

Financial Distress in the Multifamily Rental Market, and What It Means for Tenants

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Introduction

The US rental housing market faces what market participants describe as escalating “financial distress,” a state of significant uncertainty regarding landlords’ ability to repay their investors. Multifamily properties are currently the second-most distressed real estate asset type (after office buildings). As of August 2025, multifamily mortgage-backed-securities loan delinquencies are at their highest rate in the last 10 years, and have nearly doubled in just the last year.¹ Real estate industry experts have highlighted a confluence of factors driving escalating worries of widespread financial distress: maturing overleveraged loans, rising operating costs, high interest rates, climate change, and political instability, to name a few.²

Although tenants do not have a say over what level of financial risk their landlord takes on, they are nevertheless impacted by these decisions. Just as tenants have suffered in recent decades due to rental housing speculation, so too do they bear the brunt of landlords’ financial distress, whether in the form of deferred maintenance that threatens health and safety or rent hikes as landlords attempt to meet their debt obligations and maintain returns to lenders and investors.

Despite the disproportionate repercussions for tenants, it is typically non-tenant market actors who determine how distress originates and what is done about it. In the 2008 Great Recession, for instance, policy and investment decisions led millions of homeowners and renters to lose their homes, while financial institutions were bailed out and large

¹ Vivek Denkanikotte, “CMBS Delinquency Rate Increases Again in August as Office and Multifamily Hit New Record Highs,” Trepp, August 28, 2025, <https://www.trepp.com/trepptalk/cmbs-delinquency-rate-increases-again-in-august-2025>. We define multifamily buildings as properties with more than 5 units, including mobile/manufactured home parks. Multifamily properties account for just over half of the 48 million rental units in the United States (Joint Center for Housing Studies of Harvard University, “America’s Rental Housing 2024,” January 2024, Appendix Tables, <https://www.jchs.harvard.edu/americas-rental-housing-2024>). Leslie Shaver, “Trepp: Multifamily CMBS delinquencies, servicing rates fell in September,” Multifamily Dive, October 15, 2025, https://www.multifamilydive.com/news/milestone-group-distressed-apartments-multifamily-delinquencies/802893/?utm_source=Sailthru&utm_medium=email&utm_campaign=Issue:%202025-10-16%20Multifamily%20Dive%20%5Bissue:77856%5D&utm_term=Multifamily%20Dive.

² Joe Gose, “More Distress Looms in Multifamily Finance. Here’s Why,” *Multihousing News*, July 2024, <https://www.multihousingnews.com/more-distress-looms-in-multifamily-finance-heres-why/>; Joe Rennison and Julie Creswell, “Apartments Could Be the Next Real Estate Business to Struggle,” *New York Times*, July 4, 2024, <https://www.nytimes.com/2024/07/04/business/apartment-multifamily-loans-trouble.html>.

As a new era of financial distress in the rental housing market unfolds, this brief explains the nature of the distress, examines its drivers and impacts, and argues that the multifamily rental market must be a focus of research, policy, and advocacy in the coming years.

investors quickly recovered (and even found new opportunities to profit from housing).³

As a new era of financial distress in the rental housing market unfolds, this brief explains the nature of the distress, examines its drivers and impacts in the multifamily market, and argues that the multifamily rental housing market must be a focus of research, policy, and advocacy in the coming years.

What is financial distress?

On a basic level, “financial distress” in rental housing is when a landlord is unable to realize enough profit from a property or their overall portfolio to meet their financial obligations. Identifying financial distress at scale is a complex task; it shows up unevenly and depends on both internal dynamics specific to a landlord’s portfolio—like property type, tenant base, ownership model, and business model—and external dynamics that affect real estate markets and sub-markets more broadly, such as prevailing interest rates, supply chain disruptions, climate disasters, and more.

- **Internal dynamics:** Distress can occur in an individual building because of dynamics specific to that building; a fire or broken-down boiler, for instance, could lead to unexpected expenses that might cause financial distress. Distress can also occur if a landlord purchased a building with plans that do not come to fruition, such as displacing existing tenants to attract higher-income tenants and increase rental revenue. For landlords who own more than one building, distress can occur across the entire portfolio. If a landlord takes on extensive financing and investment to purchase many properties and spreads that capital thinly, the debt obligations could make the landlord vulnerable to financial distress if the projected profits do not materialize.
- **External dynamics:** Financial distress can also arise because of larger market shifts. Landlord business plans often rely on cheap and easy capital as well as the investor optimism that

³ US Government Accountability Office, “Rental Housing: Information on Institutional Investment in Single-Family Homes,” May 2024, <https://www.gao.gov/products/gao-24-106643>.

Market shifts can create the conditions for financial distress by affecting the perceived or actual ability for landlords to extract profit, refinance a loan, or convince investors to continue providing capital.

accompanies bull markets and low-interest-rate environments. If markets soften, the effects on landlords—and, in turn, tenants—can be significant. Such market shifts can happen at various levels. For example, new city or state policies, how much housing is being built in a given area, and localized extreme weather events can all put a damper on speculation within a local or regional housing market. The same is true at the national level: changes to monetary policy, tax codes, or subsidies; where the US is in the business cycle; and the state of political parties and movements, including the growing tenant movement, can all affect landlords' financial situation.⁴ And because housing is an asset class that is traded globally, distress can come about because of global economic trends in real estate as well as other sectors competing for investment.

