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## Real estate debt: A cautious recovery

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*There are signs of a real estate debt comeback after a shaky few years, but it is still a complex picture. Aysha Gilmore reports...*

After a pandemic-era real estate boom in 2020–21, rising rates in 2022 exposed cracks in the debt market, with stress peaking painfully in 2023. However, in 2025, real estate debt appears to have staged a measured recovery, with European offices also unexpectedly “turning the corner”.

“Considering where we were 12–24 months ago, it was a disaster zone,” remarked Matthew Pallai, chief investment officer at Nomura Capital Management, the credit-focused manager.

Meanwhile, sentiment towards real estate lending has “become more bullish”, driven by a mix of investment and development debt, said Nick Westoby, relationship director on specialist real estate lender Leumi UK’s property finance team. Others across the industry have similarly referenced “green shoots” beginning to appear towards the end of 2025.

Looking at Preqin data, 87 real estate debt funds closed in 2025, raising an aggregate \$32.7bn (£24.3bn), up \$12bn on the previous year’s total, with much of this capital raised by North America-focused vehicles. PitchBook’s global data also shows a similar trend, with real estate fundraising reaching \$29.5bn in 2025, up from lows of \$20.4bn in 2023.

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In Europe specifically, Morningstar statistics show that the recovery of the European commercial real estate market is reflected in increased lending activity and strong commercial mortgage-backed securities issuance, with €8.8bn (£7.7bn) of notes issued in 2025 and similar issuance volumes expected in 2026.

“There are a lot of our bigger lenders, with dry powder such as global investment managers, who have got huge amounts of capital to deploy and who are incredibly busy,” said Serenity Morley, chief operating officer at Mount Street in reference to the European uptick. “We have seen a pick-up in investment towards the end of last year.”

This is partly due to institutional investors, including pension funds and insurance companies, allocating more to real estate than to fixed income in 2025 and planning to continue doing so in 2026, Morley noted.

### **A more certain outlook**

Overall, much of the real estate debt comeback has been linked to a more certain market outlook and falling rates in both Europe and the US, which has helped to boost transactions.

Nomura's Pallai noted that much of the issue with US real estate last year centred on uncertainty over valuations. For commercial real estate, loan-to-value (LTV) ratios are critical and the 'V' was not well understood.

"There were soft markets and a considerable amount of distress," he said.

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"Since rates have stopped going up and started to come down, and there have been enough transactions to give people some footing as to where the 'V' is in some markets, it is actually coming back and coming back quite quickly."

The supply of real estate debt will closely follow construction activity and mergers and acquisitions (M&A), commented Richard Byrne, president at alternatives manager Benefit Street Partners. From a construction standpoint, "it has been very limited", he said, noting that "real estate investors are hot or cold, either building everything or building nothing".

However, M&A is picking up. This presents an interesting dynamic, as it is currently cheaper to buy than build, according to Byrne.

"As some legacy borrowers look to sell properties, this is creating increased transaction volume and a broader set of investment opportunities," he added.

### **"Still an adult swim"**

Despite this all feeding into the narrative that real estate debt is making a comeback in both the US and Europe, the picture remains complex. "It is still an adult swim in terms of how you navigate that market," Nomura's Pallai cautioned.

Market participants explain that the recovery of real estate debt is highly asset- and location-specific. Much of the current activity is focused on the large maturity wall within the sector, with around \$1tn due to be refinanced in 2026 as loans aren't "rolling off, so the pile is growing", said Solomon Nevins, partner at research firm the Fund Review.

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Mount Street's Morley explained that much of the current real estate debt activity is still focused on refinancing rather than new investment, although this is picking up. "The majority of the new deals we are seeing are refinances, but with other lenders, as opposed to fresh extensions," she said.

Rather than entire assets being in distress, professionals argue that the challenges now are deal specific. The distress seen is typically a result of the wrong asset, wrong sponsor, wrong business plan or wrong location.

When splitting real estate into commercial and residential, both sectors present a somewhat wobbly picture, with lending trends differing between the US and Europe.

### **The office comeback**

For commercial real estate, offices were widely considered “dead” following the global pandemic. However, many in the sector have noted that this assessment is proving incorrect, though the outlook varies among locations and types of assets, particularly in Europe.

“I don’t think the horror stories of death of office have played out in the major cities of the UK,” said Tom Lloyd-Jones, managing partner at real estate credit manager Zenzic. “I think actually there is a case that they can be strong performers. I think the office sector has turned a corner.

