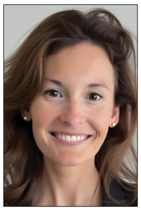
CRE Debt Markets Demonstrate Resilience In Motion as 2026 Approaches



Abby Corbett
Cushman & Wakefield

Adrian Ponsen
Cushman & Wakefield

With three months left in the year, it is already clear that investors' unwavering interest in deploying more debt capital to the commercial real estate (CRE) market will prove one of the defining trends within the alternatives landscape in 2025. The year's most potent shocks to the economic outlook—April's wide-sweeping tariff announcements and, more recently, the Bureau of Labor Statistics' data releases indicating erosion in US job growth—have both failed to derail this momentum.

Year to date (YTD) through July, new US CRE loan origination volume was up 31% compared with the same period in 2024, according to MSCI Real Capital Analytics. With growth in property sales trailing that of originations, refinancings are growing fastest of all loan types, up 40% YTD and comprising a record high 72% share of all new lending.

Clearly demonstrating the breadth of the recovery across different lender types, new originations by banks, insurance companies, and nonbank financial companies were all up more than 30% YTD through July. More real-time data from the commercial mortgage-backed securities market shows non-agency issuance up 24% YTD through August, according to Green Street.

Compressed spreads also highlight tight competition among lenders to place debt capital not just in CRE but across the fixed income spectrum. As of late September, 96 basis point (bp) spreads for option-adjusted BBB US corporate bonds were at the tightest levels recorded in more than 25 years.

At just under 160 bps, life insurers' fixed-rate CRE loan spreads over ten-year Treasury rates were also near the tightest levels recorded in the past 25 years, apart from periods of extreme exuberance in CRE capital markets—during the COVID-19 pandemic and before the global financial crisis (Exhibit 1).

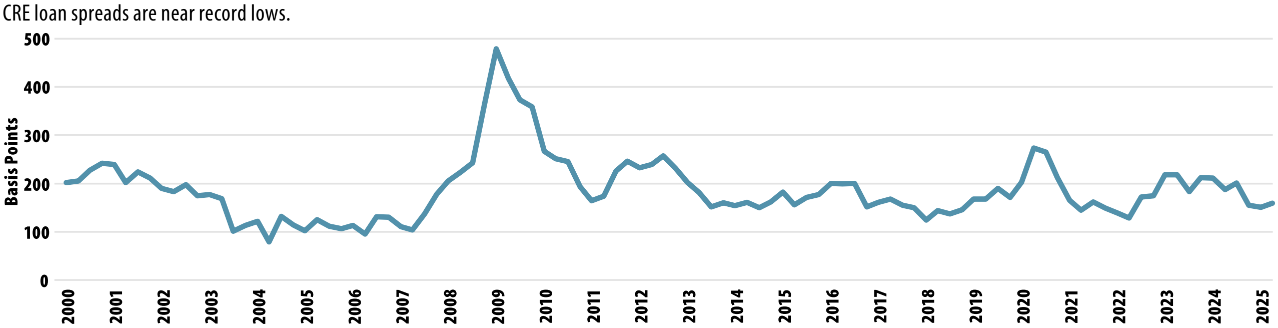
A clear inflection point took shape for CRE debt markets in 2024 as the Federal Reserve reached the end of its tightening cycle. Positive momentum continued to build through the first several months of 2025 even as rate cuts stalled and economic policy uncertainty spiked. But will momentum continue to build in CRE debt markets during 2026? The loosening of broader financial market conditions that is underway and the magnitude of real estate's recent pricing reset suggest it will. However, lenders and borrowers should maintain measured expectations for any further potential declines in long-term Treasury yields or CRE lending spreads as the year unfolds.

