

# CLARIFYING VISION



Cliff Booth  
Founder and Chairman  
Westmount Realty Capital

## Recent CRE capital flows have declined significantly due to heightened interest rates, market uncertainty fueled by trade tariffs, and US governance challenges. What does this mean for the dynamics of capital flows into the US?

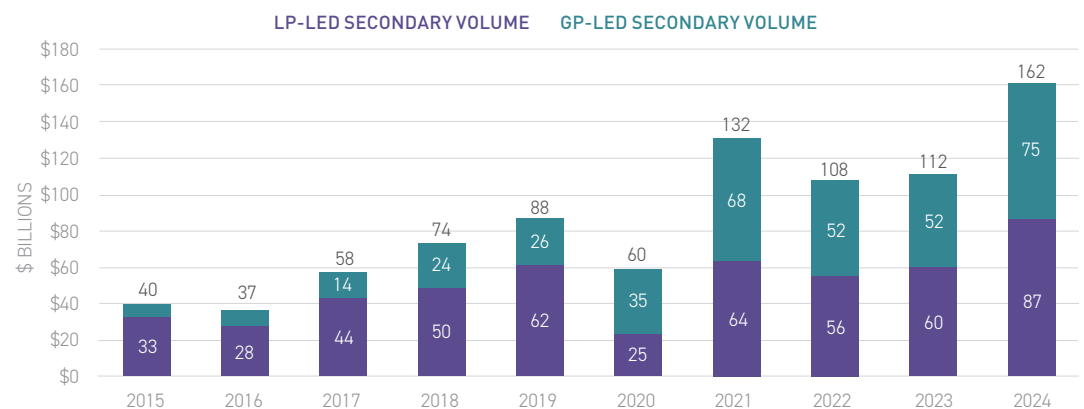
Recent commercial real estate (CRE) capital flows have declined significantly due to heightened interest rates, market uncertainty fueled by trade tariffs and generally volatile fiscal and monetary policy expectations, among other factors.

Institutional investors, such as pensions and endowments, have notably pulled back on CRE allocations citing underperformance and capital locked in current fund vehicles. Smaller investors, including registered investment advisers (RIAs) and family offices, have

exhibited caution to making commitments to new funds and private placements amidst the uncertain environment.

Meanwhile, secondary funds have emerged to partially fill the liquidity gap created by restrained primary market activity, although they have not fully compensated for the broader reduction in capital flows. This has also become a rising trend in other private markets such as private equity as both LP and GP-led secondaries have provided additional liquidity solutions.

### EXHIBIT 1: GLOBAL SECONDARY TRANSACTION VOLUME HAS BEEN INCREASING



Source: Jefferies; Data as of December 31, 2024

When investors do allocate to CRE, there remains a strong preference for industrial and multifamily sectors, including niche sub-types such as cold storage, build-to-rent, and single-family rentals, despite distress in some areas such as Sunbelt multifamily markets that were heavily leveraged with floating-rate debt.

Additionally, the rise of private credit due to higher interest rates presents a competitive challenge to equity capital raising.

Foreign capital inflows into US CRE have also contracted due to a weakening dollar, tariffs, and immigration policies. However, recent Federal Reserve rate cuts have begun stimulating transaction activity and may further improve CRE capital flows, especially with new sources such as 401(k) investments emerging from executive orders.

The cost and availability of debt had become prohibitively and relatively high in 2023-24 compared to when the Federal Funds target was near 0%, causing a downturn in CRE market activity, with banks focusing more on managing existing loans amidst an anticipated loan maturity wall in 2023 and beyond.

This article explores these dynamics in detail.

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### IMPACT OF HIGHER INTEREST RATES AND GOVERNMENT SHUTDOWN ON CRE CAPITAL FLOWS

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Higher interest rates have made debt financing substantially more expensive and less available, leading to a sharp reduction in CRE transaction activity during 2023 and 2024. Banks and traditional lenders have pulled back, prioritizing existing loan portfolios and tightening underwriting standards amid economic uncertainty.

The cost of capital rose as widely referenced benchmarks including the 10-year Treasury yield and secured overnight financing rate (SOFR) remained elevated, limiting both acquisition activity and refinancing opportunities. Moreover, the US government shutdown that began in late 2025 delayed critical economic data releases such as employment reports, construction permits, and housing starts, undermining investor confidence and increasing market volatility.

This political uncertainty has start to cause some lenders to raise risk premiums and adopt more conservative stances, further constraining lending availability and deal-making in commercial real estate. However, credit spreads do generally remain historically tight, largely due to the growing influence of private credit.

**In 2025, CRE secondaries activity has thrived, offering a cost-efficient and quicker deployment path during the recovery stage of the cycle.**

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### INSTITUTIONAL INVESTOR RETREAT AND SMALLER INVESTOR HESITANCE

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Institutional investors such as pensions and endowments have reduced CRE allocations partly because of disappointing recent returns and significant capital commitments locked inside existing closed-end fund vehicles.

