



NEWMARK

3Q25 U.S. Capital Markets Conditions & Trends

3Q25



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U.S. Market Observations



Economy

- The Government shutdown has left us without economic data releases, including 3rd quarter GDP. The Atlanta Fed's GDPNow forecast shows GDP up 3.9%, while the New York Fed has GDP at 2.4%, and St. Louis Fed at 0.6%. However, without economic data releases, these numbers are hard to trust.
- The unemployment rate has remained between 4.0% and 4.2% since May of 2024, though underlying labor market data has been paused due to the current Federal government shutdown.
- Markets are currently pricing in one more rate cut by year-end. Meanwhile, 10-year Treasury yields have largely held within the 4.0% to 4.5% range. Newmark Research continues to view a low-growth, stubborn-inflation scenario as the most likely outcome over the next 12 months as tariff-driven inflation and market slowdowns ripple through the economy.



Debt

- CRE debt origination maintained strong momentum in the first half of 2025, with volumes exceeding pre-pandemic norms. Origination activity rose 48% year-over-year compared to the first three quarters of 2024.
- Originations increased across all major sectors, with office, senior housing and retail leading the way. Bank lending was particularly notable, 5% higher than first-half averages from 2017 to 2019. This acceleration in activity comes as the market prepares to absorb \$2.0 trillion in debt maturities coming due from 2025 to 2027.
- A substantial portion of loans—especially recent vintages (loans originated at the top of the market between 2021 and 2022) across most property sectors, including a large share of office debt—are either underwater or approaching that threshold. We estimate that \$573 billion in debt maturing between 2025 and 2027 could be potentially troubled.



Equity & Pricing

- Investment sales increased 19% year-over-year in 2025 YTD but were down 11% compared with the 2017-to-2019 average.
- Deals under \$100M accounted for 66% of volume traded over the past four quarters, although larger deals are beginning to regain market share. Institutional investment was up 15% YTD versus 2024, while private and owner/user share of transaction volumes reached an all-time high.
- Transaction markets show cap rates clearly leveling off. While spreads remain historically tight, deal activity has continued, supported by available debt capital and expectations of improving fundamentals and values across most property types.



Supply of Capital And Returns

- Dry powder at closed-end funds currently sits at \$350 billion, down 17% since December 2022. Dry powder at value-added, opportunistic and debt funds are now well off peak levels, with most of the available capital targeting residential and Industrial properties.
- Much of this capital was raised from prior vintages. ODCE fund flows took a step back in the third quarter and showed net outflows for an 12th straight quarter.
- Redemption queues remain a challenge for many funds, driven by persistent, if narrowing, gaps between NAV and market values.
- Despite structural limitations during periods of rapid change, the NCREIF NPI posted a third consecutive quarter of positive returns in 3Q25. All sectors saw gains, including Office, where 92% of markets recorded positive total returns.

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Debt Capital Markets

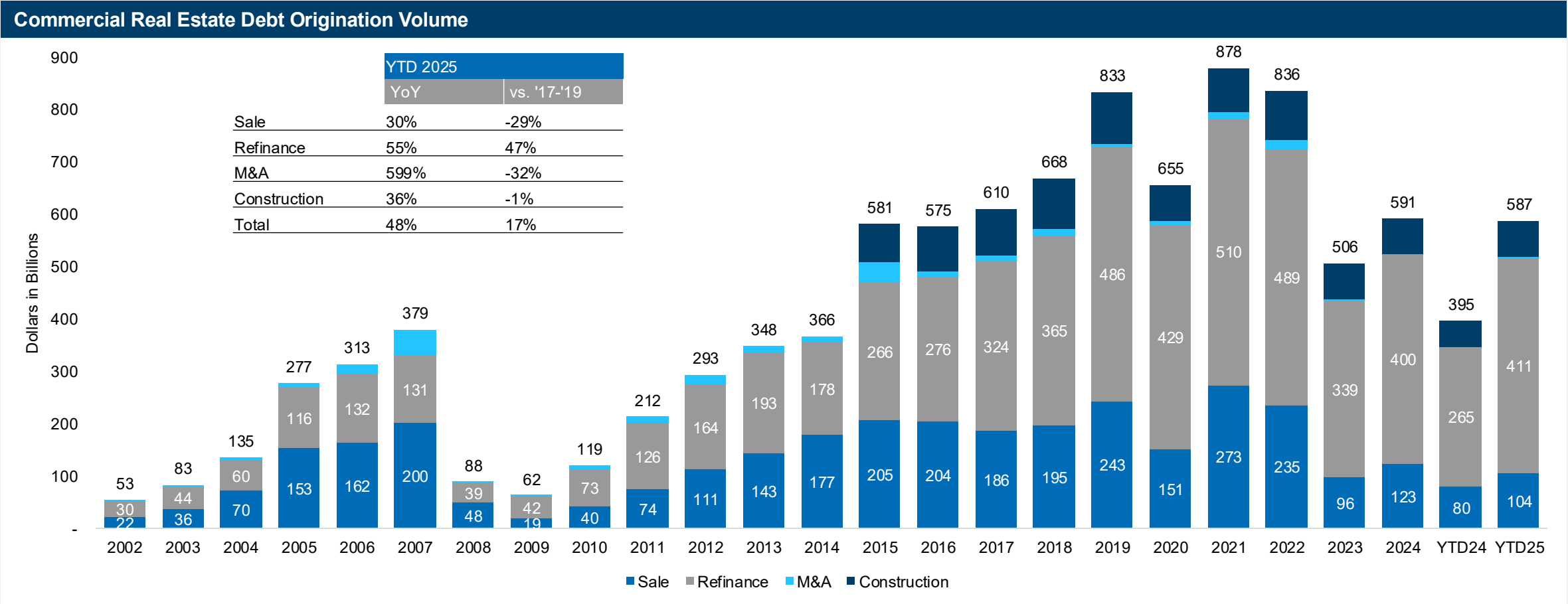
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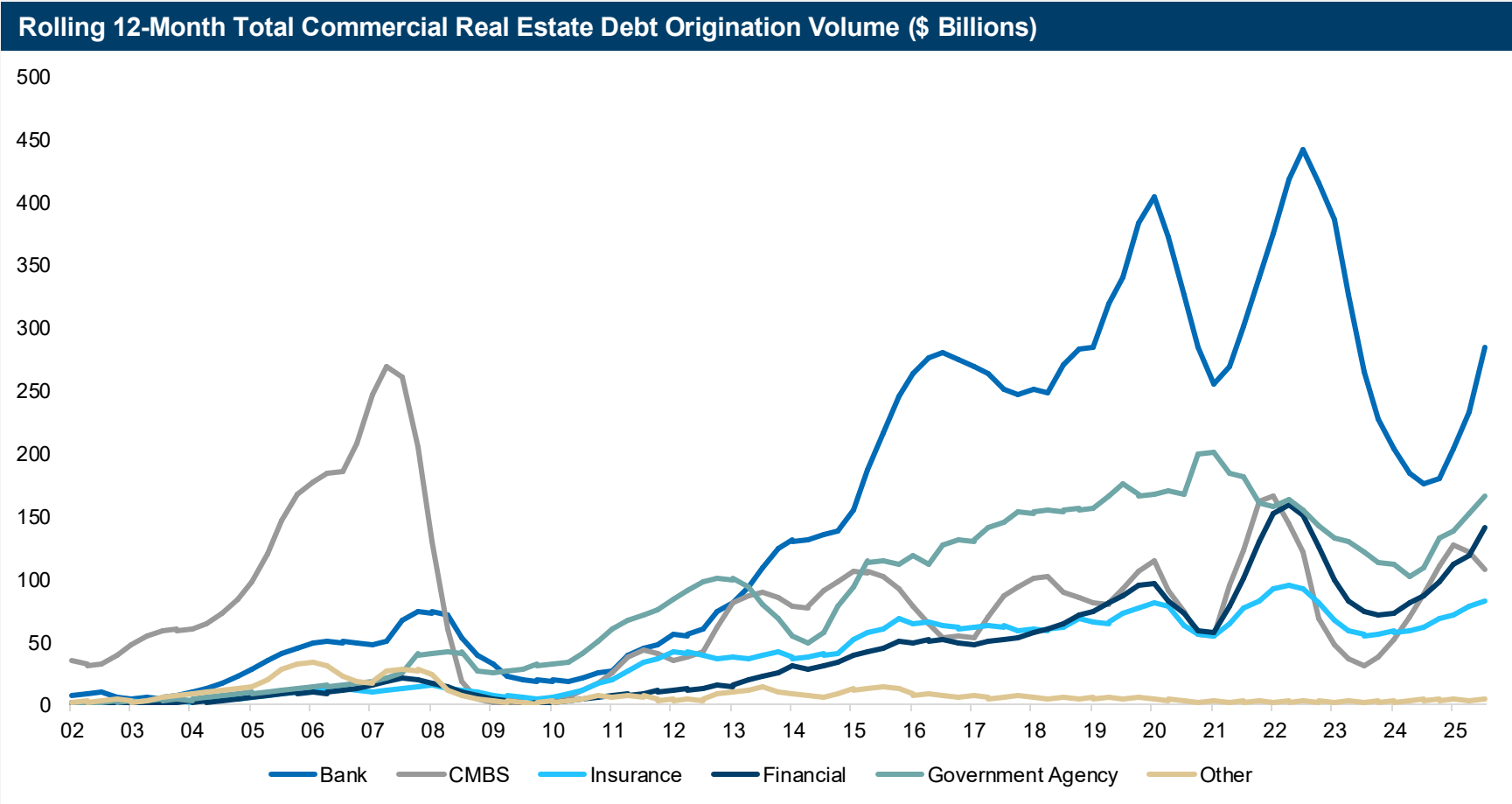
Debt Origination Up 48% vs. 24 YTD; Refinancings Well Above '17-'19 Average

2025 has been a solid year for loan originations. Refinancing volumes improved over the 2017-2019 average, although acquisition financing continues to lag. Both sales and refinancing activities have accelerated throughout the quarter, as base rates come in and spreads compressed even further, making debt attractive for borrowers. Refinancing volume is on pace for a record year, as pent-up demand from borrowers dealing with higher rates has turned into action.



Bank Lending Volume in 2025 Has Matched Pre-Pandemic Averages

Banks originations started strong in 2025, up 85% compared to year-to-date 2024. Debt funds and insurance companies posted strong gains as well. While CMBS originations were relatively flat, securitizations have surged. SASB activity in particular has surged, with multiple office deals pricing in 2024 and 2025 after zero office SASB issuances in 2023. Government agency lending continued its strong momentum, as supply of credit continues to grow.



Bank originations are up 85% YoY and back to pre-pandemic levels

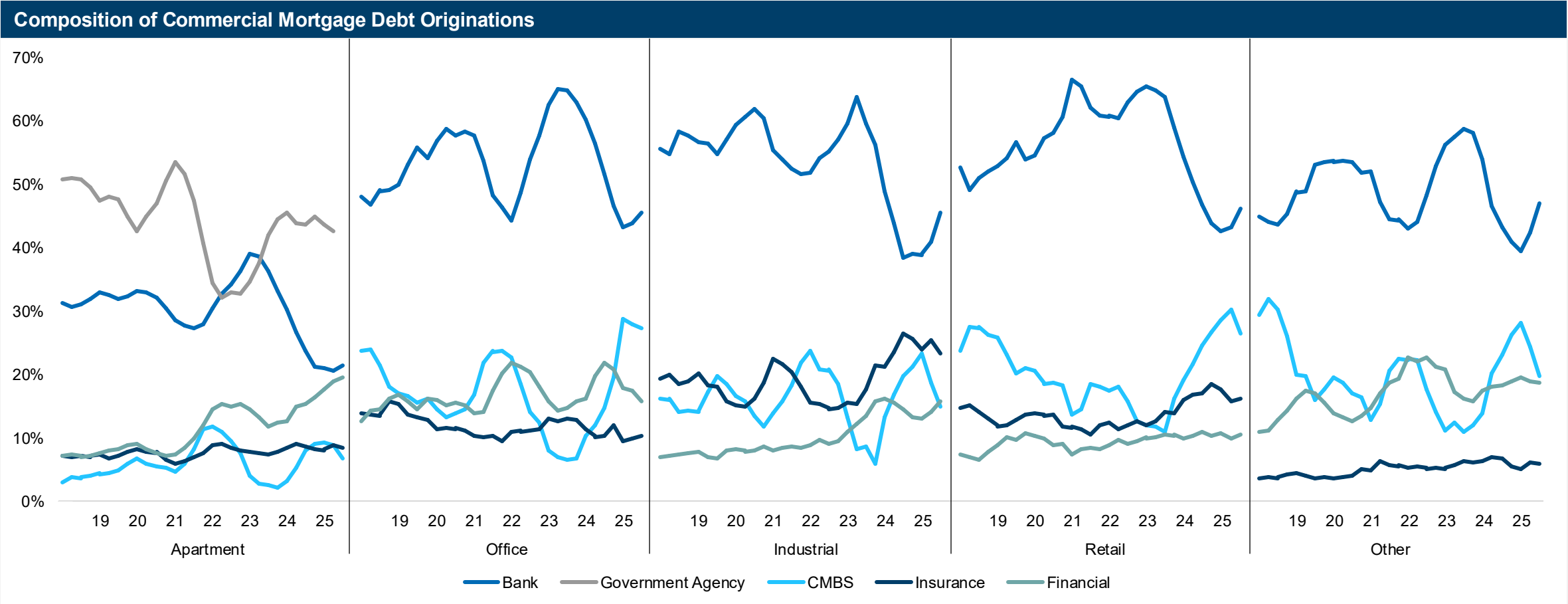
Debt fund and insurance companies are on the march supported by attractive relative yields and open securitization markets

