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Global Credit Weekly:

What's next for CRE?

BlackRock

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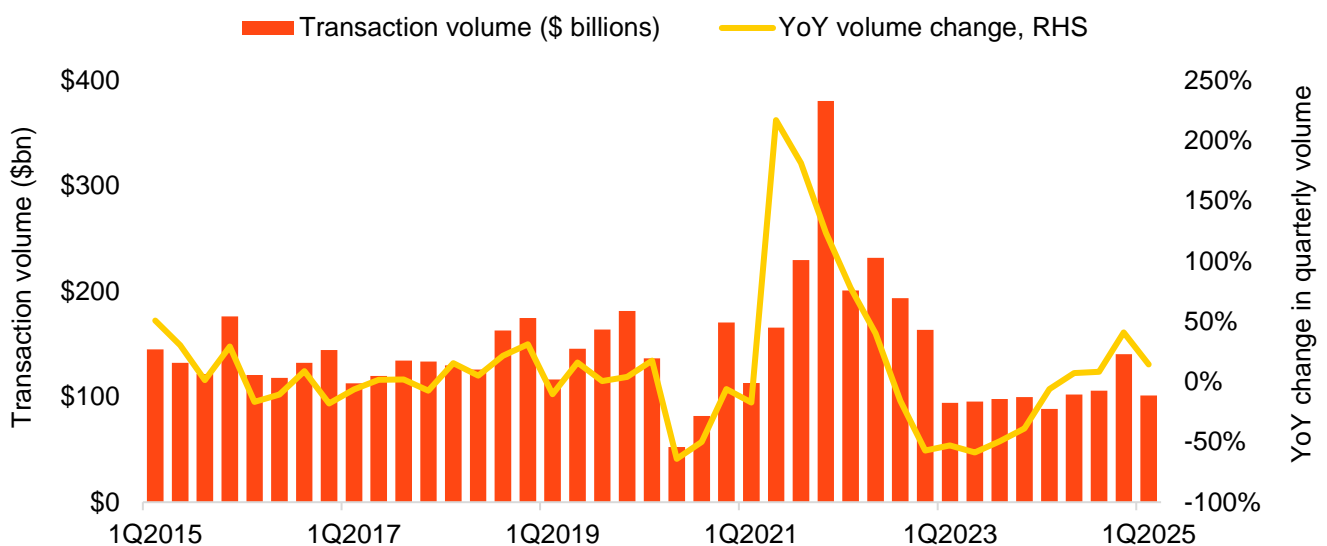
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Key takeaways

- In February, we discussed commercial real estate's (CRE) ongoing recovery and noted our expectation for a continued rebound in aggregate transaction volumes as 2025 progressed. At that time, our view was underpinned by a combination of three factors: (1) *incremental* clarity on the macroeconomic landscape (i.e., confidence that the U.S. would avoid a recession); (2) increased acceptance of structurally higher interest rates; and (3) further normalization of post-pandemic disruptions.
- Since that time, markets have been especially dynamic and, at times, quite volatile. And full clarity on the macroeconomic backdrop has been elusive. Even so, with the most recent data in hand, we nonetheless find that CRE transaction volumes have indeed continued to rebound into 2025. Transaction volumes in 1Q2025 grew 14%, marking the fourth consecutive quarter of positive year-over-year change. And volumes were also largely steady in April. Given the unique and illiquid nature of real estate, such transactions are necessary to provide the price discovery "clearing levels" many market participants are seeking.
- That said, CRE is not immune from the themes of dispersion and bifurcation that we have flagged across a range of other asset classes (i.e., liquid corporate credit, private credit, consumer balance sheets, etc.). This is evident across property subsectors when assessing price performance, supply expectations, and even the continued growth of distressed CRE.
- Additionally, data suggests the pattern of lenders providing loan modifications has persisted, resulting in sizable near-term maturity walls. MSCI RCA estimates that \$520 billion in U.S. commercial property loan volume was extended prior to 2025, and another \$625 billion is scheduled to mature in 2025. Recent commentary from CRE firms has emphasized the importance of interest rate *stability* for CRE market transaction volumes to recover further – especially for real (i.e., inflation adjusted) interest rates.