At whatever level, market shifts can create the conditions for financial distress by affecting the perceived or actual ability for landlords to extract profit, refinance a loan, or convince investors to continue providing capital.

Distress is usually a product of the interaction between *internal* landlord decisions and *external* market conditions. If a large number of landlords fail to actualize their business plans in individual buildings, financial distress can trickle up to larger actors, including the lenders and investors that finance landlords and even the broader financial markets.

More often, however, the chain of events moves in the other direction. Overleveraged loans and risky acquisition deals are the norm when real estate markets are hot (because those very practices are producing significant profit for investors).⁵ However, if things shift and one or multiple changes in the market cause a loss of investor confidence, lenders and investors can suddenly scrutinize landlord business plans,

⁴ CRE Daily, "Tenants Take on Private Equity Giant With Nationwide Union Push," September 26, 2025, <https://www.credaily.com/newsletters/tenants-take-on-private-equity-giant-with-nationwide-union-push/>.

⁵ Ted Glanzer, "The Distress Record: New York Community Bank Braces for Rough Waters," *The Real Deal*, February 3, 2024, <https://therealdeal.com/national/2024/02/03/new-york-community-bank-braces-for-rough-waters/>; Mark Maurer, "SEC Wants Some Banks to Disclose More on Commercial Real-Estate Exposure," *Wall Street Journal*, January 25, 2024, <https://www.wsj.com/articles/sec-wants-some-banks-to-disclose-more-on-commercial-real-estate-exposure-b8177b9d>.

and profit extraction based on the future profitability of real estate assets becomes more difficult.

Importantly, there is no reliable method for determining the scale of market change or landlord imprudence that would trigger widespread financial distress. Whether potential vulnerability turns into actual distress is dependent largely on the non-rational mood of the investors that make up the real estate market—what John Maynard Keynes called “animal spirits.” What we do know, however, is that financial distress is a constant feature of our economic system and has a particular valence in our debt-leveraged system; in fact, savvy investors openly plan for periods of financial distress, with well-articulated schemes to profit even when distress arises.⁶ In order truly to understand financial distress, then, we must examine our housing system as a whole.

How “financialized housing” fuels financial distress

To understand the US rental housing market and why financial distress might be increasing, it is vital to have an account of “financialized housing,” a term that has become shorthand for the particular way in which rental housing has been financed and made profitable over the past three decades at least.⁷

We define financialized housing as a model of housing investment in which landlords and investors are primarily interested in a building’s value as an asset rather than simply a source of cash income (rents net expenses). In the financialized model, relatively small increases in net income—such as raising the rent on a few tenants or cutting back on maintenance—are not simply pocketed, but are a means to a much larger increase in a property’s perceived value, which can then be profited from enormously. This is what it means to see housing as a financial asset: just as investment in a stock at a given price is a reflection of the current and future cash it produces, so too are

⁶ Joe Gose, “Distressed Real Estate Market Beckons Opportunistic Buyers,” *New York Times*, May 26, 2020, <https://www.nytimes.com/2020/05/26/business/distressed-commercial-real-estate-coronavirus.html>.

⁷ Samuel Stein, Oksana Mironova, Celeste Hornbach, Jacob Udell, “Corporate Windfalls or Social Housing Conversions: The looming mortgage crisis and the choices facing New York,” November 2020, <https://www.cssny.org/publications/entry/corporate-windfalls-or-social-housing-conversions>.

Increasing net operating income enables landlords to indicate to investors that the property has an increased value, which in turn allows them to negotiate for more lucrative financing terms, generating profits that far exceed those actual changes in net operating income.

landlords mostly interested in using the cash flow produced by their property (i.e., rent from tenants) to profit via that building's rising property value.

We argue that the relationship between cash flows and property values is the key to understanding why the housing market has attracted so much capital over the past few decades, and why fast-rising rents and deteriorating building conditions have become so prevalent. In the financialized housing system, increasing net operating income from buildings enables landlords to indicate to investors that the property has an increased value, which in turn allows them to negotiate for more lucrative financing terms, generating profits that far exceed those actual changes in net operating income.

To understand this system, we need to begin with how the market communicates property value increases, and how landlords actually profit from such increases. In basic terms, as long as the two sides in a given transaction agree on a property value, that is what the building is *worth*. Although rents and expenses are key components of a valuation, exogenous factors—investor confidence; market movements at the neighborhood, regional, and national levels—also play a role. In other words, a property's value is not only determined by current cash flow, but also on investors' future expectations regarding their ability to continue to extract ever higher rents, get cheap financing, or operate in a political environment conducive to outsized landlord profit.

At the building level, the most basic type of transaction is a sale: if a landlord buys a building for \$1 million and, a few years later, sells it for \$2 million, the landlord has profited on the difference, and the building can now be thought to be *worth* \$2 million. It is important to note, however, that property sales are not the only way values register in the market; landlords can also leverage rising property values to attract investment while retaining ownership over the building.

