September 25, 2025

Global Credit Weekly:

Commercial real estate's (CRE) ongoing recovery

BlackRock.

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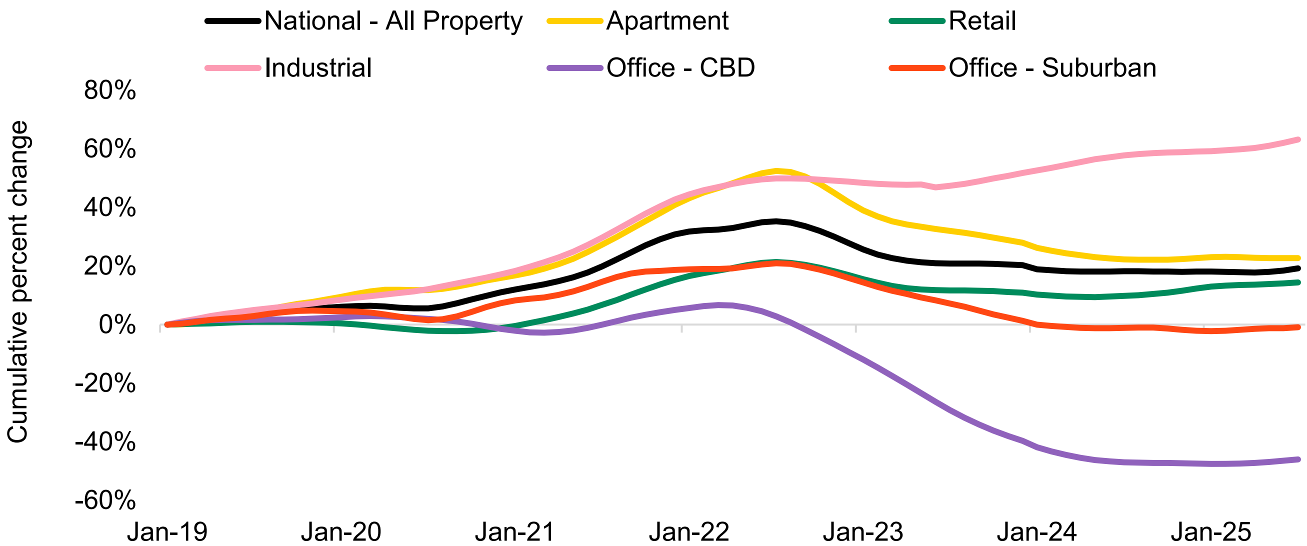
Key takeaways

- The September 17th FOMC rate decision delivered the first rate cut of 2025, adding to the 100bp of cuts already delivered for this cycle during 2H2024. Chair Powell framed the move as a "risk management" cut, designed to push monetary policy in the direction of neutral given the recent weakening in the labor market data. That said, he noted "there are no risk-free paths" for monetary policy, given the tension between sticky inflation and softening labor demand.
- More recently, in public remarks on Sept. 23rd, Chair Powell revisited the framing he first provided in his speech at Jackson Hole, when he noted that "a reasonable base case" (vis-à-vis tariffs) is that the effects will be "relatively short lived — a one-time shift in the price level," while adding that "one-time does not mean all at once."
- The uncertainty related to 2026 was evident in the dispersion of views reflected in the FOMC's refreshed quarterly Summary of Economic Projections. Against this backdrop, we remain focused on the *drivers and depths* of the Fed's rate cutting cycle – less so on the timing. We also continue to expect normalizing monetary policy, not a deep easing cycle into accommodative territory.
- For floating-rate corporate credit borrowers, reducing the rate by another 25bp is a modest positive. This should contribute to additional moderate improvement in interest and fixed charge coverage ratios, as we recently highlighted. That said, we expect corporate borrowers will need to navigate a structurally higher cost of capital relative to the past few decades. This underscores the importance of credit selection, underwriting, and workout expertise, in our view.
- In this *Global Credit Weekly*, we take stock of another interest sensitive asset class: commercial real estate (CRE), where we see scope for a further recovery in transaction volumes as the interest rate backdrop further normalizes. This should also be supportive for eventually refinancing the large amount of CRE loan extensions completed in recent quarters, as we detail within.

Exhibit 1: Data shows stabilization in CRE asset values, albeit with dispersion by category
Cumulative percent change in the level of the Real Capital Analytics Commercial Property Price Indices (RCA CPPI), since January 2019



Source: Real Capital Analytics, BlackRock. As of July 31, 2025 (most recent available).

Rate cuts resume for this cycle – focus on the depth and drivers

The September 17th FOMC rate decision delivered the first rate cut of 2025, adding to the 100bp of cuts already delivered for this cycle during 2H2024. Chair Powell framed the move as a "risk management" cut, designed to push monetary policy in the direction of neutral given the recent weakening in the labor market data. That said, he noted "there are no risk-free paths" for monetary policy, given the tension between sticky inflation and softening labor demand.