Exhibit 1: YoY transaction volume growth has been positive for four consecutive quarters

Aggregate U.S. CRE transaction volume in \$ billions and year-over-year (YoY) volume change, RHS



Source: Real Capital Analytics, BlackRock. As of 1Q2025.

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What's next for CRE?

In February, we discussed commercial real estate's (CRE) ongoing recovery and noted our expectation for a continued rebound in aggregate transaction volumes as 2025 progressed. At that time, our view was underpinned by a combination of three factors: (1) *incremental* clarity on the macroeconomic landscape (i.e., confidence that the U.S. would avoid a recession); (2) increased acceptance of structurally higher interest rates; and (3) further normalization of post-pandemic disruptions.

Since that time, markets have been especially dynamic and, at times, quite volatile. And full clarity on the macroeconomic backdrop has been elusive. That said, with the most recent data in hand, we nonetheless find that CRE transaction volumes have indeed continued to rebound into 2025. This development is important, in our view. Given the unique and illiquid nature of real estate, such transactions are necessary to provide the price discovery "clearing levels" many market participants are seeking.

Tracking CRE's recovery

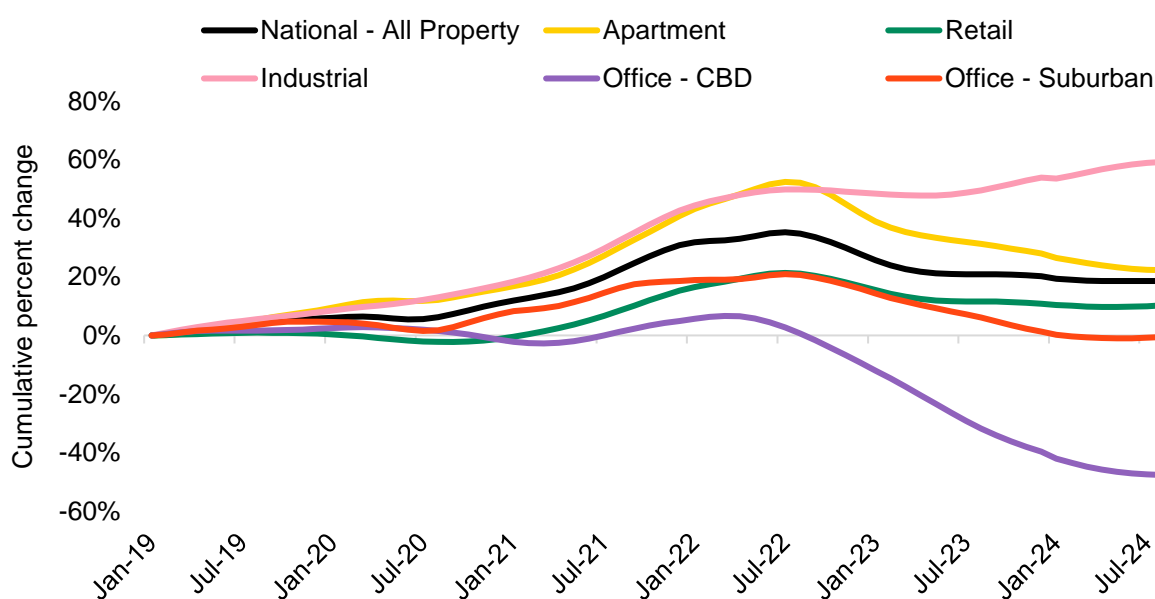
1Q2025 CRE transaction volumes grew 14% year-over-year (YoY; Exhibit 1), marking the fourth consecutive quarter of positive change. Transaction volumes in April also held steady, totaling \$26 billion, which is in line with the level from one year prior. 1Q2025 transactions are still tracking below pre-COVID average levels (1Q2016-4Q2019), however. On the pricing side, continued asset-value stabilization also signals some progress toward a sustained recovery – to the extent it is validated by additional transaction activity (Exhibit 2).

Recent commentary from U.S.-listed CRE firms echoed a similar sentiment, noting that transaction activity has been largely resilient, especially considering recent macroeconomic uncertainty and market volatility.