Although comprehensive data is scarce, available evidence indicates that the most common transaction of this type is a new mortgage, which allows landlords to profit from a rising property value and still hang onto the building.⁸ Landlords refinance their properties more

⁸ Mortgage Bankers Association, "Annual Origination Summation," May 2025, <https://www.mba.org/news-and-research/newsroom/blog-post/chart-of-the-week-total-commercial-real-estate-lending-2020-2024>.

frequently than they buy and sell—sometimes every few years.⁹ At the moment of each new mortgage, the lender conducts an appraisal, which resets the value of the property and the size of the loan they are willing to provide to the landlord. When a landlord receives a new mortgage at an amount over and above what they purchased the property for, that new debt capital is cash that the landlord can do whatever they want with; they can keep it as profit for themselves or their investors, or they can use it to buy a new building to grow their portfolio.

Status quo versus distress conditions in the multifamily market

	Acquisition	Operation	Loan Expiration	Refinancing	Cash-out
STATUS QUO	Landlord acquires property with a mortgage at a low interest rate.	Landlord increases Net Operating Income (NOI) by increasing rents and fees and/or deferring building maintenance.	When balloon payment is due, landlord uses the increased NOI to show lender that the building has increased in value.	Lender refinances an even bigger loan with a new low interest rate.	Landlord cashes out the difference between the original loan and the new, larger loan.
DISTRESS CONDITIONS		Higher insurance costs decrease NOI. Landlord cuts back on repairs or adds fees to try to make up for the loss.	NOI has not increased as much as expected.	Because NOI is lower, lenders are less interested in refinancing. Because interest rates are higher, landlords are less interested in refinancing.	Landlord does not get their expected cash infusion, which may lead to a sale, foreclosure, or more drastic rent hikes, fees, and maintenance deferrals.
IMPACTS		Tenants may pay more while building conditions get worse.			Tenants may be displaced or the building may be sold to a more predatory landlord.

This type of transaction is not only lucrative for landlords; lenders benefit from this arrangement, too, earning interest and fees on loans to an asset class considered safe and always in demand. Other types of investment in rental housing (bond financing, REITs, private equity) follow the same logic—investments all along the “capital stack” are predicated on leveraging each current and future dollar of increased cash flow to reflect a higher asset value. The financialized housing

⁹ This mechanism is known as a “cash-out refinance.” For a full explanation of this mechanism, see David M. Greenberg et al., “Gambling with Homes, or Investing in Communities,” Local Initiatives Support Corporation, <https://www.lisc.org/our-resources/resource/gambling-homes-or-investing-communities/> and Jacob Udell, “Housing Financialization and Rent Control,” Working Paper, Department of Economics, John Jay College, February 2020, https://www.jjay.cuny.edu/sites/default/files/2024-09/working_paper_housing_financialization_rent_control_ju_feb2020_002.pdf.

The financialized housing system benefits—and is thus supported by—a whole complex of financial actors looking to profit from rising property values.

system, in other words, benefits—and is thus supported by—a whole complex of financial actors looking to profit from rising property values, many of whom are based in distant locations in the United States or globally. And while absentee landlords are not a new phenomenon, the sheer supply of capital chasing high returns in local housing markets is. In fact, real estate has become the basic asset of global financial markets, a condition which puts upward pressure on property prices and reinforces the need for returns from housing to outcompete other asset classes.¹⁰

Crucially, the system of profit via property value would not work without significant government intervention. Over decades, a resilient legal and political infrastructure has been built to elevate property values and keep them rising. Specific measures include the creation of a regime of low interest rates since the 1980s, which has allowed for the relatively inexpensive financing of building acquisitions and pushed capital into real estate investments; a host of tax policies—such as changes to the tax code to allow landlords to incorporate as limited liability companies—which minimize risk on speculative investments in housing; access to subsidized loans via semi-public agencies like the Government Sponsored Enterprises (GSEs), which make debt capital more available and less expensive for landlords; and large-scale interventions to prop up the housing market whenever there is crisis.

Although speculators' profiting via rising property values has a longer history, particularly vis-à-vis government-subsidized housing, the United States's financialized housing system is really relatively new: it was not until the 1990s that the model took hold in major metropolitan areas; and, in many markets, it only became prevalent in the years since the 2008 financial crisis.¹¹ In short order, however, this system has attracted enormous investment in housing as an asset class, an influx of capital driven by the assumption that values will always rise and buttressed by government intervention whose primary motivation

¹⁰ Samuel Stein, *Capital City: Gentrification and the Real Estate State* (Verso, 2019).

Francesca Manning, "A Defense and Expansion of the Theory of Capitalist Ground Rent: Speculation, Securitization, and Struggles Over Land and Housing", 2020., *CUNY Academic Works*, https://academicworks.cuny.edu/gc_etds/4069.

