REIT Unsecured Debt Financing 101: Access, Execution, and Flexibility

Mark S. Streeter
J.P. Morgan

Tyler Schachner
J.P. Morgan

Edward F. Pierzak
Nareit

US public equity REITs are long-term investors by design. They also are capital allocators and not typically dependent on the capital fundraising cycle as are many private real estate investment managers. These factors, and lessons from the global financial crisis, have prompted REITs to follow thoughtful and disciplined balance sheet construction practices. Today's REITs tend to maintain low leverage ratios and focus their financing activities on longer-term maturities, fixed interest rates, and unsecured debt.

As of July 2025, Green Street estimated that unsecured bonds issued by US real estate companies totaled $415 billion, approximately 7% of total US commercial real estate (CRE) debt. Given that unsecured debt represents only a small portion of CRE debt outstanding, REITs' focus on it is notable.

Unsecured debt has become a foundational element of REIT balance sheets. It provides REITs with an edge over their private real estate counterparts by offering efficient and timely access to significant capital, cost advantages over traditional secured debt (e.g., mortgages), and operational, transactional, and financing flexibility.

REIT Unsecured Debt Usage

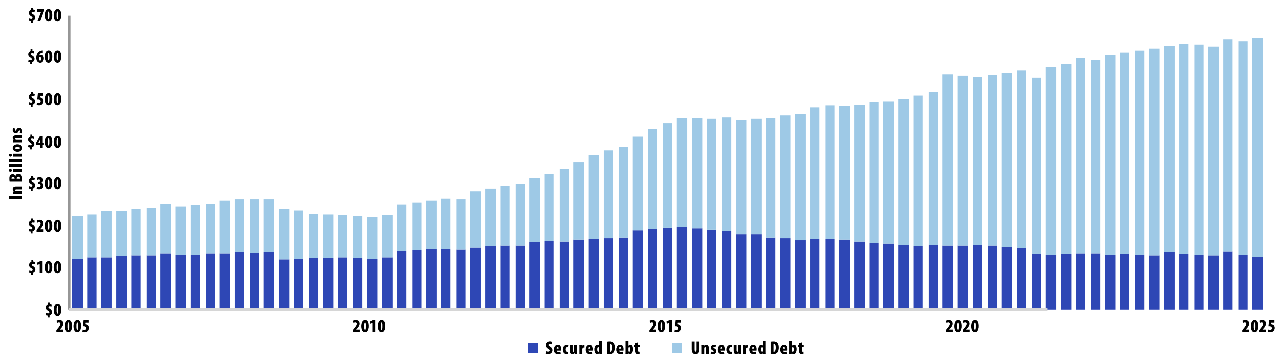
In an environment characterized by economic uncertainty, financial market volatility, and higher interest rates, the strength of a firm's balance sheet often takes center stage. REITs' well-structured balance sheets place them in an enviable position. As of the second quarter of 2025, Nareit's quarterly REIT Industry Tracker data showed that, on average:

- Leverage ratios were low, with debt-to-market assets at 33.5%.
- Weighted average term to maturity of REIT debt was 6.1 years.
- Weighted average interest rate on total debt was 4.2%.
- Fixed-rate debt accounted for 89.6% of listed REITs' total debt.
- Unsecured debt was 80.6% of REITs' total debt.

These metrics stand in stark contrast to those during the financial crisis. In the first quarter of 2009, the leverage ratio peaked at 64.7% and unsecured bonds accounted for only 48.7% of total debt.

REITs' shift to increasing unsecured debt usage accelerated after the financial crisis. Using data from Nareit's REIT Industry Tracker, Exhibit 1 displays

