# Credit Conditions and Liquidity Dynamics in Commercial Real Estate

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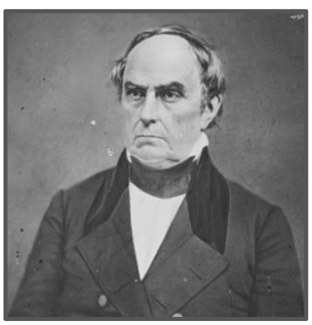
## Introduction

Credit is the lifeblood of modern commerce; it sustains liquidity[1], enables transaction flow, and underpins economic expansion. As Senator Daniel Webster observed in 1834, "Credit is the vital air of the system of modern commerce. It has done more, a thousand times, to enrich nations, than all the mines of all the world.[2]" This statement remains highly relevant in today's financial system. Liquidity reflects the ease with which capital moves through markets, finances growth, and absorbs shocks. Periods of abundant liquidity tend to coincide with expansion and risk-taking, while contractions in credit availability can quickly expose structural fragilities, tighten financial conditions, and stall economic momentum.



**Senator Daniel Webster**
(1782-1852)

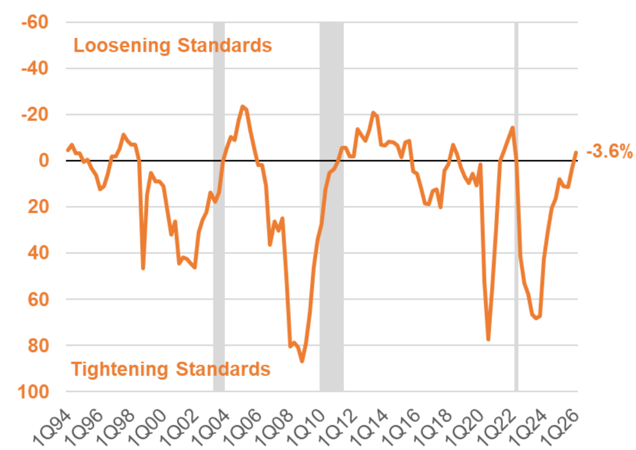
In commercial real estate, the availability and cost of credit are primary determinants of liquidity, pricing, and transaction velocity. The sector is inherently capital-intensive and highly levered, making it particularly sensitive to shifts in lending standards, interest rates, and capital market conditions. When credit is abundant, debt financing supports acquisitions, development, and refinancing activity, compresses cap rates, and facilitates price discovery through active transaction markets. Conversely, when liquidity tightens, bid-ask spreads widen, transaction volumes decline, and asset valuations come under pressure.

Several key indicators, including the Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS), commercial mortgage and cap rate spread compression, lending velocity, and overall transaction volume collectively point to improving liquidity and strengthening investor appetite in U.S. commercial real estate.

## Lending Standards

The loosening of lending standards generally results in more loans and more liquidity. Figure 1 shows the net percentage of domestic banks tightening versus loosening lending standards for commercial real estate (CRE) loans over time, based on the Federal Reserve's Senior Loan Officer Survey. Values above zero indicate net tightening, while values below zero indicate net loosening.

**Figure 1: Net Percentage of Domestic Banks Loosening / Tightening Standards for Commercial Real Estate Loans**




Source: Federal Reserve Senior Loan Office Survey. As of Q1 2026.

[1] For the purposes of this report "Liquidity" refers to the ability to sell assets relatively quickly without losing value. Degrees of liquidity are often reflected in transaction volume.

