State of Construction Finance **2026**

An outlook from real estate developers and construction lenders.

Rabbet

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01 Introduction and data overview

Eight years of benchmarking construction finance

For eight years, Rabbet has surveyed the people who finance and build real estate, from developers and owners to capital partners, lenders, and service providers, to track what is working, what is breaking down, and where the industry can improve. The 2026 edition continues that work against a backdrop of higher capital costs, trade-policy uncertainty, and steady pressure to do more with the same team.

Who responded: a senior, selective panel

This year's edition draws on a curated panel of 24 senior practitioners, split evenly across both sides of a construction loan. Every respondent was screened, so the figures here are best read as directional signals from practitioners with real exposure, with depth of experience standing in for breadth of sample.

Panel Profile

Developers

$25M–$100M
median project size

6–10
median active projects

Multifamily
dominant asset class

Senior bank debt
most common capital stack

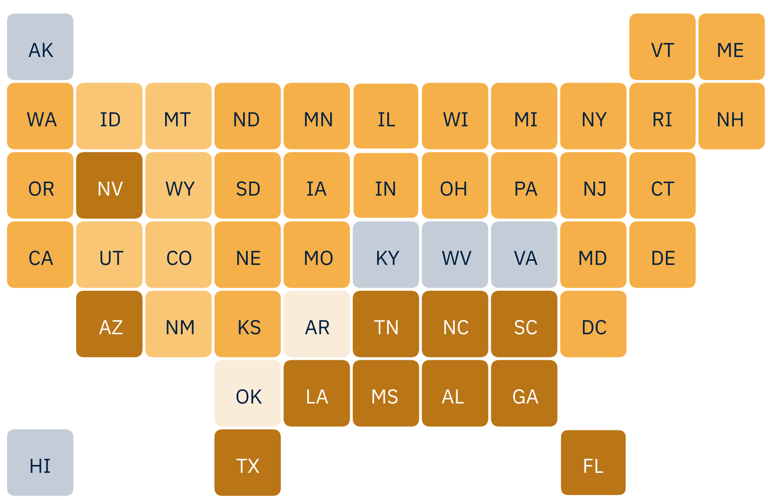
Lenders

$50M–$5B
span of active loan commitments

51–150
median active loans

CRE ground-up core loan product
$1B or more administered by half the panel

Primary markets represented



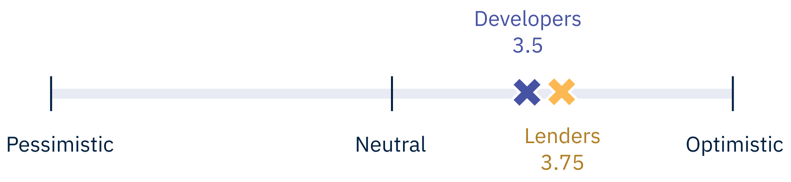
- Sun Belt (58%)
- Northeast · West Coast · Midwest (42%)
- Mountain West (17%)
- Southwest (8%)

02 Industry snapshot: steady hands, wary eyes

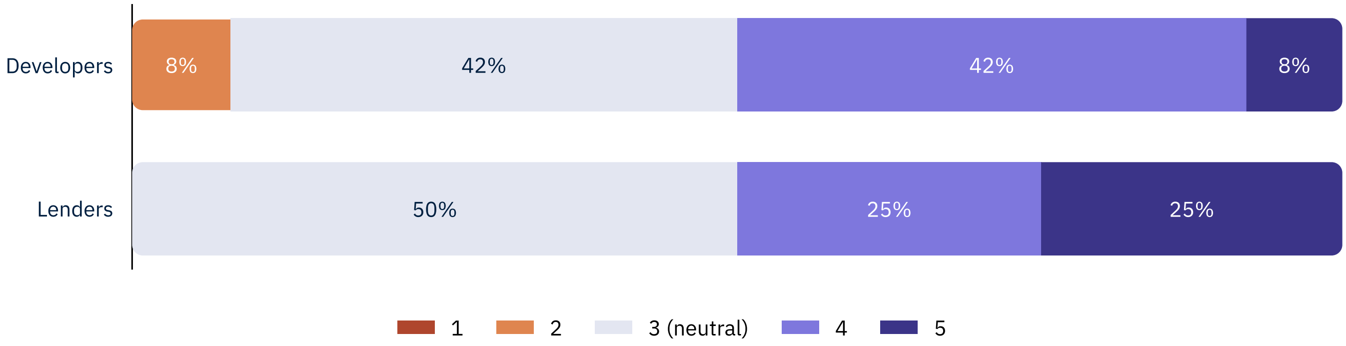
Cautiously optimistic

Sentiment heading into the next 12 months remains measured on both sides of the loan. On a 5-point scale, developers land at 3.5 and lenders at 3.75, both a step above neutral and well short of bullish. Both groups describe the same position: holding steady, watching closely.

