

# Finding Signal Through the Noise: CRE Debt Markets Find Their Footing Despite Broader Market Volatility



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**Although elevated policy-related** uncertainty has generated pronounced financial market volatility, the effects of such volatility on commercial real estate (CRE) structured finance execution have proved to be relatively measured.

Credit markets were not immune to April volatility, but the response remained orderly. Despite a 20–25 basis point (bp) widening in corporate bond spreads and a similar 20 bps move in AAA commercial mortgage-backed securities (CMBS) spreads (from the 90s to the low 110s bps), spreads held below historical averages. A pause in CRE lending activity was to be expected, as participants took a step back to assess the financial markets and political policy landscape more broadly.

However, acute volatility proved short-lived—spreads have rebounded since President Donald Trump announced tariffs in April, illustrating that the market is reengaging despite ongoing uncertainty. Risk spreads for both investment-grade corporate bonds and CRE debt, as proxied by CMBS credit spreads, have tightened by 20 bps and are now back to pre-tariff-announcement levels. AAA CMBS spreads are now trending in the high 80s bps, which is consistent with where spreads were trending just prior to the tariff announcement and with early 2022, just before the rate-hiking cycle began.

## Shifting Tides in CRE Debt Markets

CRE investors and lenders are no longer waiting for interest rates to drop in the near term, as they did in the second half of 2024. This fundamental shift in expectations has allowed traction to form as investors refocus on deal structures and longer-term investment strategy rather than hyperfocusing on movements within the short end of the yield curve.

In addition to registering 28% year-over-year (YOY) gains in loan origination volume over the trailing 12 months through June 2025, the CRE lending landscape is also broadening and diversifying across lender types,

which implies increased lender competition and ultimately offers borrowers improved terms and better optionality.

Debt funds (and other alternatives lenders such as mortgage REITs) and CMBS have stepped in over the course of the rate-hiking cycle, while depositories took a pause to contend with tightened liquidity constraints on their balance sheets. Debt funds' market share (of origination activity) consistently climbed from a pre-pandemic average of 8% to 12% in 2023, to 16% in 2024, and to a record-high 20% year to date (YTD). The pool of active financial / debt fund / alternatives lenders has also broadened in the wake of the rate-hiking cycle: the number of unique active lenders increased from between 300 and 500 before the COVID-19 pandemic to more than 600 in 2024, reflecting a 44% increase.

An even broader perspective of capital flows illustrates the ample liquidity in the private credit space: Preqin's fund-level data highlight this strong momentum in debt-focused strategies, with debt fund assets under management growing six to eight times over the past 20 years—outpacing other private market real estate fund strategies.

CMBS have also witnessed a renaissance. Non-agency CMBS issuance volumes were up more than 170% YOY in 2024 to upward of \$106 billion, reaching levels not seen since before the rate-hiking cycle began. Traction throughout CMBS has continued this year, and 1H2025 new (non-agency) issuance is up 34% relative to 1H2024. This rebound has pushed CMBS' share of overall CRE origination activity into the 10%–20% range during 2024 and 2025, up from the all-time low of 7% in 2023.

Increased volume and market share from private credit and CMBS has aided payoffs of legacy loans held on bank balance sheets, helping banks selectively reemerge as more active new loan originators in 2025. It would therefore be an oversight to claim that banks are off the field entirely; in fact, they remain the leading source of CRE mortgage debt as measured both by MSCI Real Capital Analytics and Mortgage Bankers

Association, as well as other industry sources. Their relative share bottomed out at 30% in 2024 and has more recently rebounded to a 36% share YTD.

The nation's largest CRE bank lenders are predominantly responsible for this overall bank lending bounceback. An analysis of the most active CRE bank lenders since 2020 (which is also broadly consistent with the list of the largest US banks) shows that YTD "large" bank origination activity has rebounded 46% YOY through June, compared with overall bank lending, which is up only 23% YOY in that same time frame.

In decomposing YTD bank lending activity further by transaction type, YTD originations to support direct acquisition activity are up 98% YOY, which is in line with 2023 levels. Indeed, and as explored in the subsequent section, banks are also still actively triaging and addressing their existing portfolios, and YTD refinancings among these larger banks are also up 70% YOY. However, overall loan origination activity is not just the result of refinancings, and the resumption in bank lending for acquisitions is a meaningful pillar of the recovery in this new cycle. The appetite for construction loans meanwhile remains tepid, and borrowers seeking this form still need to look for pricier options in the private credit space.

Ultimately, conventional, fixed CRE debt costs have also improved relative to their peak. Even with base rates pushing higher, CRE fixed debt costs are still around 90 bps tighter than they were at the peak of the 2023 rate-hiking cycle. All this provides solid evidence that traction throughout the CRE debt markets is paving the way for a gradual (key word *gradual*) recovery across the CRE capital markets.

### **Heavy Refinancing Activity a Sign of the Cyclical Times**

Topline CRE property sales statistics alone obscure the fact that both agency and non-agency lenders have been actively addressing the industry's wave of maturities and troubled capital stacks now under pressure from the recent normalization of interest rates. Recent growth in refinancing activity underscores lenders' willingness to work with existing sponsors, as well as borrowers' willingness to either recapitalize existing capital stacks or bring additional equity into their assets to maximize

returns and preserve their positions. Refinancing originations are capturing 71% of YTD originations, which is up from an average of 55% in the pre-rate-hiking cycle and pre-pandemic years from 2017–2022. In addition to looking at the traction on a relative share basis, YTD refinancing activity on a level basis is up almost \$27 billion compared with last year (across all lender types), which reflects a 22% YOY increase.