Debt originations for CMBS have stabilized but securitizations surging, dominated by SASB

Source: RCA, Newmark Research as of 10/14/2025
Rolling 12-Month Total Commercial Real Estate Debt Origination Volume
*CMBS originations are based on when the underlying loan was originated, not the securitization date

Debt Funds and CMBS Taking Market Share, but Banks May Have Bottomed Out

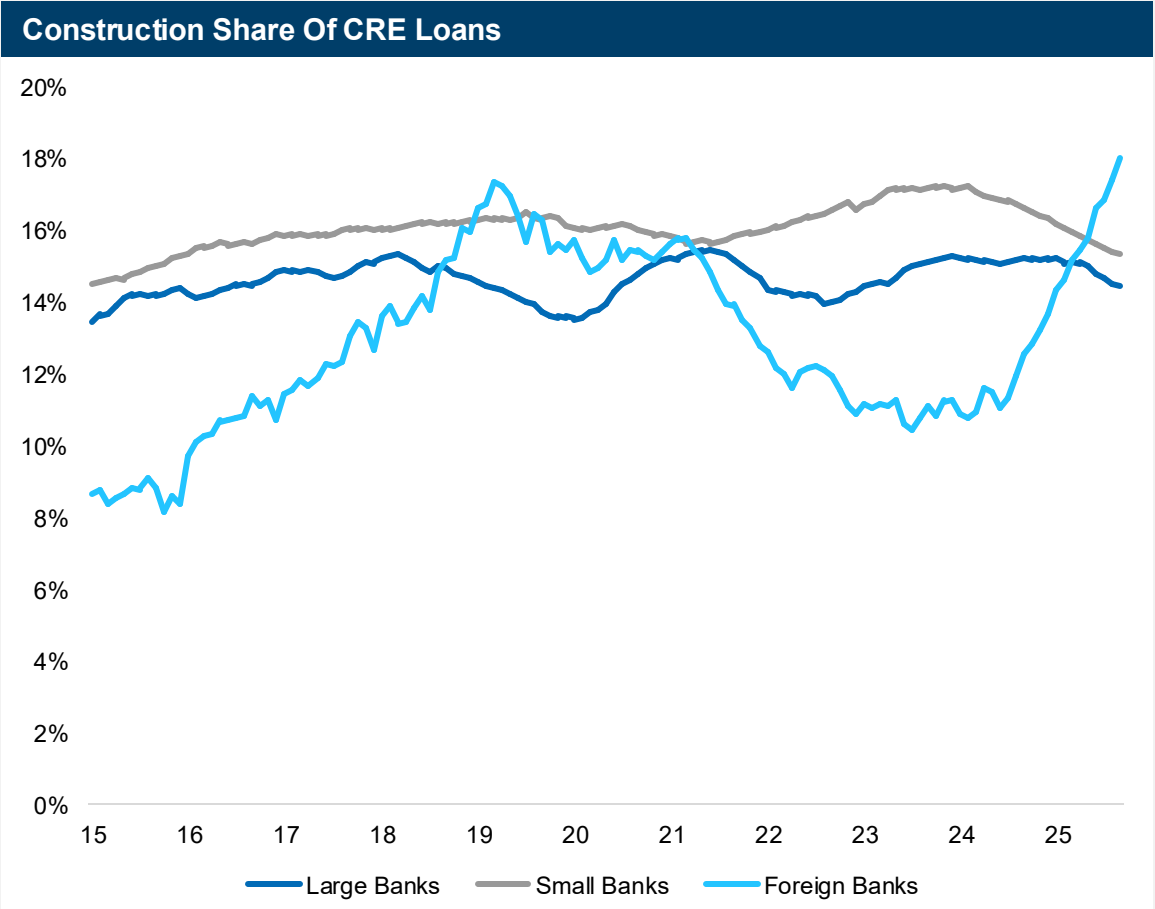
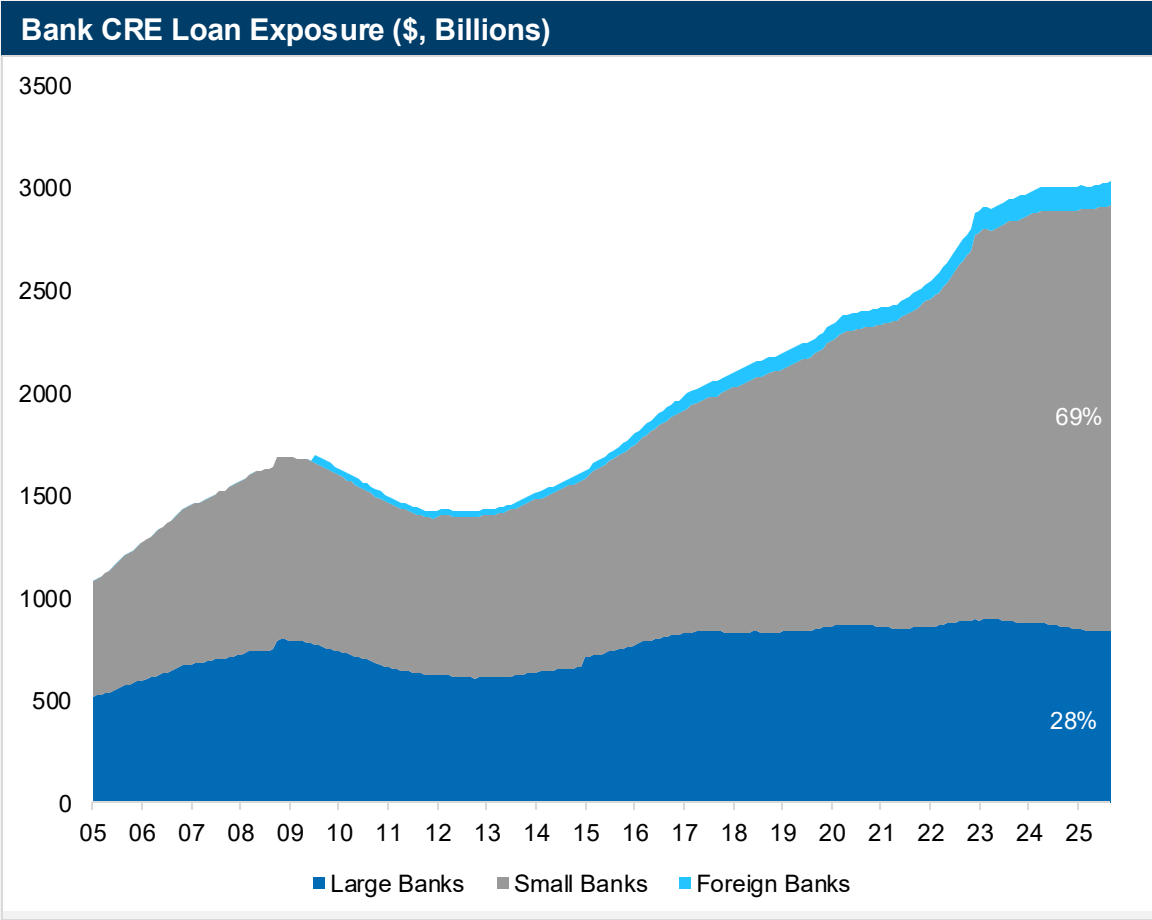
Banks remain the dominant source of CRE financing but have some lost ground to other lender types, though the down-trend has appeared to bottom out. In contrast, securitized lending and debt fund financing have been steadily gaining ground. Securitized lending has been particularly popular in Office, where large loan sizes and appetite for risk has made CMBS executions attractive.



Source: RCA, Newmark Research as of 10/14/2025
Note: Loan origination volumes are adjusted for future expected revisions using Newmark's proprietary models.
*CMBS originations are based on when the underlying loan was originated, not the securitization date

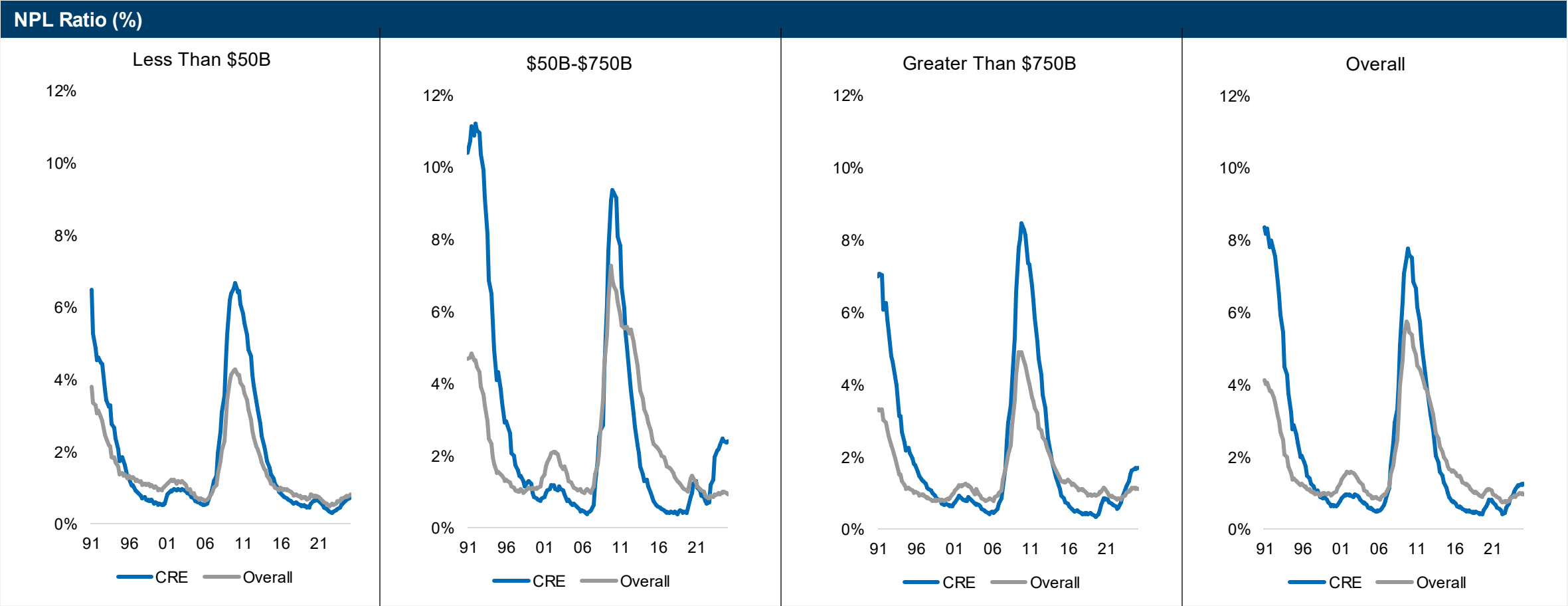
Domestic Banks Backing Off Construction Lending While Foreign Banks Are Jumping In

Since 2019, the share of CRE lending from small and regional banks has grown from 60% to 69%. While the pace of CRE bank portfolios has slowed significantly, it still grows despite predictions to the contrary. There is some shift in risk profile, with domestic banks construction share dropping 1.5 percentage points, while foreign banks have been more willing to jump into riskier loans.