¹¹ Brent Cebul and Michael R. Glass, "Adding Value: The Federal Housing Administration and the Costs of Incentive-Driven Development," September 10, 2025, <https://www.phenomenalworld.org/analysis/adding-value/>; Federal Reserve Bank of St. Louis, "Interest Rates and Price Indexes; Multi-Family Real Estate Apartment Price Index, Level," FRED, accessed September 30, 2025, <https://fred.stlouisfed.org/series/BOGZ1FL0750354030>; Furman Center, "Trends in New York City Housing Price Appreciation, accessed August 10, 2020 , https://furmancenter.org/files/Trends_in_NYC_Housing_Price_Appreciation.pdf.

Each speculative building purchase or advantageous debt refinance is predicated on past predatory behavior and locks in similar behavior in the future.

seems to be to keep the system going. Though landlordism has always been rent-seeking by definition, landlords today not only pocket every dollar of increased net income but may also realize millions of dollars in profit when that increased cash flow is turned into increased property value.

Ensuring rising property values has been justified as a means of attracting much-needed private investment to secure safe, stable, and affordable housing as well as tax revenue for cities.¹² But each speculative building purchase or advantageous debt refinance is predicated on past predatory behavior and locks in similar behavior in the future, as landlords buy, finance, and value properties on the notion that future profit can continue to be squeezed out of the building. The financialized rental housing system thus creates structural incentives to raise rents and let buildings deteriorate. It should come as no surprise, then, that rising property values have not been associated with improvements in property conditions.¹³ For example, research on sales and investments in NYC multifamily housing over a nearly 10-year period found that the most speculative types of investments led to higher rates of displacement and code violations—in other words, worse conditions for tenants.¹⁴ More recent research in other cities has found similar trends.¹⁵

The financialized housing system is also extremely vulnerable to changes in market conditions. Increasingly speculative bets on rising property values means that landlords operate on tight margins and a narrow band of future expectations; they have little wiggle room if operations become more expensive or property values fail to rise at the rate to which they are accustomed. When the system is disrupted—as it inevitably is, whether because of the cyclical nature of speculation or external shocks (or both)—its fragility comes to the fore. In this situation, vulnerabilities can cascade as landlords are left “holding the

¹² Peter Sabonis, “The Dirty Little Secret—Rising Property Values are Incompatible with Affordability,” *Shelterforce*, May 5, 2023, <https://shelterforce.org/2023/05/05/the-dirty-little-secret-rising-property-values-are-incompatible-with-affordability/>.

¹³ Ruthy Gourevitch, “Terms of Investment,” *Phenomenal World*, July 11, 2024, <https://www.phenomenalworld.org/analysis/terms-of-investment/>.

¹⁴ Greenberg et al., “Gambling with Homes, or Investing in Communities.”

¹⁵ Fay Walker et al., “Buying the Block: The Impact of Corporate Owners on Tenants, and How to Promote Community Accountability,” Local Initiatives Support Corporation, June 2025, <https://www.lisc.org/kansas-city/what-we-do/affordable-housing/buying-block/>.

In the United States's financialized rental housing system, the causes and effects of both speculation and distress are self-reinforcing—until an inevitable market change interrupts the process.

bag” of a much less attractive investment, lenders hesitate to refinance, and new buyers disappear, all of which has deleterious effects on the perception of rental housing's future profitability (and, in turn, property values). In the face of distress, landlords often scramble to meet the expected returns of the previous era by squeezing tenants even further. This means higher rents and more patchwork maintenance.

In short, in the United States's financialized rental housing system, the causes and effects of both speculation and distress are self-reinforcing: market-level dynamics drive investor activity, which drives regional and federal policy, which creates even more favorable market conditions, which attracts further investment, and so on—until an inevitable market change interrupts the process. At that point, all the latent vulnerability built into the system via prior investment trends can cause widespread systemic financial distress, with devastating effects for tenants. This may very well be what we are seeing today.

Current drivers of financial distress in the financialized multifamily market

The ever-present vulnerabilities of the financialized housing system have been on display over the last few years as landlords and investors confronted significant economic challenges. In the face of these headwinds, landlords with highly leveraged portfolios or who acquired properties at optimistically high values now find themselves teetering on the edge of financial distress. Distress dynamics in the current multifamily market can be divided into four categories: (1) a changing financing and monetary landscape, (2) changes in operating income and expenses, (3) political instability, and (4) a rapidly worsening climate crisis.

Financing and monetary landscape

As described in the previous section, landlord profit is largely reliant upon easy financing, in particular the ability to refinance mortgages and other debts for ever higher amounts. The major factor that influences the financing environment is prevailing interest rates, which closely track interest rates set by the Federal Reserve; federal rates that change even a few basis points can have an influence on the cost of carrying mortgage debt.

Since the mid-1980s, interest rates have moved increasingly lower.¹⁶ This has allowed landlords to carry relatively large mortgages with relatively low monthly payments and to refinance their mortgages at similarly inexpensive levels whenever they want to profit from rising property values. Interest rates reached all-time lows during and after the COVID-19 pandemic, and many landlords used these record-low rates to refinance existing debt.¹⁷

However, over the last couple of years—mostly to counteract inflationary pressures—the Federal Reserve has raised interest rates significantly. And while interest rates can and may be brought down again by the Federal Reserve, it seems that policymakers are hesitating to lower rates significantly any time soon.¹⁸ Higher rates put a general damper on speculation in the rental housing market, affecting landlord business plans and perceived profitability across the board.¹⁹ But they are especially challenging for landlords whose debt matures into the higher interest rate environment. The number of such landlords is considerable: in 2024, \$250 billion worth of multifamily mortgages

¹⁶ Federal Reserve Bank of St. Louis, "Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis," FRED, accessed September 30, 2025, <https://fred.stlouisfed.org/series/DGS10>.