And more recently, in public remarks this week (September 23rd), Chair Powell revisited the framing he first provided in his speech at Jackson Hole, when he noted that "a reasonable base case" (vis-à-vis tariffs) is that the effects will be "relatively short lived — a one-time shift in the price level," while adding that "one-time does not mean all at once." He added that the "actual effects on inflation [from tariffs] have been quite modest so far", and that the "pass through to consumers has been later and less than we expected."

The uncertainty related to 2026 was evident in the dispersion of views reflected in the FOMC's refreshed quarterly Summary of Economic Projections (SEP). While the forecasts of the median FOMC participant are shown in Exhibit 2, there was a wide range of views reflected in the Federal Funds rate "dots" for 2025.

Exhibit 2: The most recent SEP made upward revisions to growth over the next few years

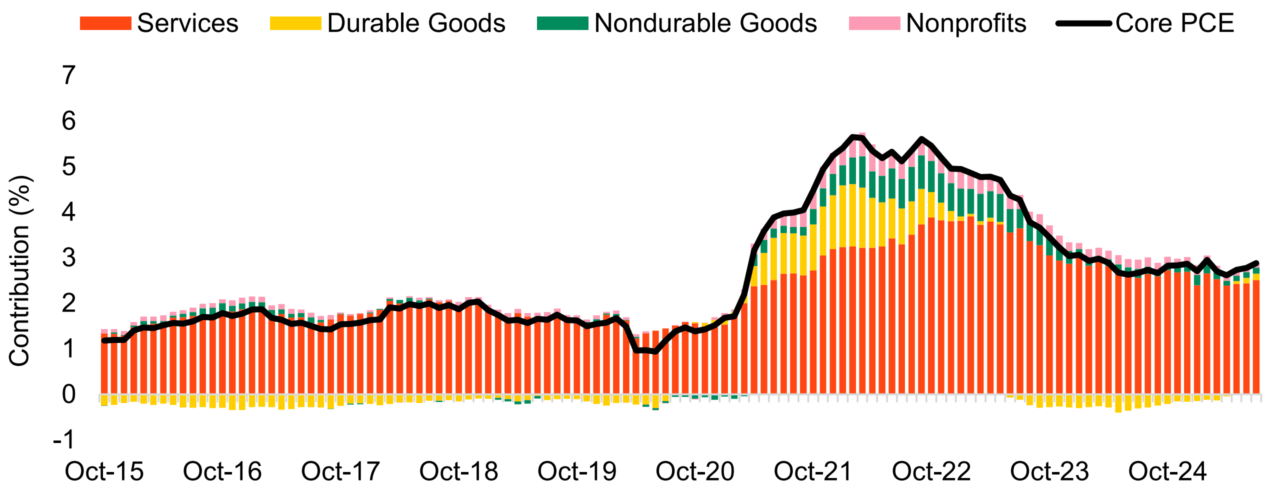
The median economic projections of the 19 FOMC members, for the 4th quarter of each year shown

	2025	2026	2027	2028	Longer-run
Real GDP growth	**1.6**	**1.8**	**1.9**	**1.8**	**1.8**
June 2025 projection	*1.4*	*1.6*	*1.8*	--	*1.8*
March 2025 projection	*1.7*	*1.8*	*1.8*	--	*1.8*
Unemployment rate	**4.5**	**4.4**	**4.3**	**4.2**	**4.2**
June 2025 projection	*4.5*	*4.5*	*4.4*	--	*4.2*
March 2025 projection	*4.4*	*4.3*	*4.3*	--	*4.2*
Core PCE inflation	**3.1**	**2.6**	**2.1**	**2.0**	--
June 2025 projection	*3.1*	*2.4*	*2.1*	--	--
March 2025 projection	*2.8*	*2.2*	*2.0*	--	--
Federal funds rate	**3.6**	**3.4**	**3.1**	**3.1**	**3.0**
June 2025 projection	*3.9*	*3.6*	*3.4*	--	*3.0*
March 2025 projection	*3.9*	*3.4*	*3.1*	--	*3.0*

Source: Federal Reserve, BlackRock. As of the Federal Reserve's Summary of Economic Projections published on September 17, 2025. **There is no guarantee any forecasts may come to pass.**