Business outlook for the next 12 months



Distribution of 12-month business outlook (1 = pessimistic, 5 = optimistic)



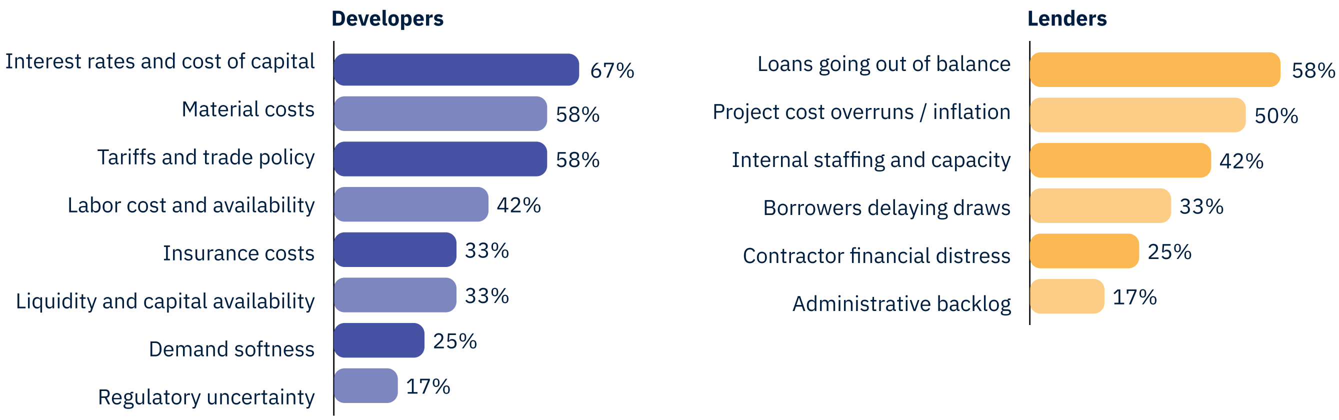
Neither side is bracing for a downturn, and neither is calling a recovery.
Both are underwriting to the same expectation: conditions holding roughly where they are over the next 12 months.

What keeps each side up at night

For developers, the pressure is macro: interest rates and the cost of capital lead at 67%, with material costs and tariffs tied at 58%. For lenders, the pressure is portfolio health: loans going out of balance top the list at 58%, followed by project cost overruns and inflation at 50% and internal staffing constraints at 42%.

> **Developers name inputs:**
> Rates, materials, tariffs, and access to capital.
>
> **Lenders name outcomes:**
> Loans out of balance, overruns, and the capacity to keep up. Same projects, different exposure, and both lists trace back to cost pressure moving through the capital stack.

Top concerns heading into the second half of 2026



The cost squeeze is concentrated, not general

Asked how conditions have shifted over the past 12 months, developers describe pressure that is concentrated, not general. Material costs lead the increases at 75%, with insurance premiums and tariff impacts close behind at 67% each. Meanwhile the fundamentals below them have held: most report permitting timelines, capital availability, and subcontractor stability roughly unchanged, and none report average project sizes growing.

> The squeeze is concentrated at the top of the table. Materials, insurance, and tariffs are where developers feel the past year, while permitting timelines and subcontractor stability have largely held and capital availability has, if anything, eased.

Compared to 12 months ago, how have the following changed? (as reported by developers)

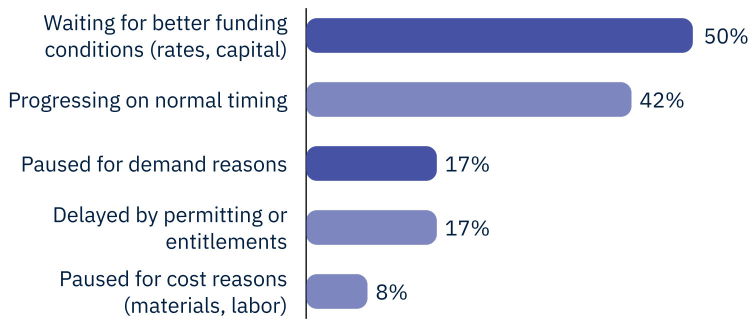
	Significantly decreased	Decreased	Roughly the same	Increased	Significantly increased
Material costs (excl. tariffs)	0%	8%	17%	67%	8%
Insurance premiums	0%	0%	27%	64%	9%
Tariff and trade policy	0%	8%	25%	58%	8%
Permitting timelines	0%	0%	64%	18%	18%
Capital availability	9%	9%	45%	18%	18%
Subcontractor stability	0%	27%	55%	9%	9%
Average project size	8%	8%	83%	0%	0%

03 Capital in a holding pattern

Deals are waiting, not dying

The pipeline hasn't collapsed; it's parked. 58% of developers report at least some pre-development projects intentionally on hold, and when asked to describe the status of those pipelines, funding conditions lead: half point to waiting for better rates or capital, while demand and permitting each stall 17% and cost pressure only 8%. The projects still pencil on paper. The capital doesn't, yet.