¹⁷ Mortgage Bankers Association, "MBA: 2021 Multifamily Lending Hits Record \$487 Billion," August 2, 2022, <https://newslink.mba.org/cmf-newslinks/2022/august/mba-newslink-wednesday-august-3-2022/mba-2021-multifamily-lending-hits-record-487-billion/>.

¹⁸ Nick Timiraos, "Fed's Bostic Sees Little Reason to Cut Rates Further for Now," *The Wall Street Journal*, September 22, 2025, <https://www.wsj.com/economy/central-banking/feds-bostic-sees-little-reason-to-cut-rates-further-for-now>.

¹⁹ CBRE, "Impact of Interest Rate Cuts on Real Estate Cap Rates," October 10, 2024, <https://www.cbre.com/insights/briefs/impact-of-interest-rate-cuts-on-real-estate-cap-rates>.

matured; in 2025, that number grew to approximately \$300 billion, comprising almost 15% of all debt on multifamily properties.²⁰

Importantly, landlords with maturing debt are generally *forced* to refinance. This is because multifamily mortgages, unlike home mortgages, are relatively short-term—typically between 5 and 10 years—and are much shorter than their amortization period. As such, landlord mortgages require a “balloon payment” at the end of the term, which amounts to the lump sum of loan principal not yet paid off; and given the much longer amortization, that balance is usually the vast majority of the mortgage amount. Landlords hardly ever have enough cash on hand (or the desire) to make their balloon payment and thus must look to extend or refinance their loan. Over the last few decades, refinancing was a means to profit; but because refinanced loans are subject to current interest rates as well as an updated valuation, all landlord debt maturing in the next few years will enter into a vastly different and less profitable market.

Operating income and expenses

In parallel to interest rate changes, operating expenses for multifamily properties have risen rapidly over the past few years, forcing landlords to spend more money to keep their properties afloat. In just a year—from the middle of 2023 to the middle of 2024—multifamily operating expenses rose 28%.²¹ The increase is due to general trends like inflation as well as shifts specific to housing, like skyrocketing insurance rates.²² At the same time, rent growth has slowed in many cities across the United States.²³ As we described earlier, landlords aim to keep rents growing as fast as possible and expenses as low as possible, as it allows them to maximize net income (which, in turn,

²⁰ Federal Reserve Bank of St. Louis, “All Sectors; Multifamily Residential Mortgages; Asset, Level,” FRED, accessed September 30, 2025, <https://fred.stlouisfed.org/series/ASMRMA>; Joe Rennison and Julie Creswell, “Apartments Could Be the Next Real Estate Business to Struggle,” *New York Times*, July 4, 2024, <https://www.nytimes.com/2024/07/04/business/apartment-multifamily-loans-trouble.html>.

²¹ Matthews, “Multifamily Operating Expenses Continue to Climb,” February 28, 2024, <https://www.matthews.com/multifamily-operating-expenses-continue-to-climb/>.

²² Moira Birss et al., “Shared Fates: A Housing Resilience Policy Solution to the Home Insurance Crisis,” Climate and Community Institute, September 2024, <https://climateandcommunity.org/research/shared-fates-home-insurance/>.

²³ Rennison and Creswell, “Apartments Could Be the Next Real Estate Business to Struggle.”; Jordan Berger, “Rental Affordability Rises as Rent Growth Slows,” *CRE Daily*, October 17, 2025, <https://www.credaily.com/briefs/rental-affordability-rises-as-rent-growth-slows/>.

leads to a rising property value). But these trends in operating costs and rental growth make that model more difficult to achieve. And, as with higher interest rates, tightening operating expenses affect landlords most drastically when they have large loans or have purchased buildings at high valuations. In these cases, a significant amount of net income is allocated to debt service, thus landlords have much less cushion to deal with stagnant rents or rising expenses.

Political instability

The federal government is a critical guarantor of landlord profit via direct operating subsidy, subsidized financing, and broad market interventions. But the prospect of changes to government policy, such as HUD funding cuts or the privatization of Fannie Mae and Freddie Mac, is another potential driver of distress. Both of these changes, and others like them, would constitute a significant government pullback and, without a meaningful alternative, would force landlords to be more reliant on private lending and investment (and thus more susceptible to the boom-and-bust cycles of private markets). Similarly, since the 2008 financial crisis, an independent Federal Reserve has periodically stepped in with massive purchases of distressed mortgage-backed securities (MBS), including MBS backed by multifamily rental housing during the COVID-19 pandemic.²⁴ Recent attempts at politicizing central bank operations could undermine the sense that the Federal Reserve will continue its role as backstop for asset markets, an expectation upon which landlords and investors rely.