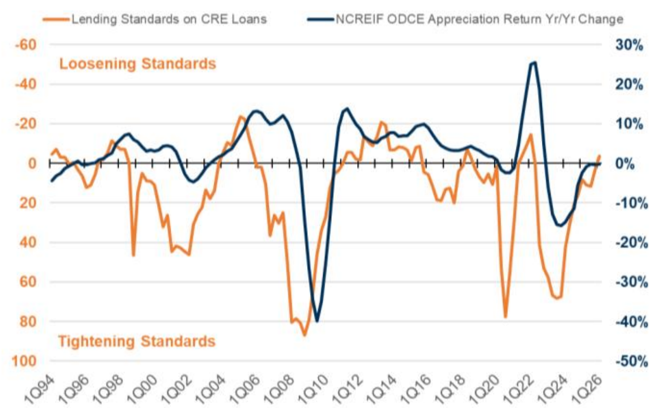
2 Daniel Webster, speech in the U.S. Senate, March 18, 1834, in *The Writings and Speeches of Daniel Webster*, Vol. 7 (1903), p. 89.

More recently, the trend shows lending standards easing significantly, with the net percentage moving back toward neutral and slightly negative territory. As of Q1 2026 (-3.6%), banks are on net slightly loosening standards, suggesting a tentative normalization following the recent tightening cycle that began in 2022 amid rising interest rates and CRE-specific stress.

### Comparing Value Changes to Lending Standards

Figure 2 illustrates the strong relationship between commercial real estate (CRE) lending standards and property values over time. Periods when banks loosen lending standards (shown by the orange line moving higher into negative territory) are typically followed by rising CRE values, reflected in stronger NCREIF ODCE appreciation returns (blue line).[3] Easier credit availability increases liquidity, supports transaction activity, and allows investors to finance acquisitions more aggressively, which tends to lift asset prices. Conversely, when lending standards tighten sharply, credit becomes less available, transaction volumes slow, and CRE values generally decline shortly thereafter. This pattern is evident during prior downturns, including the Global Financial Crisis and the 2022–2023 tightening cycle, where significant tightening in lending standards preceded sharp negative appreciation returns.

### Figure 2: Lending Standards As Leading Indicator of CRE Values




Source: NCREIF ODCE Annual Appreciation Return; Federal Reserve Senior Loan Officer Opinion Survey. As of Q1 2026.

Looking more recently, Figure 2 suggests that the extreme tightening in CRE lending standards seen through 2023 and early 2024 has begun to ease materially. Lending standards have moved steadily, indicating a gradual improvement in credit availability. At the same time, CRE appreciation returns are improving from deeply negative levels toward stabilization.

While property values remain below prior-cycle highs, the recent easing in lending conditions appears to be coinciding with a bottoming and early recovery phase in CRE valuations, consistent with the historical lead-lag relationship shown above.

### Lending Spreads

Mortgage rate spreads relative to Treasuries remain relatively compressed compared with both the 10-year and 15-year historical averages, indicating strong lender competition and ample market liquidity. The office sector is a notable exception, reflecting the structural shifts impacting the asset class following the pandemic, including persistently elevated levels of remote and hybrid work.

### Figure 3:

| ***Commercial Mortgage Loan Coupon Spread to 10-Year Treasury - Trepp*** | | | |
|---|---|---|---|
| *Sector* | *Current* | *10y Avg.* | *15y Avg.* |
| Multifamily | **1.54%** | 1.73% | 1.79% |
| Office | **2.22%** | 2.06% | 2.07% |
| Retail | **1.75%** | 1.90% | 1.93% |
| Industrial | **1.62%** | 1.78% | 1.84% |

Source: Trepp-I Spreads, Federal Reserve. As of Q12026 (Average 10-Year Treasury: 4.19%)

### Lending Volumes

The CBRE Lending Momentum Index[4] highlights a clear cyclical pattern in commercial real estate lending, with a recovery still underway following a prolonged downturn. After fluctuating around neutral levels through 2018–2019, lending activity deteriorated sharply in 2020 in response to pandemic-related disruption and capital markets volatility.

### Figure 4: CBRE Lending Momentum Index


Source: CBRE Capital Markets, CBRE Research. As of Q1 2026.

[3] NFI-ODCE is a capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. Open-end funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties diversified across regions and property types. The NFI-ODCE, like the NCREIF Property Index (NPI) and other stock and bond indices, is a capitalization-weighted index based on each fund's net invested capital, which is defined as beginning market value net assets (BMV), adjusted for weighted cash flows (WCF) during the period. Past performance is not a guarantee of future results.

