



THE SURGE IN CAPITAL MEANS NEW PLAYERS WHO MIGHT NOT NECESSARILY BE READY FOR PRIMETIME

If early 2026 will be remembered for anything — at least beyond AI, data centers and the Epstein files — it seems it might be the surge in the availability of capital that is quickly defining U.S. capital markets and appears primed to reshape commercial real estate in the months ahead.

Real estate fundraising had a strong 2025, increasing 29 percent year-over-year to \$222.2 billion, according to a January report from the data analysts at Private Equity Real Estate, which highlighted that Blackstone and Brookfield together raised \$35 billion for CRE investment.

David Schechtman, senior executive managing director at Meridian Capital Group, said that his January trip to Miami for the annual CRE Finance Council convention “was the most active it’s ever been,” and that “everyone wants to put out money.”

“It feels like a deal-making environment, all the originators are busy,” said Schechtman. “There’s money to be made up and down the food chain.”

Moreover, with more investors deploying cash and transacting willingly, CRE lending has returned to form in the last 12 months. CBRE’s lending momentum index saw originations increase 67 percent year-over-year in the fourth quarter of 2025, with December marking the highest monthly level of permanent loan financings the firm has recorded since 2021.

Alternative lenders, including debt funds and mortgage real estate investment trusts, made up roughly 40 percent of these 2025 originations, according to the brokerage.

Seth Weissman, founder and managing partner at Urban Standard Capital, a private lender that executed \$745 million in originations in 2025, compared with \$409 million in 2024, said his shop’s growth is due to its expanded capital base as well as its reputation for speed, certainty of execution and creativity.

But Weissman also emphasized that the wider increase in new debt capital has brought with it a slew of new, albeit inexperienced, lenders to the table. “There’s definitely been a lot of capital raised, and there’s a lot of tourists in the space,” he said. “Groups that have raised capital don’t have experience lending through multiple cycles and have a real lack of experience to discern between real and perceived risk.”

The numbers reflect this overexuberance. Cushman & Wakefield found that new loan originations were up more than 30 percent year-over-year in the first half of 2025, pointing to a CRE debt market that the firm said has “rapidly re-engaged.”

But a rebirth in debt hasn’t yet guaranteed a renaissance of deals. Full-year deal volume hit \$545.3 billion in 2025, up 23 percent from 2024, the second consecutive year of growth, but still well below the gaudy levels that defined 2021 and 2022, according to Principal Asset Management.

Shlomi Ronen, managing principal and founder of Dekel Capital, said that “We haven’t yet seen an uptick in transactions that matches the appetite from the lending community,” which has been buttressed not only by debt funds, but the return of banks and life insurance companies into the CRE credit space after several years on the sidelines.

Banks held the second-largest share of non-agency loan closings at 35 percent, while life companies accounted for 19 percent of that volume in the fourth quarter of 2025, per CBRE.

With increased competition in the lending space comes a loosening of underwriting standards, however, and some borrowers who normally wouldn’t receive many term sheets have not only been able to do so, but have also been able to secure their desired covenants within those term sheets from increasingly desperate lenders.

“We do see that lenders are starting to entertain weaker borrowers, smaller markets. For instance, last year you couldn’t get any sort of leverage on office [product], and now lenders are starting to entertain office transactions,” said Ronen.

Jay Neveloff, chair of real estate at law firm HSF Kramer, warned that, with this sudden abundance of debt capital, it’s more important than ever for investors to be conscious of overexuberant assumptions in underwriting.

“That’s not to say that I don’t think that market values will increase, which, as a generalization, I believe they will,” Neveloff said. “But, rather, investors need to be mindful not to push underwriting assumptions too aggressively.”

Others argue, interestingly enough, that there aren’t enough deals to keep up with the overheated debt market, as many sellers remain spooked from the run-up in rates that has characterized the 2020s.

Dave Powell, a partner at King & Spalding who specializes in structuring debt and equity investments, said that because so many CRE funds have refinanced assets and held on to them, rather than sold them back into the market, the deal flow doesn’t match the lending appetite right now.

