



The case for multifamily credit today

A Q&A with Joshua Crane and Robert Schwartz

How did S3 Capital's focus on credit, and construction lending in particular, develop?

Robert Schwartz: Joshua and I began working together as developers in 2007, focusing on residential real estate, primarily multifamily and townhomes. Starting in 2012, being on the equity side of the equation began to look less attractive from a risk-reward perspective, while at the same time we saw a gap on the financing side we thought we could fill. With S3 Capital, we built the lending platform we wished we'd had access to as developers, and almost 14 years later, originating and managing construction loans remains our primary focus. On the equity side, outcomes are heavily influenced by cycle timing. Market-driven variables outside of your control can erode an equity return, but credit investors are far more insulated. Lending in a first lien position at a conservative basis shifts the return drivers toward factors you can influence, with execution mattering more than market direction. We deliberately moved from equity to credit because we wanted our returns to reflect our operational discipline rather than timing.

Why does S3 Capital focus on housing, and multifamily specifically?

Joshua Crane: We occasionally see attractive opportunities to lend on other property types, but in general we favor multifamily. Why? First, we believe we gain an information and networking edge by focusing on one sector. We've originated nearly 1,000 loans focused on for-rent and for-sale housing with hundreds of borrowers, and we have relationships with various participants across all the markets we're in. Second, we believe that housing is one of the most durable property types. The sector has consistently performed with less volatility and lower systemic risk over time compared with most property sectors.¹ Multifamily also benefits from a robust supply of capital available to refinance our loans, whether it's a bridge lender or a provider of permanent capital.² We are commonly repaid by loans that represent a meaningful premium to our loan amount.

How do you view multifamily in today's macroeconomic and demographic environment?

Robert Schwartz: In short, we believe multifamily today represents a particularly compelling opportunity. The share of the U.S. population over age 30 who are renting now sits at roughly 54 percent,³ while homeownership by age 30 has declined with every successive generation.⁴ Renters are getting older and we are seeing a trend of "renters for longer." Affordability pressures mean a lot of would-be buyers simply can't afford a home today. The median-priced home now costs nearly five times median household income, against a historical norm of 3.2 times throughout the 1990s.⁵

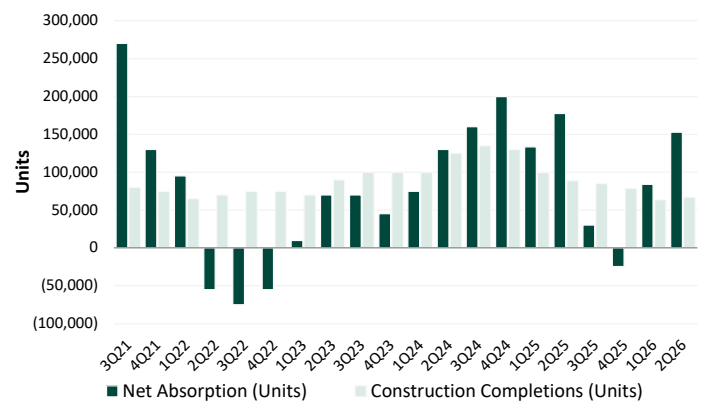
Even for households that can afford homeownership, renting is often the more advantageous financial decision today. The gap between owning and renting a comparable home runs close to \$1,200 a month today, roughly 2.7 times the long-term average.² And it's not just a mortgage-rate story: homeowner insurance premiums are up 72 percent nationally since 2019, and property tax bills have risen 31

percent over the same stretch.⁵ Industry estimates from the National Multifamily Housing Council and National Apartment Association put the country roughly 4.3 million apartment units short of where it needs to be by 2035. As a result, we believe multifamily represents a strong place to underwrite capital right now, not despite the housing shortage, but because of it.

Where do fundamentals stand today, and which markets are you leaning into as a result?

Joshua Crane: Nationally, multifamily fundamentals are starting to meaningfully improve. From 2023 to 2024 we saw a marked increase in new supply, which led to a rise in vacancy and a decline in rent growth. In the past two years, however, starts have fallen roughly 75 percent from their 2022 peak,⁶ and new supply under construction has fallen to 3.5 percent of inventory, the lowest level since 2013.⁷ Simultaneously, demand has been resilient. First-half 2026 net absorption reached 279,000 units nationwide, the second-strongest first half on record,² and demand outpaced new supply by more than 2 to 1 in the second quarter.⁸

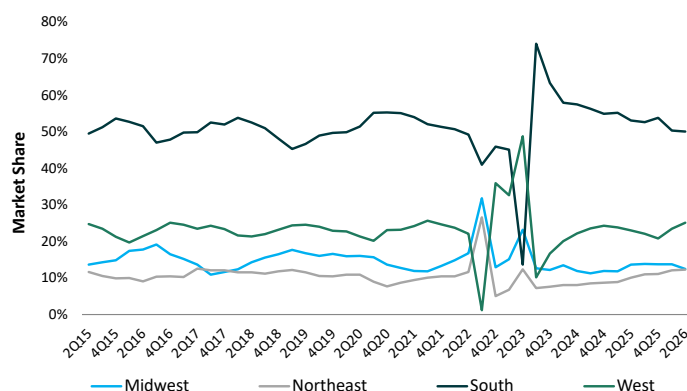
Figure 1. Demand Resilient Through Mid-2026 as New Supply Slows



Source: Colliers, RealPage, 2026 Q2.

