

Small-Cap CRE Market Outlook: Stability Emerges as Capital Returns



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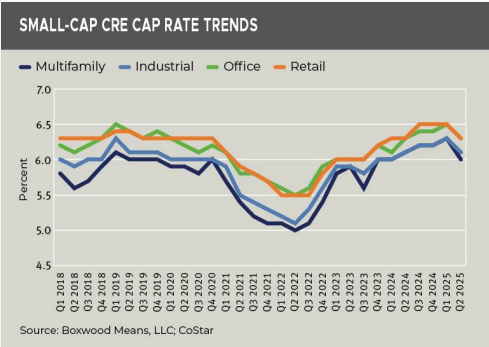
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The small-cap commercial real estate (CRE) market is showing encouraging signs of recovery, even as uncertainty around interest rates and macro conditions temper investor enthusiasm. Recent trends in **cap rates** and **transaction volumes** across the four main property types suggest that the **worst of the CRE valuation reset** may be behind us, and **market liquidity** is cautiously returning.

Delinquencies Are Climbing Rapidly

Cap rates, which rose sharply across all asset classes from 2022 through early 2025, have **begun to level off** — and even dipped slightly in Q2 2025. See the nearby graph and table below.

Property Type	Peak Cap Rate	Q2 2025 Cap Rate	Qtr. Change	YOY Change
Multifamily	6.3%	6.0%	-0.3%	-0.1%
Industrial	6.3%	6.1%	-0.2%	0.0%
Office	6.5%	6.3%	-0.2%	0.0%
Retail	6.5%	6.3%	-0.2%	0.0%

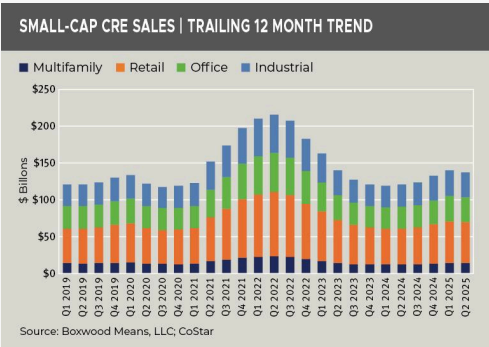


While cap rates are still roughly 80–130 basis points above their 2022 lows, the recent **flattening suggests pricing stability** and improved alignment between buyer and seller expectations. This trend is especially notable in multifamily and industrial sectors, where fundamentals remain relatively solid.

Transaction Volume Points to Gradual Rebound

After a deep contraction in 2023, quarterly sales volume has posted **double-digit year-over-year gains**. Though deal volume declined slightly in Q2, the trend line over the last four quarters suggests a **cautious return of capital to the market**. See the nearby graph and table below.

Property Type	Q2 2025 Volume (\$B)	Qtr. Change	YOY Change
Multifamily	\$14.6	-1.0%	+14.8%
Retail	\$55.2	-2.1%	+13.8%
Office	\$33.6	-1.8%	+14.1%
Industrial	\$34.0	-2.4%	+12.4%
Total	\$137.3	-2.0%	+13.6%



Retail remains the most liquid sector by dollar volume, while multifamily and industrial are showing **notable momentum off their recent lows**. Even office — long the underperformer — has seen a moderate pickup in activity, likely fueled by price adjustments and opportunistic investors.

Takeaways: Where the Market Is Headed

- **Recovery in motion**

The rebound in deal volume and cap rate stability indicate that the market is past its cyclical bottom, though gains may remain uneven across property types and regions.

- **More predictable pricing environment**

Current sales investment trends suggest that buyers and sellers are getting on the same page.

- **Multifamily and industrial lead the way**

These sectors remain favored due to demographic tailwinds and steady user demand, even amid tighter credit conditions.

- **Office: still challenged, but active**

Activity in the office sector remains subdued, but price discovery and distress sales are beginning to attract capital.

- **Retail: surprisingly resilient**

Retail volumes have remained strong in this small-cap segment where tenant diversity and essential services mitigate risk.

Final Thought

The small-cap CRE market appears to be **pivoting from repricing to repositioning**. While we may not see a full return to the 2021 frothy level, the Q2 data shows a **healthier, more disciplined market** emerging — one driven by fundamentals, creative capital, and local-market expertise.