“The folks in capital markets aren’t pouring too much into the system because there aren’t enough deals out there to pour that money into,” Powell said. “That liquidity is there to be utilized, but, at this point, we just don’t have enough deals to fully utilize it.”

But others who play within the space have pointed to several themes that illustrate a healthy and constructive capital markets system. These include various sources of capital competing for a limited number of deals, elevated yields, compressed spreads, more stabilized interest rates (particularly at the long end of the curve) and strong performance across assets and markets in terms of leasing and value discovery.

“There’s more competition, yes, but there’s deeper liquidity in credit markets, compressed credit spreads, and that’s been met with increased loan origination volume,” said Tom Rugg, co-head of U.S. large loans in debt and structured finance at CBRE. “Credit is having a moment, for sure, and it’s a good time to be a lender.”

And a borrower.

Temperature check

Still, are credit markets overheated?

Michael Nierenberg, CEO of Rithm Capital, an asset management firm with \$100 billion in CRE and corporate credit assets, scoffed at the notion that CRE debt markets have an excess of liquidity. He noted there’s a huge demand for asset-backed securities products in securitized finance, tighter bond spreads, and huge amounts of capital waiting to be deployed by balance sheet lenders and debt funds alike.

“I don’t know that stuff is overheated, I don’t personally believe that,” Nierenberg said, “I think the market is recovering overall, and I love where we are in the office space,” he added, pointing to Rithm’s \$1.7 billion deal to acquire Paramount Group’s 13.8 million-square-foot New York and San Francisco office portfolio late last year.

One asset class in particular is expected to be the recipient of this credit surplus: multifamily.

Briana DeHaan, managing director in Northmarq's San Francisco office, said that the multifamily space saw increased lending in 2025, and that life insurance companies, as well as the federal agencies, have earmarked increased allocations for these assets in 2026.

For instance, residential securitization giants Fannie Mae and Freddie Mac had \$76 billion of deal flow in 2025 and have targeted \$88 billion of deal flow in 2026, a 15 percent increase, according to DeHaan.

"There's a lot of capital that's chasing multifamily," she said. "Lenders have to put it out."

The origin of this wave of credit is largely a market phenomenon with two starting points.

On one hand, according to Weissman, there was the recognition in the post-2022 world of higher rates that credit will offer better returns than equity at a lower risk profile, avoiding that first-dollar loss position but still earning mid-teens, equity-like return in an era of higher base rates.

"The fact of the matter is, in the last three to five years, equity investors' returns were maybe zero. If they got their money back that would be a win," he said. "All of a sudden, the safe, consistent double looks a lot better than the home run, and that's why there's this flood of demand for investing in real estate credit."

The more important part of the picture resides in the debt fund space, primarily the rise of real estate private credit, a \$1.7 trillion industry that is expected to reach \$3.5 trillion by 2030, according to BlackRock.

Josh Zegen founded Madison Realty Capital in 2004 as one of the original private credit houses for CRE debt. Zegen told Commercial Observer that 20 years ago his firm was one of only a handful that played in the private credit space, which has grown exponentially in just over a decade.

Between 2013 and 2023, U.S. private credit — corporate and real estate loans originated by private, nonbank lenders — grew from \$141 billion to \$853 billion, according to the financial data provider Preqin.

"The last couple of years you had little deal activity, and a lot of money was raised in private credit, so, when something got bid up, it was between the haves and the have-nots," Zegen said. "But there's more depth to the market today. You have a broader array of groups bidding."

Banking pullback

Private credit firms have proliferated largely as a result of commercial banks pulling back from CRE lending, and there has been ample opportunity for those firms to step up while traditional lenders have stepped back.

Over the last 16 years, the credit system has been dealt three seismic events: the 2008-9 Global Financial Crisis, the 2020-21 COVID-19 pandemic, and the 2023 regional banking crisis. In each case, the commercial banking system has either retreated, or been hit with increased regulations to disincentivize bad behavior and protect depositors.

The proportion of bank lending compared to all corporate borrowing dropped from 44 percent in 2020 to 35 percent in 2023, according to the Federal Reserve Bank of St. Louis.