²⁴ Dave Na, Ellie Newman, and Bernard Schlusche, "The Evolution of the Federal Reserve's Agency MBS Holdings," September 20, 2024, <https://www.federalreserve.gov/econres/notes/feds-notes/the-evolution-of-the-federal-reserves-agency-mbs-holdings-20240920.html>.

Climate crisis

The climate crisis is worsening the housing crisis and adding a level of precarity that could drive yet more instability in the multifamily sector. In many ways, the climate crisis is exacerbating the issues described above: it is one of the core causes of high insurance costs, worsening building conditions, and disruptions of housing supply chains.²⁵

The climate crisis also increases the urgency with which the rental housing stock needs to be updated and modernized to meet escalating extreme weather and decarbonization goals. A recent CCI study, for example, estimates that the US housing sector must multiply the pace of retrofits 30 fold to reach carbon reduction goals and housing supply needs.²⁶ The financialized housing system and restricted supply of high-quality affordable housing allow landlords to continue to defer maintenance despite a worsening climate emergency, but they also increase the risk of property damage and deterioration due to that same emergency.²⁷

How landlords respond to financial distress

In a context of worsening economic conditions, political instability, and climate crisis, how do landlords respond to the specter of financial distress? Although it is difficult to know for sure, early signs suggest the following:

- **The “extend and pretend” approach**, in which landlords and lenders reach agreements to delay loan refinancing or specific payments until financial conditions appear more favorable;

²⁵ Julia Wagner, Daniel Aldana Cohen, and Ruthy Gourevitch, “The Role of Green Industrial Policy for Transforming the Housing Sector,” Climate and Community Institute, July 2025, <https://climateandcommunity.org/research/transforming-the-housing-sector-with-green-industrial-policy>; Moira Birss, Brendan Mitchell, and Seana O’Shaughnessy, “How the Insurance Crisis Threatens Affordable Housing Development,” Climate and Community Institute, April 2024, <https://climateandcommunity.org/research/insurance-affordable-housing/>.

²⁶ Birss, Mitchell, and O’Shaughnessy, “How the Insurance Crisis Threatens Affordable Housing Development.”

²⁷ Gourevitch, “Terms of Investment.”

- **Maximizing short-term profit** by identifying new revenue streams (e.g., higher rents or fees for tenants), cutting back on operating expenses (e.g., deferring capital repairs or firing property managers), or selling off properties at reduced prices when possible; and
- **Lobbying for changes to policies and regulations that restore the status quo**, such as lowering interest rates or pushing for specific local, state, and federal policies that have the potential to increase landlord profit.

For landlords who bought buildings at elevated prices or who are carrying large mortgages maturing in the next few years, the preferred strategy seems to be to kick the can down the road: to hang onto their buildings and try to delay repayment of loans by striking deals with lenders, in hopes that interest rates will come down and/or speculative fervor will return. This strategy, known as “extend and pretend,” finds landlords and investors coming together to delay anything that might degrade the market for multifamily housing even further.

The “extend and pretend” approach has led to a situation in which far fewer transactions are taking place, as landlords want to avoid selling their properties at a loss and new investors have sought alternative assets.²⁸ But though this strategy has proved somewhat durable over the last few years, it cannot endure forever, and lenders are the key actors influencing how long “extend and pretend” can continue.²⁹ Lenders—banks and non-banks, including publicly backed entities like the GSEs—are the overlooked engines of the financialized rental market. Landlords who can access loan capital from these entities—be it via giant private equity firms or local companies—are first in line to benefit from rising property values. And in times of distress, lenders are the major decision-makers.

²⁸ Michael Rudy, “Costar: Multifamily Property Prices Slide on Low Sales Volume,” *YieldPro*, April 29, 2025, <https://yieldpro.com/2025/04/costar-multifamily-property-prices-slide-on-low-sales-volume/#:~:text=The%20first%20chart%2C%20below%2C%20shows,from%20last%20two%20months%20reports>.

²⁹ Suzannah Cavanagh, “Don’t Stop Believing: Extend-and-Pretend Still Reigns Supreme,” *The Real Deal*, January 27, 2025, <https://therealdeal.com/new-york/2025/01/27/extend-and-pretend-trend-will-continue-into-2025/>.

As one interviewee explained to us anonymously during our research for this brief:

“ The banking industry ends up being the decision-maker in a lot of cases, so it's about pretending that there's nothing wrong and then all of a sudden the loan has to be liquidated ASAP, which triggers reevaluations across the market. Lenders decide whether financial distress results in an orderly deleveraging instead of a chaotic one. Buildings are overleveraged. Some will default. If they don't, they'll have a maturity default because they can't refinance.

At the property level, landlords may try to stave off financial distress by maximizing as much net income as they can in the short term. For example, landlords might introduce new fees like garbage pickup fees, pet fees, key fees, and parking fees. On the expense side, landlords often respond to rising distress by deferring maintenance, especially in places without strong housing codes or code-enforcement regimes. In these places, it often “makes sense” from a landlord's perspective to let living conditions deteriorate—by firing staff, not replacing needed equipment, not responding to repair requests—as a way to deal with tighter margins and slower profit growth.

