment for investors to consider asset-backed fixed income alternatives. Real estate debt is often used as a fixed income alternative that provides stability and ballast in an investment portfolio, providing high single digit or low double digit returns and low volatility. It can generate near-equity returns without taking equity levels of risk.

That makes it particularly attractive at a time when public equity markets look expensive. I don't think anyone would be surprised if we saw a selloff in public equities over the next three to nine months.

Moreover, in a more challenging capital market environment, borrowers and sponsors are arguably best served by on-balance sheet lenders who are less dependent on the functioning of the capital markets.

Lenders and investors who rely on securitization or high levels of warehousing can provide lower rates when markets are functioning, but when the markets hit a speed bump, they may not be there for their clients.

Therefore, real estate sponsors need to be thoughtful about selecting lending partners. In a more volatile market, they may prefer to work with a lender who will keep the loan on their balance sheet and hold it to maturity, to ensure not only certainty of execution in closing on the loan, but also continuity of service post-closing. ■