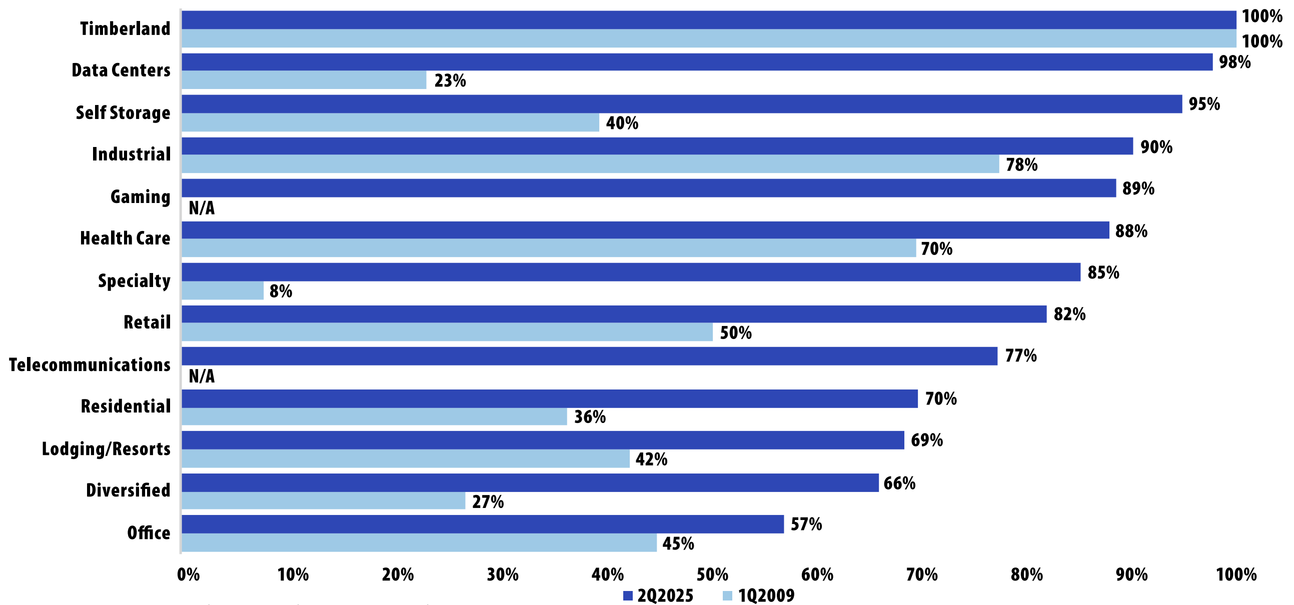
Exhibit 1: US Public Equity REIT Secured and Unsecured Debt



Sources: Nareit REIT Industry Tracker, S&P Capital IQ Pro; data as of 2Q2025

 Copyright 2025 by Pension Real Estate Association

Exhibit 2: REIT Property Sector Unsecured Debt as a Percentage of Total Debt



Sources: Nareit REIT Industry Tracker, S&P Capital IQ Pro

Notes: Data are as of 2Q2025. Data were unavailable for the telecommunications and gaming sectors in the first quarter of 2009.

aggregate secured and unsecured debt in billions of dollars for US public equity REITs from the second quarter of 2005 to the second quarter of 2025.

Twenty years ago, secured and unsecured debt played nearly equal roles in REIT portfolios. Since that time, unsecured debt use has grown dramatically, increasing by more than a factor of five. In contrast, secured debt has grown only modestly, essentially maintaining its status quo. As of the second quarter of 2025, unsecured debt comprised more than 80% of total REIT debt. By focusing on unsecured, fixed-rate, and longer-term debt, REITs have limited their exposure to periodic mortgage market challenges.

Shining a light on REIT sector-specific shifts in unsecured debt use, Exhibit 2 presents unsecured debt utilization rates (as percentages of total debt) in the first quarter of 2009 and second quarter of 2025 for the 13 equity REIT property sectors.