[4] CBRE's Lending Momentum Index measures the pace and strength of commercial real estate lending activity based on loans originated or brokered by CBRE. The index uses a 36-month z-score standardization, which compares current lending activity to the historical average over the prior three years. A z-score shows how far a current reading is above or below the norm, measured in standard deviations. A score near zero indicates lending activity is close to typical historical levels, while positive/negative scores indicate stronger/weaker lending momentum.

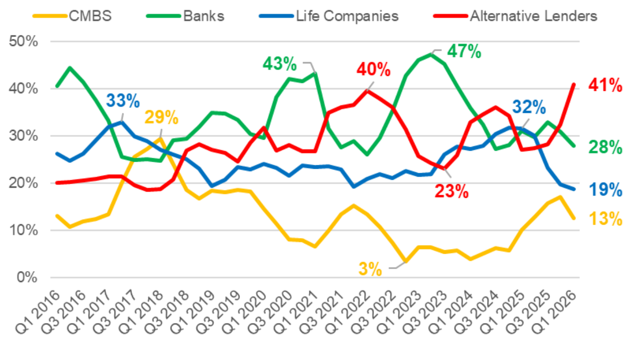
Momentum rebounded strongly in 2021, with the index rising well above historical norms before weakening through 2022-2023 as financial conditions tightened, including a sharp dip in early 2023.

Since late 2023, lending activity has reaccelerated. As of Q1 2026, the index stands at approximately +1.5, indicating activity meaningfully above long-term averages. This recent strength points to improved liquidity and renewed lender confidence. The volatility over the past several years underscores the sector's sensitivity to macroeconomic shifts and capital market conditions.

### Sources of Credit Liquidity

Which entities provide credit liquidity? Over the last decade, the composition of commercial real estate lending has shifted across four major lender groups: CMBS, banks, life companies, and alternative lenders (See Figure 5).

**Figure 5: Quarterly CRE Loan Composition by Lender Type**
(Share of total lending volume, trailing 4 Quarter Average)




Source: CBRE Capital Markets, CBRE Research. As of Q1 2026.
Reflects non-Agency commercial/multifamily loans closed by CBRE Capital Markets.

Banks historically held the largest share of lending volume, peaking near 47% in 2023, but their share declined sharply to 28% by Q1 2026. Banks' share of lending volume declined significantly due to balance sheet pressures, tighter regulation, and reduced risk appetite following the 2023 regional banking turmoil. Higher interest rates weakened the value of existing assets and increased funding costs, prompting banks to tighten underwriting standards and reduce exposure to certain CRE sectors, particularly office. This pullback allowed alternative lenders to capture greater market share by providing more flexible financing solutions.

Life companies maintained a relatively stable position throughout the period, generally ranging between 20% and 33%, before easing to 19% at the end of the series. CMBS lenders experienced the greatest volatility, rising to roughly 29% in 2017 before collapsing to a low of just 3% in 2022, then partially recovering to 13% by Q1 2026. The most notable trend is the rapid growth of alternative lenders, whose share increased from around 20% in 2016 to 41% in Q1 2026, making them the dominant source of new CRE lending by the end of the period. Overall, the data suggests a major structural shift in CRE financing away from traditional banks and toward private and non-traditional capital sources, particularly following the market disruptions and tighter bank lending conditions of the early 2020s.

### Equity

Cap rate spreads provide additional insight into market liquidity. Figures 6 and 7 indicate that cap rate spreads relative to 5-year and 10-year Treasuries remain compressed relative to historical norms across most property sectors, including industrial (1.57% vs. 5y, 1.19% vs. 10y), apartments (1.33%, 0.95%), self-storage (1.72%, 1.34%), strip centers (2.88%, 2.5%), and senior housing (2.87%, 2.49%), all of which are below their 10- and 20-year averages. This suggests continued investor demand and relatively strong liquidity conditions despite elevated interest rates.