If landlords' financial challenges become more pronounced and properties go up for sale or foreclosure, the sector may see the increased entry of “distress buyers”—investors who purchase properties that are distressed or vulnerable to distress with the goal of turning a profit within a few years by raising rents and fees or cutting expenses. These purchases often happen as bulk sales, through which buyers can get good prices for properties.³⁰ But again, one major impediment to distress sales are the large mortgages that so many multifamily properties are laden with. In an environment of stagnant or decreasing property values, landlords are extremely hesitant to sell their buildings for less than the cost of their mortgage, since they owe the total mortgage principal no matter what—this is known as “debt overhang.”

³⁰ Leslie Shaver, “Apollo Acquires Bridge for \$1.5B,” February 25, 2025, <https://www.multifamilydive.com/news/apollo-bridge-merger-and-acquisition-multifamily-real-estate/740835/>.

Meanwhile, at a policy level, real estate actors may push for additional government policies to stabilize the market and invest public capital into their businesses. As with other speculative markets, whether potential distress turns into actual distress depends on political dynamics, and in times of distress landlords are even more likely to use their considerable organized political power to both return to an era of high profit and prevent policy that they see as obstructive.³¹ A connected factor is the collective psychology of the real estate class: financial markets function in large part on sentiment and future expectations, so if investor sentiment turns pessimistic, the market could shift into crisis. In this dynamic, it is usually landlords and their investors that hold much of the power. If they believe that financial distress is on the horizon, they will do what they can to obscure changes in values that might trigger further market pessimism or prompt regulators to require the marking down of values and writing off of losses.

Toward a functional housing system: a new approach to responding to distress

Organizing and policy action around financial distress has a rich history in the United States. However, much of that history comes from the era of disinvestment, when the floor of property values fell out from under landlords in urban areas across the country. In this situation, financial distress created a vacuum filled by advocacy around neighborhood reinvestment, community development, and tenant-controlled housing.³²

In the current US context of overvalued and overleveraged housing, the salient problem is the opposite: the incredible amount of money

³¹ Mad Bankson et al., "Who Is Behind the Curtain? Breaking Down Trade Associations that Fight Tenants and Hurt Housing Affordability," Americans for Financial Reform Education Fund, Bargaining for the Common Good, and Private Equity Stakeholder Project, June 2024, <https://www.bargainingforthecommongood.org/wp-content/uploads/2024/06/Who-is-Behind-the-Curtain-Report-FINAL.pdf>.

³² One of the most important and influential advocacy organizations in this regard was the Urban Homesteading Assistance Board, which organized to convert distressed properties into cooperatively controlled housing during New York City's fiscal crisis in the 1970s. See Urban Homesteading Assistance Board, "History," accessed October 5, 2025. <https://www.uhab.org/about-us/history/>.

Contemporary housing policy, research, and organizing should take seriously the role of financial distress and craft solutions to both limit distress and ensure tenants do not shoulder the burden when and where it does occur.

invested in the sector means that actors with a financial stake in the game—landlords, lenders, investors—will seek to maintain the status quo, tenant well-being notwithstanding.

Although organizing and advocacy strategies responsive to the present dynamic are still in their nascent stages, there are some basic principles that activists and analysts can use to incorporate financial distress into their work. Overall, contemporary housing policy, research, and organizing should take seriously the role of financial distress and craft solutions to both limit distress and ensure tenants do not shoulder the burden when and where it does occur. This requires advancing a shared analysis of financialized housing, one that:

- **Emphasizes a broad understanding of financial data** (deeds and mortgage data and operating data, such as that made available by the GSEs) as well as metrics used by real estate professionals and analysts to assess loan performance and overall financial health (such as net cash flow, debt service coverage ratio, and loan-to-value). These data and metrics, while not perfect measures, can help us identify and track financial distress even among heterogeneous regions, housing types, and landlords.
- **Identifies the workings and interests of other key actors in the financialized housing model, particularly lenders and government agencies.** As described above, these actors are crucial in propelling the housing market and in determining the way distress plays out, yet their roles in real estate investment and profit are not widely understood or analyzed.
- **Examines the impact of distress on tenant outcomes.** Significantly more work needs to be done to connect the system of financialized housing and escalating financial distress to the experiences of tenants; this is essential to design policies and programs that adequately address both the core drivers of financial distress *and* its impacts. The real estate industry typically controls the narrative on the viability of certain policies or strategies, in part because they can credibly claim they are the experts on housing investment, but also because they have significant lobbying infrastructure.³³ In so doing, they can elide

³³ Mad Bankson et al., “Who Is Behind the Curtain? Breaking Down Trade Associations that Fight Tenants and Hurt Housing Affordability.”

Tenants are in many ways the best equipped to tell the *actual* story of financial distress—how imprudent investments connect to the material conditions in their buildings, and how those conditions might point to early signs of financial distress.

key facts about how housing investment works in relation to risk and loan financing. Increasing the amount of rigorous research on financial distress in the housing market—and especially its impacts on tenants—is a key step towards a more accurate and just policy analysis.