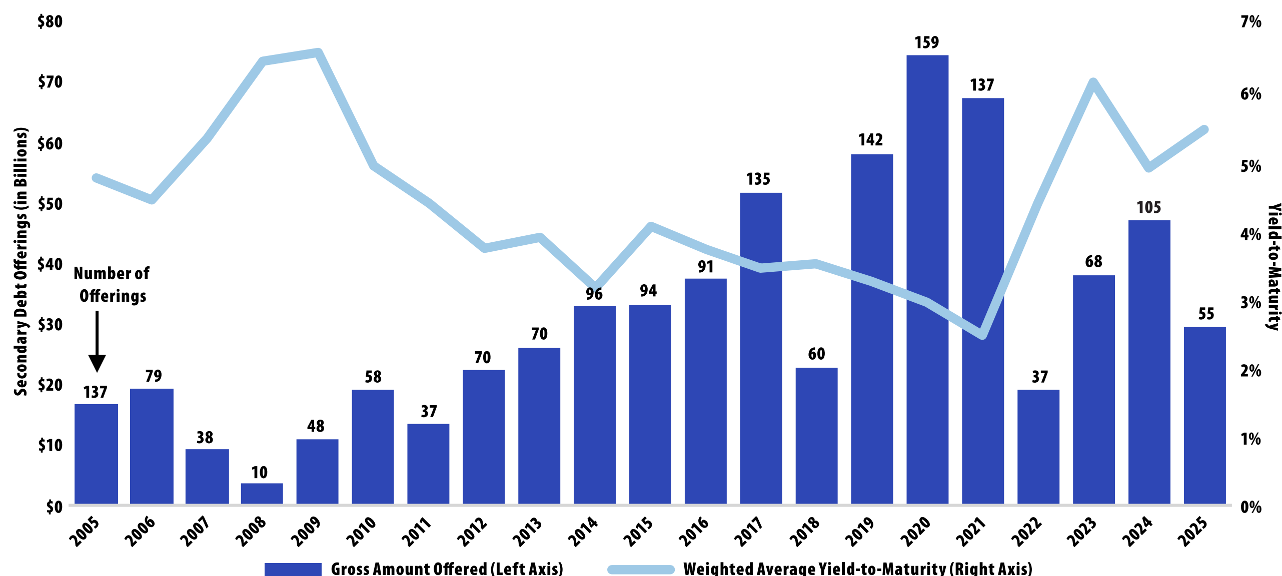
Since the financial crisis, unsecured debt utilization rates have increased significantly across each of the REIT property sectors with the exception of timberland, which maintained a 100% rate. As of the second quarter of 2025, unsecured debt accounted for more than 80% of total debt for eight sectors—timberland, data centers, self storage, industrial, gaming, health care, specialty, and retail. Although office had the lowest unsecured debt usage rate, it still approached 60%.

The difference in the reliance on unsecured debt by sector is almost directly tied to the depth of the mortgage market for the property type. Office REITs have relied the least on unsecured debt because the office mortgage market is foundational to commercial mortgage-backed securities (CMBS) coupled with mortgage-recording tax considerations. The securitization market for data center REITs, in contrast, was slow to develop, so unsecured debt was much more efficient for this sector historically.

The timing and cost advantages of REIT unsecured bond issuances are appealing. The bonds can be issued quickly. For established (and recent) issuers, turnaround times may target a week, but a one-day execution is possible. For less-frequent issuers, timing likely increases to two weeks, including a marketing period. New issuers can expect a turnaround of about a month. Given that most REIT unsecured debt is investment grade, i.e., Baa3/BBB– or better, it typically offers material cost advantages over secured mortgages.

Exhibit 3 shows annual US public equity REIT unsecured debt issuances by total capital raised,

Exhibit 3: Annual US Public Equity REIT Unsecured Debt Issuance



Sources: Nareit and S&P Global Market Intelligence
Note: Data for 2005–2024 are as of 2Q2025; 2025 data are year to date through August.

number of issuances, and average yield to maturity from 2005 to 2025.

A review of the exhibit highlights the rise in REIT unsecured debt issuances over time and provides insight into how REITs have acted rationally to changing market conditions. For example, in 2022, with the surge in the ten-year Treasury yield and debt costs, REIT unsecured debt issuance fell off precipitously. Importantly, the year's limited issuance confirmed that the market remained open and available to REITs during that time. Although issuance activity has since picked up, it has remained below levels just prior to 2022, a reflection of the current higher interest rate environment.

Year to date through August, REITs issued 55 debt offerings totaling approximately $30 billion. This equates to an average of roughly $540 million per issuance. The weighted average yield to maturity of these unsecured debt issuances was 5.5%. With the US ten-year Treasury yield averaging 4.4% over the same period, the average cost of this debt was attractive.

As highlighted in the Fall 2024 *PREA Quarterly* article "Landings, Reunions, and Revivals: Keys to the US Property and REIT Outlooks," Nareit analytics have shown that REITs have been able to secure additional unsecured debt cost savings through timing, particularly during more-volatile interest rate environments. From January 2023 to September 2024, this benefit was estimated to average 5 basis points. With $70.3 billion of REIT unsecured debt issued over the examination period, this average execution advantage translated into meaningful cost savings.

Covenant, Default, and Rating FAQ

What are the "standard" REIT unsecured bond covenants?

"Standard" REIT unsecured bond covenants include four main tests:

1. The total-leverage test is based on the ratio of total debt to total assets; its maximum value is typically set at about 60%. Assets are defined as either undepreciated book value (i.e., historical cost ignoring impairments) or some cap rate of EBITDA.
2. The secured leverage test is based on the ratio of secured debt to total assets; its maximum value tends to be 40%. Assets are defined using the same denominator as the total-leverage test.
3. The interest-coverage test is based on the EBITDA-to-interest ratio with a minimum interest coverage of 1.5 times.