Exhibit 3: Goods inflation has been modest in recent months

Contributions to the U.S. core personal consumer expenditure (PCE) price index



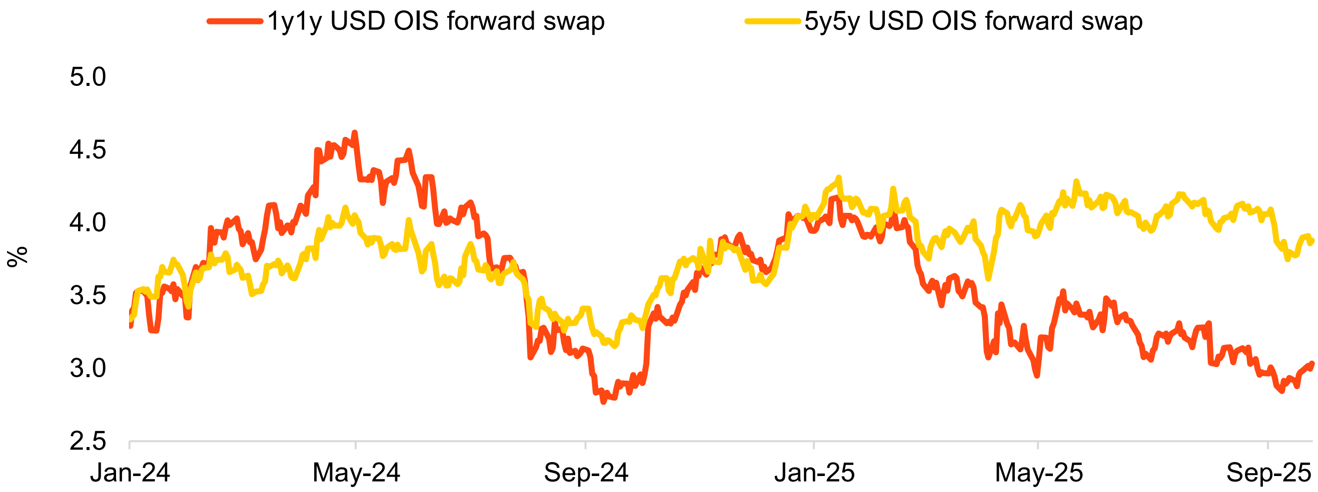
Source: Bloomberg, BlackRock. As of July 2025 (most recent available as of September 24, 2025).

Against this backdrop, we remain focused on the *drivers and depths* of the rate cutting cycle – and less so on the timing. Absent a sharp downturn in growth (which is not our base case), we also continue to expect normalizing monetary policy, not a deep easing cycle into accommodative territory (i.e., below estimates of the neutral rate). As Exhibit 4 illustrates, market pricing as a proxy for the neutral rate is approximately 3.85%, which is well above the median FOMC participant's estimate of the longer-run Fed Funds rate (3.0%).

For floating-rate corporate credit borrowers, reducing the rate by another 25bp is a modest positive. This should contribute to additional moderate improvement in interest and fixed charge coverage ratios, as we recently highlighted. That said, we expect corporate borrowers will need to navigate a structurally higher cost of capital relative to the past few decades. This underscores the importance of credit selection, underwriting, and workout expertise.

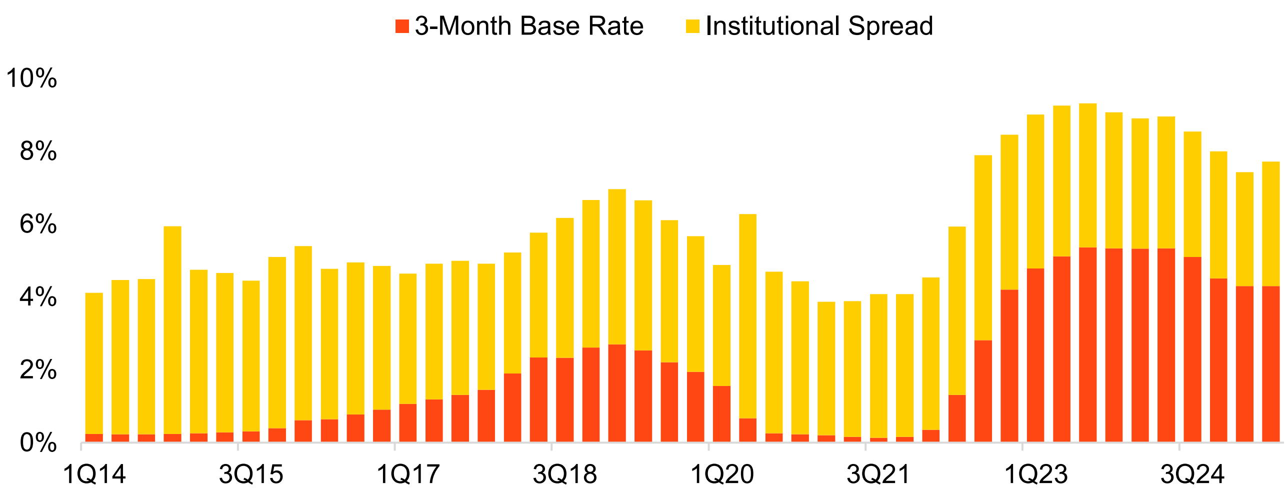
For investors in corporate credit, elevated all-in yields could help to keep credit spreads anchored, as demand from yield-based investors translates into a technical tailwind (as it has for much of the past few years).

Exhibit 4: Market pricing of neutral is above the Fed's longer-run estimate of 3%
1y1y Overnight Indexed Swap (OIS) forwards, as a proxy for the terminal rate of this cycle, and 5y5y OIS as a proxy for the long-term neutral rate



Source: Bloomberg, BlackRock. As of September 24, 2025.