Indeed, in recent years, it is tenant movement groups themselves that have begun to study housing finance and innovate models for organizing in distressed properties. This makes sense, as tenants are in many ways the best equipped to tell the *actual* story of financial distress—how imprudent investments connect to the material conditions in their buildings, and how those conditions might point to early signs of financial distress. Understanding the role and significance of financial distress dynamics within lending institutions, key indicators of financial distress, and the role of tenants' rents in mortgage payments has enabled successful organizing in distressed properties. Examples include:

- The Tenant Union Federation (TUF) organizing in GSE-backed portfolios. TUF—a national tenant-organizing coalition—coordinated a campaign to organize tenants living in properties financed by the GSEs whose owners faced financial distress and where tenants struggled from deferred maintenance.³⁴ Through research and on-the-ground organizing, they identified buildings that were likely in financial distress based on a combination of (1) low debt-service coverage ratios, (2) overleveraged loans, and (3) reports from tenants who had experienced significant deferred maintenance issues and rent hikes in recent months. Ultimately, three properties in Missouri and Montana formed majority unions, and two went on rent strike. Tenants in Independence, Missouri, won significant building repairs as well as rent and utility discounts.³⁵ Through this campaign, TUF made important strides in understanding how tenants can leverage publicly available building-level data and a rigorous understanding of financial distress at the market level to organize across a

³⁴ Aaron Fernando, "Could This Rolling Rent Strike Make the Feds Protect Tenants?" *Shelterforce*, October 4, 2024, <https://shelterforce.org/2024/10/04/could-this-rolling-rent-strike-make-the-feds-protect-tenants/>.

³⁵ Rebecca Burns, "Striking Tenants Withhold Rent for 247 Days and Win," *In These Times*, June 5, 2025, <https://inthesetimes.com/article/rent-strike-victory-kansas-city>.

lender's portfolio and potentially prevent rent hikes or deferred maintenance on account of financial distress.

- New York City Signature Bank portfolio organizing. Following the collapse of Signature Bank in April 2023, the FDIC became the interim owner of landlord mortgages representing tens of thousands of affordable housing units across New York City.³⁶ In response, tenant groups in NYC began an advocacy campaign to ensure that (1) the federal regulator was aware of tenant conditions in Signature-financed buildings and (2) tenants' well-being would be considered in any asset disposition.³⁷ As a result, the FDIC created a deleveraging program for close to a thousand of the most distressed and over-leveraged properties within the former Signature portfolio, predicated debt write-downs on addressing deferred maintenance. And in some of the most dire cases, the FDIC and their partners actually moved to foreclose on buildings, with the hopes of stabilizing and transferring them to responsible ownership. Tenant groups have continued monitoring and organizing in this distressed portfolio to win better conditions and long-term habitability.³⁸

Many local- and state-level pro-tenant policies being advanced currently can also be seen through the prism of financial distress. Pairing rent stabilization with strong and enforced habitability standards ensures the impacts of financial distress are not passed on to tenants. And Social Housing Development Authorities (at both the state and federal level) and Tenant Opportunity to Purchase policies

³⁶ Rosalind Adams, Bianca Pallaro, "How the Sale of Signature Bank's Huge Mortgage Portfolio Could Change the Lives of NYC's Tenants," *TheCity.NYC*, May 3 2025, <https://www.thecity.nyc/2023/05/03/signature-bank-mortgages-tenants-rent-stabilized-worst-landlords>.

³⁷ Lilah Burke, "Inside a Nonprofit's Effort to Clean Up Billions in Rent-Stabilized Debt," *The Real Deal*, July 2, 2025, <https://therealdeal.com/new-york/2025/07/02/inside-a-nonprofits-billion-dollar-cleanup-of-rent-stabilized-debt>.

³⁸ University Neighborhood Housing Program and Justfix, "Signature Portfolio Data Dashboard," accessed October 1, 2025, <https://signatureportfolio.org/login>.

seek to empower the public sector to intervene in instances of financial distress for the public good.³⁹

Given the current state of affairs in the multifamily housing market and the spillover effects financial distress can have on tenants, the housing policy, research, and advocacy fields should be working further to bring distress analysis into their work.

³⁹ Gianpaolo Baiocchi, H. Jacob Carlson, Ruthy Gourevitch, and Daniel Aldana Cohen, "Green Social Housing at Scale," Climate and Community Institute, June 2024, <https://climateandcommunity.org/research/green-social-housing-at-scale/>; Alexandria Ocasio-Cortez, "US Senator Tina Smith and Congresswoman Ocasio-Cortez Introduce Homes Act to Tackle America's Housing Crisis," press release, September 19, 2024, <https://ocasio-cortez.house.gov/media/press-releases/us-senator-tina-smith-and-congresswoman-ocasio-cortez-introduce-homes-act>; Jacob Udell, Celeste Hornbach, Oksana Mironova, and Samuel Stein, "Social Housing and Housing Justice: Pathways to Housing Decommmodification," *LPE Project*, May 31, 2022, <https://lpeproject.org/blog/social-housing-and-housing-justice-pathways-to-housing-decommodification/>.