Newsletter (18) - Structural Forces in Real Estate

(1) Introduction

In this week's edition of our newsletter we explore some of the structural forces which will shape the commercial real estate (CRE) market in the coming years. From significant refinancing demands, to new applications of AI in investments and a general lack of new supply, the real estate sector is being influenced by a set of long-term dynamics.

(2) Refinancing

Looking ahead to 2026 and 2027, as a large volume of debt originated in a prolonged low-rate environment approaches maturity, the refinancing wall is becoming a systemic issue within CRE. Loans originated during the pandemic-era, typically with five-to-ten-year tenors, have since been extended. This has in turn shifted a significant share of maturities into the mid-decade rather than resolving refinancing risk.

Refinancing is particularly challenging in this cycle because higher interest rates have coincided with declining property values, reducing available loan proceeds and forcing borrowers to bridge equity gaps even where assets remain cash-flow positive. These pressures are amplified by the scale and uneven timing of maturities. U.S. commercial and multifamily mortgage debt outstanding stands at roughly $5 trillion, with an estimated $1.1–$1.2 trillion of debt coming due by the end of 2026, increased from approximately $950 billion in 2025.

Exposure varies across property types, with office assets facing the highest refinancing risk due to valuation declines and leasing uncertainty, while in certain geographies multifamily assets are increasingly pressured by new supply and tighter underwriting standards. Industrial and data-center assets remain more resilient but are nonetheless affected by higher borrowing costs and reduced loan-to-value ratios across all sectors. To date, market responses have largely focused on delay rather than resolution, as banks favor extensions, amendments, and restructurings over forced sales, limiting price discovery and pushing refinancing risk further into the future.

Where traditional lenders have stepped back, private credit has increasingly provided short-term refinancing solutions. At the same time, higher Commercial Mortgage-Backed Securities (CMBS) special servicing and more loan modifications show that financial stress is building, even if many problems are being pushed into the future. As a result, the refinancing wall is likely to act as a slow-moving driver of repricing, recapitalisations, and forced strategic decisions, reinforcing broader structural trends shaping real estate markets into 2026.

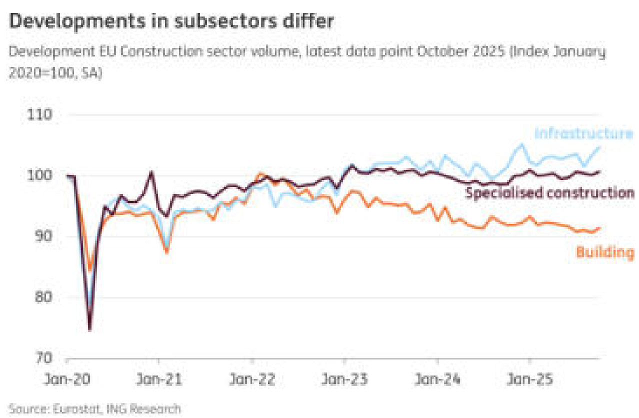
(3) Constrained Supply Outlook

Entering 2026, the real estate market continues to face limited supply in essential asset classes, such as residential and logistics, with construction activity remaining subdued. Construction has long lead times and is highly sensitive to interest rates. As a result, the elevated interest rates since the tightening cycle began mean few projects have been funded and little supply will hit the market in 2026, even with macroeconomic conditions having improved in 2025. Savills predicts that home completions in the UK will drop by more than 10% in 2026 compared to 2025. As demand normalizes and a lack of supply starts to be felt conversions might provide some relief, however such projects have often proved complicated and in many cases have been unfeasible.