Exhibit 5: The most recent Fed rate cut should provide some incremental relief for floating rate borrowers
Weighted average absolute institutional rate for new USD leveraged loans



Source: Pitchbook LCD, BlackRock. As of 2Q2025 (most recent as of September 24, 2025).

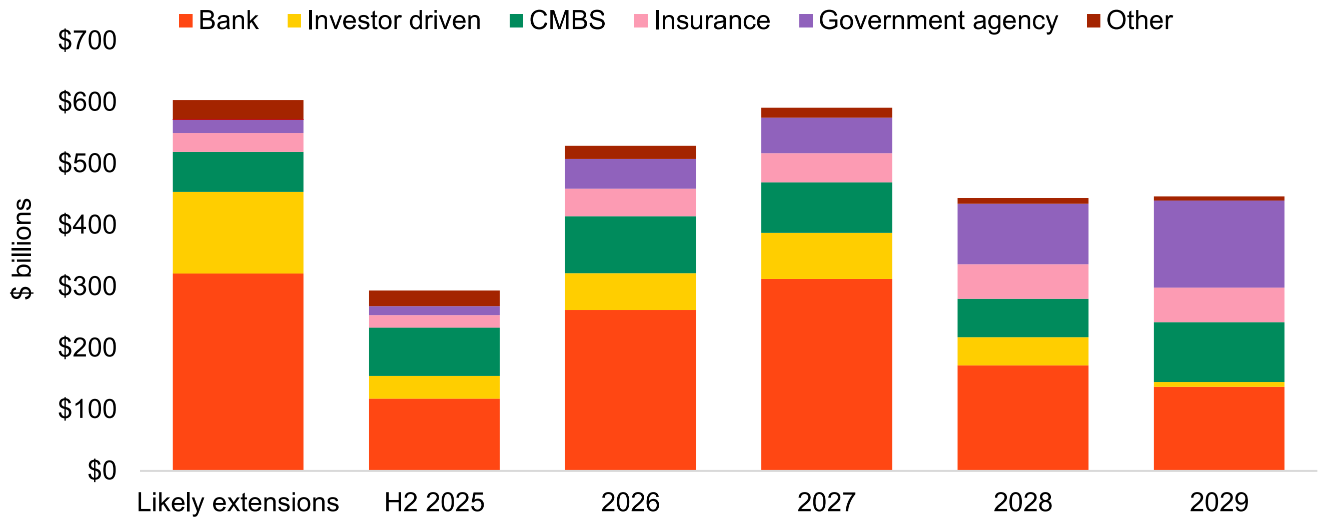
In this *Global Credit Weekly*, we take stock of another interest sensitive asset class: commercial real estate (CRE). The sensitivity to the rate backdrop is evident in the amount of CRE loan extensions completed over the past several quarters, which we expect will be working their way through the scheduled maturity walls over the coming years (Exhibits 6 and 7).

CMBS lenders are the largest single lender group behind the loans maturing in 1H2025, accounting for 27% of the outstanding balance. Taken together, banks represent 40% of loans coming due, led by regional and local banks (20%) and national banks (13%). Banks hold an even larger share of the loans likely to have been extended, accounting for more than half of the volume.

Across asset classes, apartments represent the largest share of loans maturing in 1H2025, accounting for 35% of the total, followed by offices at 20%. Within the pool of loans likely to have been extended, however, offices comprise 25% — a disproportionately higher share relative to their scheduled maturities in any given year. While the data indicates that debt capital remains available to office owners, the elevated share of extensions suggests that office properties continue to face greater headwinds than other asset types.

Exhibit 6: Banks represent the largest lender segment for upcoming maturities

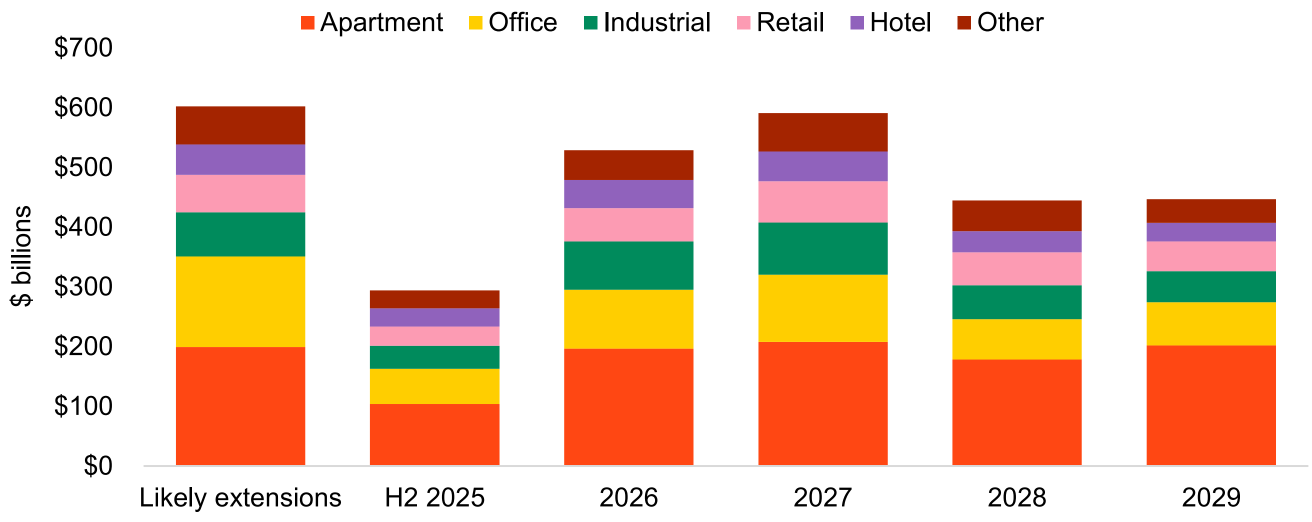
Volume of maturing commercial property loans, by lender type, in $ billions