Robert Schwartz: The national data is encouraging, but we are seeing a significant amount of dispersion across markets. Our portfolio is heavily weighted toward New York, Florida, and across the Southeast for reasons that are well understood: population growth, job growth, and in-migration that's persisted past the pandemic-era relocation story. Markets in the south continue to represent the largest share of national rental demand, sitting at roughly 50 percent as of the end of the second quarter of this year.² A number of Sunbelt metros overbuilt coming out of 2021 and 2022, but deliveries have slowed meaningfully and concessions are starting to burn off.^{7,8} We've also been expanding our presence in Texas as large, high-growth metros like Dallas and Houston recorded the strongest renter demand nationally in the second quarter.⁶ We believe the supply slowdown paired with sustained demand should help further improve fundamentals in the coming years.

Figure 2. Market Share by Region; Trailing 12-Month Demand



Source: Newmark Research, RealPage, 2026 Q2.

While market fundamentals matter, we believe the real work happens at the neighborhood level. We like to go deep into our target markets, understanding dynamics street-by-street. We invest in micro-locations where we truly understand the community and can discern a clear prospective renter or buyer pool.

Within real estate, what do you find attractive about construction lending rather than other forms of real estate credit?

Joshua Crane: Construction lending finances the actual solution to the housing shortage. A loan against an existing asset doesn't typically add units toward closing that gap; it just changes who holds the debt. A construction loan is capital that becomes new housing in the neighborhoods and at the price points actually identified by the demand data. There's a duration benefit too: our loans typically run 24 to 36 months, so we're able to recycle capital into the next opportunity based on what the data tells us at that time. In multifamily specifically, the presence of agency lenders provides a real backstop when it comes to the takeout of our loans. The bridge lending market is highly active in multifamily, so we are typically refinanced by these loans. The permanent financing market adds an additional layer of potential takeout options, and that's not something that all property types have access to.

You've said construction lending isn't a commodity. What do you mean by that and why does it matter?

Robert Schwartz: Unlike other types of real estate credit, construction lending requires operational infrastructure and continuous oversight to properly manage execution risk. We are on-site throughout the construction process and take a hands-on, boots-on-the-ground approach to each loan. It's critical to monitor every step, which is why we visit every loan site to verify progress with our own eyes before funding any proceeds. Our loans don't live in a spreadsheet; they take real work and proactive asset management. By building the operational infrastructure into the core of our strategy from day one, we have been able to scale in a way that's both responsible and responsive to our borrowers and investors.

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Joshua Crane

Co-Founder and Managing Principal

Joshua Crane is Co-Founder and Managing Principal of S3 Capital. Prior to founding S3, Joshua worked at Irongate, where he developed the Trump International Hotel and Tower at Waikiki Beach Walk. He also worked at Stellar Management, where he was involved in the acquisition of Independence Plaza, a 1,330-unit rental building in New York City's Tribeca neighborhood, and 2,000 units in Washington, D.C. Joshua began his career at Salomon Brothers in its M&A group and earned a degree from the Wharton School at the University of Pennsylvania.



Robert Schwartz

Co-Founder and Managing Principal

Robert Schwartz is Co-Founder and Managing Principal of S3 Capital. Prior to founding S3, Robert helped run a successful family business where he established the family's real estate investment program. He began his career in investment banking at Donaldson, Lufkin & Jenrette and UBS in the Financial Institution Coverage groups. Robert graduated from the Wharton School at the University of Pennsylvania and serves on the Executive Board.

COMPANY OVERVIEW

S3 Capital is a vertically integrated real estate credit manager focused on protecting investor capital while generating durable current income. S3's founders began as New York City developers, where firsthand experience with market inefficiencies led them to create an institutional-quality lending platform tailored to small and mid-sized sponsors. Since 2013, S3 has originated over 925 loans totaling more than \$10.2 billion and today is one of the most active non-bank construction lenders in the United States. The firm targets first lien mortgages for housing-oriented commercial developments in supply-constrained markets across the country. Armed with an in-house construction team and a deep understanding of all aspects of real estate development, S3 Capital utilizes a disciplined approach steeped in proactive risk management to serve its global investor base and deliver consistent outcomes.

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Notes

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