Financial Markets Are Relatively Calm Entering Late 2025

Heading into the typical end-of-year spike in commercial property transactions, broader lending market volatility

Exhibit 1: Average Life Insurer Fixed Interest Rate Spread Over Ten-Year Treasury Rate

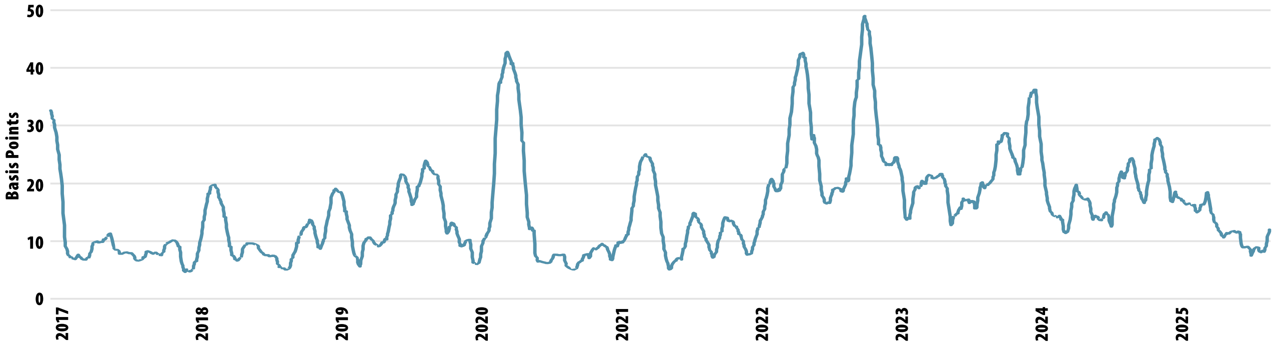
CRE loan spreads are near record lows.



Sources: American Council of Life Insurers, Cushman & Wakefield Research

Exhibit 2: Trailing 90-Day Standard Deviation of US Ten-Year Treasury Yields

Treasury yields calm after turbulence in 2022-2024.



Sources: Federal Reserve, Cushman & Wakefield Research

has calmed since mid-April. In many ways, current financial market conditions more closely resemble the period before the Fed began its most recent rate-hiking cycle than the two- to three-year period after rate hikes commenced. This is a clear positive sign for CRE capital markets' near-term outlook.

Anecdotally, since the early summer of 2025, many lenders have reported that increased stability of Treasury yields is helping facilitate faster and more frequent loan closings. In late July, the trailing 90-day standard deviation of ten-year Treasury yields fell to the lowest level recorded since just before the Federal Reserve began raising interest rates in early 2022. Although that standard deviation has inched up more recently amid downside surprises to US employment growth, at 12 bps, it remains half the levels averaged from 2022 to 2024, even with the pre-pandemic three-year average (Exhibit 2).

The Chicago Fed's National Financial Conditions Index, which aggregates more than 100 indicators related to credit availability, risk pricing, and leverage levels, has also been signaling looser conditions recently, in line with those that preceded the last rate-hiking cycle. With the 2024 presidential election now well in the rearview and a major budget reconciliation bill signed into law as of July, investor uncertainty around the direction of fiscal policy has meaningfully subsided, helping risk pricing remain more stable. And although inflation has not quite settled back down to the Fed's target 2% rate, both the Consumer Price Index and personal consumption expenditures have been tracking within a relatively stable range of 2.3%–3.0% year-over-year (YOY) growth since last fall.

Abundant Debt Liquidity Poised to Persist for Core Properties in 2026

Although the path ahead for CRE debt pricing in 2026 is difficult to predict, the overall supply of debt capital will likely remain healthy—or at the very least, ample enough to provide further growth in originations and drive continued competition among lenders to finance well-leased properties.