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 September 23, 2025, and reflects the market as of June 30, 2025. 'Bank' includes international, national, and regional/local. 'Other' includes CLOs and private, among others.

Exhibit 7: Extended and upcoming maturities are diversified across property types

Volume 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 September 23, 2025, and reflects the market as of June 30, 2025. 'Other' includes development sites, senior housing and care, among others.

Transaction activity shows some divergence across regions

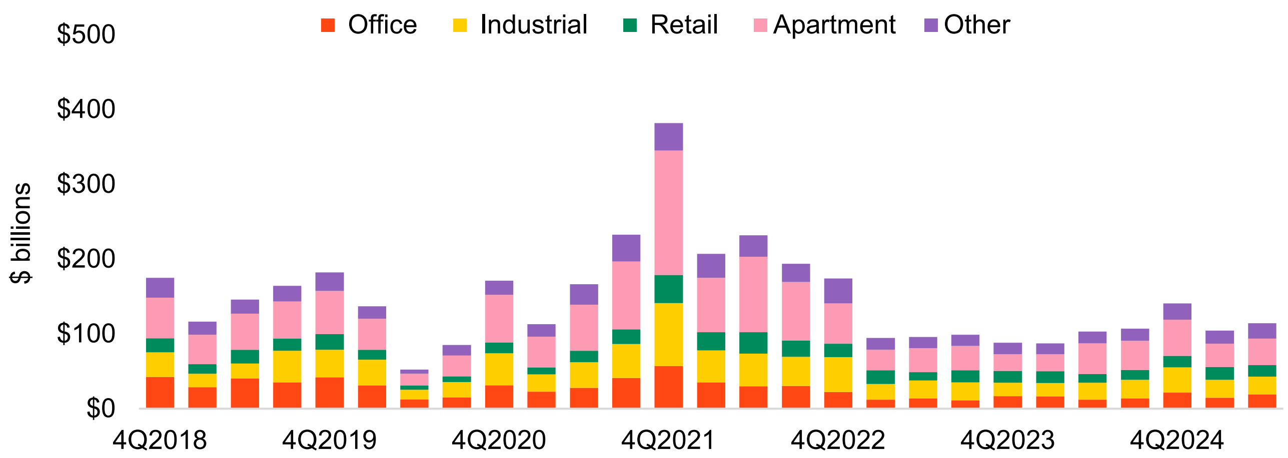
Beyond these refinancing related considerations, our analysis highlights an going recovery in transaction volumes – extending the trend we last highlighted in May. That said, as we've observed in other asset classes (including private and syndicated credit), there is considerable dispersion within CRE transactions, including by property type and across regions.

For example, quarterly transaction volumes in the U.S. improved modestly in 2Q2025, rising 9% quarter-over-quarter (QoQ) and 11% year-over-year (YoY), as shown in Exhibit 8. Despite improvements, overall deal volume remains at just 82% of the quarterly average for 2016-2019, suggesting significant room for additional recovery, in our view, as incremental clarity on the macroeconomic backdrop narrows the so-called 'expectations gap' between buyers and sellers.

In Europe, a recovery in transaction volume has been somewhat more muted, thus far. Indeed, 2Q2025 transaction volume was stable QoQ, but declined 10% YoY (Exhibit 9). Further, activity remains at only 56% of the 2016-2019 quarterly average. Here too, we see scope for continued progress on recovery.