The 2024 Real Estate Allocations Monitor noted that 17% of institutions were planning to lower target real estate allocations by 140bps in 2025. Many institutions are looking to exit at discounts, creating more opportunities for secondary fund investors but signaling a lack of appetite for new primary market allocations. Similarly, smaller investors, including RIAs and family offices, have become increasingly cautious.

These investors are wary of committing to new fund raises amid uncertainty about future performance and market timing, often preferring to wait for more stability before deploying fresh capital. Many have also expressed more liquidity mechanisms than are offered in traditional closed-end fund structures.

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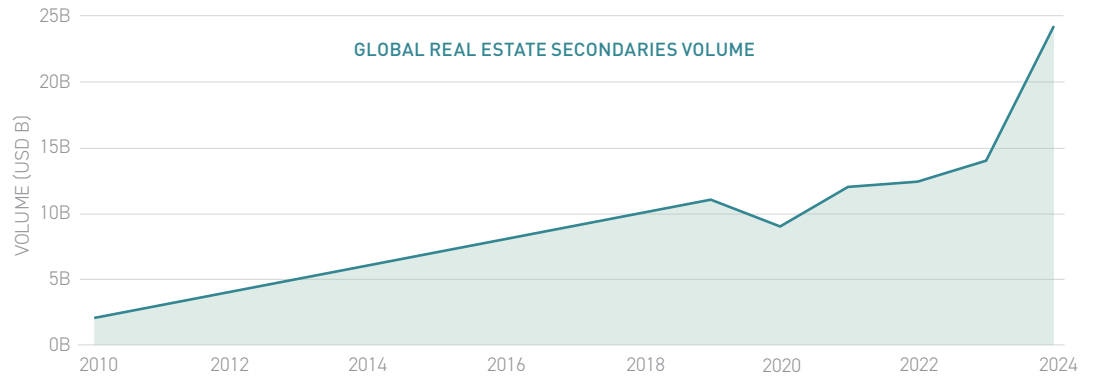
### RISE OF SECONDARY FUNDS AS A PARTIAL SOLUTION

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Secondary funds have become increasingly important in providing market liquidity and offering exit options to originally committed investors. In 2025, CRE secondaries activity has thrived, offering a cost-efficient and quicker deployment path during the recovery stage of the cycle.

Secondary transactions allow investors to purchase interests in existing funds or portfolios, often at discounts, and without the need for new primary commitments. This activity has been supported by the extended hold periods and repricing of assets that have made primary market sales more challenging. Despite this, secondary funds have not been fully sufficient to offset the broader reductions in capital flow into primary CRE deals, partly due to the sheer scale of capital still held in existing vehicles and ongoing market uncertainty.

**EXHIBIT 2: RISING GLOBAL REAL ESTATE SECONDARIES VOLUME (2010-2024)**



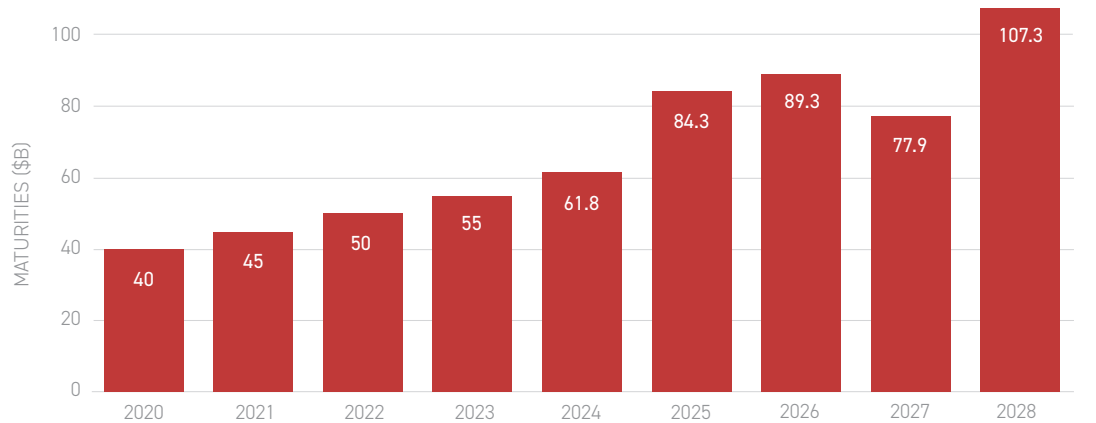
Source: CBRE IM, Ares Mgmt, 2024 volume nearly doubled prior peak

**ASSET PREFERENCES AND NICHE SUBTYPES**

When investors have allocated capital to CRE in this environment, there has been a clear preference for sectors perceived as more resilient or offering growth potential, namely industrial and multifamily assets. Within these sectors, interest has concentrated on niche subtypes including cold storage—which benefits from rising e-commerce demand—and build-to-rent single-family rental projects, popular for their ability to meet shifting housing preferences. These asset types have tended to provide income stability and growth opportunities even in a tough market.