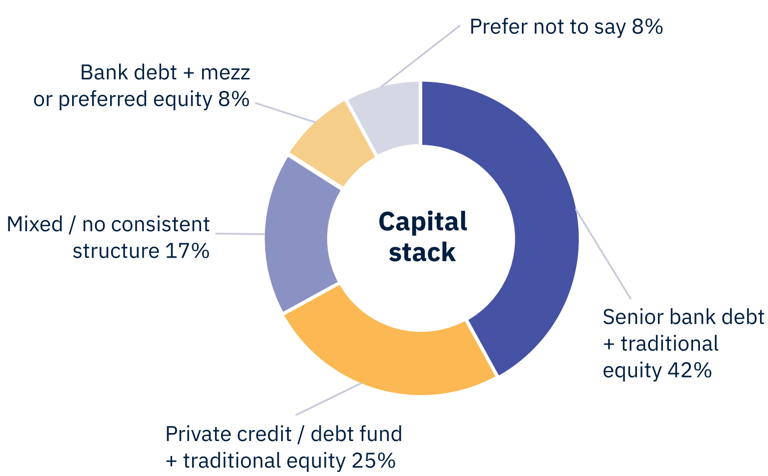
Status of pre-development pipelines (as reported by developers; multi-select)



A hold is a decision, not a failure. Developers are keeping entitled projects warm rather than killing them, betting that the math improves before the option expires.

> "Less multifamily, more of whatever else will pencil."
>
> **— Developer respondent, on how their asset focus is shifting**

Typical capital stack (as reported by developers)

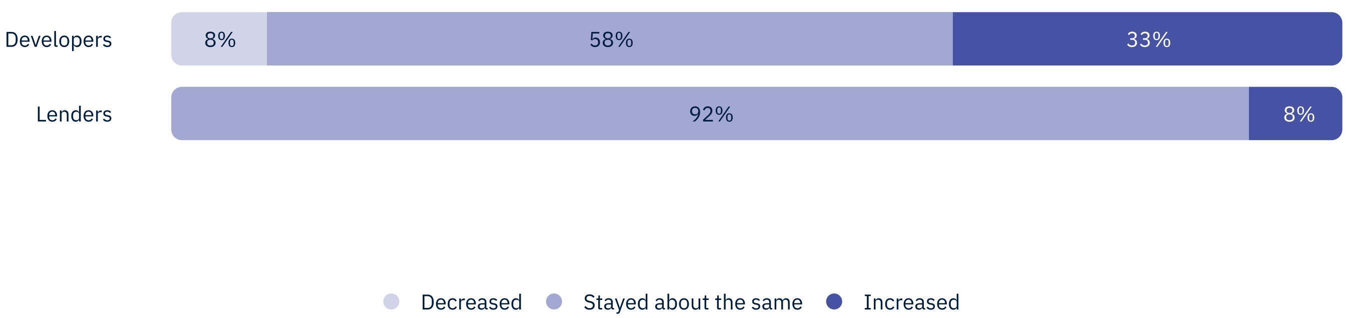


Where capital is moving, it's moving at the margin. A quarter of developers report somewhat increased reliance on private, non-bank debt over the past 12 months, two thirds report no change, and one reports pulling back. Nobody moved significantly in either direction. That lean has structural footing: one in four developers already runs a private-credit-led capital stack, against 42% still anchored by senior bank debt. Asset appetites are drifting the same way, at the edges: most report roughly the same mix as last year, but a third are shifting toward value-add and repositioning.

Contingency hasn't moved, and that's the story

Against tariffs, insurance spikes, and material costs, the industry's risk cushion didn't budge. 92% of lenders report baseline contingency requirements unchanged from last year, and a majority of developers held allocations flat, with buffers clustering at 5 to 10% on both sides. A year this volatile would justify repricing risk. The market chose not to.

Change in contingency requirements vs. last year



5–10%

typical contingency on both sides

92%

of lenders held requirements flat

58%

of developers held allocations flat

Read charitably, buffers were already sized for turbulence. Read skeptically, competitive pressure is keeping cushions thin exactly when the change grid in Section 2 says costs are climbing. Either way, the gap between rising input risk and static contingency is where out-of-balance loans are born.