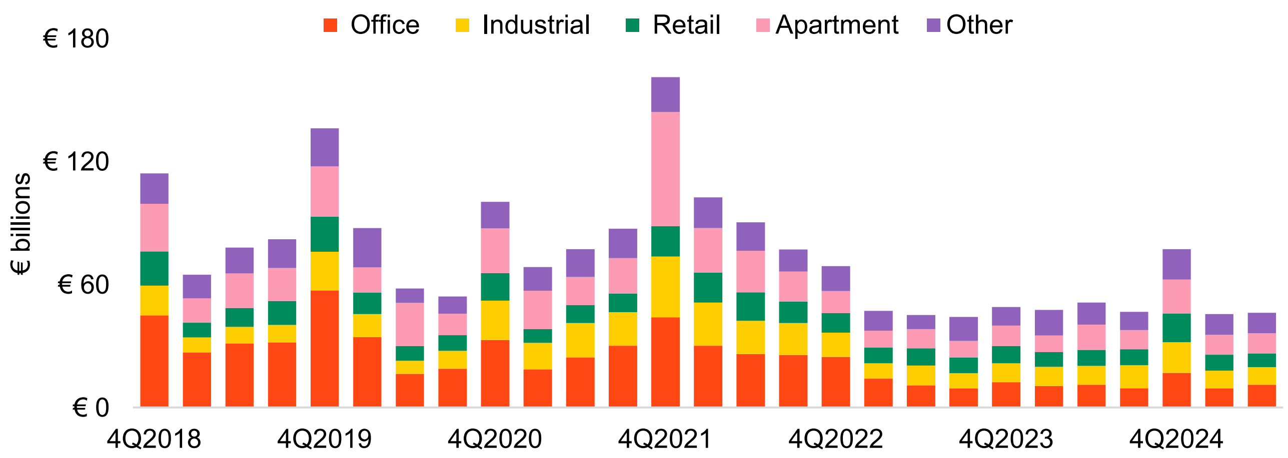
Anecdotally, while only a small segment of overall deal volume today, data centers are increasingly capturing market attention. Such volume is captured by the "other" segments of Exhibits 8 and 9, and remains small and lumpy relative to other property types. That said, we see continued enthusiasm and investment around the property type as a potential tailwind to growth in this segment.

Exhibit 8: U.S. CRE transaction activity grew modestly in 2Q2025...
U.S. CRE transaction volume by property type, in $ billions



Source: Real Capital Analytics, BlackRock. Captures data through 2Q2025. Other include hotels, dev sites, seniors housing & care, and data centers.

Exhibit 9: ...while activity remained more muted in Europe
European CRE transaction volume by property type, in € billions



Source: Real Capital Analytics, BlackRock. Captures data through 2Q2025. Other include hotels, dev sites, seniors housing & care, and data centers.

Asset pricing continues to stabilize in aggregate, but *growth* in asset values remains isolated

Continued asset value stabilization is another important element of CRE's recovery. As we noted previously, changes in property values, as assessed by Real Capital Analytics Commercial Property Price Indices (RCA CPPI), have slowed across many property types (Exhibit 1). This includes Central Business District (CBD) offices, which experienced the most significant decline and lagged in stabilization relative to other property types covered by the indices.

Recent data through July 2025 demonstrate that this trend of stability has continued, with some prices even modestly *recovering* in recent months, indicating what may become a "trough" in values, relative to declines for some property types that began in 2022.

That said, we expect the directional recovery of CRE to be slow. As such, we anticipate further fluctuations in both transaction activity and property values may occur, especially as residual stress continues to work its way through the asset class.

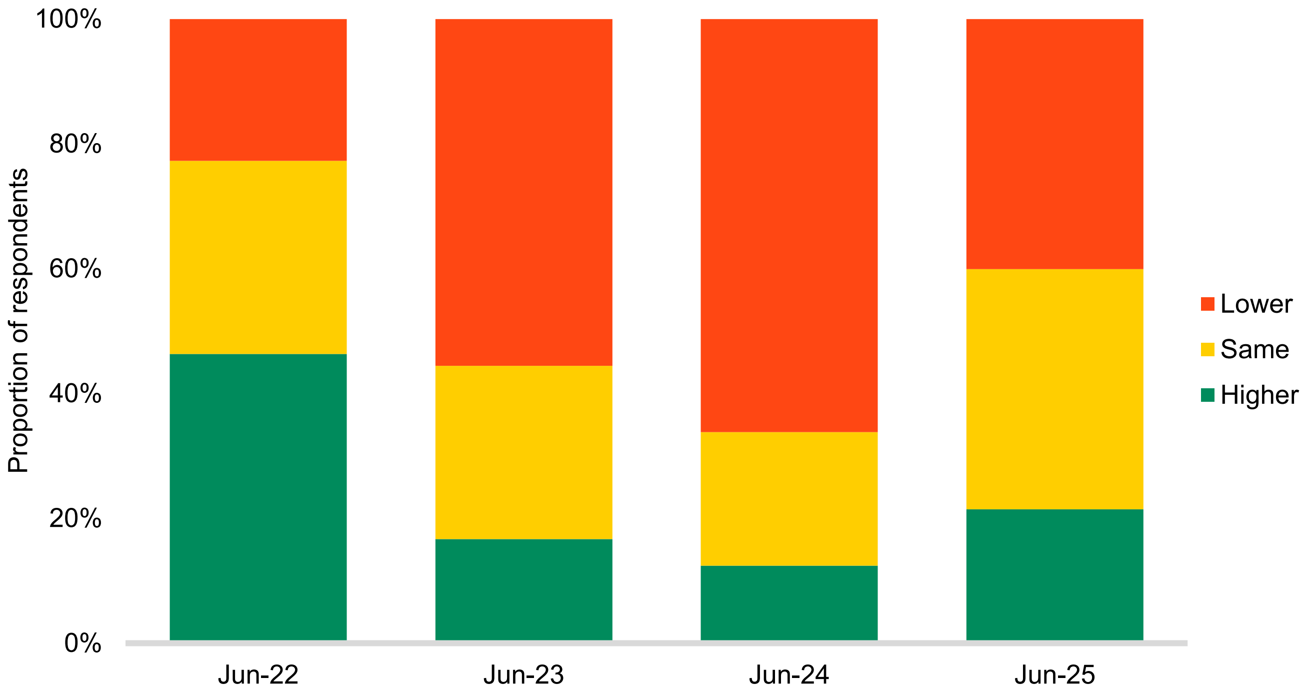
Of course, CRE is considerably nuanced, including across property types. Indeed, each property type is subject to its own set of performance drivers, as demonstrated by the dispersion in pricing values in Exhibit 1. For example, values for industrial properties have gained considerably since 2019, achieving a sizable cumulative outperformance relative to other asset classes over the period, driven by factors such as domestic supply chain build-outs, for example.