Nonetheless, pockets of stress remain, particularly in Sunbelt multifamily markets where properties bought at peak cycles with floating rate debt face refinancing challenges amid higher interest rates. This is reflected in the increasing dollar amount of loan maturities, of which many loans have been extended and modified beyond their original maturity dates.

**EXHIBIT 3: RISING US MULTIFAMILY LOAN MATURITIES (2020-2028)**



Source: Yardi Matrix, Proxy for Maturity wall trend including Sunbelt

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## COMPETITION FROM PRIVATE CREDIT AND FOREIGN CAPITAL REDUCTIONS

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The rise of private credit has complicated capital raising for CRE equity as non-bank lenders have stepped in to provide debt capital at a time when traditional bank lending tightened. These private debt funds, often with more flexible structures but higher costs, compete directly with equity fundraises, absorbing investor attention and capital. They also do not have to contend with the same regulatory framework as traditional bank lenders.

Meanwhile, capital inflows from foreign investors have declined due to a combination of a weakening US dollar, tariff uncertainties, and restrictive immigration policies. This retrenchment has further contributed to reduced overall capital availability in the US commercial real estate markets.

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## EARLY SIGNS OF RECOVERY AND NEW CAPITAL SOURCES

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Despite the challenges, the Federal Reserve's initial rate cuts beginning in late 2024 have started to lower borrowing costs slightly and improve liquidity. This easing is expected to stimulate CRE transaction activity further into 2025 and beyond, with lower interest rates typically correlated with falling cap rates and improved investor returns.

Additionally, new sources of capital, such as 401(k) plans potentially enabled by recent executive orders, could boost capital flows into CRE funds, actual implementation remains far out. These changes may help re-invigorate capital inflows and fundraises in the sector, although meaningful recovery will depend on sustained economic stability and credit availability.

The commercial real estate sector now faces a looming loan maturity wall with approximately \$2.2 trillion in loans maturing between 2025 and 2028, many tied to assets bought at elevated valuations and favorable low-interest-rate environments before the recent rate hikes.

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## THE DEBT MARKET AND LOAN MATURITY CHALLENGES

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The sharply reduced debt availability and high cost during 2023 and 2024 led to markedly decreased CRE activity compared to previous years. Banks and traditional lenders significantly curtailed new loan originations, focusing on managing existing portfolios and loan modifications.

The commercial real estate sector now faces a looming loan maturity wall with approximately \$2.2 trillion in loans maturing between 2025 and 2028, many tied to assets bought at elevated valuations and favorable low-interest-rate environments before the recent rate hikes. This situation presents considerable refinancing risk, particularly for highly leveraged properties, and has contributed to investor caution in committing new capital.

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## THE OUTLOOK

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There have been many complicated and multifaceted reasons behind the slowdown in commercial real estate capital flows. Investor sentiment shifts, evolving market structures such as the growth of secondary funds, and the crosscurrents of debt market challenges have provided challenging headwinds while potential stimulus from rate cuts and new capital sources could offer needed offsetting tail winds.

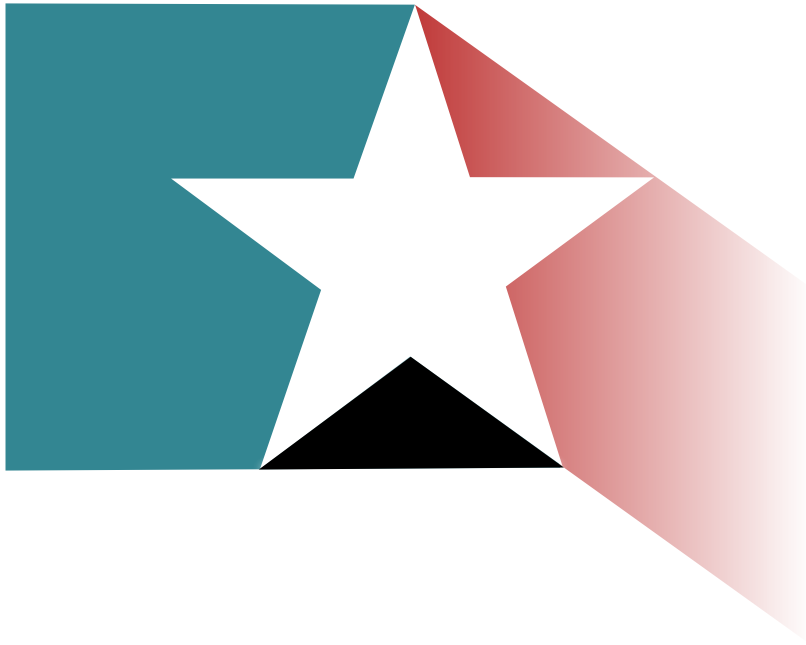
The cautious stance persists across institutional and smaller investors alike, with targeted preferences for resilient sectors but widespread hesitancy to deploy fresh capital until the market outlook becomes clearer.

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## ABOUT THE AUTHOR

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Cliff Booth is Founder and Chairman of Westmount Realty Capital, a private Dallas-based owner operator specializing in value-add, opportunistic and core plus investments.



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