The office sector again stands apart, exhibiting a materially wider spread of 6.57% and 6.19% respectively, reflecting weaker liquidity, reduced lender appetite, and elevated risk premiums. More importantly, the market is increasingly pricing in the view that the sector's challenges are structural rather than cyclical, driven by a secular decline in demand associated with persistently high levels of remote and hybrid work.

**Figure 6:**

| ***Cap Rate Spread to 5-Year Treasury - Green Street*** | | | |
|---|---|---|---|
| ***Sector*** | ***Current*** | *10y Avg.* | *20y Avg.* |
| Industrial | **1.57%** | 2.63% | 3.64% |
| Apartment | **1.33%** | 2.39% | 2.96% |
| Office | **6.57%** | 4.98% | 4.67% |
| Strip Center | **2.88%** | 4.06% | 4.46% |
| Senior Housing | **2.87%** | 3.32% | 4.06% |
| Self-Storage | **1.72%** | 2.91% | 3.93% |

Green Street, Federal Reserve. As of Q12026 (5-Year Treasury: 3.94%)

**Figure 7:**

| ***Cap Rate Spread to 10-Year Treasury - Green Street*** | | | |
|---|---|---|---|
| ***Sector*** | ***Current*** | *10y Avg.* | *20y Avg.* |
| Industrial | **1.19%** | 2.38% | 3.11% |
| Apartment | **0.95%** | 2.15% | 2.42% |
| Office | **6.19%** | 4.73% | 4.13% |
| Strip Center | **2.50%** | 3.81% | 3.92% |
| Senior Housing | **2.49%** | 3.07% | 3.52% |
| Self-Storage | **1.34%** | 2.66% | 3.39% |

Green Street, Federal Reserve. As of Q12026 (10-Year Treasury: 4.30%)

### Transaction Volume

Transaction volume serves as a direct measure of liquidity. Periods of elevated transaction volume, most notably the mid-2000s peak and the surge in 2021–2022, coincide with strong liquidity conditions in commercial real estate markets, reflecting an environment where capital is abundant, debt is widely available, and investor risk appetite is elevated across property types. This liquidity supports higher transaction-velocity and enables assets to trade at tighter cap rates.

Conversely, sharp pullbacks in volume, such as during the Global Financial Crisis and again in 2023, signal liquidity contraction, as tighter credit, higher financing costs, and increased uncertainty reduce buyers' ability and willingness to transact.

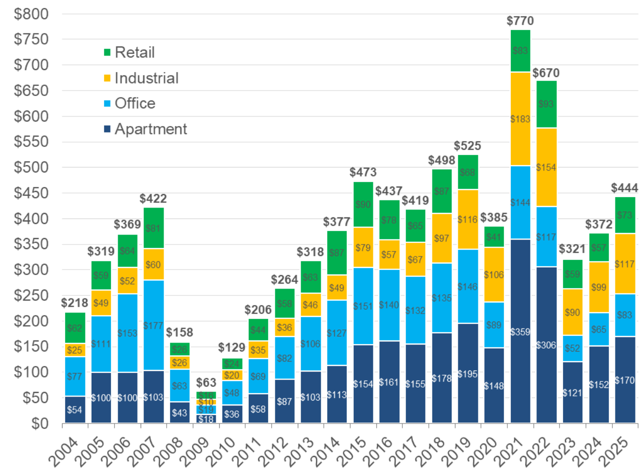
More recently, transaction volume has begun to recover from its 2023 trough. While activity remains well below the 2021 peak, the upward trend suggests improving liquidity conditions at the margin. The most recent quarterly data shows a meaningful uptick, reinforcing the view that capital is gradually returning to the market.

Liquidity also varies meaningfully by geography. Properties located in more liquid markets tend to trade at a premium due to a deeper buyer pool and more efficient exit opportunities within targeted holding periods. New York, Los Angeles, Dallas, San Francisco, and Miami exhibited the highest transaction volume over the past 4 quarters ending Q1 2026.