A Preqin survey of over 450 institutional investors also suggests CRE asset pricing has begun to stabilize. Indeed, 38% of respondents in the June 2025 survey noted that asset pricing was the same relative to 12 months ago. This compares to only 21% in June 2024. Further, the share of respondents noting that asset prices are lower has fallen from 66% in June 2024 to 40% in June 2025. While directionally positive, this underscores the enduring nature of CRE's recovery, in our view.

And finally, the share of respondents who view asset prices as higher versus 12 months ago grew modestly in June 2025, to 21%, from only 12% in June 2024. This is consistent with the takeaway from Exhibit 10, in our view: while asset prices have seemingly stabilized from recent declines, asset value *growth* remains largely isolated, rather than widespread.

Exhibit 10: Property price adjustments appear to be moderating

Investors were asked: 'How has (CRE) asset pricing changed vs. 12 months ago?'



Source: Preqin Investor Surveys June 2022 - 2025, BlackRock.

Return expectations for CRE moderated, but its role in investor portfolios remains

Preqin's survey also provides insight into how institutional investors are considering allocations to CRE.

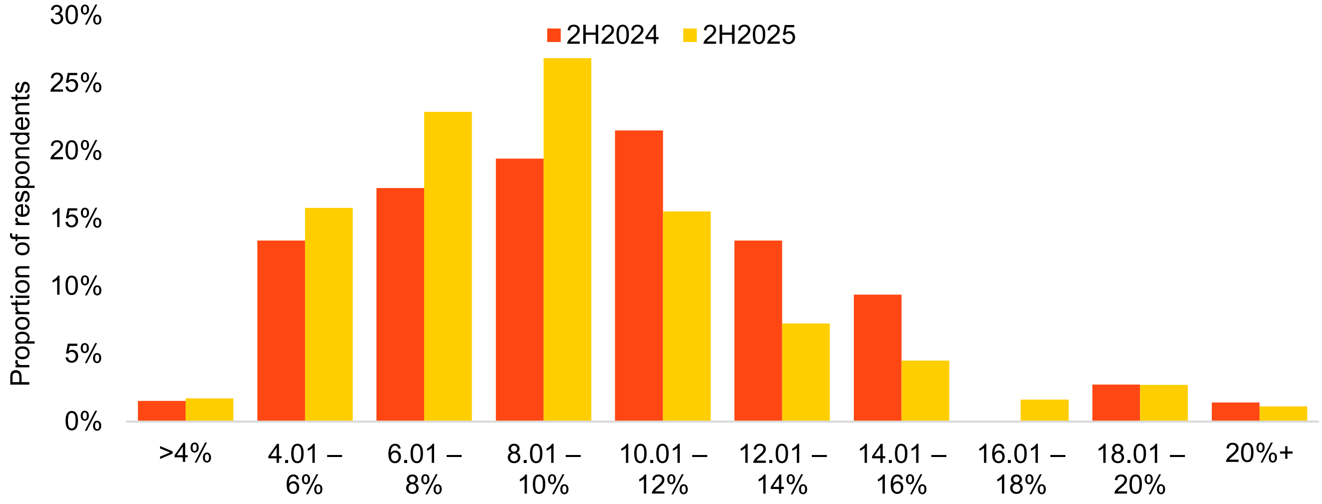
To start, survey data suggests that institutional investors have lowered return expectations for real estate investment portfolios compared to last year, with the range of expected returns shifting downward YoY (Exhibit 11). Many factors influence target returns for the asset class, including property value appreciation and property yield, for example.

