

Features

Commercial Real Estate Liquidity Is Under Pressure Again

By Erika Morphy Features  June 22, 2026 at 05:19 AM

After two years of steady progress, commercial real estate investors are discovering that liquidity is not on a one-way path back to normal. A sharp reversal in a key liquidity gauge, combined with rising macro headwinds, suggests capital is once again becoming more cautious, more expensive and less forgiving for property owners.

According to Madison International Realty's Madison Real Estate Liquidity Index (MRELI), conditions "reversed in the first quarter of 2026, after a sustained period of improvement." The index, which tracks how easily investors can enter and exit real estate limited partnerships, fell to 33.4 in the first quarter from 54.5 in the prior quarter, ending a two-year streak of consecutive gains and marking its first setback since early 2024.

Geopolitics And Public Markets Bite

The pullback was broad-based and global. Madison reports that heightened geopolitical tensions weighed on several key indicators, from elevated public-market volatility and softening REIT share performance to cooling primary deal volume after a robust fourth quarter of 2025. Both

the U.S. and European sub-indices weakened, underscoring that this is not a localized dislocation but a wider reset in risk appetite.

"After two years of steady, meaningful progress in commercial real estate liquidity, Q1 2026 delivered another reminder that the sector is not immune to the forces shaping the broader global environment," said Christopher Muoio, managing director and head of data and research at Madison International Realty.

"The situation in the Middle East is the latest in a series of macroeconomic and geopolitical shocks, creating another Ground Hog Day in the real estate market recovery, introducing volatility into public markets and tempering the momentum we had built over the past couple of years."

A Tougher Global Liquidity Backdrop

At the same time, the broader financial backdrop is becoming less friendly to all risk assets, including commercial real estate. As a recent [Bloomberg analysis](#) puts it, liquidity is being squeezed as financial conditions tighten and interest rates become more restrictive, with excess liquidity—real money growth versus economic growth—now negative and falling for the first time since 2021. That shift tends to flatten the yield curve and pull capital toward safer, longer-duration bonds, starving higher-risk segments of the easy money that fueled past cycles.

For commercial real estate, that macro squeeze matters most through funding costs and exit optionality. Higher and more restrictive rates pressure leveraged returns, narrow the universe of viable business plans and make it harder for sponsors to refinance transitional assets on acceptable terms.

At the same time, softer REIT pricing and greater public-market volatility – both cited as drags on the MRELI – signal that listed buyers are less inclined to step up as liquidity providers when private owners test the market.

Importantly, this is not a story of collapsing property fundamentals. Madison notes that "the underlying fundamentals that drove two years of improvement have remained strong, with assets, generally speaking, continuing to perform at an operating level." Rents are being paid, buildings are operating and many portfolios are still delivering acceptable cash flow.

The problem is that the financial plumbing around those assets is more fragile than it looked just a few months ago.

What This Means For Investors Now

The result is a market that feels increasingly stop-start. Periods of renewed optimism and tightening spreads give way quickly to bouts of risk aversion when geopolitical headlines flare or rate expectations lurch higher. For investors, that means the ability to enter and exit positions on their own timetable cannot be taken for granted.

In this environment, liquidity itself becomes a source of competitive advantage. Madison, which positions itself as a liquidity solutions provider and real estate secondaries specialist, focuses on recapitalizations, partner buyouts and acquisitions of joint-venture, limited-partner and co-investment interests across the U.S., Europe and Asia. Those kinds of strategies tend to gain relevance when traditional exit avenues narrow and when some owners need capital more urgently than others.

For well-capitalized investors with long-term horizons, the current squeeze is uncomfortable but also potentially opportunity-rich. They can use volatility and selective distress to buy into quality assets or partnerships at more attractive terms, provided they are realistic about holding periods and do not rely on quick flips into deeper pools of capital.

For highly levered owners, short-term vehicles and managers dependent on continuous fundraising or secondary sales, the combination of a falling liquidity index and tightening global financial conditions is a more direct risk.

The takeaway is straightforward: commercial real estate liquidity is under pressure again, and it may stay that way for longer than many underwrote. Operating performance may remain solid, but the cost, availability and reliability of capital are shifting under investors' feet.

In a world of recurring "Ground Hog Day" shocks, protecting the downside increasingly means underwriting not just the real estate, but the liquidity path in and out of it.

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