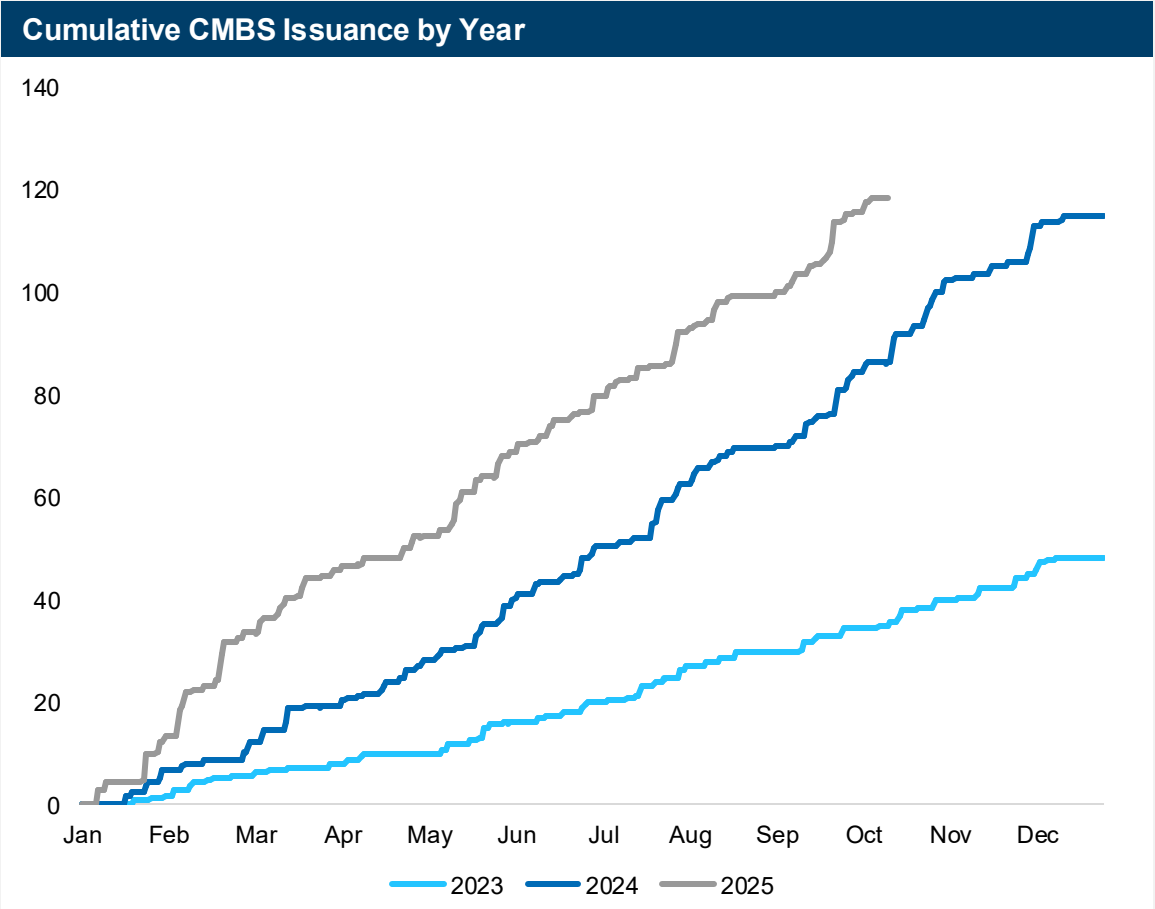
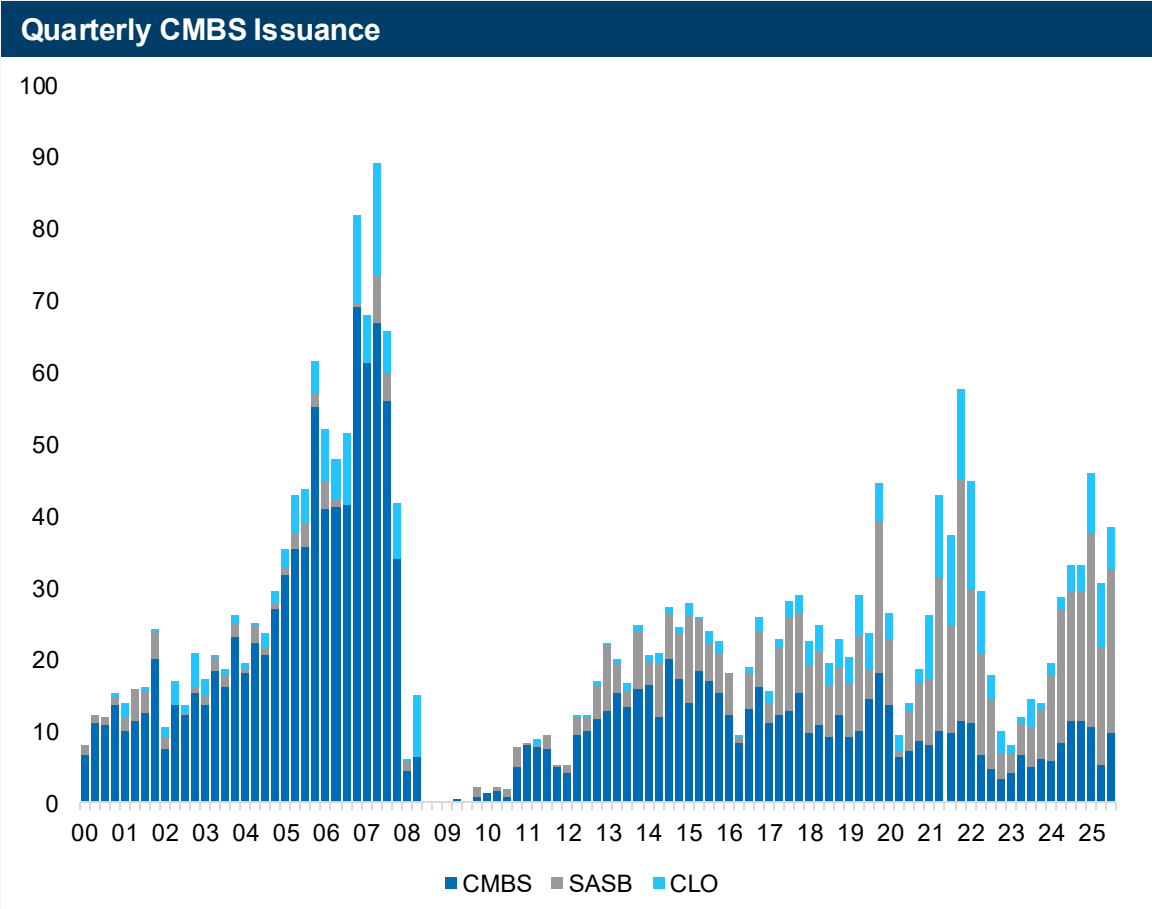
Bank CRE NPL Ratios Have Continued to March Up

Non-performing loan ratios for Commercial Real Estate Loans are well above overall ratios in regional and large banks. Regional and large banks are more regulated, so to some degree the increase in NPL's likely reflects additional requirements on their loan books, but larger banks are also more likely to have large loans in some challenged assets such as commodity office towers.



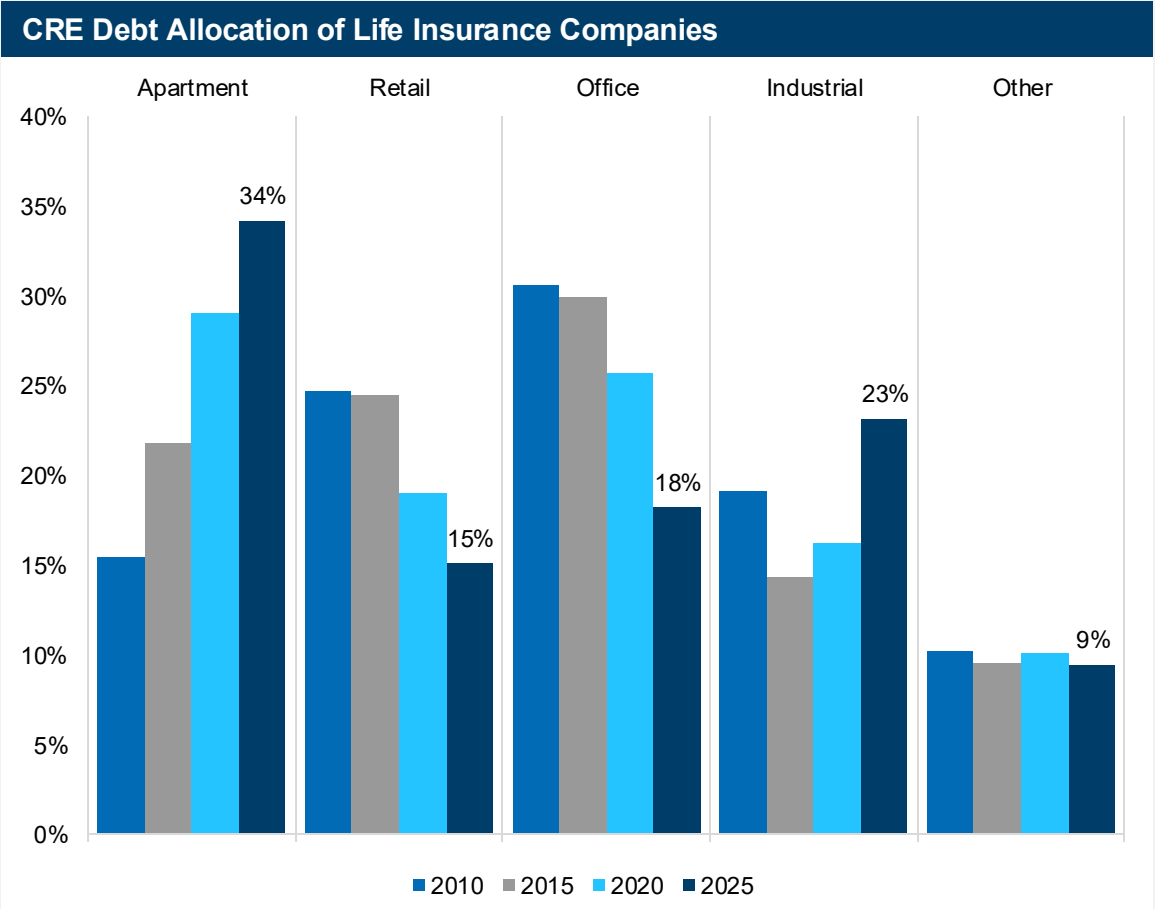
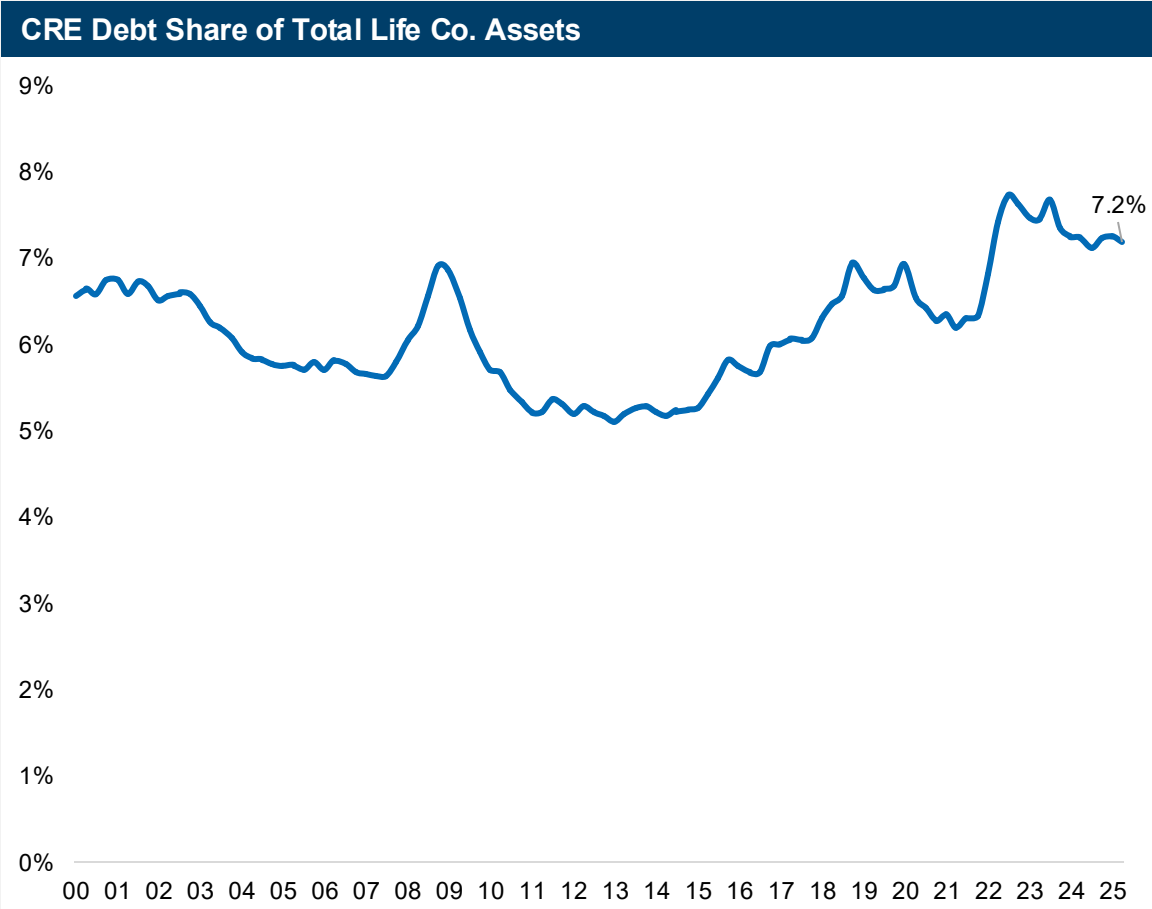
Securitization Activity on Pace for Second Best Year Since 2007

Demand for CRE securitizations has increased in recent months due to higher spreads on offer as compared with corporate debt. SASB structures accounted for 57% of originations in the last 12 months and drove much of the increase. 2025 has been strong for issuance, up 37% compared to the same period in 2024.



