

A Few Key Trends Are Positioning CRE Investment Activity to Accelerate

Signs point to improving commercial capital liquidity. The commercial real estate investment landscape has faced several constraints in recent years that are now starting to ease.

- The number of commercial real estate properties traded over the first half of 2025 was about **10 percent to 15 percent** below the pre-pandemic average from 2014 to 2019.
- Preliminary data for the second half of the year indicates that total deal flow for all of 2025 will likely land somewhere on par with **levels from 2016**.
- Several factors have been restraining transaction activity in recent years, beginning most notably with the rapid rise in **interest rates** in 2022 and 2023.
- Higher interest rates tightened the yield spread between cap rates and the cost of debt capital, pushing many assets into a **negative leverage** position.
- Sales activity has also been hampered by the tougher climate for raising capital and tighter lending standards.

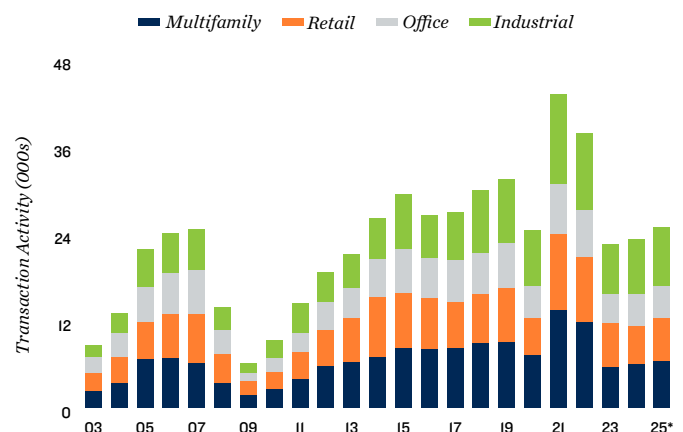
Despite challenges, capital flows picking up. Private investors continue to drive the bulk of sales activity with a 59 percent share of first-half 2025 trades, but the flow of capital into commercial real estate investment funds has begun to increase.

- Various investment funds have already raised an average of **\$30 billion** per quarter through the first half of this year. While that is below the \$68 billion gathered in one quarter of 2021, it is an **improvement** over the trailing decade mean of \$28 billion.
- Capital is coming from **a greater number of active funds**, as the capital raised per fund is below the historical norm.
- Approximately **180 funds** were active each quarter this year, raising an average of **\$173 million** per three-month period. By comparison, in late-2021 and early-2022, the quarterly mean was 183 funds raising \$397 million per period.
- The aggregate increase in the flow of capital into CRE investment funds will ultimately **support transaction activity**.

Lenders becoming more active. More banks are re-engaging with commercial property investors this year after re-balancing their portfolios. Fewer lenders are also tightening their standards, contributing to a modest rise in the average loan-to-value ratio.

- The mean LTV for non-residential commercial properties is about **56 percent**. For multifamily assets it is **62 percent**.
- More financier options and higher LTVs should help increase commercial real estate lending going forward. The Mortgage Bankers Association estimates a **30 percent** gain in 2025, followed by another **35 percent** in 2026.
- Meanwhile, interest rates have begun to taper. Agency debt on multifamily assets was in the **low-5 percent** band in early October; across all CRE, it was in the **low- to mid-6 percent zone**.
- At the same time, cap rates have risen by up to 120 basis points on average since 2022, depending on property characteristics.
- The convergence of increased equity capital and lending liquidity, along with higher cap rates and lower interest rates, may be **the recipe that boosts investment activity** through the rest of this year and into 2026.

U.S. CRE Transaction Activity



Includes sales \$2.5 million and greater * Through 2Q

Sources: Marcus & Millichap Research Services; CoStar Group; Federal Reserve; Mortgage Bankers Association; Prequin; Real Capital Analytics