That said, some firms acknowledged a modest deterioration in deal pipelines and activity over the past several weeks. A few also noted that it is likely too soon to know the full impact that policy uncertainty will have on the investing landscape, given the sensitivity of the CRE asset class to factors such as economic growth, job creation, and interest rates. In our view, continued macroeconomic uncertainty underscores the importance of strong fundamentals, structural protections and granular credit / geographical / sector selection in CRE investing.

Exhibit 2: CRE valuations highlight dispersion

Cumulative percent change in the level of the Real Capital Analytics Commercial Property Price Indices (RCA CPPI), since January 2019



Source: Real Capital Analytics Commercial Property Price Indices National All-Property Index, BlackRock. Captures data through April 30, 2025. The figures shown relate to past performance. **Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs, or expenses.** Indices are unmanaged and one cannot invest directly in an index.

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The nuances of CRE's interest rate exposure

As we've previously [discussed](#), acceptance of structurally higher interest rates has likely played a key role in the ongoing transaction volume recovery in the CRE market. It has also, in our view, likely encouraged investors to focus on fundamental asset-level performance, such as income generation and potential for income (i.e., rent) growth when underwriting. This compares to the historical focus on property price appreciation due to yield compression.

This mirrors a similar trend in corporate credit, where we have flagged the potential all-in yield and income generation opportunities, and placed less emphasis (and likelihood) on a potential total return 'boost' to credit from lower rates or materially tighter spreads.

A recent analysis from Green Street flags an important nuance for CRE investors related to interest rate exposure, distinguishing between the impact of high *nominal* and *real* (i.e., inflation-adjusted) interest rates. For example, higher real interest rates can mechanically dampen asset valuations by increasing discount rates. This stands in contrast to higher nominal interest rates, which may be driven by elevated inflation. Higher inflation is a somewhat more benign outcome for the CRE market, as property values and rental income both tend to increase alongside inflation, over the long term.

What are companies saying?

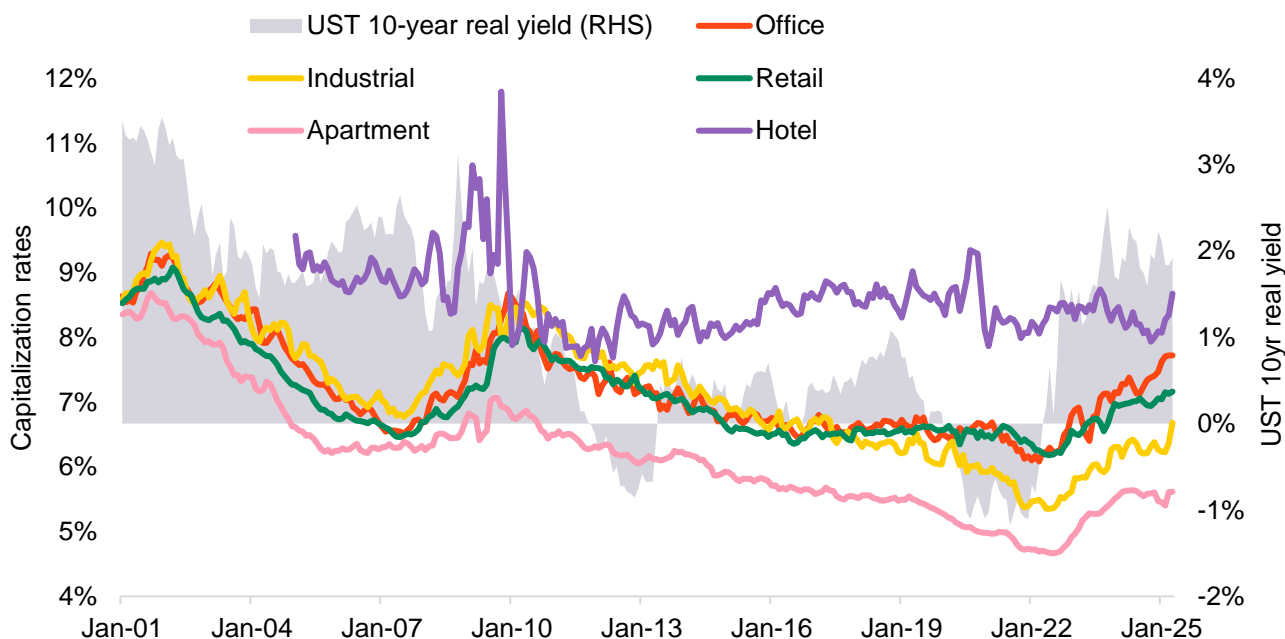
Recent commentary from firms in the CRE industry emphasized the importance of interest rate *stability* for ongoing transaction activity. One real estate services and investment firm specified that 5% nominal interest rates appear to be an important threshold for CRE loan originations, above which, originations seem to "materially slow."