ACORE CAPITAL

Decades of Leadership Financing Transitional Commercial Real Estate

Billion AUM[1]	Target Loan Size Millions	Unique Borrowers	Repeat Borrowers with 3+ loans
$18+	$50 - $300M+	500	85

Managing U.S. CRE debt for investors in the U.S., Canada, Europe, Middle East and Asia

- Pensions
- Sovereign Wealth Funds
- Insurance Companies

PERE Credit
AWARDS 2024

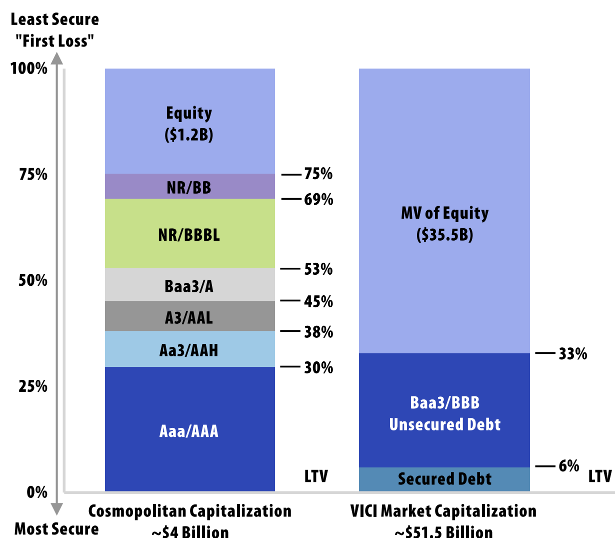
Fundraise of the Year ($1bn+)

New York
Los Angeles
Miami
San Francisco
Dallas

acorecapital.com

©2025 ACORE CAPITAL. Registered trade/service marks are the property of ACORE CAPITAL. All rights reserved. 1Assets Under Management ('AUM') total is $18.35 billion as of 6.30.2025. AUM is calculated as follows: for all separately managed accounts (i) includes senior loan components if held by the ACORE CAPITAL client, (ii) excludes ACORE CAPITAL clients' uncalled capital commitments and is net of impairments. For pooled investment vehicles, (i) includes total loan funded balances plus uncalled investor capital commitments and is net of impairments. Figures include both funded and committed unfunded amounts, as of 6.30.2025. All figures as of 6.30.25. This presentation should not be considered an offer to sell, or a solicitation of an offer to buy, any security. Any offering may be made only by an offering memorandum that would be furnished to prospective investors describing the investing being offered and risks associated with such investment. This award was announced 3.3.25 for calendar year 2024. ACORE CAPITAL did not provide compensation to PERE Credit directly relating to the award, but provides compensation to PEI Media, Inc. for advertisements in and subscriptions to the PEI publications PERE, PERE Credit and PDI.

Exhibit 4: Moody's Rates VICI Bonds the Same As Fourth-Level Subordinated CMBS



Sources: PricingDirect, Bloomberg Finance L.P., J.P. Morgan
Notes: Data are as of Sept. 8, 2025. LTVs are rounded.

4. The unencumbered-assets-to-unsecured-debt (UAUD) test is a maintenance test. As such, it is considered the Holy Grail to investors because it must be maintained at all times. Unencumbered assets are typically expected to be at least 150% of unsecured debt, although some larger REITs get away with 125%. Joint-venture equity is generally excluded from the unencumbered asset definition.

Since the dawn of the modern REIT era, i.e., 1993, how many equity REITs have defaulted on unsecured bonds protected by “standard,” “close-to-standard,” and “nonstandard” covenants? What were the recoveries on the defaulted REIT bonds?

With only three occurrences, US public equity REIT defaults on unsecured bonds have been rare. All the defaults were in the mall sector and occurred during either the financial crisis or the COVID-19 pandemic. All three issuances were also initially BBB rated (i.e., investment grade) but later downgraded through time.

General Growth Properties (GGP) defaulted on $0.60 billion of unsecured bonds from its subsidiary The Rouse Company. The Rouse issuance had nonstandard covenants; its bonds lacked the UAUD test. GGP filed for Chapter 11 bankruptcy on April 16, 2009, and the Rouse bonds ultimately recovered par.

