CRE Deal-Making Gains Momentum Despite Market Uncertainty

But investors and lenders are taking an increasingly cautious approach to transactions.

By Philippa Maister

February saw a sharp increase in CRE activity and a more active lending and investment environment, according to the LightBox CRE Activity Index. But it cautioned that market uncertainty could affect the March results.

The index tracks commercial property listings, environmental due diligence, and valuation activity. LightBox describes these as key functions that support transactions and collectively serve as a leading indicator of deal activity.

The February Index rose 20 points year-over-year and 15 points over January to 96.1. LightBox said the spike reflected a 20% rise in environmental due diligence activity, a 17% uptick in commercial property appraisal demand as lenders field requests for refinancing and debt capital, and a 19% increase in properties listed on its platform.

“Despite rising economic and political uncertainty, the Index provides evidence that the CRE deal-making environment is gaining momentum as a growing wave of loans and properties moves into play,” LightBox commented.

At the same time, market participants are trying to make sense of competing market signals, such as a slump in the Conference Board’s consumer confidence index, a slowing trend in job growth, and the welcome lowering of the Personal Consumption Expenditures (PCE) price index, a measure that gauges inflation and deflation.

Uncertainty about tariffs and how the Trump administration’s plan to terminate federal leases will impact the office market are also weighing on decision-making.

The report found that investors now expect two Fed rate cuts this year – one in June and one in December – as fears of an economic slowdown remain. They are turning their attention to the office market as distressed loans and assets change hands.

Deals involving performing properties, industrial, multifamily and retail are also drawing interest, according to each market and sub-asset class.

“Institutional investors and private equity firms are actively shopping for opportunities as the volume of properties on the selling block expands opportunities for ROI across asset classes and markets. Any pullback in sellers’ willingness could intensify competition among buyers for attractive properties,” the report commented.

Meanwhile, it said capital is being directed to well-located, desirable assets like high-quality office, data centers, shopping centers and multifamily in growth markets. It noted strong office leasing growth in key markets and said the return-to-office mandates of some major corporations show occupiers have growing confidence in making long-term commitments.

However, the report also noted that investors and lenders are taking a selective, increasingly cautious approach to transactions amid economic and policy uncertainties. Confidence could erode if job growth slows significantly or unemployment rises. If that happens, the Fed could cut rates, but it could raise them and affect financing if inflation remains high.

“March’s Index could reflect a growing caution in the market if uncertainty delays strategic commitments and forces investors and lenders to resume a more guarded stance,” the report warned.