04 AI: piloting, not operational

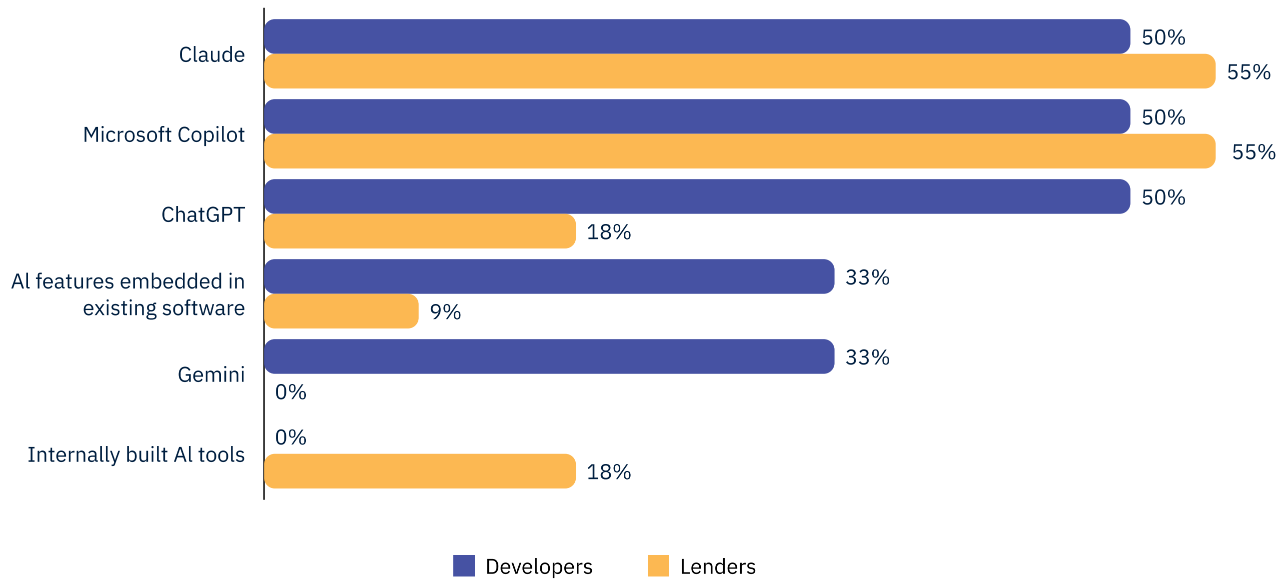
Mid-pilot by their own measure

Two years into the industry's AI conversation, adoption has moved from "whether" to "how deep." The answer so far: mid-pilot. Asked how embedded AI is in their day-to-day workflow, developers average 2.5 and lenders 2.4 on a 5-point scale, and only 42% of organizations have a formal AI policy in place. The tooling is arriving faster than the operating model.

How embedded is AI in day-to-day workflow?

Procurement, not preference

AI tools currently in use (multi-select)

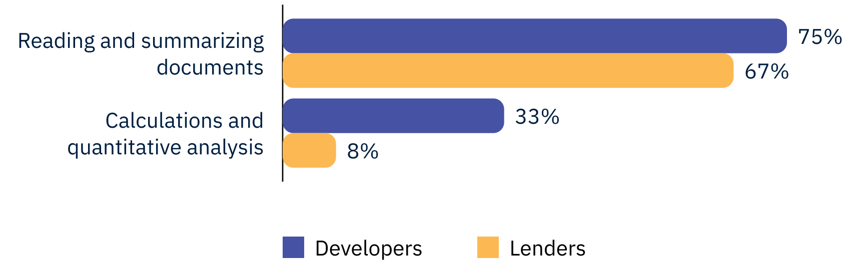


> The lender pattern looks less like taste than procurement. Security is their joint top barrier at 58%, regulatory uncertainty runs three times developer levels, and half have a formal AI policy. Copilot almost certainly rides in on Microsoft, where approval is a license question rather than a vendor review. That Claude matches it without a suite behind it is the notable result here.

AI is trusted to read, not do the math

The pattern is consistent across both sides. 58% cite document review and extraction as where AI is delivering measurable value today, the top answer on both tracks. And when asked what AI outputs they trust: 71% for reading and helping with text, 21% for calculations and quantitative analysis. The gap is starkest among lenders, where trust in AI-generated calculations drops to 8%.

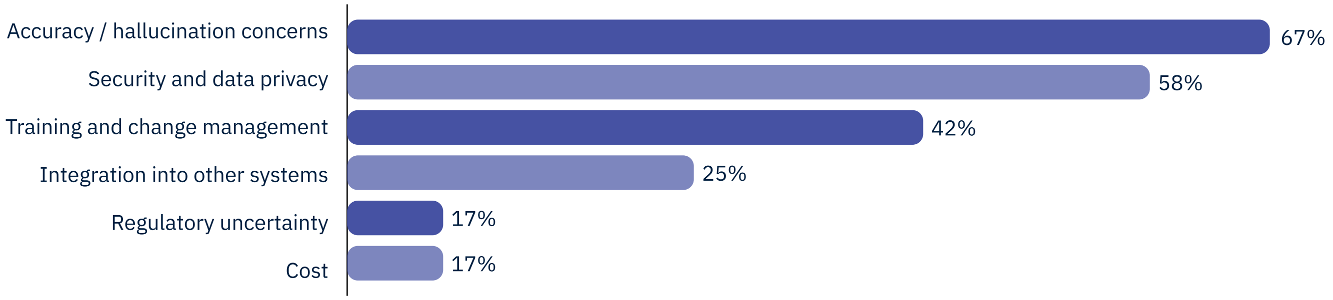
What AI outputs the panel trusts



The barriers are risk, not ROI

What's holding adoption back isn't skepticism about value: cost and unclear ROI barely register. It's risk. Two-thirds cite accuracy and hallucination concerns and over half cite security and data privacy, the same two answers that explain why trust stops at the calculation layer. Behind those numbers sits a workforce challenge too: 42% flag training and change management.