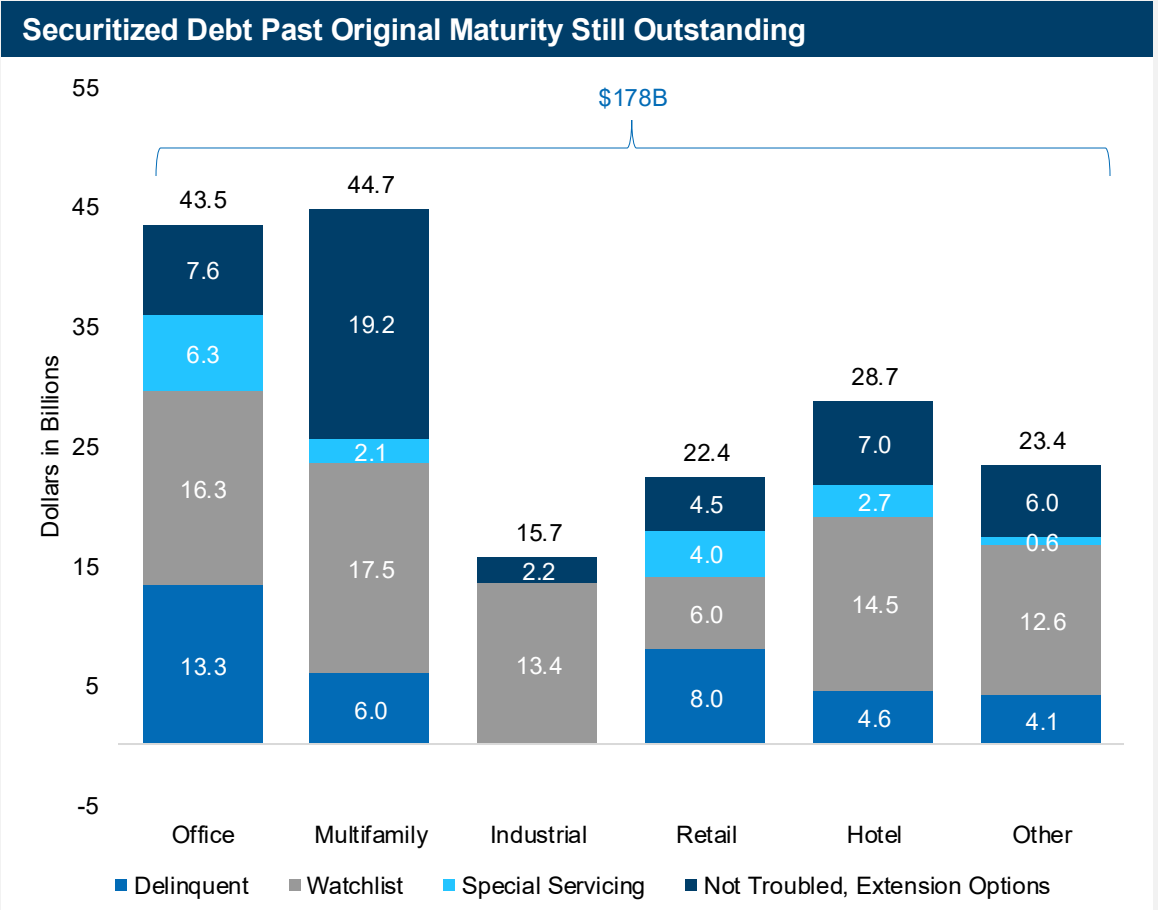
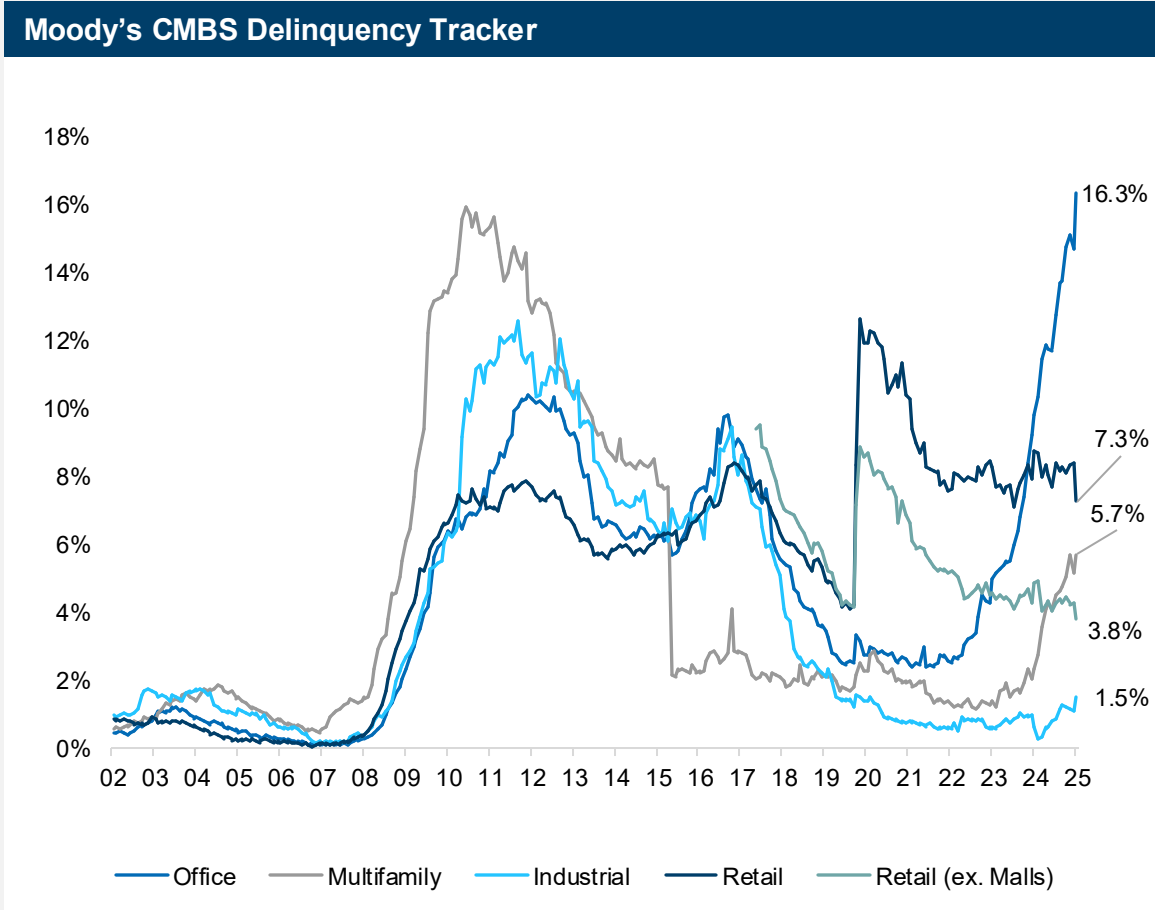
Insurance Companies Focus in Multifamily and Industrial at All Time Highs

Life Insurance companies' allocation towards commercial real estate has come down somewhat since the Fed began to raise rates. However, the allocation increase has been driven primarily by lending into industrial and multifamily, and away from retail and office. Notwithstanding the above, as of early 2025, life insurance companies are exhibiting pronounced appetite for CRE lending, likely reflecting the more attractive yields available compared to corporate credit markets.



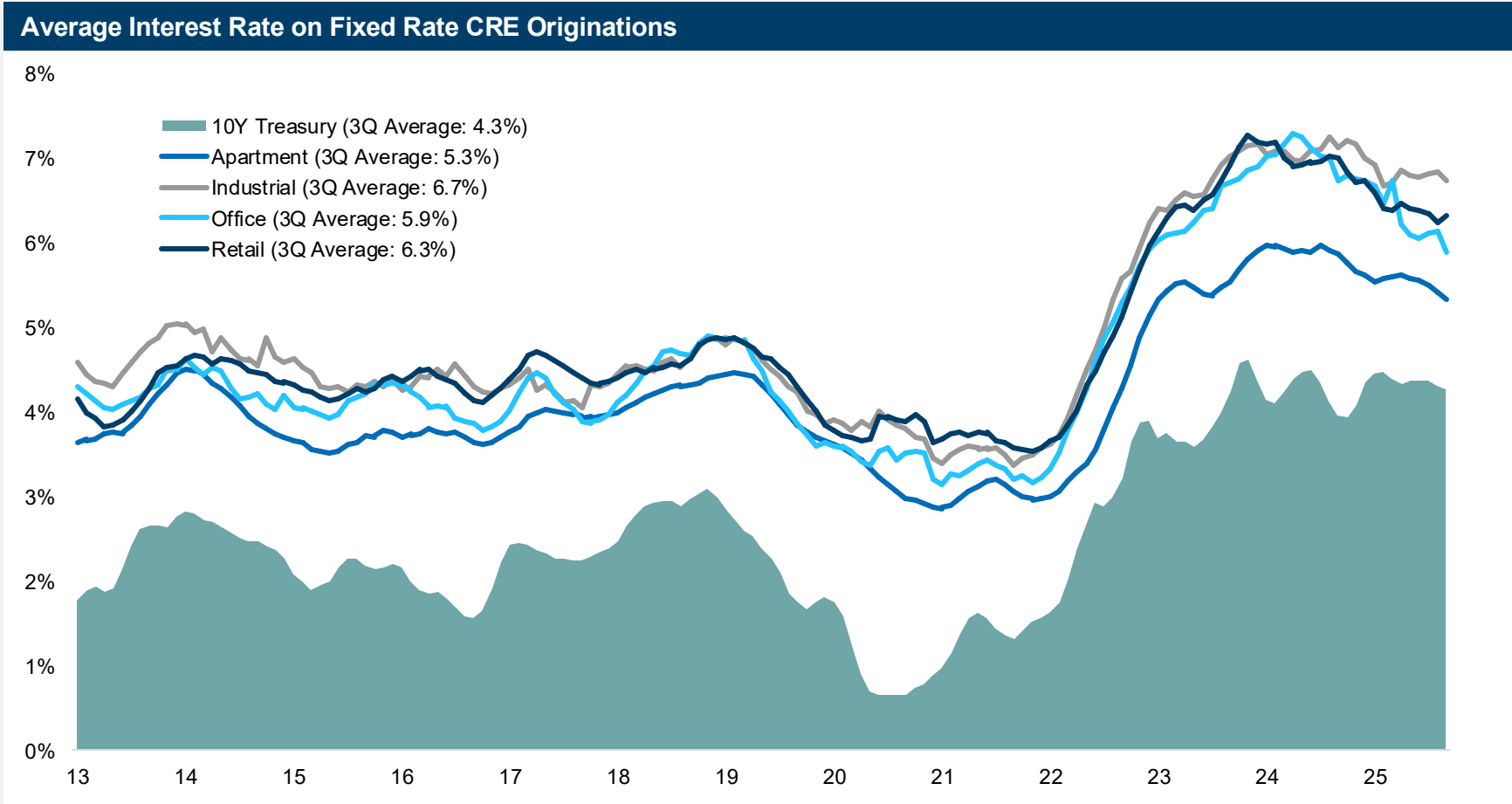
Distress Suppressed by Widespread Use of Extension Options, but Distress Is Building

Delinquency rates have begun to increase, particularly in Office and Multifamily. Office delinquency increased 1.6 percentage points in the 3rd quarter, while the multifamily rates remained flat, but elevated. Still, extensions have remained prevalent, with \$178 billion in outstanding balance originally maturing before 3Q25.



Fixed-Rate Debt Costs Dropped Slightly in 3Q25, Spreads Somewhat Narrower

Debt costs peaked in 4Q23, coinciding with the peak in 10Y treasury yields. While treasury benchmark rates have been volatile in the last year, fixed-rate CRE debt costs largely declined as spreads compressed. Spreads are already tight, so any additional decrease in financing costs must likely come from base rates.



10 Year Treasury Yields Have Fallen 44 basis points from January-September, and BBB yields have fallen 64 basis points

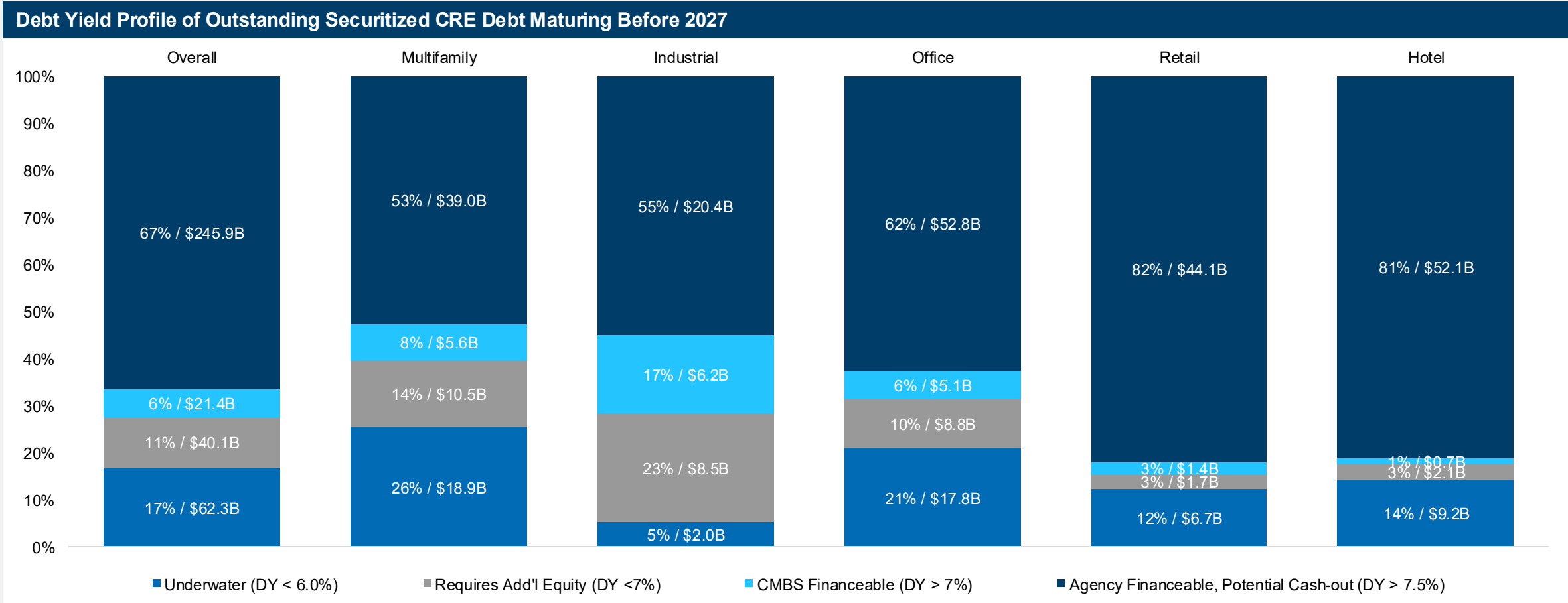
Spreads have come in most for office (-76 basis points), likely due to quality office receiving the majority of financing

Agency rates bring down Apartment overall interest rates. Without Government Agency loans, Apartment rates are 84 basis points higher.

