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CREF Roundup | Week 38, 2025

The CREF Roundup is a periodic digest of noteworthy developments, insights, and commentary in the world of commercial real estate finance (CREF). Curated for industry professionals, this ongoing series seeks to highlight key trends and news shaping the market. For more CREF intel and analysis, visit our blog, [The Carveout](#).

Retail Sector Sees First Major Pullback Since Pandemic

Real Assets Adviser published this [article](#) highlighting a significant shift in the retail real estate market, marking the first consecutive quarters of negative net absorption (space leased minus space vacated) since the pandemic era. Approximately 15 million square feet of retail space were vacated in the first half of 2025, driven by declining consumer spending (particularly discretionary), and broader economic uncertainties. While retail vacancies rose slightly to 4.9%, they remain below the long-term average, and a slowdown in new construction—reaching its lowest quarterly total since at least 2000—may help stabilize the market. Retailers face varying exposure to new tariffs, with sectors like apparel and electronics potentially experiencing higher costs, which could further pressure tenant demand.

Key Takeaway: The retail real estate sector is entering a period of uncertainty, evidenced by declining tenant demand and economic pressures, potentially leading to increased vacancies and challenges for property owners.

More Signs of Thawing in the Office Capital Markets

On the other hand, a CBRE [article](#) noted that positive net absorption of office space has returned in most markets, and more tenants are again looking to expand their office footprint—both good signs for improving Net Operating Income prospects. Though office fundamentals have been gradually improving, the capital markets

for office properties (especially lower-tier / Class B & C) have lagged behind—cap rates for these properties had been rising, but in the first half of 2025 there was a drop in the share of properties seeing double-digit cap rate estimates. Over 70% of Class B & C office properties still are expected to command double-digit cap rates, which highlights persistent risk and caution among investors. The modest decline in that share suggests that the worst might be over for some parts of the market, and that a recovery in investor sentiment—even for lower-quality office assets—may be beginning.

Key Takeaway: The office real estate sector is showing early signs of recovery. Increasing demand, shrinking yields for some riskier assets, and improving fundamentals imply that investor confidence may be thawing — the market could be entering a phase where more-marginal assets start to stabilize.

CMBS Special Servicing Rate Retreats for the Second Consecutive Month

Trepp detailed more good news in this [report](#) on a second consecutive monthly decrease of CMBS Special Servicing in August (after an all-time high in June). The main cause for the decrease in rate was due to the overall balance of loans outstanding falling almost \$14 billion. The two sectors with the biggest reductions were lodging and mixed use, with the only material increase being office (as the CBRE article above notes—the office sector isn't completely in the clear).

CMBS Loan Workouts Unfiltered with Shlomo Chopp

TreppWire released this [podcast](#) with Shlomo Chopp, an expert in distressed commercial real estate, emphasizing how crucial it is to negotiate early and understand the market to close the gap between what borrowers and lenders think a property is worth. Too many borrowers either wait too long to negotiate or give up too soon, but lenders are often willing to get creative to find solutions that maximize value for everyone. He focused on flaws in the appraisal process (relying too much on past data and assumptions);

however, he believes we're starting to shift toward more accurate, data-driven and objective appraisal methods.

Key Takeaway: Getting in early with a deep understanding and thinking creatively is essential to navigating a complicated real estate market.

2025 Affordable Housing Challenges & Regional Insights

BBG published a [white paper](#) reporting on the growing affordable housing crisis in the U.S.: over 22 million renter households spend more than 30% of income on housing, more than 12 million spend over half, and there's a shortage of ~7.3 million affordable units. While completions in affordable housing are expected to be high in 2025 (~80,000 units), starts sharply fell in 2024 (down ~30%), and the projected completions decline in coming years shows that supply will not keep pace with demand. Key tools like the Low-Income Housing Tax Credit (LIHTC), layered public financing, adaptive reuse, zoning reform, and state/local initiatives are critical, especially when developers are combining multiple incentives to bridge financing gaps. Regionally, the challenges vary: aging housing stock, permitting/zoning constraints, construction and insurance cost inflation, and land scarcity are especially severe; but innovations include modular/prefab building, transit-oriented and mixed-use development, employer-funded housing, and creative tax/lease incentive programs.

Key Takeaway: Success in meeting America's affordable housing need hinges on combining federal, state, and municipal policies, innovative financing, regulatory reform, and cost-control practices to deliver and preserve housing and overcome persistent supply shortfalls.

Nearly 1M Jobs Vanish, Industrial Demand Cools, Return-to-Office Mandates, D.C.'s Office-to-Resi Tax Incentives, & More

This jam-packed episode from [TreppWire](#) covers major revisions to U.S. labor data revealing weaker job growth than first reported, increasing expectations for Federal Reserve rate cuts amid concerns about outdated and unreliable economic data. Treasury Secretary Scott Bessent criticized the Fed's post-2008 policies for fueling inequality and market distortions, calling for reforms and less intervention to allow markets to self-correct. The industrial real estate sector shows signs of cooling demand with emerging financial stresses, yet data centers remain strong growth areas. Paramount and many major firms are mandating full-time office returns as hybrid work policies tighten, with 2026 expected as a stabilization point for office work patterns. Meanwhile, Washington, DC is supporting office-to-residential conversions with tax abatements, though these remain limited in scale, and retail investment continues strong in key markets like Boston and Charlotte.

Key takeaway: No shocker here: economy and real estate markets are in a period of transition, shaped by uncertain data, ongoing policy debates, changing workplace trends, and shifting uses of property—all pointing to a complex road ahead.

Security Interests: They're Only Half the Story

A Secured Finance Network [article](#) detailed that as competition among lenders has intensified (especially with the rise of private debt), traditional financial covenants and lending standards have steadily weakened. This shift has made it more important for lenders to focus on practical ways to recover value from collateral if a borrower defaults. The article breaks down how lenders can protect themselves across different asset types—like inventory, receivables, cash, equipment, real estate, equity interests and contract rights. For each asset type, the article outlines practical pre-closing and post-closing measures that lenders should adopt—such as access agreements, deposit account control agreements (DACAs), and environmental due diligence—to ensure enforceability and liquidation value in the event of default.

Key Takeaway: Lenders must go beyond merely securing liens and work proactively during underwriting and documentation to ensure they can actually recover value from their collateral if necessary.

Glossary of Terms

CREFC published a glossary of CMBS-related terms helpful for those who might just be starting their career in commercial real estate finance, industry veterans and all in between. So take a look [here](#) to brush up on the jargon or just save the link for future reference.

The Carveout

A legal blog geared toward sophisticated capital market participants, The Carveout provides insight into current trends and developments in commercial real estate finance (CREF)—with a particular focus on non-recourse carveouts and CREF loan platforms including CMBS, debt funds, private capital, REITs, life insurance companies, and other complex sources of capital.

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