Commentary from another CRE services and investment firm shared a different perspective, suggesting that all-in borrowing costs are paramount for some investors. Further, they emphasized that investors have demonstrated flexibility in financing considerations, referencing some in their capital markets pipeline that can, and are, choosing to "cut full cash check[s]."

That said, all underwriting and investment decisions are, in some capacity, guided by assumptions. Related to this, one firm indicated that they are seeing increased variability in the bids they receive, driven by different approaches to underwriting assumptions. This underscores the nuance involved in underwriting such a growth and interest rate sensitive asset class.

Exhibit 3: Real (inflation adjusted) interest rates are elevated vs. history

Monthly capitalization rates for U.S. CRE categories, and the monthly 10-year real U.S. Treasury yield (RHS)



Source: Real Capital Analytics, Bloomberg, BlackRock. Capitalization rates are based on independent reports of properties and portfolios \$2.5 million and greater. Captures data through April 30, 2025.

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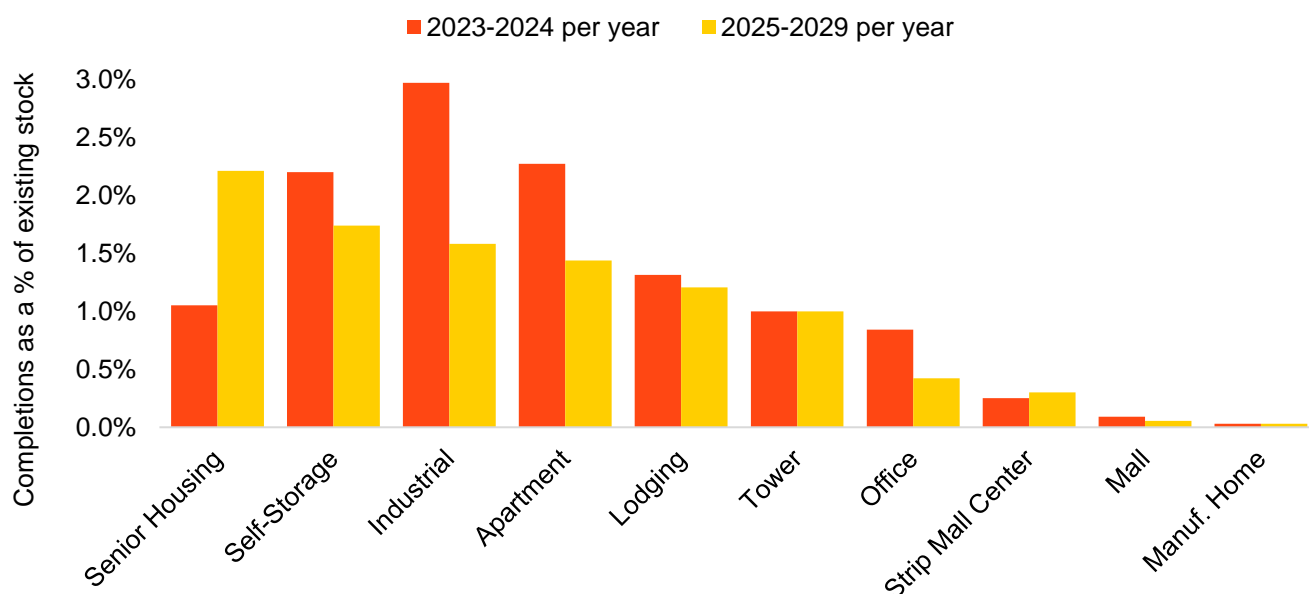
Dispersion is evident

That said, the CRE asset class is not immune from the themes of dispersion and bifurcation that we have flagged across a range of other asset classes (i.e., liquid corporate credit, private credit, consumer balance sheets, etc.). Exhibit 4 illustrates this by showing the varying supply backdrops by category, using Green Street forecasts.