We estimate \$573 billion in loans maturing between 2025 and 2027 are potentially troubled. Of particular concern are Office, Multifamily, and floating rate loans.

Debt Yields Point to Similar Levels of Refinancing Challenges

The share of maturing securitized loans with a debt yield of 7% or less broadly corresponds to loans in the higher risk category (DSCR < 1.25x). That said, debt yields suggest that a smaller proportion are underwater (<6%) than suggested by DSCR analysis (<1.0x). Potentially lost in this discussion is the fact that in either analysis, most maturing loans are (re) financeable in the current market. Industrial is the exception, but given the relatively small quantity of loans, it is difficult to extrapolate from this.



02

Equity Capital Markets

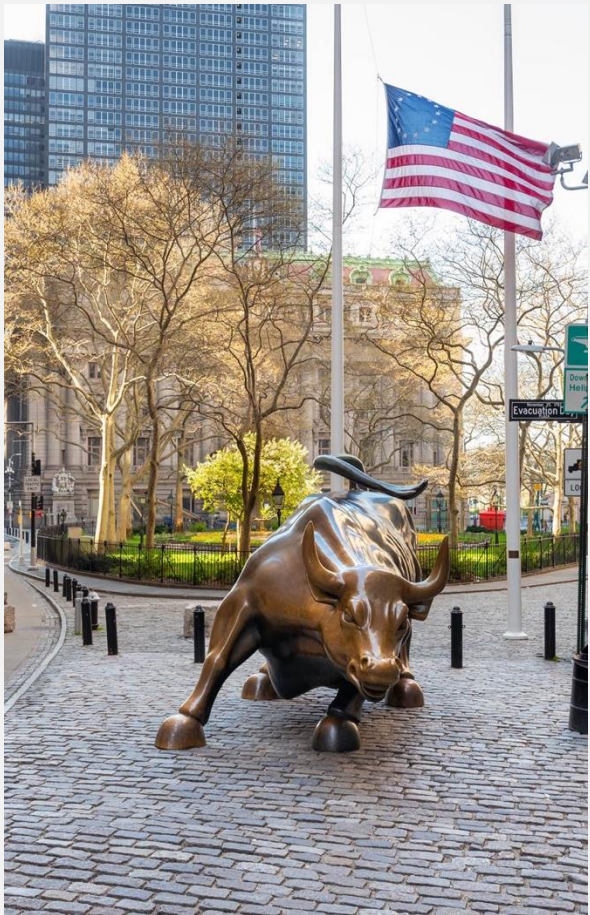
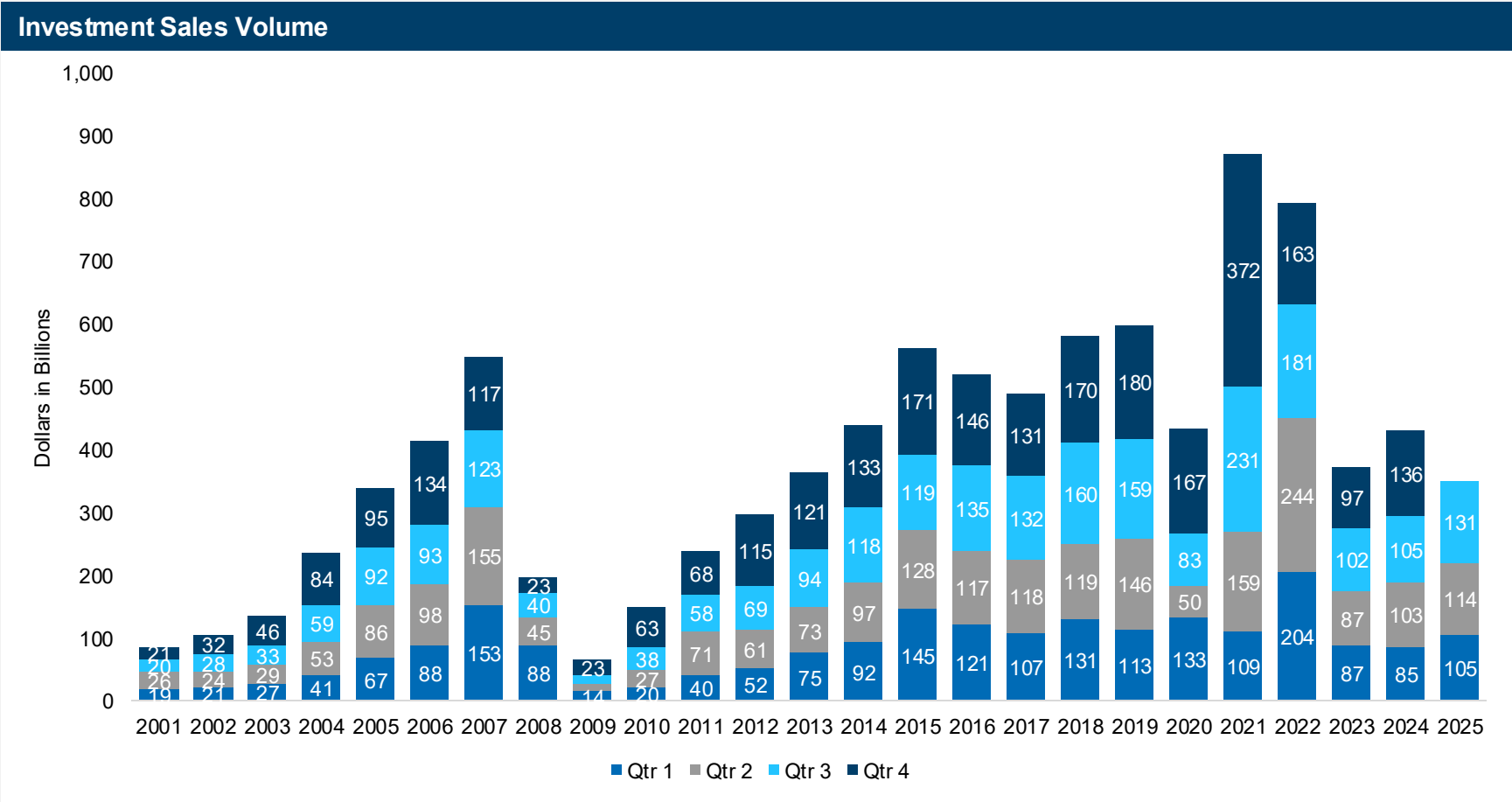
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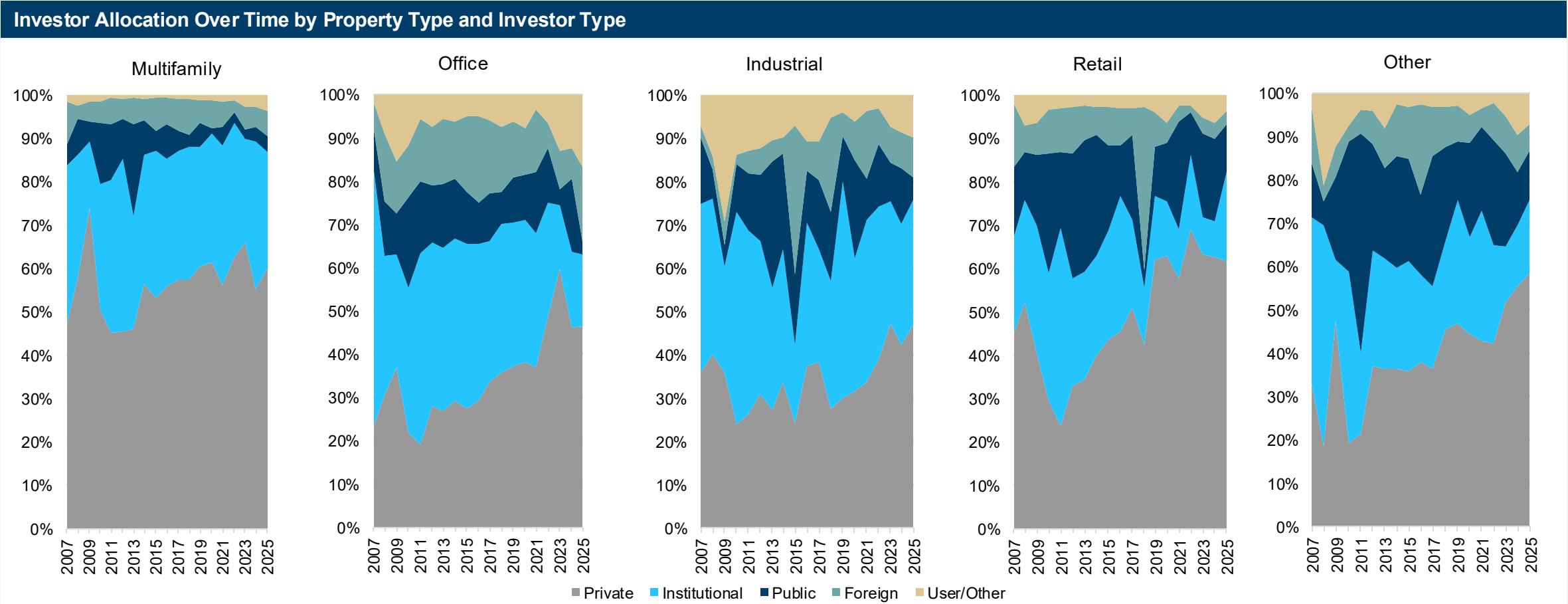
Sales Activity Remains Anemic, With a Possible Light at the End of the Tunnel

Sales increased 15% compared to 2Q25 but remained down 11% compared with the 2017-to-2019 1st half. While volume did show some momentum, the uncertainty introduced after tariff announcements could cause some issues. Lower interest rates have been shown to be conducive to transaction volume in the current environment, but it's not clear how much interest rate relief the market will get from a tariff induced recession.



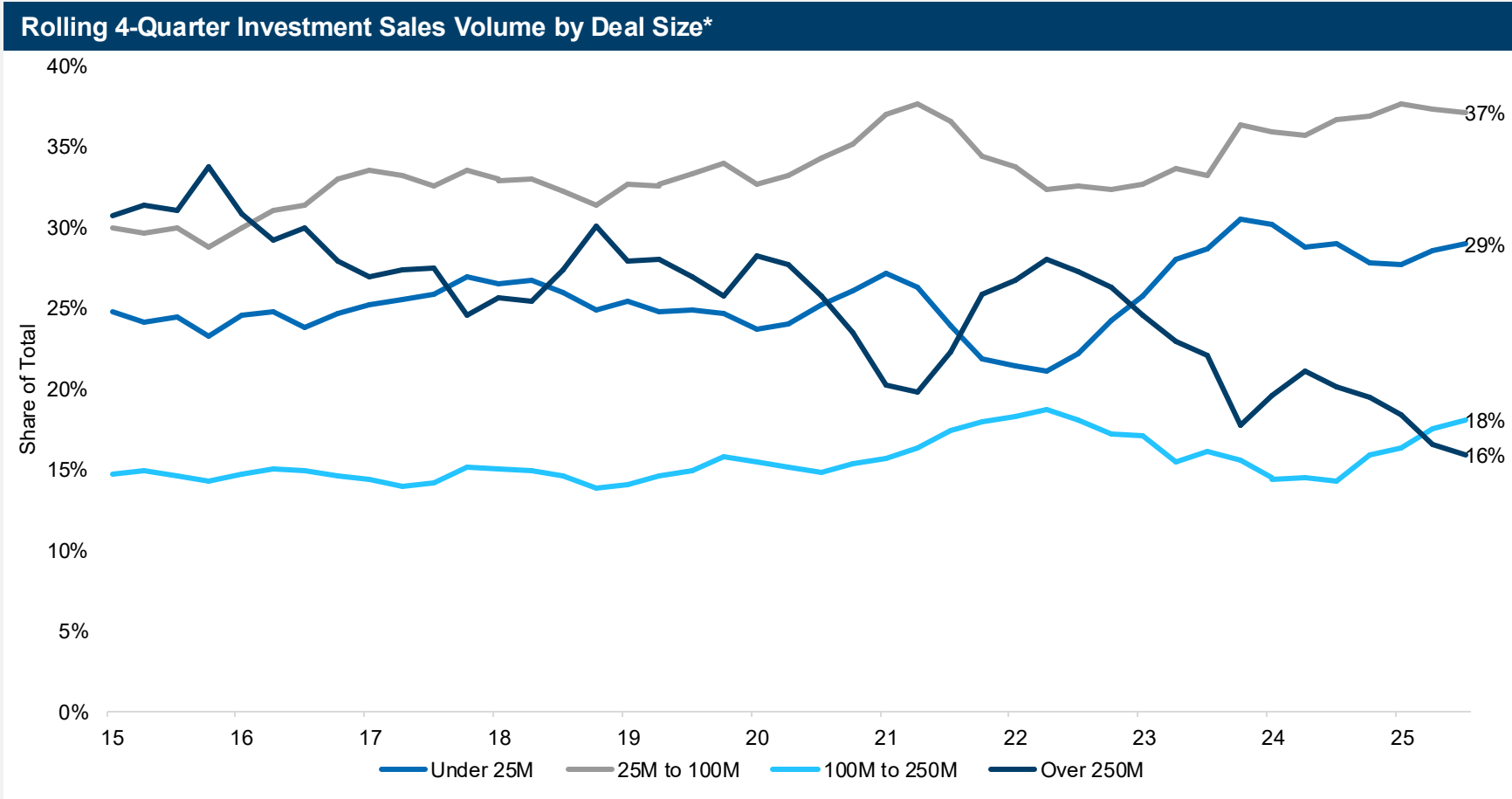
Smaller Buyers Taking Market Share as REITs Pull Back

Private buyers have always been the dominant buyer type across property types, but they have been growing since the start of the pandemic. More recently, Owner/Users have picked up market share in Office, Industrial, and Other property types as interest rates have increased. Nearly 18% of Office transactions are from User/Other buyer types, and 10% from Industrial.