"You start with the premise that a large part of the lending community, namely community, local and regional banks, moved out and created a large void. On the theory that nature abhors a vacuum, we now have all these new credit funds filling that void," explained Jonathan Roth, managing partner and co-founder of 3650 Capital, a private CRE lending firm.

Roth also noted that limited partners — passive investors who provide capital for funds — have experienced favorable returns on corporate credit in recent years, so it is not surprising that the investment community would gravitate toward picking the proverbial "low-hanging fruit" of private real estate credit amid the high yields of post-2022.

"LPs look around the room and say, 'We have done really well on corporate credit, we have people asking us to support real estate credit funds, so let's do that,'" he said. "We have seen the whole ecosystem lean into real estate credit in a healthy, appropriate way."

Banks have adjusted accordingly, and with surprising innovation, to this newfound competition.

In recent years, rather than place all their eggs into balance sheet deals, major commercial banks decided they'd be better off financing debt funds themselves via warehouse and repurchase agreements, A-B note splits, or by structuring collateralized loan obligations (CLOs) and commercial mortgage-backed securities (CMBS), ensuring the balance sheet risk is in the hands of other players.

"So these financing structures enhance the yield, and, for the banks, that's a good trade for their balance sheet because they get better capital efficiency from the regulators," explained CBRE's Rugg.

And it is not as if this banking pullback from CRE is an altogether bad thing.

Marcello Cricco-Lizza, principal and head of CRE lending at Balbec Capital, a \$7 billion investment firm, emphasized that as banks have offloaded their CRE balance sheet risks into the private credit space through loan-on-loan financings or cross-collateralized credit facilities, they've avoided taking catastrophic losses (so far). This innovation has been largely cheered on by Washington, D.C., regulators, too, who want this risk outsourced away from ordinary depositors.

"In general, the Fed, the Treasury, they view it as a safe business for banks to be in, versus direct lending," Cricco-Lizza said. "The banks took all manner of losses in the last five years because of how much exposure they had in the office side of the business."

It's also worth noting that banks haven't entirely stepped away from the table. Banks were understandably muted in recent years, but they increased their lending participation by 74 percent from the fourth quarter of 2024 to the fourth quarter of 2025, according to a survey by the Mortgage Bankers Association.

This renewed appetite for lending manifested itself in the CMBS space, which saw issuance increase 21 percent to \$125.6 billion in 2025, of which \$91.3 billion was generated by single-asset, single-borrower (SASB) transactions, according to Trepp.

These originations marked the highest level of CMBS volumes since 2007.

Banks that have been particularly active in real estate lending in recent months include Wells Fargo, J.P. Morgan Chase, Capital One, U.S. Bank and PNC Bank, according to sources.

"The large money center banks never left," said Justin Quinn, partner at HSF Kramer, where he represents CRE lenders. "The regional banks were sitting out for a while, they had balance sheet concerns with the downturn, and you're starting to see them come back now to recapitalize and deal with their legacy portfolios."

Madison Realty Capital's Zegen said that banks have returned to the fold, and, while many are playing catch-up with the debt funds, they are also benefiting from the friendlier regulatory climate put forth by the second Trump administration.

"Usually, there's nuances or tweaks, like they cap out at certain loan-to-costs," he said. "But they're able to do things they weren't able to do with the loosened regulation of the last 12 months. That's definitely a driver of some of the activity — you're seeing the bank bid is back."

Racing toward the bottom

There's no question that as lenders of all stripes have re-entered the market, availability has increased the amount of takeout loans, refinancings, construction loans and acquisition debt, but it's also brought in credit spreads — the difference in yield between corporate credit and the risk-free U.S. Treasury — a metric which is likely to grow the CRE pie in 2026 and beyond.

Richard Reczka, senior vice president of acquisitions and capital markets at Paramount Group, told CO that what's keeping debt markets from being overheated amid such credit compression is the historically high yields base rates currently carry.