Barriers to deeper AI adoption (combined panel; multi-select)



> "[The biggest challenge with AI is having to] spend additional time double-checking accuracy."
>
> **— Developer respondent, on how their asset focus is shifting**

> "[It's like] trying to teach new tricks to old dogs."
>
> **— Developer respondent, on barriers to AI adoption**

05 The draw cycle: cleaner beats faster

Funding is fast enough. Cleanliness isn't.

The median draw funds in 10 days on the developer side and 6.5 days by lenders' own count. That gap is the story: developers experience the calendar time, lenders experience the review time. Between them sits idle time no one owns.

Median days from draw submission to funding

10 days
as reported by developers

6.5 days
as reported by lenders

Where delayed draws actually sit

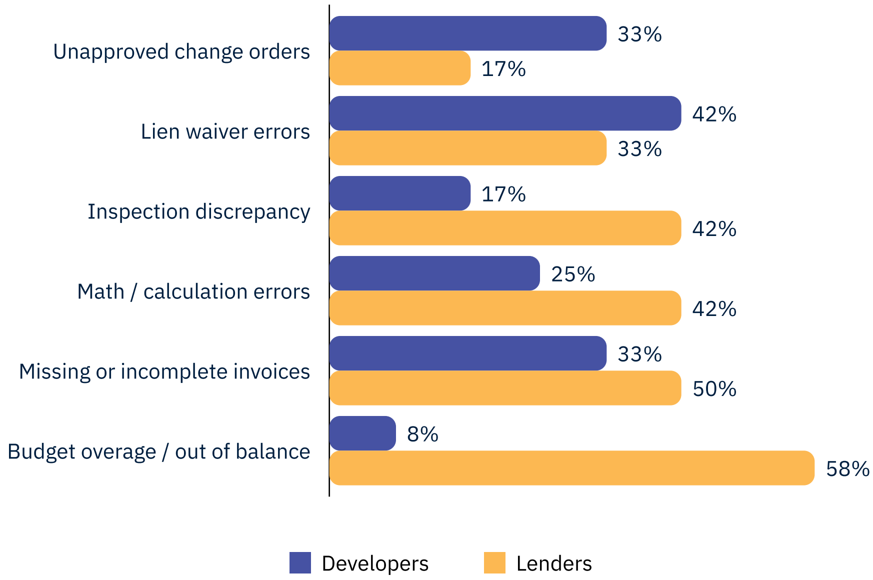
Where delayed draw packages sit (as reported by lenders; multi-select)

> 92% of lenders point to the same bottleneck: packages sit with the borrower after a first review turns something back. Not one lender named their own review queue. That reframes the draw-speed conversation: turnaround isn't a review problem, it's a first-pass-quality problem, and the fix lives upstream of submission.

Why draws bounce, both sides

Rejection reasons split cleanly along the roles. Developers get sent back for the field-level details: lien waivers at 42%, incomplete invoices and unapproved change orders tied at 33%. Lenders reject most for the balance-sheet view: out-of-balance budgets at 58%, missing invoices at 50%, and inspection discrepancies and math errors tied at 42%. The same draw looks like different problems depending on which side of the review you're on.

Most common reasons draws are rejected or sent back (multi-select)



The manual tax

Hours per week per team member on manual document handling

	Less than 5 hrs	5–10 hrs	11–20 hrs	21–30 hrs	More than 30 hrs
Developers	17%	50%	17%	8%	8%
Lenders	8%	67%	17%	-	8%