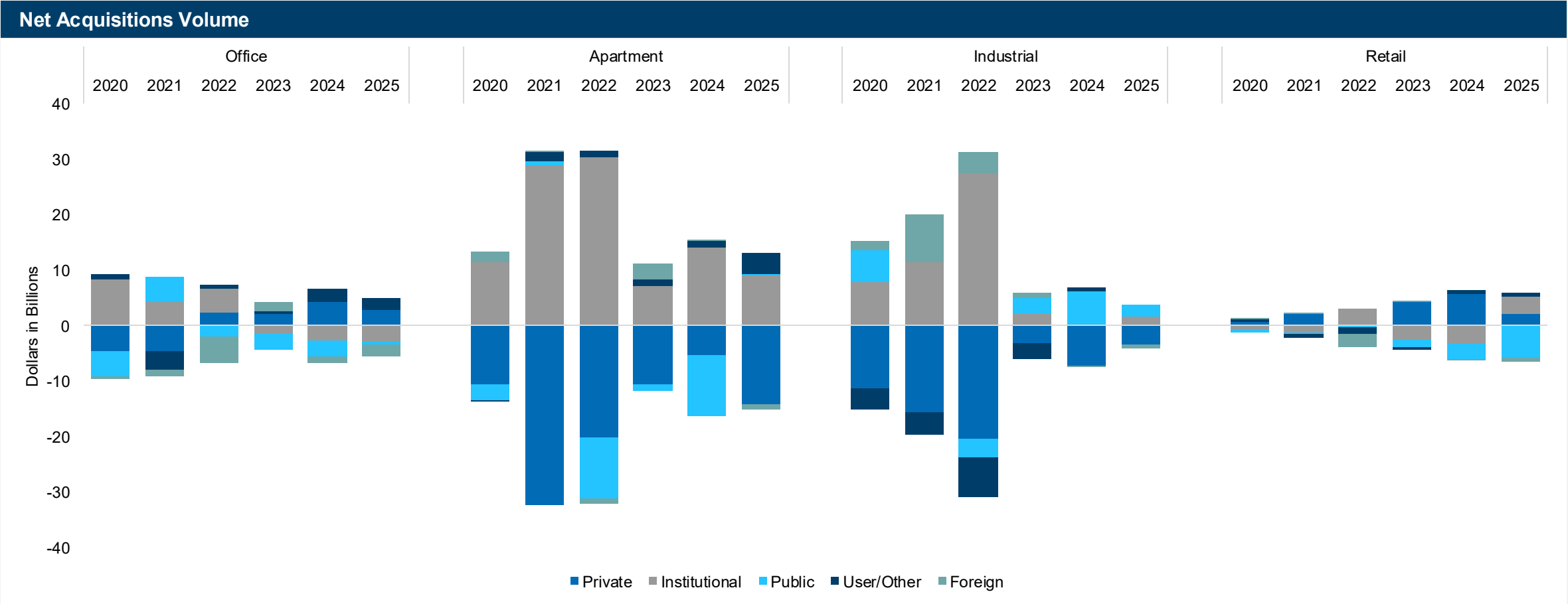
Liquidity Has Shifted Towards Smaller Deals, but Large Deals Are Coming Back

Deals under \$100M accounted for 66% of investment sales volume in the last four quarters as compared with a long-term average of 59%. The sharpest increase has been in deals under \$25M, though the share decreased 2 percentage points throughout 2024, and has continued that trend in 2025. While smaller deals are still dominant, the share of deals above \$100 million hit its highest share since the end of 2023.



Asset Migration Across Capital Groups Muted in Recent Quarters

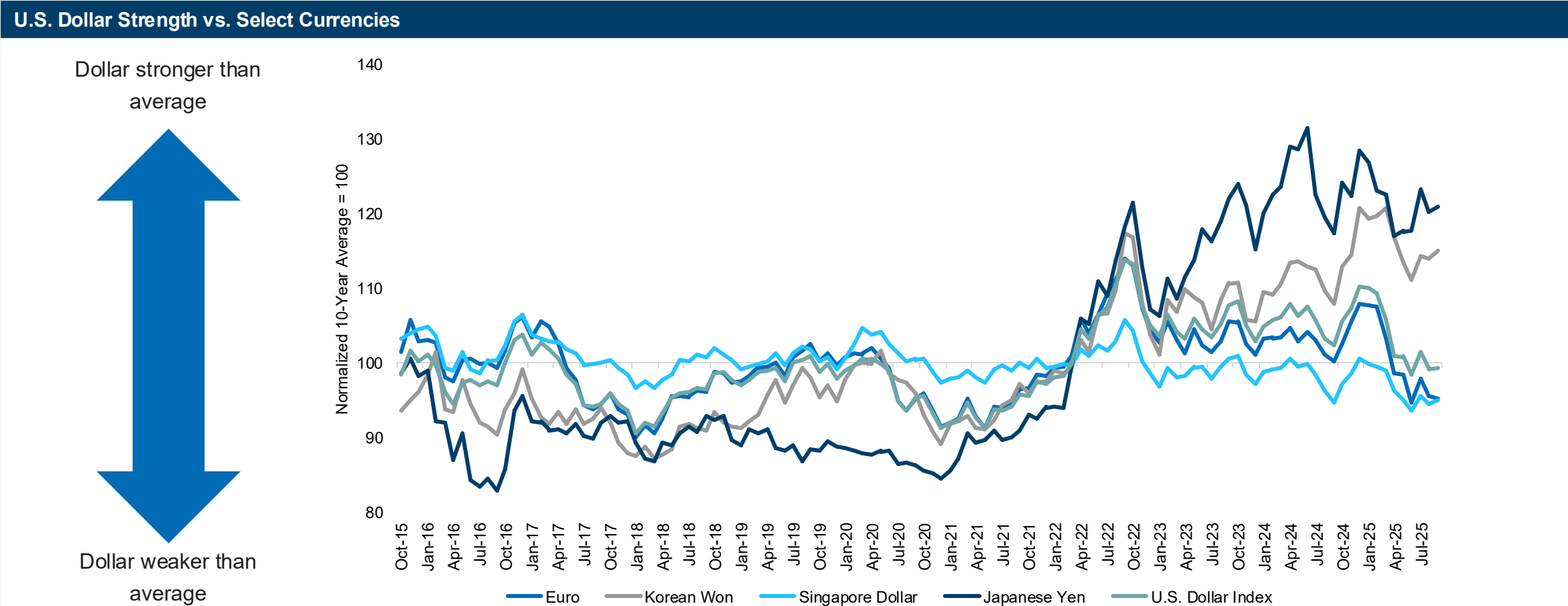
In the first half of 2025, public vehicles (-\$3.6B) have been net sellers of assets, namely retail after Blackstone took Retail Opportunity Investments private. Institutional buyers continued their rotation out of office, but were significant net buyers overall, particularly of Retail assets. Private and User/Other investors have been net acquirers, with private buyers largest net positive acquisition in Office. Foreign investors has been relatively flat outside of Office, where they were net sellers.



Owner-occupiers have capitalized on market dislocation, while the industrial sector's multi-year streak of institutional inflow has barely continued.

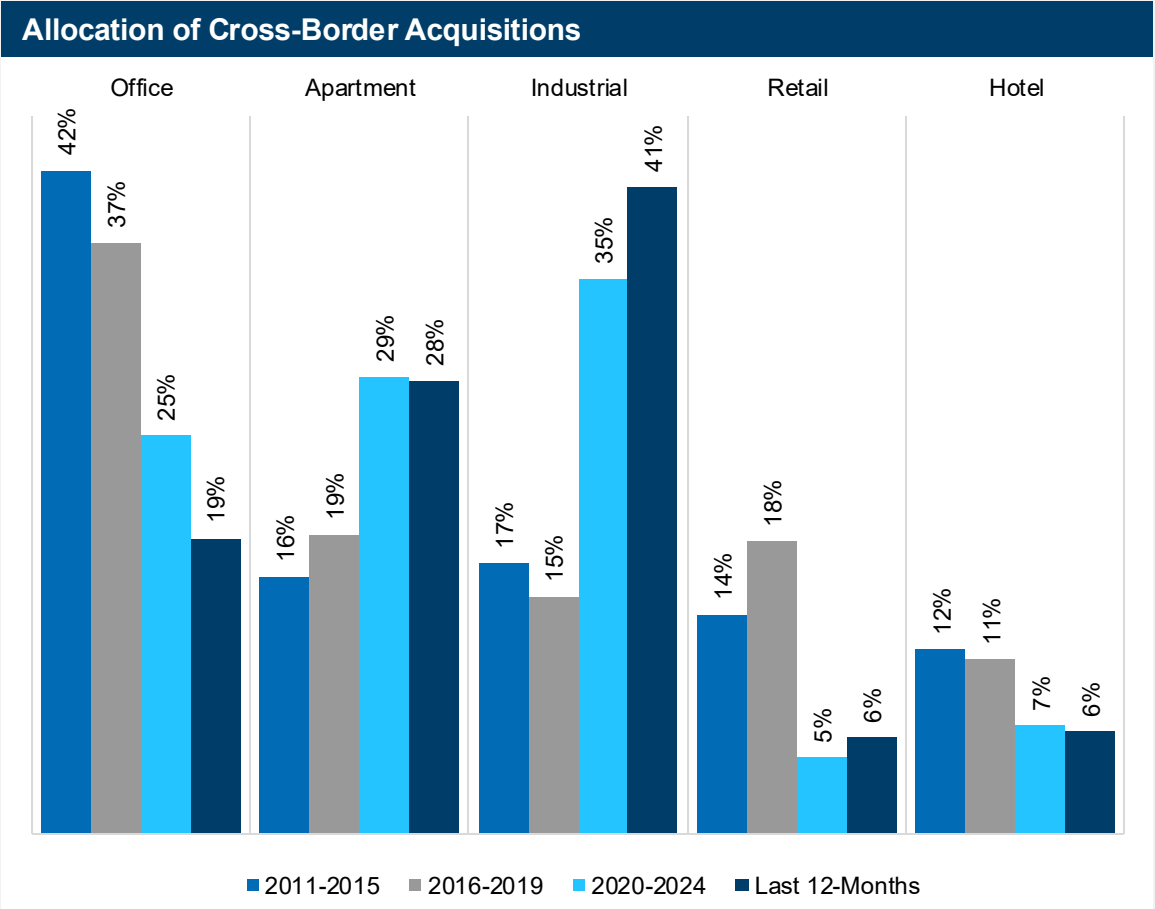
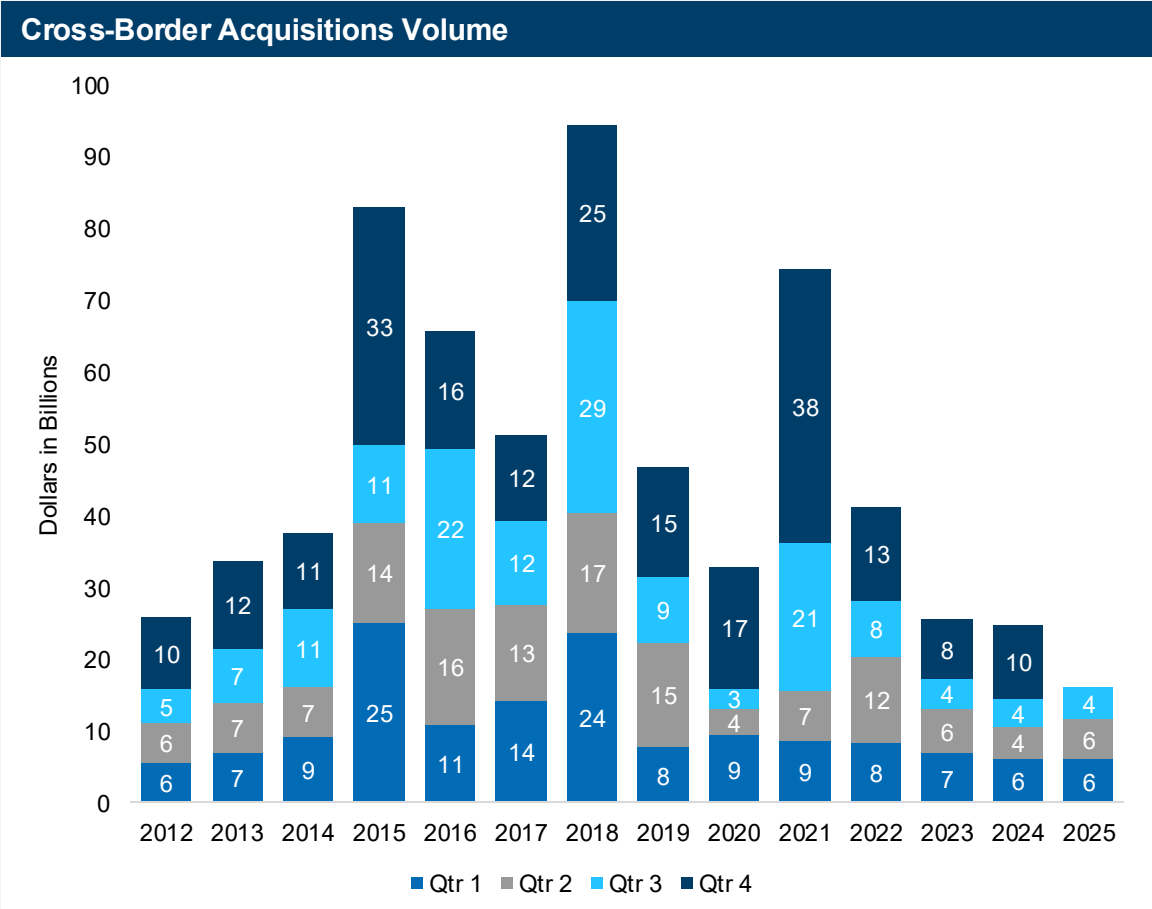
Weaker Dollar Improves Purchasing Power of Foreign Investors