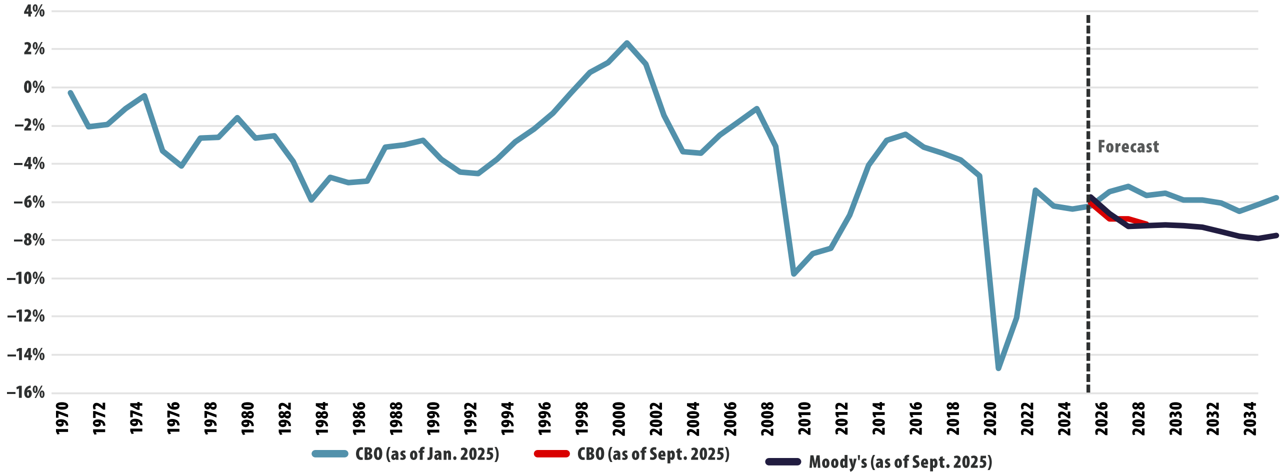
Rising fundraising totals by managers targeting CRE debt investments provide an encouraging leading indicator of increased capital set to flow into the sector in the year ahead. According to Preqin data, closings by North American–focused private real estate debt funds totaled $21.9 billion YTD through mid-September, up 72% from similar closings achieved through the entire year in 2024. If closings continue through December at their YTD pace, they will end 2025 at $30.9 billion, the second-highest year on record behind 2021.

Moreover, even if key CRE performance metrics such as absorption or rent growth underperform in the year ahead, this will not change one of the key conviction points driving investor interest in CRE debt: the magnitude of the recent value declines CRE has already endured.

It is not hyperbolic to characterize recent CRE value declines as a generational pricing reset. Between mid-2022 and late 2024, aggregate values across the entire

Exhibit 3: Federal Surplus/Deficit as a Percentage of GDP

Deficits are set to ramp back up starting in 2026.



Sources: Congressional Budget Office (CBO), Moody's, Cushman & Wakefield Research

NCREIF Property Index fell 18% peak to trough. There have been only two other periods during the past 40 years when values fell more: the early 1990s and the global financial crisis. As a result, most CRE loans originated today at newly reset pricing levels and with conservative loan-to-value ratios offer exceptional levels of protection against future loan losses. While also helping lenders justify currently tight spreads, this dynamic is attracting increased investor interest in CRE debt and is unlikely to change in 2026 unless CRE pricing surges in the interim.

Potential for Further, Orderly Declines in Ten-Year Treasury Yields Remains Limited

With the release of its summary of economic projections at its September Federal Open Market Committee (FOMC) meeting, the Fed already broadcast its forecast for two additional interest rate cuts through the remainder of 2025 and one more in 2026. Given the institution's hesitancy to abruptly change course on interest rate policy in recent years and to telegraph upcoming policy pivots months in advance, this makes at least one or two cuts to the federal funds rate highly likely over the next six months.

These near-term rate cuts will provide immediate benefit to borrowers that took on floating-rate debt, which has been favored in recent years by industrial owners and apartment investors embarking on more capital-intensive value-added strategies not compatible with agency financing. However, in our view, the potential for sharp declines in longer-dated Treasuries remains limited under any near-term economic scenario other than recession.