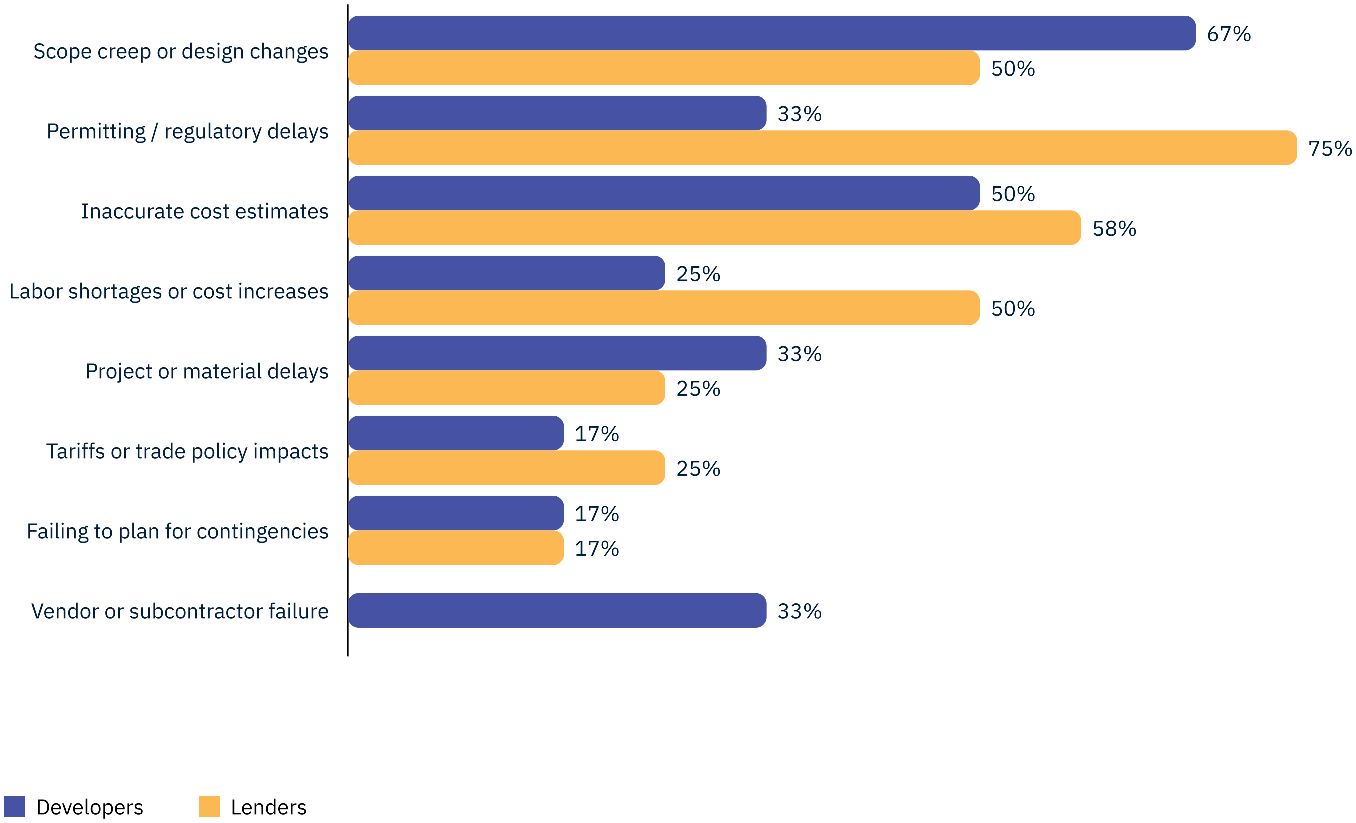
> Half a business day, every week, per person, on work that produces no forward progress. Preparing and reviewing a single package takes 2 to 4 hours for most teams on both sides, but the ongoing overhead of the paperwork surrounding each cycle is where the real cost accrues.

06 Cost overruns: same risk, different lens

What drives overruns

Same projects, different attribution. Developers point to what changes on the ground: scope creep and design changes lead at 67%, with inaccurate cost estimates second at 50%. Lenders point upstream to what governed the deal in the first place: permitting and regulatory delays top the list at 75%, and inaccurate underwriting estimates follow at 58%. Scope creep still shows up on the lender list at 50%, and inaccurate estimates on the developer list at 50%, but each side leads with what it can't control from its seat.

Most common causes of cost overruns / loans out of balance (multi-select)

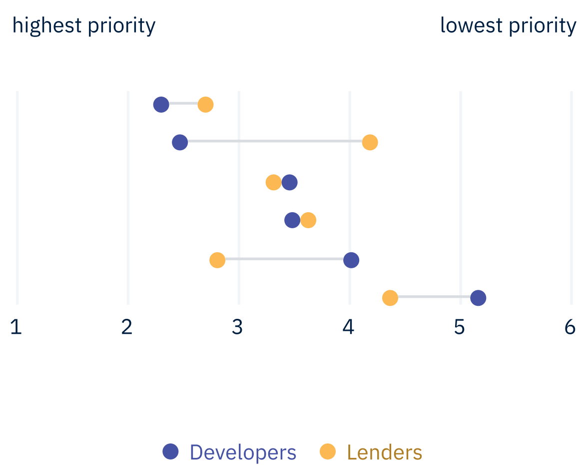


What prevents them

Both sides agree on the top lever: more rigorous pre-construction review and planning ranks first on both tracks. The second choice splits along role. Developers reach for earlier risk detection and forecasting metrics; lenders reach for stronger baseline contingency planning at underwriting. In other words, developers want to see problems sooner; lenders want more room to absorb them.

> Standardized change order workflows rank last on both tracks. That isn't indifference to standards: only 8% of either side says standards aren't needed. It's a judgment about leverage. Change orders sit at the intersection of scope creep and draw rejections, yet both sides still put process standardization behind review, forecasting, and contingency. The appetite for standards is nearly universal. The belief that standardizing change orders is what fixes overruns is not.