Since the pandemic, the U.S. dollar has generally traded above its long-term average vs. the currencies of major U.S. commercial real estate investors. Dollar strength was driven by higher interest rates combined with U.S. growth exceptionalism. With the Fed projected to reduce rates and evidence of U.S. economic outperformance narrowing, the dollar has weakened against a range of currencies year-to-date. The dollar is now trading slightly below its long-term average, though it remains elevated compared to JPY and KRW. For EUR and SGD investors, a window is open for making long-term investments at a neutral to attractive dollar valuation.



Foreign Investment Continuing To Shift to Apartment and Industrial

While Foreign Investment in Commercial Real Estate remains well below historic averages, and still declined year-over-year, the fourth quarter saw some uptick in activity. Foreign investors have keyed in on Multifamily and Industrial, though have begun to increase their allocations to Retail and Hotel as well. Continued momentum in foreign investment is likely to be complicated by a strengthening dollar, however.



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Supply of Capital

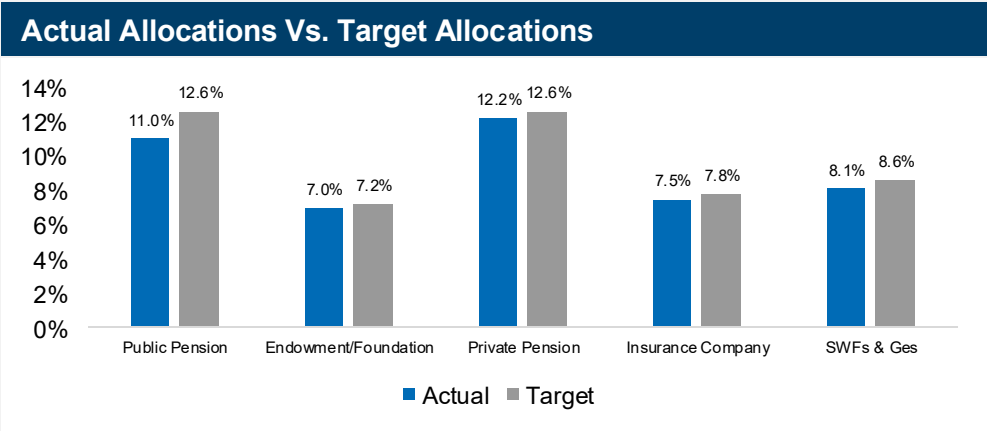
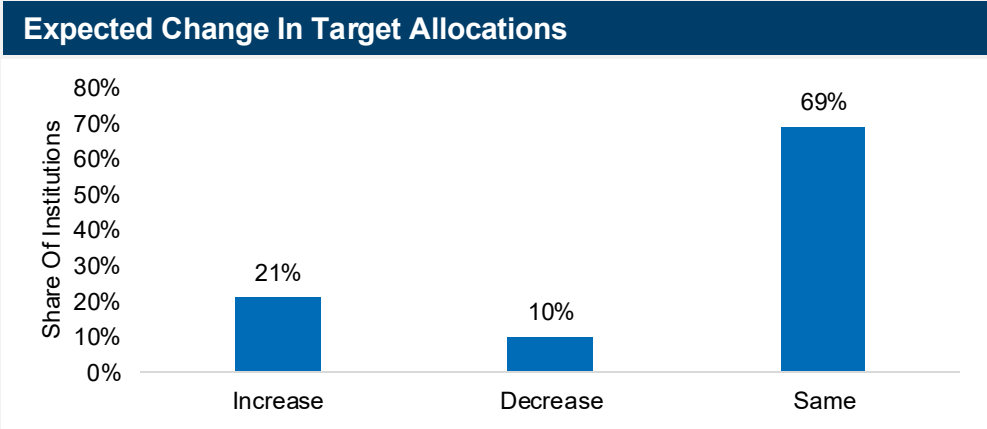
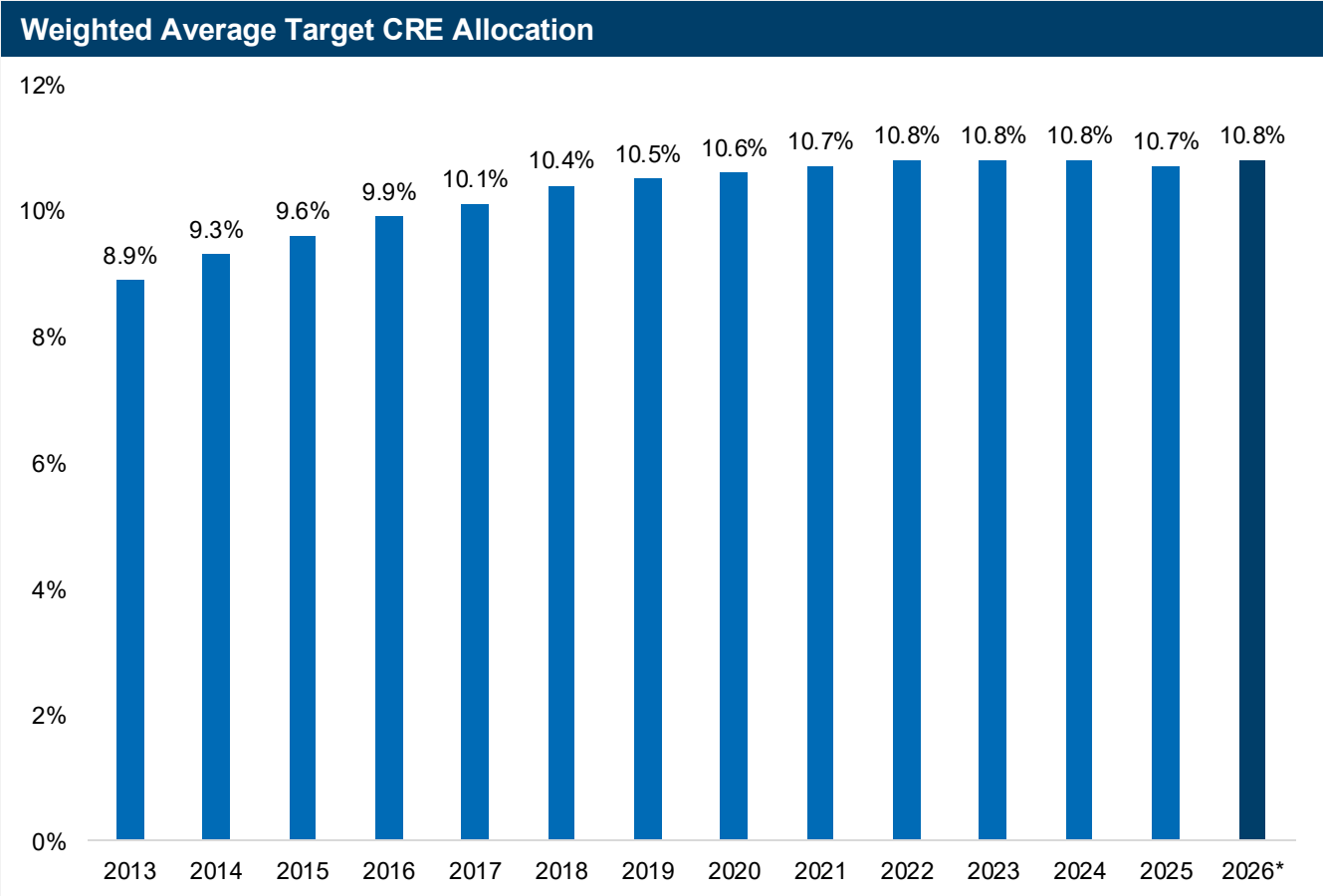
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Allocations Towards Real Estate Expected To Rise Slightly

Allocations towards CRE are expected to rise across the globe after declining in 2025, despite most institutions missing their target allocation on the low side. The difference in target vs. actual allocations actually widened in 2025 despite target allocations decreased, as firms continued their wait-and-see approach, though the serial under-allocation is a good indication of pent-up demand waiting to be released once investors feel more comfortable with forward looking returns and market pricing.



Diversified funds are going to struggle to push their Industrial allocation higher, so anticipate institutional allocations to shift to Niche, Retail, and Multifamily.

04

Pricing and Returns

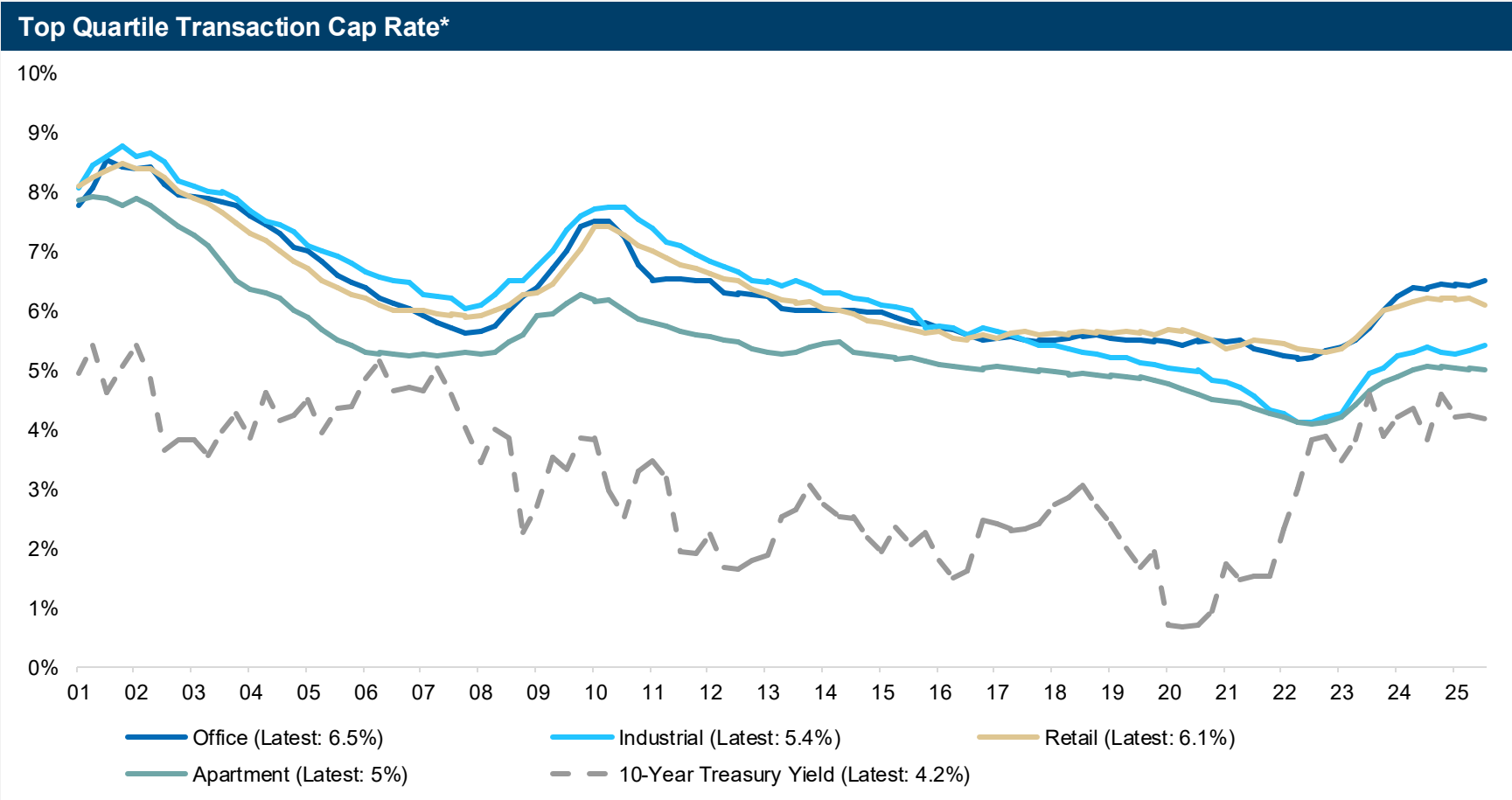
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Transaction Cap Rates Stable in 2025