Further, Exhibit 12 shows survey responses for what investors view as key challenges to CRE return generation in the next 12 months. Interest rates and asset valuations remained the top two areas of concern – consistent with the last three years. As we've detailed, these two factors are closely intertwined for CRE, due to the impact that interest rates can have on asset valuations. That said, while interest rates remain the top concern, the share of respondents highlighting them as a key challenge fell by 16 percentage points YoY, from 78% to 62%. This suggests, in our view, that investors are becoming increasingly comfortable with a backdrop of structurally higher interest rates.

Notable, too, concerns related to currency, commodity, and stock market volatility remain muted, despite the uptick in uncertainty in the months preceding the June survey. This underscores the relative stability of an allocation to real assets such as CRE, even amid broader macro volatility.

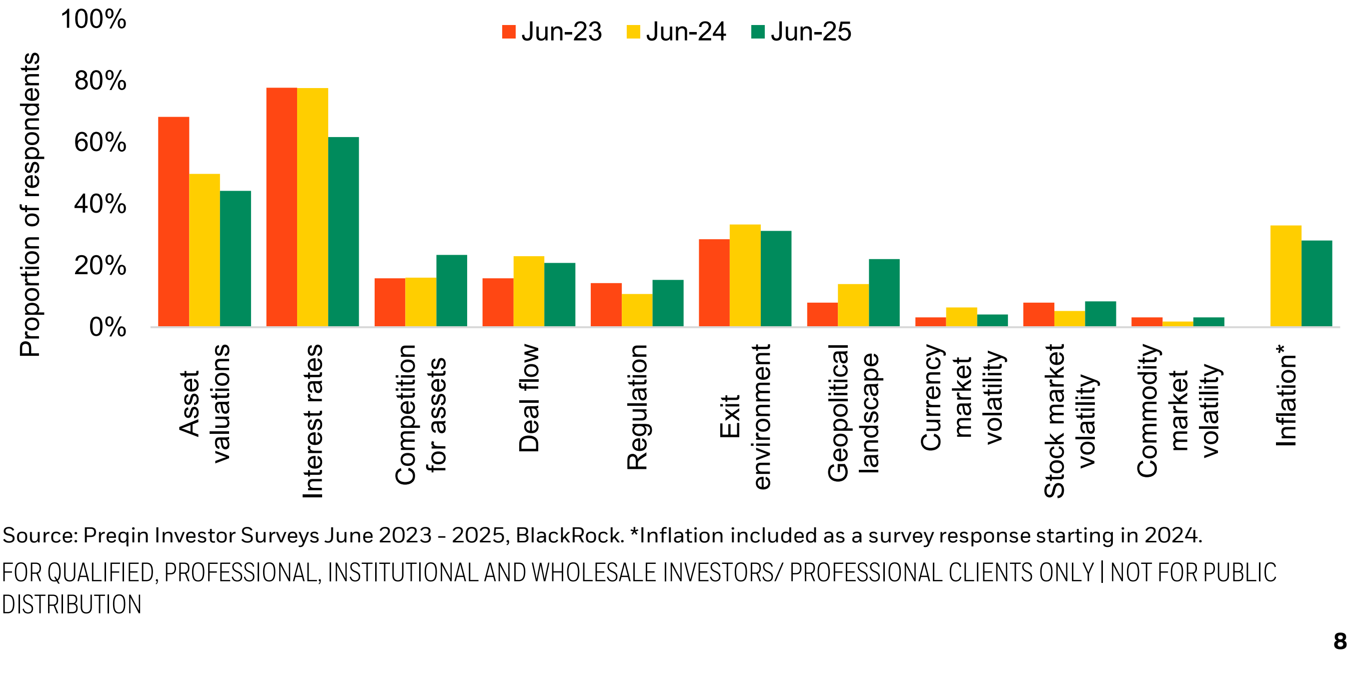
Exhibit 11: Two-thirds of investors are targeting CRE returns of 10% or less

Institutional investors' targeted returns for their real estate portfolios



Source: Preqin Investor Surveys June 2024 - 2025, BlackRock.

Exhibit 12: Interest rates and asset valuations are the most common concerns among investors



Source: Preqin Investor Surveys June 2023 - 2025, BlackRock. *Inflation included as a survey response starting in 2024.

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

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Cliffwater Direct Lending Index (CDLI) is an index that assists investors to better understand private credit as an asset class. The CDLI seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain eligibility criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs. Eligibility is set as all assets held by BDCs that (1) are regulated by the SEC as a BDC under the Investment Company Act of 1940; (2) have a substantial majority (approximately 75%) of reported total assets represented by direct loans made to corporate borrowers, as categorized by each BDC and subject to Cliffwater's discretion, and (3) file SEC form 10-Q (or 10-K, as applicable) within 75 (or 90) calendar days following the current Valuation Date. If a BDC meets the eligibility criteria, but has not filed its report on Form 10-K or 10-Q with the SEC at the time the index is reconstituted, asset information from its report will be included in the index at the time of the next reconstitution. This information is derived from sources that are considered reliable, but BlackRock does not guarantee the veracity, currency, completeness or accuracy of this information.

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