Prevention levers ranked (average rank, 1 = highest priority)



	Developers	Lenders
More rigorous pre-construction review	2.33	2.67
Earlier risk detection and forecasting|	2.50	4.17
Real-time budget and draw visibility	3.50	3.33
Tighter GC and subcontractor management	3.50	3.58
Stronger contingency at underwriting	4.00	2.83
Standardized change order workflows	5.17	4.42

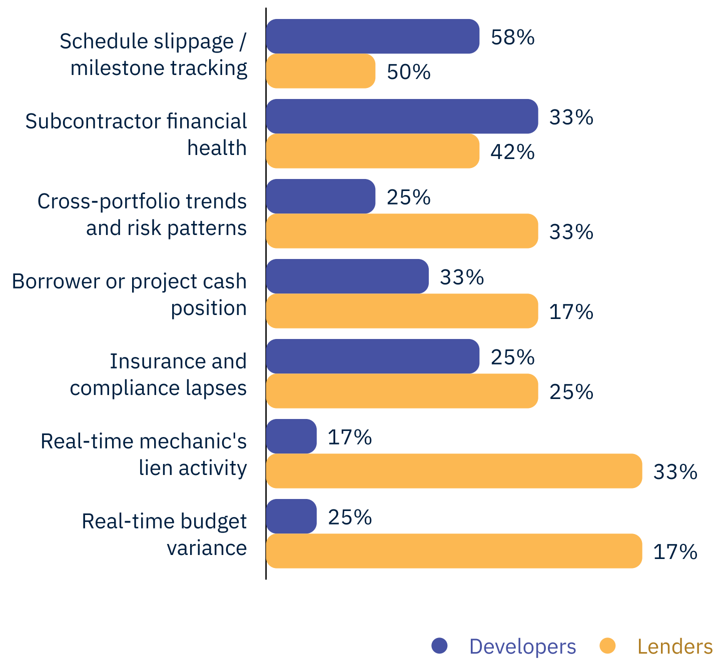
07 Risk visibility: the signals nobody has

What they wish they could see

The single most-wanted risk signal is the same on both sides of the loan: schedule slippage. 58% of developers and 50% of lenders say they can't reliably track milestone progress on active projects today. From there, priorities diverge.

Developers want visibility into borrower and project cash positions, the money problems that don't show up until a payment doesn't clear. Lenders want cross-portfolio pattern detection and real-time mechanic's lien activity, the signals that only matter when you're looking across dozens or hundreds of loans at once. Subcontractor financial health is the one both sides reach for, and lenders reach harder. Both lists describe the same underlying problem: by the time trouble shows up in a draw package or a title search, it's already too late.

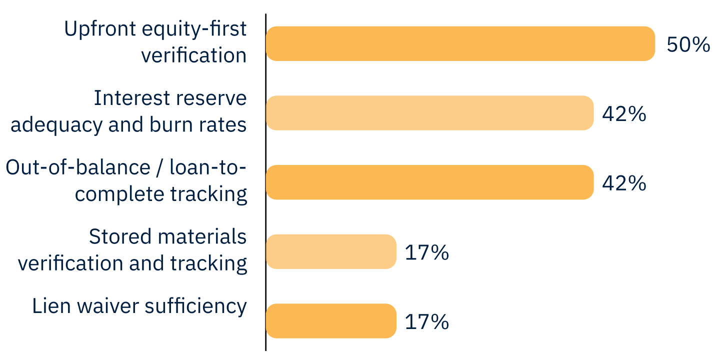
Risk signals teams wish they could monitor (multi-select)



Early distress is already here

Contractor and subcontractor distress is already showing up in active portfolios on both sides of the loan, a real-time version of exactly the risk the panel says it can't see coming. Meanwhile, a third of lenders are seeing interest reserve replenishments or out-of-pocket interest payments more frequently than a year ago, a quarter report the reverse, and the largest group reports no change at all. And where lenders' own scrutiny is concentrating this year, the priorities read like a checklist for exactly these risks: 50% intensified upfront equity-first verification, 42% tightened focus on interest reserve adequacy and burn rates, and 42% on out-of-balance and loan-to-complete tracking.

Where lender scrutiny has intensified in the past 12 months (multi-select)