Dispersion is also evident in the segment of outstanding U.S. distressed CRE, which continued to grow in the first quarter, amounting to \$116 billion and representing a 31% YoY increase from 1Q2024 (Exhibit 5). While growth in “net distress” (i.e., the difference in newly distressed asset volumes and worked out asset volumes during the quarter) had been moderating since YE2023, per RCA, 1Q2025 marked a reversal of that trend.

Exhibit 4: Supply backdrops vary by CRE property type

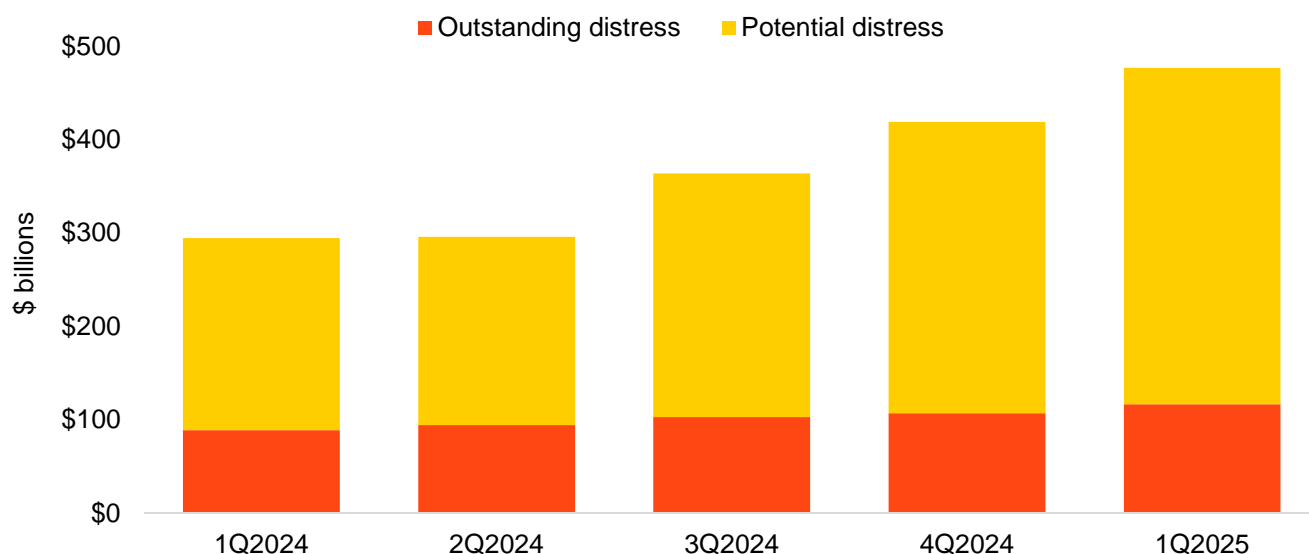
Annual completions as a share of total existing CRE stock, using Green Street forecasts



Source: Green Street, BlackRock. As of May 23, 2025. Supply growth is based on square footage, except for apartments and senior housing, which is based on the number of units. **There is no guarantee any forecast may come to pass.**

Exhibit 5: Outstanding distressed CRE volumes increased again in 1Q2025

Volume of outstanding distress and potential distress in the U.S. CRE market, in \$ billions



Source: Real Capital Analytics, BlackRock. Potential distress indicates possible future property-level financial trouble due to events such as delinquent loan payments, forbearance, and slow lease up/sell out, among others. This also includes CMBS loans placed on master servicer watchlists. Captures data through 1Q2025.