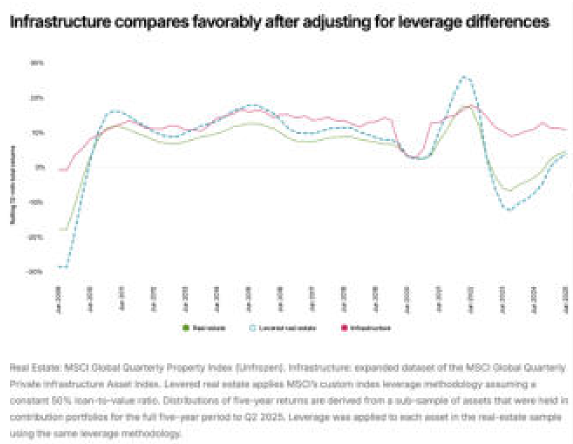
Beyond thin completion pipelines, several structural barriers hinder new construction projects in 2026. In the U.S., despite lower interest rates, the cost of labour is expected to increase, due in part to current immigration policy. Constraining the supply of lower-wage workers willing to do the intense construction work would place upward pressure on labour costs. Furthermore, the inflationary effect of tariffs are expected to be felt more sharply in 2026, likely increasing the price of materials used in construction. In Europe, strict regulation and planning complexity remain a consistent drag on new development. Across both geographies, the requirement to build energy-efficient and ESG-compliant properties has raised development costs and extended timelines, making them less attractive to investors.

A further drag on construction activity in the real estate sector is the growing diversion to infrastructure development. Graph 1 shows how the growth in infrastructure developments has outpaced building developments in the EU over the last 2 years. One reason for the diversion is increased government spending since COVID, which has led to heightened demand for large systemic infrastructure programmes, often funded by governments. This is reinforced by government viewing upgrades to electrical grids and transportation systems as more than an economic resilience priority, but also a national security concern. Secondly, infrastructure investments have proved to have a more attractive return than real estate development during this period, whilst inherently carrying less risk. Graph 2 shows how, when adjusting for leverage differences, infrastructure investment returns have outpaced real estate returns over the last two years.

The squeeze in supply, along with normalizing demand, sets up a favourable environment for investors in 2026 by reinforcing pricing power and supporting rental growth. Nadeem Meghi, Head of Global Real Estate at Blackstone, highlighted this dynamic, noting that “lower supply generally leads to stronger rent growth and higher values”. With construction down in virtually every asset class across the U.S., sometimes by as much as 60%, and real estate prices still below historical peaks, the outlook for real estate returns is positive.



Graph 1



Graph 2

(4) Artificial Intelligence as a Capital Allocation Driver

Artificial intelligence (AI) is increasingly shaping real estate outcomes not through abstract innovation narratives, but via tangible impacts on cash flow durability, refinancing viability and asset-level risk differentiation. At the operating level, AI-driven energy management and predictive maintenance systems are allowing owners to actively compress operating expenses, partially offsetting higher debt service costs in a persistently elevated interest rate environment. For income-producing assets, these savings are increasingly material in underwriting, as even modest reductions in energy and maintenance costs can meaningfully support debt service coverage ratios during refinancing.

More importantly, AI is accelerating a structural bifurcation in asset quality. Buildings capable of generating and integrating granular operational data are becoming inherently more financeable, as lenders gain greater visibility into forward-looking cash flows and ESG performance. Conversely, assets lacking digital infrastructure face widening valuation discounts, as required retrofit capex coincides with tighter loan-to-value thresholds. This divergence is already visible across office and residential markets, where AI-enabled buildings demonstrate stronger leasing performance and lower volatility, while older stock struggles to attract both tenants and capital.

At the capital markets level, large institutional investors are increasingly embedding AI into underwriting and portfolio management processes, enabling faster identification of refinancing stress, more dynamic scenario analysis and earlier entry into recapitalisation or distress situations. As the refinancing wall peaks toward 2026, AI-enabled assets and platforms are therefore not only operationally more resilient, but structurally better positioned to secure capital, execute recapitalisations and preserve exit optionality in an increasingly selective investment environment.

(5) Conclusion

There is a lot of optimism amongst real estate investors going into 2026. An attractive supply-demand dynamic, driven by stabilising demand and squeezed supply, creates an environment where prices and rents can be expected to increase. At the same time, large refinancing needs are likely to create pockets of stress, driving differentiation between assets and owners, with data- and AI-enabled assets better positioned to navigate this period. For investors with access to capital and a selective approach, this creates an encouraging backdrop for deploying capital over the coming years.