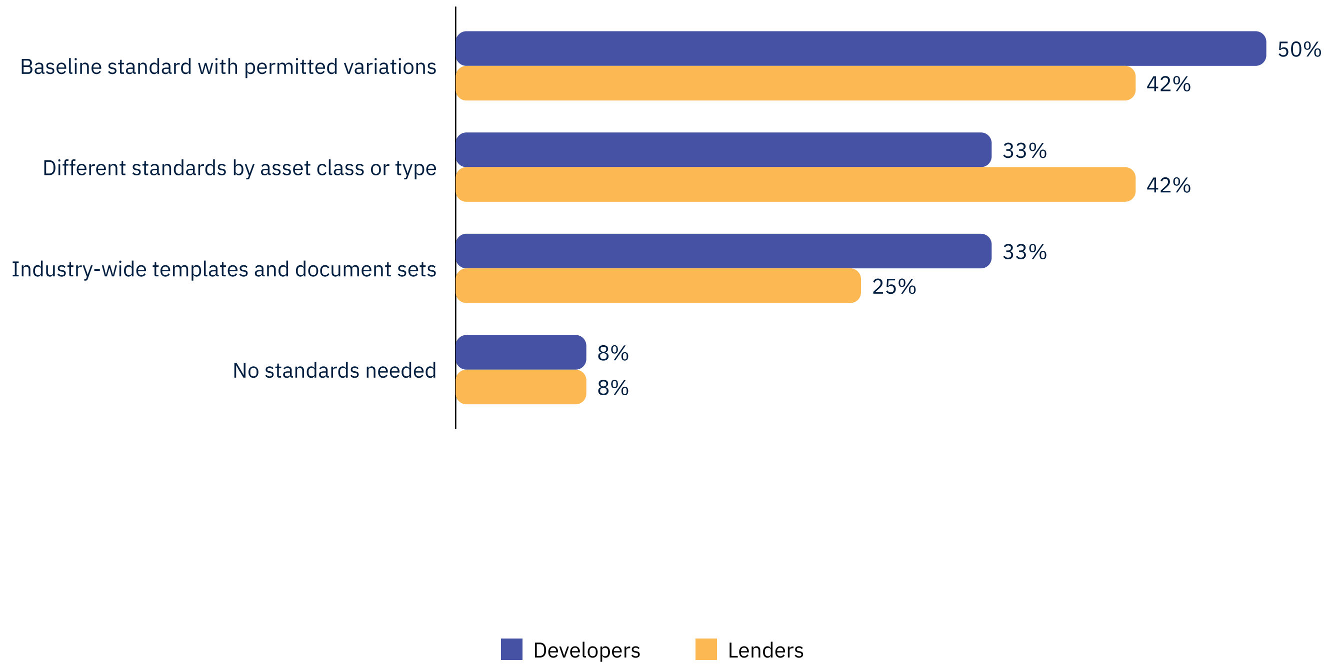


Appetite for draw package standards

> "[Have] a standard, electronic draw-request submission format, with net funding amounts by subcontractor/vendor."
>
> **— Lender respondent, on what they'd change about the industry**

If there's a single point of near-consensus in this year's panel, it's that draw packaging is due for standardization. Just 8% on each side think standards aren't needed. The difference is in conviction rather than direction: developers have a clear preference for a baseline standard with permitted local and project variations at 50%, while lenders split evenly between that model and standards varying by asset class or project type at 42% each. What both sides converge on is that today's status quo, every borrower and every lender running their own package template, isn't working.

Preferred form of draw packaging standards (multi-select)



08 Trends and takeaways

The 2026 panel isn't describing a crisis. It's describing an industry adjusting to volatility that no longer feels temporary, holding its cushions steady while quietly rearranging what it builds and how it funds it. Five signals emerged consistently across both sides of the loan.

01 Capital is patient, not paralyzed.

Deals aren't dying, they're waiting. 58% of developers have pre-development projects intentionally on hold, and half of pipelines are stalled on funding conditions rather than demand. Combined with a slow quarter-of-the-panel drift into private credit and asset appetites moving away from multifamily at the margins, the picture is a market conserving optionality until the math improves.

02 Contingency didn't move, and that's a decision.

Against tariffs, insurance spikes, and material cost pressure, 92% of lenders held baseline contingency requirements flat and 58% of developers held allocations flat, with buffers on both sides clustered at 5 to 10%. Whether that reflects confidence or competitive pressure, it's the story the industry told itself this year: absorb the volatility, don't reprice for it.

03 AI is trusted to read, not to do the math.

Adoption is mid-pilot on both sides (2.5 and 2.4 out of 5). Claude and Microsoft Copilot tie for the lead on both tracks, but lenders concentrate on those two while developers keep a wider bench. 58% cite document review as the top area of measurable value. The trust ceiling is sharp: 71% trust AI with text, only 21% with calculations. The barriers holding deeper adoption back are risk, not ROI.

04 The draw cycle's problem is quality, not speed.

Draws fund in 10 days on the developer side, 6.5 on the lender's. Neither side thinks they're too slow: the friction sits with what happens after a package hits its first review. 92% of lenders say delayed draws spend the most idle time waiting for borrower corrections, and both sides lose 5 to 10 hours per person per week to manual document handling. Cleaner packages, not faster reviews, is where the time is.

05 Standards have crossed from "nice to have" to consensus.

Just 8% on each side think draw packaging standards aren't needed. Standardization was also the most common unprompted answer to "what would you change about the industry today." The disagreement is on form, not need.

> "[I'd want] everyone being more willing to work together, and less finger-pointing that turns into change orders."
>
> **— Developer respondent, on what they'd change about the industry**

Construction finance is telling the same story from different seats: the projects, the paperwork, and the people are all here.

What's missing is the coordination fabric that lets them see the same picture in time to act on it.

About Rabbet

Rabbet is a real estate software company with two products. Our mission is to take the friction out of development execution through structured, connected data. We help real estate teams turn fragmented project information into trusted insights that can be shared, understood, and acted on throughout the development lifecycle.

Rabbet Development is real estate development management software for owners, developers, and asset managers. It brings budgets, anticipated costs, draw schedules, and funding sources together across every phase of development, so teams always know where every project stands, answer questions without chasing information, and spot financial changes before they become project problems.

Rabbet Construction Lending is construction loan management software for banks, credit unions, and private lenders. It brings loan administration, documentation, draw review, and portfolio reporting into one system, so lending policies are applied consistently, portfolio risk is visible as projects evolve, and every funding decision is backed by the evidence required to move money.

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