



Global Insolvency: 2025 Reflections and 2026 Projections

Sector | Real Estate
and Construction

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Real Estate and Construction

Insolvency and restructuring: A look back at 2025

As we move into 2026, the real estate and construction sector faces a tougher operating environment, not just a temporary downturn. After years of low-cost capital, asset inflation, and risk transfer, we're now **adjusting to higher interest rates, ongoing construction cost inflation, and increased regulatory intervention.**

While investment sentiment has stabilised, financial stress is growing among developers, contractors, and leveraged asset owners.

This shift is leading to **more formal insolvency processes, lender-led restructurings, and distressed asset sales**, especially where refinancing risk, cost overruns, and regulatory liabilities intersect.



01

Refinancing pressure and delayed price discovery

Our analysis shows that over

US\$3trillion commercial real estate debt globally

was set to mature by the end of 2025, much of it originated in a low-interest-rate environment with favourable valuation assumptions. Although policy rates have stabilised in many markets, **long-term financing costs remain high due to sovereign debt pressures and cautious lenders.**

Transaction volumes are subdued, delaying full price discovery and allowing valuation stress to build off-market. Analysts expect global transaction volumes to stay below the 2021 peak, with **volumes still 40–60% lower than pre-pandemic levels** despite signs of recovery.

As activity picks up, we anticipate further downward valuation corrections in secondary offices, development assets, and projects with heavy capex or remediation exposure, worsening loan-to-value breaches and covenant stress.

When sponsors can't or won't inject fresh equity, refinancing risk is increasingly leading to formal restructuring.

02

Construction insolvencies and supply-chain contagion

In the UK, construction leads in corporate insolvencies, driven by tight margins, fixed-price contracts, labour shortages, and high material costs, especially for smaller companies. These challenges remain despite a slight uptick in workloads.

Recent contractor failures highlight a recurring issue:

- **Loss-making contracts**
- **Delayed cash flow**
- **Increased working capital needs**
- **Reduced bonding or lender support**

This often disproportionately affects developers, funders, and subcontractors, with **insolvency spreading risk throughout the supply chain.**

Mid-tier contractors and regional subcontractors face significant exposure. We anticipate that construction SMEs and regional contractors will continue to pose insolvency risks in 2025–26, potentially causing project delays, funding defaults, and enforcement actions.

Globally, construction is one of several sectors with high insolvency risk, not the sole driver. **Stress is more evenly spread across retail, services, manufacturing, and transportation.**





03

Regulation, remediation, and balance-sheet stress

Across the globe, we're witnessing a **shift towards more state involvement in real estate markets**, driven by policies like China's "Three Red Lines" and new US proposals to limit institutional ownership of single-family homes. These moves aim to tackle systemic risks and affordability issues.

In China, the use of leverage caps has significantly tightened refinancing and development funding, heightening delivery stress and insolvency risks for developers with high debt levels. Meanwhile, in the US, the political focus on large-scale residential investors is creating a cloud of regulatory uncertainty over capital-heavy housing strategies.

In the UK, the Building Safety Act (BSA) is proving to be more than just a compliance hurdle. Remediation Contribution Orders, Building Liability Orders, and extended timelines for Gateway Two and Three approvals are driving up development costs and increasing cash burn. We've observed that many Gateway applications are facing delays, returns, or stalls, which is straining liquidity and casting doubt on project viability.

These regulatory challenges are increasingly coming to a head in distressed scenarios.

Properties with unresolved safety issues are tough to refinance or sell, pushing sponsors towards distressed sales, lender enforcement, or consensual restructurings that involve debt write-downs and equity dilution.

05

Sector bifurcation and insolvency outcomes

The global real estate landscape is witnessing a clear divide in how capital is allocated and how sectors perform.



This divide is crucial for understanding insolvency outcomes. In 2025, distress wasn't about a market-wide collapse but rather about the quality of assets, the strength of sponsors, and the structure of capital. **Owners of lower-quality assets are grappling with rising capital expenditure and ESG compliance costs, without matching income growth.** This situation is pushing them towards restructuring or enforcement when their balance sheets can't handle the pressure.

Globally, 2025 was less about new large-scale real estate insolvencies and more about managing existing issues. No major developer, like Evergrande or Country Garden, filed for insolvency. Instead, the year was marked by prolonged restructurings, delayed liquidations, and downstream effects. In China, the property crisis continued, with Evergrande being delisted from the Hong Kong Stock Exchange in August 2025. Other developers, such as China South City, faced liquidation orders, highlighting the slow resolution of past failures rather than new collapses. Some smaller filings did occur, like Xinyuan Real Estate's involuntary Chapter 11 proceedings in the US in April 2025, showing creditor-led actions against mid-tier developers.

Courts were often used to defer liabilities rather than trigger insolvency. For instance, the English High Court approved Sino-Ocean Group's US\$6 billion restructuring plan in February 2025. Overall, 2025 showed that many real estate issues were postponed rather than resolved through formal insolvency. This trend was also seen in the UK, where failures were mostly among small and mid-market construction firms, like JRL Group, rather than major real estate players.



2026 Outlook



01

Residential sector pressure: sales weakness and cost rigidity

In the residential market, we're seeing a persistent challenge: sales volumes are dropping while build and remediation costs remain high. This mismatch is creating distress. Buyers face affordability issues, and transaction activity is low, which limits cash flow. Meanwhile, construction costs, regulatory demands, and safety investments are still higher than before the pandemic. This situation makes it tough for developers to reduce debt or refinance naturally, pushing them to rely more on lender leniency or formal restructuring if sales don't pick up as expected.

02

Lender behaviour: end of amend-and-extend and rising enforcement risk

Since COVID, the sector has managed distress by extending loan terms and waiving covenants, avoiding value loss. But as debt maturities peak and options for further extensions run out, lenders are reaching a limit on non-core exposures. They're now looking to redirect capital to new opportunities, which could lead to more enforcement actions, especially if sponsors can't close valuation gaps or fund necessary investments.

03

Geopolitics and global transaction liquidity

Geopolitical uncertainty is dampening real estate transactions, raising required returns, and fragmenting liquidity. Trade tensions, tariff risks, conflicts, and political instability are affecting bond markets and capital flows, pushing investors towards safer geographies and sectors while limiting cross-border and riskier deals. This scenario is prolonging the recovery cycle and increasing the chance that refinancing pressures will lead to formal restructuring rather than smooth asset transitions.