“In London, for example, there have been some quite successful stories in terms of rental growth and office lease-ups, but I think that is also occurring in the City and other pockets of midtown.”

For European deals, Morley explained that lenders are increasingly focused on transitional assets, with offices prominent within this category. Overall, “office market distress is on the turn,” she said.

“We are seeing lenders move up the risk curve, so LTVs are being stretched and they want to lend on something a little bit riskier,” she explained. “If you have a large capex programme over a transitional office block, lenders really like that at the moment, as it is future-proofing the collateral.”

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However, despite the uptick in European sentiment towards the assets, Paul Frost, managing director at Puma Property Finance revealed that its latest real estate debt fund will have little allocation to offices. Frost suggested that it “could turn off international investors” who may be assessing the market through a more negative US lens.

In contrast to Europe, the outlook for US offices remains gloomy, aside from certain pockets such as New York City (NYC). “Markets have come back with conviction in NYC, where over 40m square feet was leased last year, which was a tremendous number,” said Brian Sedrish, head of real estate at private credit firm Tannenbaum Capital Group (TCG).

Benefit Street Partners’ Byrne added that “office has been really problematic” for the US. “It has been challenging for a while and we’ll continue to see some of that”. Overall, offices account for around 25 per cent of all real estate loans outstanding, he noted. “No other asset class other than real estate has 25 per cent of its asset class disrupted.”

### **UK attraction**

Some industry stakeholders have remarked that the UK, in particular, is beginning to look like a promising environment for real estate debt. While the European Central Bank is rumoured to be nearing the end of its rate-cutting cycle, the UK is expected to benefit from further rate cuts during 2026, potentially driving investment activity.



This trend was picked up on by Frost during Puma’s capital raising for its UK-focused real estate secured credit fund.

"There are more entrants coming into the UK from a debt perspective," said Frost. "I don't know whether what is going on in the US is driving some global allocators of capital to look outside of the US and the UK is more favourable. I put that down to a broadly stable inflationary environment, a gentle trending down in interest rates and pretty fundamentally strong elements of the UK, including rule of law and a stable government."

At the same time, the UK's improving outlook contrasts with other parts of Europe, particularly Germany and France, which some see as "struggling" markets.

Germany, in particular, has seen a number of mezzanine loans default. As a result, some real estate lenders are shifting away from northern Europe towards southern Europe, representing a reversal in common appetite.

### **US focus**

Over in the US, multi-family residential assets are attracting attention.

"With limited new construction, constrained supply supports a more constructive outlook for rent growth," said Benefit Street Partners' Byrne. "Our primary focus within the market is multifamily."

TCG's Sedrish also sees growth opportunities in residential multi-family, particularly in sustainable key markets. "The market is efficient and tight, we are focused much more on situational deals, we're pursuing a luxury residential real estate play," Sedrish said. "Separately, we're looking to help refinance a portfolio of hotels, targeted around college campuses – with the thesis on both deals being the selection of niche opportunities where we see strong user demand and growth."

However, there may be challenges ahead as the residential sector is facing potential regulatory changes, including proposals by the Trump administration to ban institutional ownership of single-family homes. This criticism has largely focused on Blackstone and other large asset managers, who raised large amounts of capital during the pandemic to acquire homes and rent them out.

### **Banks are back**

However, as the real estate debt market makes a shaky recovery, banks are also re-entering the space, making the market more crowded and increasing competition, industry participants have warned.

Banks' involvement appears more pronounced in Europe, while in the US the return of banks has been more gradual. "Loan pricing is increasingly being competitive; with both UK and overseas banks returning to the market," said Leumi UK's Westoby. "From a senior debt perspective, the competition will naturally drive down margins, especially where the opportunity fits the lender's sweet spot."

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However, this competition is largely concentrated around traditional, prime assets, which remain highly competitive. Banks' lending criteria in these areas are often relatively narrow, with Westoby noting that banks lack agility compared with alternative managers, who can be more flexible and nimble.

Mount Street's Morley added that banks re-entering the market has also encouraged the emergence of new alternative players in the small- to mid-market space, typically lending between £5m and £20m. This includes both debt funds and challenger banks, targeting a segment that has historically been underserved by alternatives in the UK.

"There is movement in that space," Morley added. "Before, that was relationship banking, but we are seeing more people move into that space. That will be really busy. For a good mid-market deal, people are getting 20-odd offers, which will stretch underwriting and increase competition, a trend which is new."

Overall, appetite for real estate debt has returned after a difficult few years, but success seems to depend on investors being far more selective about where, and how, they deploy capital in an increasingly competitive market.