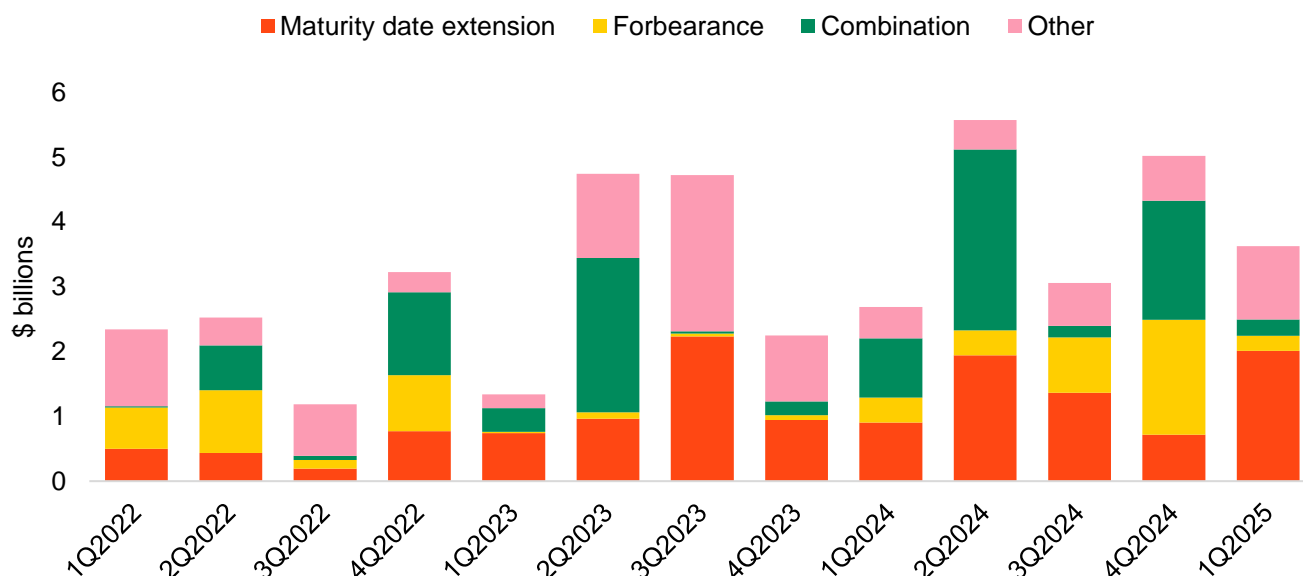
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We also continue to watch lenders' appetite for loan modifications. An analysis from Green Street, using CMBS data, demonstrates how loan modifications vary each quarter, in volume and by modification type (Exhibit 6). Maturity date extensions and "combination" (which commonly include extensions) represented 62% of total modification activity during the quarter. Further, first quarter activity was broadly in line with longer-term average quarterly volumes (at \$3.6 billion, vs. an average of \$3.3 billion from 1Q2022-1Q2025). Due to a lag in data disclosures, 1Q2025 loan modification volumes may increase.

68% of all 1Q2025 modifications were focused on office properties, per Green Street, a property segment that has faced a variety of well-telegraphed headwinds, including post-pandemic shifts in property usage. (Note: There is significant dispersion *within* the office property segment, which we detailed in [February](#).)

Exhibit 6: Maturity extensions remain a frequently utilized loan workout strategy

U.S. CMBS loan modifications, by modification type, in \$ billions



Source: Green Street, Intex, BlackRock. As of 1Q2025.

Upcoming maturities warrant watching

Data from MSCI RCA provides additional visibility into the aggregate value of CRE loan extensions (and upcoming CRE maturity walls). Indeed, MSCI RCA estimates that \$520 billion in U.S. commercial property loan volume was extended prior to 2025, and another \$625 billion in U.S. commercial property loan volume is set to mature in 2025 (Exhibit 7).

As we've discussed [previously](#), banks have demonstrated a willingness to work with CRE borrowers, including by extending loans. This is because distressed sales can create sub-optimal outcomes for both the borrower and the lender. As such, both parties are often incentivized to conduct loan modifications in an attempt to maximize principal recovery. For context, using data by MSCI RCA, banks represent the largest lender segment – 46% of total maturing volume – for loans that were extended prior to 2025 and for loans maturing in 2025.