CBL Properties (CBL) and Washington Prime Group (WPG) defaulted on $1.37 billion and $0.75 billion of unsecured bonds, respectively. CBL filed for Chapter 11 bankruptcy on Nov. 1, 2020; WPG filed on June 13, 2021. Both firms had close-to-standard covenants. Although both bonds were impaired, recoveries were higher than the market standard assumption of 40%.

Why have REIT unsecured bond defaults been so low?

REIT unsecured bond defaults have been low because of factors including quality of assets, bond covenants, and access to alternative capital sources. During the financial crisis, peak-to-trough CRE prices fell by approximately 50%, but top-quartile assets declined by closer to 35%. Given that REITs tend to own top-quartile properties, most BBB-rated REITs saw their effective leverage ratios increase from less than 50% pre-crisis to roughly 75% at the trough, but they remained solvent. The UAUD test also caps unsecured leverage at 67% and most REITs maintain some cushion, so even with a 35% value decline, REIT unsecured debt was still well “covered.” In addition, although rarely if ever tested given REITs’ ability to raise equity, unsecured debt could be refinanced with secured debt if capital markets were closed. Today’s lower leverage ratios also provide further insulation from defaults.

If REIT bonds with standard covenants rarely default, why are most REIT bonds, on average, rated BBB?

REIT ratings typically imply higher default risk and lower recovery levels than demonstrated by history. These views are also inconsistent with the new more conservative CMBS ratings criteria. Rating agencies struggle with REITs’ high leverage relative to other BBB corporates, limited retained cash flow, and smaller relative size, i.e., market cap. Nevertheless, on average, REIT unsecured ratings have migrated over time from low/mid BBB to mid/high BBB and even low/mid A ratings, but progress has been slow.

Not All Investment-Grade Ratings Are the Same

Interestingly, not all investment-grade ratings are the same. Structured finance ratings often compare more favorably, i.e., are higher rated, than corporate entity

ratings. This apparent inconsistency is perhaps best illustrated through an example. Exhibit 4 highlights the CMBS capitalization stack for the Cosmopolitan of Las Vegas, a luxury 3,032-room resort and casino located on the Las Vegas Strip, and the market capitalization of VICI Properties Inc. VICI is a gaming REIT that owns one of the largest portfolios of gaming, hospitality, and entertainment destinations, including Caesars Palace Las Vegas, the MGM Grand, and the Venetian Resort Las Vegas, which are also all located on the Las Vegas Strip.

VICI's unsecured bonds are full recourse and senior to approximately $35.5 billion of equity value. They are also backed by a diversified portfolio of 93 assets with 13 tenants. The Cosmopolitan CMBS deal has nonrecourse bonds backed by a single asset/tenant.

Although market pricing indicates that VICI risk is closest to the top of the Cosmopolitan CMBS stack rated AAA, Moody's currently rates VICI's unsecured bonds at Baa3. This is the same rating assigned to the fourth-level subordinated nonrecourse Cosmopolitan CMBS tranche with a considerably higher loan-to-value ratio.

Yet in comparison, the VICI debt is materially safer, given that it is backed by the full faith and credit of the entire enterprise, with cash flows from a dramatically larger, more diversified pool of assets at a much lower leverage detachment point. If the Cosmopolitan struggles, its nonrecourse bonds could, in theory, be in jeopardy of default. For the VICI recourse bonds to default, multiple properties would likely need to face the same, if not more, cash flow deterioration. Even in that scenario, VICI could much more easily raise dilutive equity capital to protect the unsecured recourse bonds and "live to fight another day."

Advantage, REITs

REITs boast numerous competitive advantages. Best-in-class operator expertise, focused investment strategies, and disciplined balance sheets give REITs an edge over typical property investors. By maintaining low leverage ratios and emphasizing financing activities with longer-term maturities, fixed interest rates, and unsecured debt, REITs have committed to playing the long game. Their focus on unsecured debt has served them well in changing markets by offering efficient and timely access to large pools of cost-advantaged capital and allowing them to face less stress than many of their competitors. It has also afforded them greater operational, transactional, and financing flexibility to address property and firm needs. ■

Mark S. Streeter is Managing Director, Head of REIT and Transportation Credit Research, and Tyler Schachner is an Associate, Credit Research, at J.P. Morgan. Edward F. Pierzak is Senior Vice President, Research & Investor Outreach, at Nareit.