### Conclusion

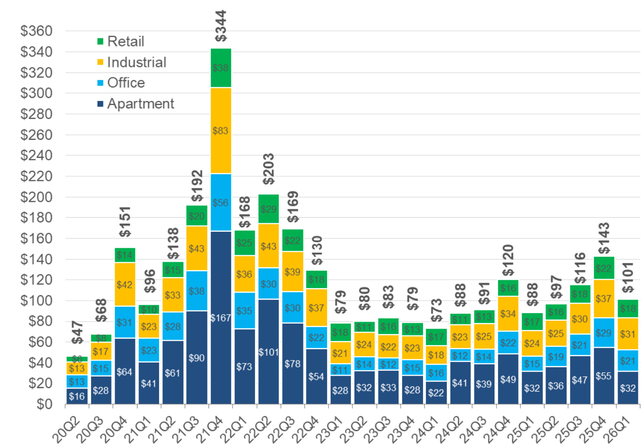
The evidence across lending standards, spreads, lending volumes, and transaction activity indicates that commercial real estate is experiencing a period of improving liquidity, supported by gradually easing credit conditions and recovering capital flows. At the same time, liquidity remains highly selective: capital is flowing most readily to sectors with durable fundamentals and clearer cash flow visibility, while office continues to face structurally weaker demand, wider spreads, and reduced lender appetite. As credit conditions continue to normalize, improved liquidity should support price discovery, reduce refinancing risk, and increase transaction velocity. For investors, lenders, and owners alike, monitoring both the direction and depth of liquidity remains the clearest lens through which to assess the next phase of the CRE cycle.

**Figure 8: Annual Transaction Volume by Property Type**




Source: MSCI Real Assets, through Q1 2026.
Note: Includes Apartment, Office, Industrial, and Retail property types

**Figure 9: Quarterly Transaction Volume by Property Type**




Source: MSCI Real Assets, through Q1 2026.
Note: Includes Apartment, Office, Industrial, and Retail property types

**Figure 10:**

**Trailing 4-Quarter Transaction Volume Across 4 Main Property Types, Top Markets ($ billion)**

| Rank | Market | 4-Qtrs Ending 2026 Q1 | Rank | Market | 4-Qtrs Ending 2026 Q1 | Rank | Market | 4-Qtrs Ending 2026 Q1 |
|---|---|---|---|---|---|---|---|---|
| | **United States** | **$456.60** | 9 | Chicago | $14.93 | 18 | Austin | $5.99 |
| 1 | New York Metro | $44.30 | 10 | Phoenix | $14.06 | 19 | Minneapolis | $5.46 |
| 2 | Los Angeles Metro | $32.10 | 11 | Seattle | $11.65 | 20 | Philadelphia | $5.38 |
| 3 | Dallas | $25.01 | 12 | Boston | $9.14 | 21 | Tampa | $5.16 |
| 4 | San Francisco Metro | $24.08 | 13 | Charlotte | $7.47 | 22 | Nashville | $4.61 |
| 5 | Miami Metro | $19.12 | 14 | San Diego | $6.79 | 23 | Richmond/Norfolk | $4.48 |
| 6 | Houston | $18.54 | 15 | Denver | $6.69 | 24 | Kansas City | $4.26 |
| 7 | Atlanta | $16.91 | 16 | Orlando | $6.53 | 25 | Indianapolis | $3.91 |
| 8 | Washington Metro | $15.35 | 17 | Raleigh/Durham | $6.27 | 26 | Columbus | $3.67 |

Source: MSCI Real Capital Analytics. As of Q1 2026. Includes multifamily, industrial, office, and retail.

"Metros" are defined as the sum of the following MSCI RCA geographies: **New York Metro** (Manhattan, NYC Boroughs, Long Island, Westchester, Stamford, and Northern NJ); **Miami Metro** (Miami-Dade County, Broward County, and Palm Beach County); **San Francisco Metro** (San Francisco, East Bay, and San Jose); **Washington Metro** (Washington, DC–Virginia Suburbs and DC–Maryland Suburbs); and **Los Angeles Metro** (Los Angeles, Orange County, and Inland Empire).

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