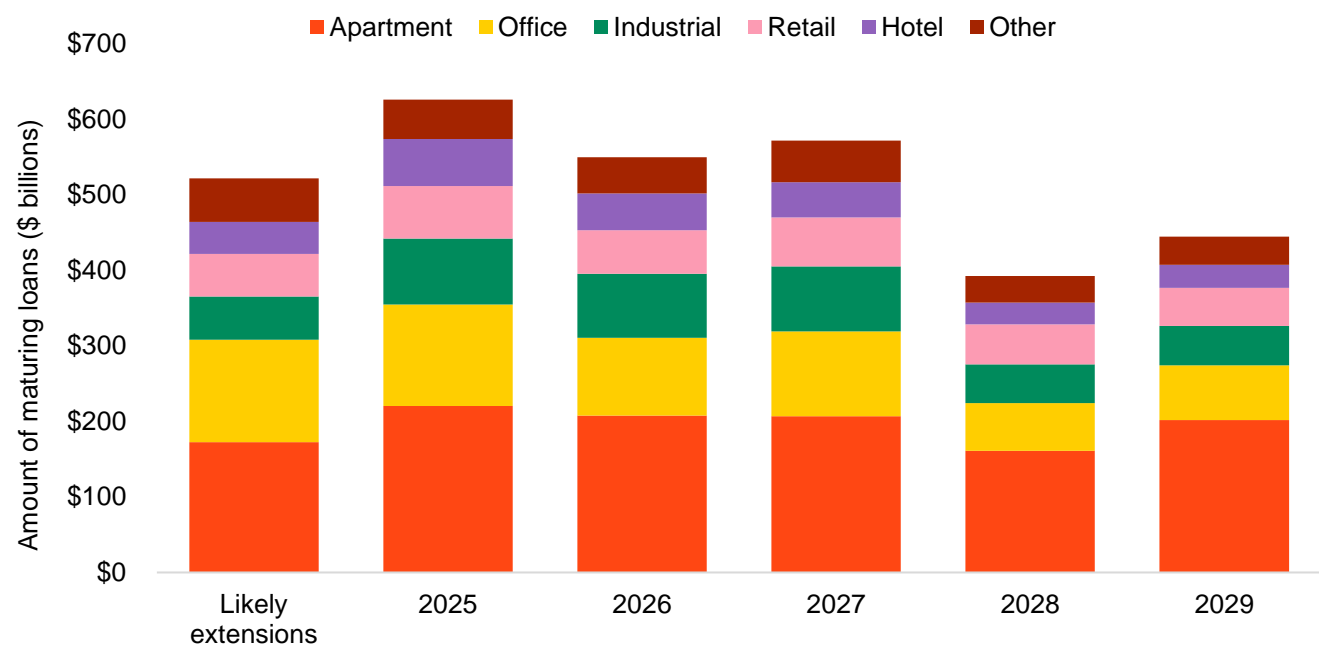
The [April Senior Loan Officer Opinion Survey](#) on Bank Lending Practices (SLOOS), which was published on May 12, 2025, provides insights into how banks are considering CRE lending. The aggregate share of banks tightening lending standards for CRE loans remained modest in 2Q2025. Further, the April survey included special questions focused on banks' CRE lending policies over the past year. The most cited reasons for tightening CRE lending standards over the past year were less favorable or uncertain outlooks for: CRE property vacancy rates, property prices, market rents, mortgage delinquency rates, and reduced tolerance for risk, per the survey. And, for banks that reported strong demand, customer refinancing of maturing loans was frequently cited as a driving force.

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A key input to a lender’s willingness for modifications is optimism around the effectiveness of such actions in improving principal recovery. With that in mind, the macroeconomic and interest rate backdrop is critical to informing these decisions. Indeed, expectations about the forward path for interest rates are one factor, amongst many, that has evolved meaningfully from 2024 to the present. So, as the market moves to accept structurally higher interest rates, we expect this may inform loan modification decisions ahead.

In the near term, and absent a material change in the macroeconomic backdrop (such as a steep non-recessionary decline in interest rates), we see scope for these extensions to continue. These considerations further underscore the importance of active credit selection and management.

Exhibit 7: Extended and upcoming maturities are reasonably diversified across property types
Amount of maturing U.S. commercial property loans, by property type, in \$ billions



Source: Real Capital Analytics, MSCI Real Assets, BlackRock. Based on independent reports of properties and portfolios \$2.5 million and greater. Data believed to be accurate but not guaranteed. Data is as of 03/25/2025 and reflects the market as of 12/31/2024. Other includes development sites, senior housing and care, among others.

Unless otherwise stated, all reference to \$ are in USD.

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