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Gibson, Dunn & Crutcher's Krystyna Blakeslee: Insights on 2025 Commercial Real Estate Financing

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Krystyna M. Blakeslee is a partner in the New York office of Gibson, Dunn & Crutcher and a member of the Real Estate Department where she focuses on commercial real estate finance and investment. Krystyna has led some of the country's largest and most high-profile commercial real estate transactions in recent years. She concentrates on the origination, acquisition and disposition (including securitization and syndication) of mortgage loans, mezzanine financings, preferred equity, bridge loans and corporate debt. In addition, Krystyna has extensive experience in restructures and workouts, as well as the exercise of remedies (including, in connection with acquiring assets in bankruptcy). She is also experienced in handling joint venture investments and acquisitions of real estate assets, including hotels, and advises funds in connection with their investment and financing activities in real estate. **Q1: What do you think the top lessons learned are from 2024, and as we start 2025, are you optimistic? Blakeslee:** One of the key lessons from 2024 involves the importance of honest property valuations. We've seen the market start to accept realistic valuations, which has been instrumental in unlocking more deal activity. I'm cautiously optimistic about 2025. A more favorable regulatory environment could encourage dealmaking, but we must remain vigilant about inflation. If inflation picks up again, it could pose a significant challenge. **Q2: What are your projections for this year? What is needed to increase deal volume? Blakeslee:** Multifamily and industrial sectors will remain the safest bets, but competition is intense and driving tighter pricing. The deals available at certain yields are not always of the best quality, which is something investors will need to navigate carefully. Rate stabilization will be key to increasing deal volume. Additionally, creative financing solutions, such as seller financing and preferred equity, will continue to play a critical role, especially as traditional banks pull back and non-bank lenders and CMBS platforms step in to fill the gap. **Q3: How has the lending landscape shifted over the past year? What are the benefits of CMBS and other finance sources that have made gains coming out of 2024? Blakeslee:** The lending space has seen a significant influx of private market entrants. These lenders have been very innovative, offering flexibility in terms, structures, and asset classes. For example, we're seeing innovation in mezzanine financing, preferred equity, and even loan purchases instead of originations. Private lenders' sources of capital, such as insurance funds, allow them to structure deals in ways that traditional banks often cannot. In the CMBS space, a notable trend from 2024 was the increased influence of B-piece buyers during the origination process. By addressing potential issues upfront, B-piece buyers can help improve pricing and reduce the likelihood of problems emerging later. This collaboration is a win-win for the market. **Q4: How can market participants better navigate today's market and increasingly complex transactional environment? Blakeslee:** Navigating today's market requires creativity, adaptability, and a willingness to engage in honest conversations about valuations. For example, structuring workouts in a way that reflects current valuations without punishing sponsors can accelerate resolutions. These structures can motivate sponsors to contribute additional capital by offering equity upside, which avoids the pain of taking REO or realizing a loss. Refinancing risk is another critical area, particularly for office deals. With

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the shift to shorter fixed-rate loans in recent years, investors now need to consider rollover risks over the next decade. This challenge is compounded by tenant preferences for newer office products and the rising costs of tenant improvements and leasing commissions. Maintaining liquidity and the ability to pivot quickly are also essential. Creative financing solutions, flexibility in deal structures, and strong sponsorship will continue to be key drivers for success in this increasingly complex environment. **Q5: Are there any additional factors that could influence the market in 2025?**
Blakeslee: Insurance will be an important factor, especially in markets vulnerable to natural disasters. Interest rates are another when looking at refinancing risks, so increased deal volume will likely be contingent on rate stabilization. We've also seen that sponsorship remains critical. Workouts from 2024 have shown us who will stand by their properties and who will not. Even strong sponsors may decide to walk away from troubled deals after making good faith efforts to save them. These decisions will impact how deals are structured and resolved this year. Overall, 2025 will require dynamism, resilience, and a clear-eyed approach to the challenges and opportunities ahead. *Originally Published January 28, 2025 on* CommercialObserver.com

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