This pickup in refinancing activity is a cyclical dynamic and common following periods of disruption; the last time refinancing activity was this high was in 2010, in the wake of the global financial crisis, when refinancing captured 70% of origination. The 2020 COVID-19 year also saw a spike in refinancings to 64% of overall origination, but the share trended down in the years that followed as zero-bound interest rates and strong liquidity fueled peak volumes.

### **Outlook for the Macro Economy, Monetary Policy, and Interest Rates Across the Entirety of the Yield Curve**

The macroeconomic landscape remains highly uncertain, with fluid economic policy developments shaping a range of potential outcomes. Cushman & Wakefield's revised baseline forecast anticipates short-term stagflation throughout 2025 driven by abrupt policy shifts and higher tariffs, leading to slower growth and modestly higher inflation.

As stagflation complicates the Federal Reserve's job, Federal Open Market Committee (FOMC) officials will assess which macro signal (i.e., the labor market or inflation) blinks first—and brightest—relative to its goals. When faced with a scenario in which dual goals are in tension, Fed Chair Jerome Powell reiterated in his latest post-June FOMC press conference that it would "consider how far the economy is from each goal" and the expected timelines for each of those distances closing. The key is whether tariff-driven inflation is viewed as a short-term impulse or a more lasting force; Cushman & Wakefield expects the former. If longer-term inflation expectations become ungrounded, the Fed is likely to adopt a more hawkish stance.

Markets are currently pricing in 50 bps in rate cuts for 2025, which is aligned with Cushman & Wakefield's house view forecast. While economic data will dictate

the Fed's next move, softening macroeconomic conditions and easing throughout the labor market should prompt another rate cut in 3Q25, before a more consistent cutting cycle unfolds in 2026 as tariff policies deescalate and initial tariff costs and price pressures dissipate for businesses and consumers. From there, policy rates are expected to return to a neutral range of 2.75%–3% by early 2027.

These assumptions on the direction of growth and inflation, of course, depend on the Trump administration's trade policy decisions, which are unprecedentedly fluid and unpredictable. Trump's August 1 deadline to impose reciprocal tariffs is fast approaching, unleashing a barrage of trade negotiations with trading partners ahead of the revised deadline. If trade and tariff policies deescalate more quickly than expected, business and consumer sentiment would likely swing in a more positive direction, thereby improving growth implications, setting the stage for stronger employment and financial market conditions. Under this more resilient growth scenario, the Fed would be preconditioned to hold policy rates potentially into early 2026 before commencing with a gradual cutting cycle toward a neutral rate of around 3%.

On the other end of the term spectrum, longer-term yields around the mid-to-low 4% range are consistent with equilibrium (i.e., real GDP growth of around 2% and an inflation target of around 2%). Additionally, mounting concerns over longer-term fiscal sustainability and inflation have the potential to keep ten-year Treasury rates in the mid-to-high 4% range in nearly all economic scenarios apart from recession. If economic conditions slow significantly and bring longer-term rates down with them, a wave of borrowers will likely seek to jump at the chance to lock in long-term debt at more favorable rates.

Given uncertainties around both the short- and long-end of the yield curve, the vast majority of CRE borrowers are favoring shorter-term, three- and five-year loans, not only because rates within the belly of the yield curve are lowest but also because these shorter origination terms offer borrowers an avenue to hedge against interest rate risk and uncertainty.

Cushman & Wakefield continues to advise its clients to maintain measured expectations for the direction

of the longer end of the yield curve. The more quickly consensus forms around higher-for-longer prospects across both the debt and capital markets, the more fluid liquidity conditions can become.

### **Active Risk-Mitigation Strategies to Define CRE Financing Ahead**

With policy uncertainty and macroeconomic risks still elevated, lenders that take a more creative and active (as opposed to passive) approach are likely to continue gaining not only market share but also access to attractive, quality secured real estate with attractive attachment points and risk-adjusted returns.

The trend toward active risk-mitigation has already taken shape—CMBS lenders are currently heavily favoring single-asset, single-borrower (SASB) deals that allow them to more selectively structure their portfolios and more closely scrutinize borrowers and collateral on a deal-by-deal basis. With a wave of large CMBS maturities fueling both borrower necessity and lender appetite for trophy-quality secured real estate, SASB CMBS deals comprised 44% of overall CMBS issuance in 2024, more than double the recent historical average of 20% between 2017 and 2023.

The shift underway toward more active lending strategies has also been reflected in the proliferation of debt funds over the past five years. Many of these firms are staffed with CRE veterans experienced in value-added and repositioning strategies who are ready, if necessary, to own and operate some of the more troubled properties they are lending on. This strategy is likely to gain further momentum now that lenders are beginning to reengage with the office sector, which has been starved of liquidity for almost three years.

In all, CRE finance faces no shortage of macroeconomic risks and uncertainty heading into the second half of 2025. However, the industry is confronting these challenges with a far more nimble and diversified set of active lenders than it has had in decades. ■

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