With the effective US tariff rate at the highest level in more than 50 years, core goods prices, which declined on net during the seven years prior to the pandemic, have quickly reverted from 1.8% YOY declines in mid-2024 to 1.5% YOY growth as of August 2025 with no sign of slowing. The Federal Reserve's own business surveys show nonlabor input costs have been rising across nearly every US region since late 2024/early 2025. These emergent upside risks to the inflation outlook likely explain, at least in part, why the FOMC's latest median federal funds rate forecast for the end of 2026 (3.4%) is unchanged from the forecast it published after its March 2025 meeting, despite the stark slowdown in employment growth that has become evident since.

US budget deficit projections have also degraded significantly since the start of 2025 (Exhibit 3). The Congressional Budget Office's (CBO's) long-term projections for federal deficits published last January were already averaging 5.4% annually from 2026 through 2028. During more than 50 years prior to the pandemic, deficits that large appeared only from 2009 through 2012, when the average unemployment rate was more than double its current level. Following the passage of the One Big Beautiful Bill Act, the CBO sharply increased deficit projections to an average of 7.0% of GDP from 2026 through 2028. Although the CBO will not publish longer-term economic projections that reflect the impact of the bill until next year, Moody's deficit forecasts show no sign of improvement in the years following 2028.

With deficit levels likely to persist that, prior to the pandemic, were employed only during severe economic downturns, risks remain that over the long term, the US will become increasingly reliant on public debt monetization. All this reduces the odds of a sharp recession in the near term while amplifying longer-run inflation risks and limiting the potential that 10-, 20-, and 30-year Treasury yields will fall sharply in the years ahead. Indeed, the Fed's long-run path for a neutral federal funds rate now stands 50 bps higher than at the beginning of 2024, and the term premium for the ten-year Treasury, as measured by the Federal Reserve Bank of New York, has reached levels not seen since 2014. Both trends demonstrate the market's growing acceptance of the "higher-for-longer" narrative.

Leasing Momentum Will Dictate the Path of Underwriting Standards Next Year

CRE debt and capital market conditions have already turned the corner and regained momentum following the pullback in 2023 and early 2024. Although signs of a recovery in CRE space markets are also emerging, a true turning point for property fundamentals has yet to fully form. The pace of increases is generally slowing, but US industrial, office, and retail vacancy rates are still rising as fall 2025 gets underway. The national apartment vacancy rate appears closest to recovery and has plateaued near its cyclical peak late last year.

Very little speculative development is on track to complete across all property types during 2026–2027, and the stage is set for vacancies to tighten as soon as leasing reaccelerates. Once the data show that momentum is building, lenders' appetite to finance heavier-lift value-added deals and occupancy-challenged properties will likely follow suit, while prevailing loan-to-values, debt service coverage ratios, and debt yields loosen.

What It All Means: Strategic Positioning for 2026

With financial conditions easing heading into late 2025 and capital raising by CRE debt funds picking up, the outlook for continued growth in new loan originations and property sales during 2026 is promising. But for borrowers seeking long-term, fixed-rate debt on well-leased properties, near-best-case-scenario conditions are likely already in place. Most owners of core properties with looming maturities should not hesitate to lock in fresh debt; CRE lending spreads are already well below long-term averages, and further downside for long-term Treasury yields appears limited amid the current fiscal policy backdrop.

Easing in broader financial markets is clearing the path for greater availability of CRE debt for heavier value-add and opportunistic deals. But absorption will need to accelerate for that expansion to take hold at scale within any given property type. Given the potential for residential mortgage rates to remain high, the apartment and single-family rental markets appear best positioned for such a rebound. Growing return-to-office mandates and the fiscal boost en route to consumers and businesses via One Big Beautiful Bill Act tax cuts in 2026 could fuel accelerations in absorption across other commercial property types. However, expectations for commercial leasing should remain somewhat tempered, given the backdrop of slowing employment growth currently underway. ■

Abby Corbett is Global Head of Investor Insights, and Adrian Ponsen is Senior Economist at Cushman & Wakefield.