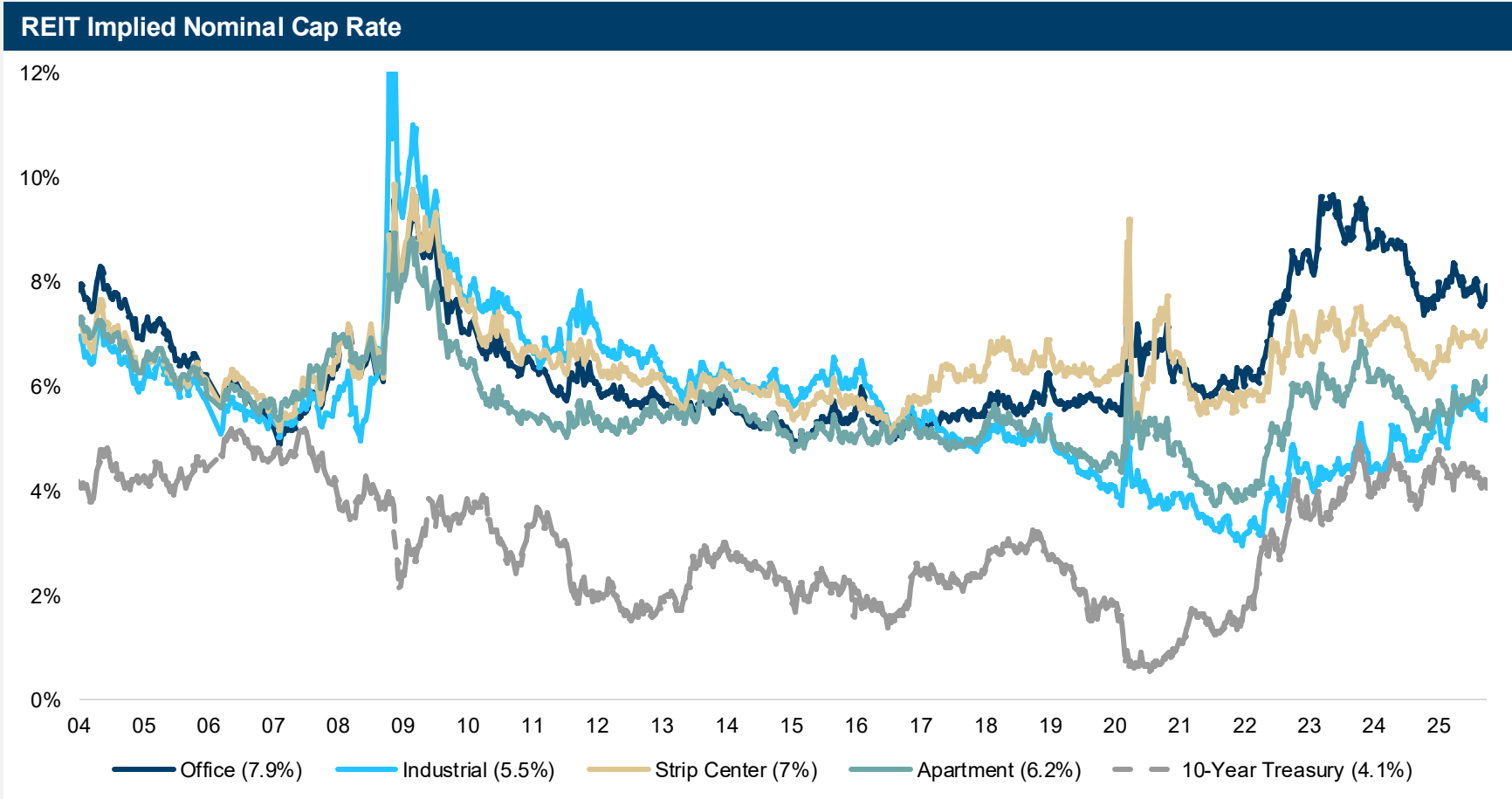
Cap rates continue to face upward pressure from elevated debt costs and higher yields on alternatives to CRE investments; however, in 2025, transaction cap rates were effectively flat across the major property types. Treasury yields largely remained flat in the second quarter, with the ten-year starting and ending the quarter at 4.2. Spread normalization remains a downside risk, though narrow spreads have remained remarkably resilient as unemployment remains low, debt supply is ample, and treasury yields remain relatively steady.



Cap rates should remain relatively flat
assuming a market environment with
ample debt availability, low
unemployment and relatively steady
treasury yields.

Public Markets Implied Cap Rate Moving Sideways

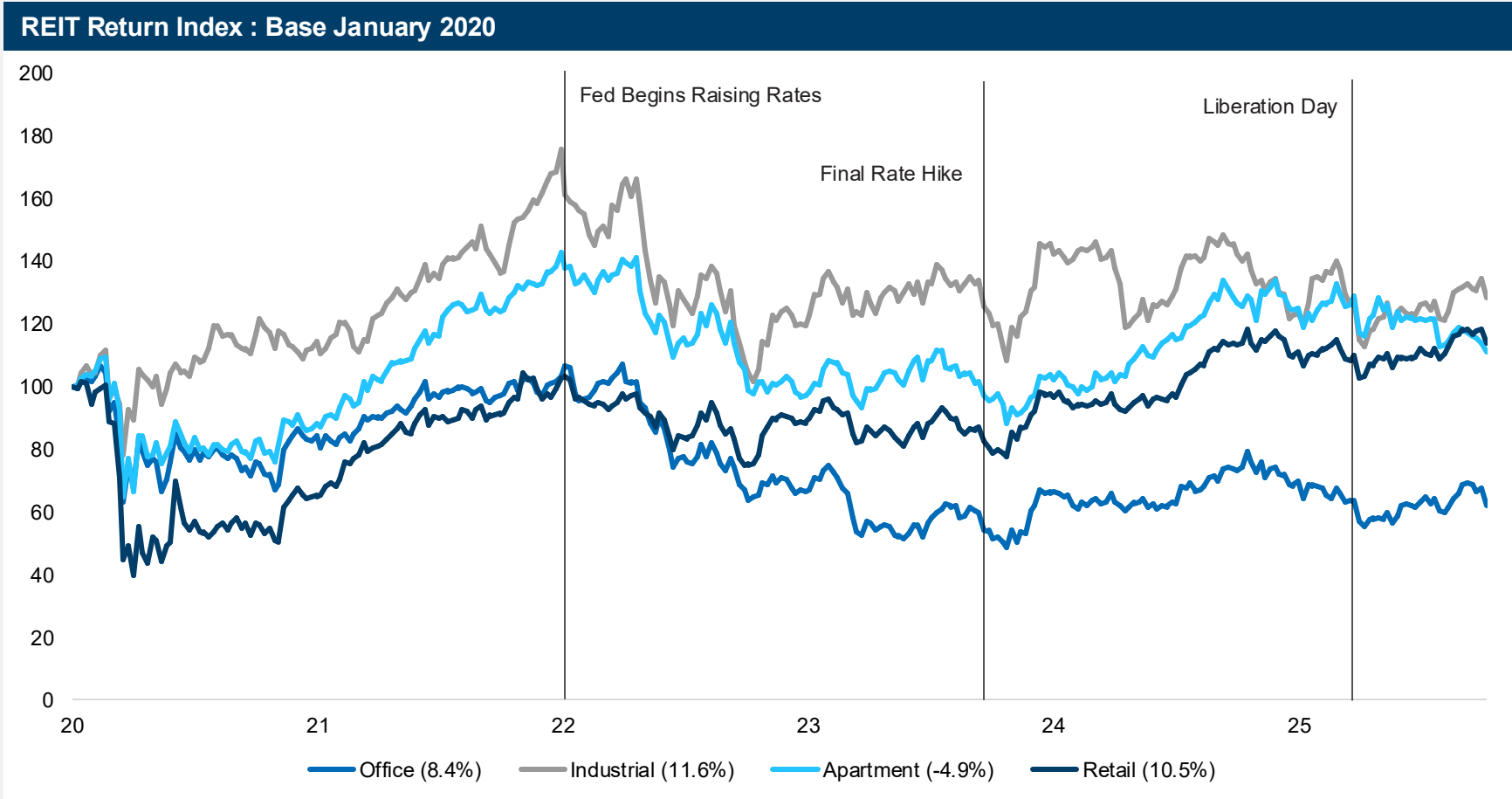
Over the last 18 months both cap rates and cap rate spreads have moved in different directions depending on the asset. Office spreads have come in, narrowing nearly a full percentage point compared to the 10-year treasury since the start of 2024, while Retail and Multifamily have been flat. Industrial spreads have come up 110 basis points over the same time period, as a combination of somewhat weaker fundamentals and less mark-to-market opportunities has led to a normalization of cap rate spreads.



Cap rates do not necessarily need to normalize their spread to Treasury yields, but additional Federal Reserve rate cuts or even declines in longer term yields are not guaranteed to lead to cap rate compression.

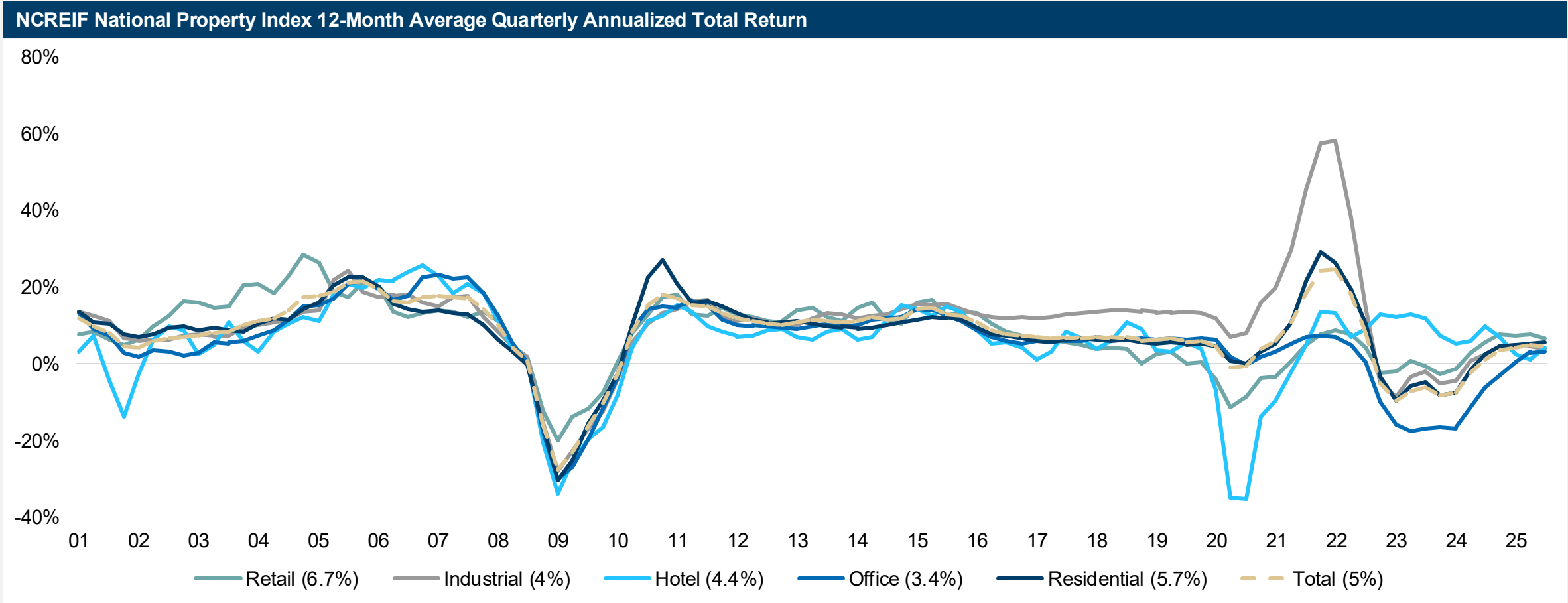
REIT Returns Have Moved in Lock Step With Rate Expectations

REIT Returns have been highly sensitive to changing rate expectations, as the markets predictions on the terminal rate have swung on the heels of Fed meetings and economic data. After the initial rate hike in early 2022, total returns for REITs fell precipitously, particularly in Office and Apartment. Since Liberation Day, however, Industrial (+12%), Retail (+11%) and Office (+8.4%) have regained some of what they lost, while Apartment (-4.9%), still working through supply issues, has continued to decline.



Private Market Core Property Returns Flat but Positive in The 3rd Quarter

Property returns remained flat in 3Q25 according to NCREIF, as the acceleration in returns leveled off. The 12-month average annualized Total Return (+5.0%) index turned positive for the fifth straight quarter, buoyed by solid returns in all major property types. Office returns (+3.4%) were positive and accelerating for a third straight quarter, while Retail (+6.7%) returns beat the total return index for an 12th straight quarter.



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