

## 2025 Commercial Real Estate Recap: Market Conditions and Observations

Real Estate

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As we move past 2025, the commercial real estate (CRE) market is operating in a more stable environment than the last two years. However, pressure from interest rates, financing costs and uneven asset-class performance continue to shape activity. Here are the top trends that drove the industry this year.

### 1. Increased Use of Loan Assumptions

Higher borrowing costs in 2025 prompted more buyers, particularly in the multifamily sector, to pursue loan assumptions, hoping to take advantage of lower rates locked in on existing debt, compared to newly originated loans.

Lenders, however, have not been making it easy. They have been tightening approval standards by taking a closer look at the borrowers' experience, net worth and post-closing capital plans before giving the green light.

As many of these legacy loans approach maturity, the availability to secure below-market assumable debt is expected to decline, potentially slowing down transaction volume.

### 2. More Capital Partner Involvement

Tighter financing and less liquidity have affected some sponsors' ability to put up additional capital or refinance expiring loans. When more equity is needed, capital partners have often asked for changes to governance, promote structures or reporting requirements.

While this trend has not been universal, it is clear that investors are taking a more hands-on role, actively monitoring performance and negotiating for more protections when they invest additional capital.

### **3. The Bid-Ask Gap is Narrowing**

At the start of 2025, a disconnect between buyer and seller pricing expectations slowed deal activity. Buyers were cautious, factoring in higher debt costs and dialing back on growth projections, while some sellers were still holding on to valuations from earlier market cycles.

Through mid- to late-2025, more sellers became flexible, adjusting prices or offering incentives like longer diligence periods, limited re-trade options or structured seller financing.

These moves contributed to modest improvements in deal flow, although activity remains uneven across markets and asset classes.

### **4. Refinancing Remains a Key Focus**

For many owners facing loan maturities in 2025, finding refinancing options has been more challenging than in the past. Higher interest rates, tighter debt-service coverage requirements and lower property values have created obstacles across several asset classes.

As a result, borrowers frequently pursued alternatives such as short-term extensions, partial paydown of the debt or bringing in new equity partners. These approaches were primarily aimed at maintaining stability while waiting for clearer direction in the capital markets. Although refinancing activity slightly increased in the second half of 2025, it continued to require more documentation, updated business plans and thorough review from lenders compared to past years.

### **5. Operating Performance Varied Significantly by Asset Type**

Throughout 2025, performance trends varied widely by sector. Industrial and certain multifamily properties held up well, thanks to stable demand. In contrast, some office properties struggled with increased vacancies and higher tenant improvement costs.

Retail performance remained mixed and highly location-specific; centers serving everyday needs generally fared better than those reliant on discretionary retailers. These differences helped shape deal activity, with capital selectively flowing toward assets and markets that offered clearer short-term cash flows.

### **Bottom Line**

The 2025 CRE market was largely shaped by higher capital costs and cautious underwriting. While certain asset types faced real challenges, the year also brought clearer pricing adjustments and more levelheaded negotiations. Heading into 2026, the market is still adjusting but operating with more consistency than in the post-2022 period.

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