The 5-Year Treasury stands at 3.6 percent (up from 0.73 percent five years ago), the 10-Year Treasury sits at 4.1 percent (up from 1.2 percent in Feb. 2021), and the Secured Overnight Financing Rate, or SOFR, which prices floating-rate debt, is at 3.65 percent (compared to its February 2021 rate of 0.04 percent).

"Your base rate makes up half of your rate, and that is still a regulator of underwriting getting too aggressive," said Reczka, who dismissed fears. "You're comparing that to having a 6 percent rate, when three to five years ago you might have had [a rate of] 3 percent or 4 percent."

Balbec Capital's Cricco-Lizza said that spreads have “come in materially” in the past year on a look-back basis and are now tightening for bridge financing and CMBS products. But he also emphasized that the biggest driver of spread compression has been the reduced levels that banks will finance warehouse lines and A notes to debt funds, setting the stage for others to follow.

“The rates a bridge lender like us care about are levered rates, and how we’re financing those loans,” he said. “From our perspective, the biggest driver is that bank financing, at least on the bridge side, has made things tighter.”

But the tighter spreads during increased credit competition have conversely created a race to the bottom to secure business, primarily in the transitional lending space.

Meridian’s Schechtman, a multi-decade industry veteran, said that when lenders start chasing and competing for deals, “they chase their way down.”

Zegen admitted the effects of spread compression have been most pronounced during the final 90-day period of lease-up for construction loans, as that debt has become as cheap and accretive as possible from frothy CLO offerings and warehouse lines from banks without many strings attached, giving debt funds the ability to compete on the friendliest terms possible to secure business during the asset’s transition to stabilization.

“When I want to get leverage on a loan, I can now get higher leverage and cheaper spreads,” Zegen said. “So, while lenders are providing cheaper loans, with looser restrictions and covenants, you’re seeing leverage providers [e.g. banks] now providing higher advance rates and lower spreads.”

3650’s Roth said that the transitional lending space has become more crowded with all the new debt funds. He recounted how borrowers coming off one his firm’s construction loans often have five or six actionable term sheets for takeout financing that carry pricing, proceeds and terms that 3650 is loath to entertain, simply due to the risk their competition is willing to take to secure that business.

“If you’re a borrower, it’s quite alluring. But for those of us who have been in this space for decades, and have observed over-exuberance through cycles — and what happens at the finish line when it’s a race to the bottom — we’d rather opt out on a particular credit,” Roth said. “We’re in the business of putting capital to work that has the greatest chance of being returned to us, and we’ll never waiver on our discipline.”

Some lenders believe the looser loan covenants have led to poorer underwriting. Urban Standard Capital’s Weissman said this pattern has accentuated the need for sponsors to do their own homework when seeking real estate credit.

“While people want the lowest cost of capital, paying an extra 25 basis points with someone you know performs well, and is a familiar counterparty — people will pay for that certainty, speed and creative problem-solving in volatile markets,” he said. “Especially where that execution and trust matters more than the last 55 basis options of pricing.”

Others in the capital markets sphere, like CBRE’s Rugg, argued that while there’s been moderate leverage creep, and some loosening of loan covenants, the market does not in any way resemble the excesses that led up to the GFC in 2008, as all lenders carry the scars of that period, as well from what occurred in 2022 and 2023 when interest rates rose and the regional banking system nearly collapsed

Tom Traynor, co-head with Rugg of U.S. large loans in debt and structured finance at CBRE, said that while some private credit is being carved up into risky structured finance vehicles, most debt funds are balance sheet lenders, which provides a counterforce to any kind of race to the bottom.

“Debt funds are saying, ‘We’d rather lose the loan than do it at uneconomic levels, at leverage that’s too high, where we’ll get into bad situations and be unable to raise money next time,’ ” he said. “It’s kind of built into the system, this self-preservation to stay in business for the next fund.”

Even so, some of these debt funds, many of which are new kids on the block, particularly in the construction loan space, could be playing with fire as they try to buy the business of sponsors with enticing terms that carry outsize risks.

“Firms that have never been in real estate credit, and decide to go into it because that is where the crowd is headed, are going to make mistakes,” said Roth. “It really requires alpha and a very targeted approach to assets.”

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