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S3 Capital's Joshua Crane sees growing role for private construction debt in NYC

BY ANDREA ZANDER

Joshua Crane, co-founder of S3 Capital, shares in an interview with IREI how private construction debt is playing an increasingly critical role in New York City's multifamily market as traditional lenders pull back amid tighter credit conditions. With more than 125 active multifamily construction loans across the region, Crane notes that limited housing supply, resilient demand and investors seeking lower-risk, double-digit returns are fueling demand for private debt solutions.

Founded in 2014, S3 Capital is the lending affiliate of Spruce Capital Partners, a New York City-based real estate investment firm focused on middle-market, institutional-quality bridge and construction lending. The firm has originated more than \$6.5 billion since 2013 in loans and is helping close the liquidity gap for ground-up multifamily projects as regional banks retreats from the sector.

After two relatively muted years in NYC multifamily sales, what macroeconomic or market-specific factors do you believe are driving an expected rebound in 2025?

With well more than 125 active multifamily construction loans in greater New York City, I think we have a unique perspective on the market. There are lots of tailwinds driving multi forward and they mostly boil down to the fact that there just isn't enough housing. On the equity side, this leads to lowish cap rates and the somewhat optimistic expectation of continued rent growth. When you layer in the politics out of Albany, we believe that you get a considerably better risk-adjusted return on the construction debt.

How are high interest rates and maturing debt influencing owner behavior in today's market? Are we likely to see more distressed or opportunistic sales?

We think that developers have accepted the fact that interest rates will be higher for longer and have taken that into account in their assumptions. Speaking purely about the residential side, we haven't seen much distress.

Institutional and direct investors are reportedly coming off the sidelines – what's behind their renewed interest in NYC multifamily, and how selective are they being?

Investors have traditionally favored multifamily given its resiliency compared with other property types. But, due to the combination of COVID-19 and a desire to gain exposure to some of the specialist property types like student housing, senior housing and single-family rental, many investors are now underweighted on more conventional residential, which continues to represent the majority of housing. From our perspective, multifamily construction debt offers the most attractive way to grow that exposure today. Because of all the macro tailwinds in NYC multifamily – lack of supply, highest average rents in the nation, super low vacancy, etc. – many investors who like the market but want to be lower on the risk curve and still earn a healthy double-digit return are turning to credit funds like S3.

With limited new supply expected, how do you see that affecting pricing, tenant demand and investor competition in the next 12 to 18 months?

We think the sales market will remain robust and competitive. Multi cap rates have been tightening over the last 12 months and are around 5.5 percent. We don't see them going up any time soon.

Given the tight construction lending environment, how are capital structures adapting, and what role do you see private lenders playing in closing the liquidity gap for development?

While the agencies and banks remain the primary permanent lender for cash-flowing multifamily, it is a completely different story when it comes to ground-up loans. Given the regional bank fallout, there is a dearth of liquidity for multi construction that is being filled by private lenders like S3. One of the big advantages is structure – rather than a regional bank plus a mezzanine loan, we can be a one-stop-shop. We can also be more creative and are better able to process draws in an efficient manner.

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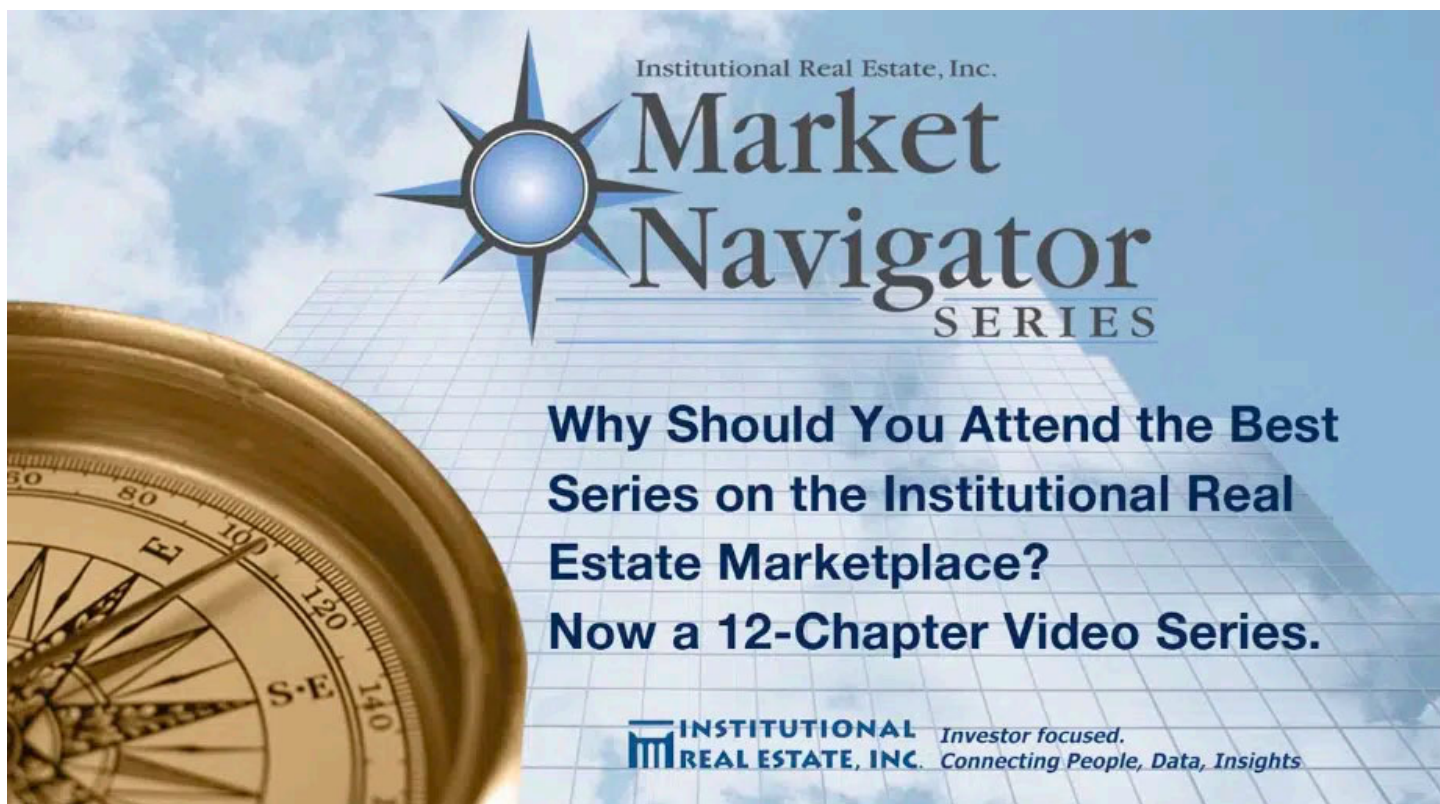
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