

Commercial/Multifamily Financing Update

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We have highlighted several resources and publications below, designed to offer insights into the constantly evolving market and their impact on the real estate sector.

- **Markets Defy Predictions in Trump's First Month:** WSJ finance editor Alex Frangos explains why expectations that the President's policies would further strengthen the dollar haven't panned out so far. [Read More](#)
- **Investors View CRE Pricing Reset as Opportunity for First-Mover Advantage:** Investors are increasingly ready to pour money into CRE assets, especially in gateway markets offering discounts as well as in high-growth Sunbelt markets, according to a recent CBRE survey of CRE investors. [Read More](#)
- **Conversions & Lack of New Construction Stabilize Office Market:** Despite negative net absorption in eight of the last ten quarters in the San Diego office market, the overall vacancy rate has remained relatively stable due to the reduction of office inventory for conversions and the lack of new construction. [Read More](#)
- **On Again, Off Again: Tariffs & Commercial Real Estate:** Over the short term, uncertainty about U.S. trade policy will fuel financial market volatility and dampen business sentiment, leading to less investment. [Read More](#)
- **More Occupiers Opting to Buy Industrial Facilities:** Property sales to industrial occupiers increased by 32% last year to 2,504,1 resulting in a 5% increase in the average sales price to \$152.42 per sq. ft. More occupiers are buying rather than renting their facilities for a variety of reasons. [Read More](#)

Capital Watch: Increased Investment Expected Despite Bond Market Volatility

Surprisingly, short- and long-term interest rates, which have a profound effect on commercial real estate investment activity, have not been moving in tandem like they usually do.

The 10-year Treasury yield has increased since the Fed began its latest round of short-term rate cuts in September 2024. By early January, the 10-year yield had risen by more than 100 basis points (bps) to a peak of 4.78% even though the Fed had cut short-term rates by 100 bps. The long-term Treasury rate has since fallen back to around 4.3% as of March 24, which is still 70 bps higher than it was last September.

Fed interest rate cuts that would normally fuel a bond rally did not initially do so this time around. This was because investors expected strong economic growth and were concerned about large budget deficits and government policy uncertainty.

Figure 1: Change in 10-Year Treasury Yield Following September 2024 Fed Rate Cut



Source: U.S. Department of Treasury, Federal Reserve, CBRE Research, Q4 2024

[Read Article HERE](#)

Debt Market Sentiment

With CBRE's nationwide proprietary data sharing system we are able to keep a pulse on the everchanging debt market.

Consumer confidence data released on Tuesday plunged to 57.9 in March (down 22% from December) showed a significant decline, with the lowest reading since 2021. This drop is largely attributed to growing concerns over tariffs, which are expected to be implemented on April 2nd. The market is bracing for the impact of these tariffs, but the response from major U.S. trading partners remains uncertain.

In the bond market, 10-year yields reached a new high of 4.36% before experiencing a brief dip. Looking ahead, the futures market is anticipating ~63 basis points of rate cuts from the Fed by the end of the year.

Fed Watch: The fear of inflation will keep the Fed on hold in the face of weakening data. Dr. Claudia Sahn, Chief Economist at New Century Advisors, notes that the Fed is grappling with high uncertainty like the rest of us, making their forecasts more tentative.

The Fed meeting in May has only a 11.6% chance of a rate cut, down from 33% just a few weeks ago. Investors odds of a quarter-point rate cut don't exceed 50% until June of this year, currently at a 67% chance of a cut. Odds off a rate cut from the FOMC can be tracked on the [CME Fedwatch Tool](#).

Life Companies: Corporate bond spreads (the baseline for LifeCo pricing of alternative investments) hit their widest mark in six months this week; however, LifeCo spread remain attractive. We are seeing quotes rates between **5.60% to 6.50%** for 65% leverage or less. Life Company spreads are around 150-225bps depending on deal size, profile and leverage. Most are still 60% or less for best pricing in the mid 5% range.

Banks: We expect banks to re-enter the market at a stronger pace in 2025. The normalization of the yield curve will continue to drive more appetite for banks. We are seeing quotes in the **6.20-6.70% range** for deals with steady collections and a strong tenant mix. Banks on their fixed rate programs for core deals are 3, 5, and 7-year fixed rates with a step-down prepay. Floating rate options are around 200-325bps + SOFR.

Debt Funds: are looking to be more active and our client have pursued debt fund money now that SOFR continues to drop. Leverage is around 60-70% loan-to-cost with primary focus on stabilized debt yield and in-place cash flow or lease up deals for multifamily or industrial product types. You can expect to see spreads range between 225-400 bps over SOFR. On the multifamily side, many groups are actively pursuing preferred equity positions behind agency senior loans.

CMBS: prefer 10-year terms as 7- and 5-year terms are more difficult to price. The question remains around spreads: while it generally takes longer for the CMBS market and some of its participants to react, CMBS spread moves have been relatively contained this year, on both new issue and secondary sides. We have seen rates **around 6.50-7.25%** depending on loan size, quality, property type and debt yield. Loan terms are anywhere from 5- to 10-years, fixed rate, up to 75% LTV and often full term IO.

Agencies: Agency pricing is around **5.55-6.20%**. Rate buydowns are becoming a more effective alternative for borrowers given the current environment driven by volatile benchmarks. With a buydown, rates can drop to as low as 5.25-5.65%.

Freddie Mac announced updated to their credit structures this week for 10-, 12-, and 15-YR fixed-rate terms. See a summary below.

To see how these changes may affect your property's loan proceeds, feel free to share financing opportunities with our team.

Sponsors with 10K units or more under ownership

- 1.20x / 35yr am
- 70% max going-in LTV
- Partial Term IO

Sponsors with 5K units or more under ownership

- 1.25x / 35yr am
- 65% max going-in LTV
- Full Term IO

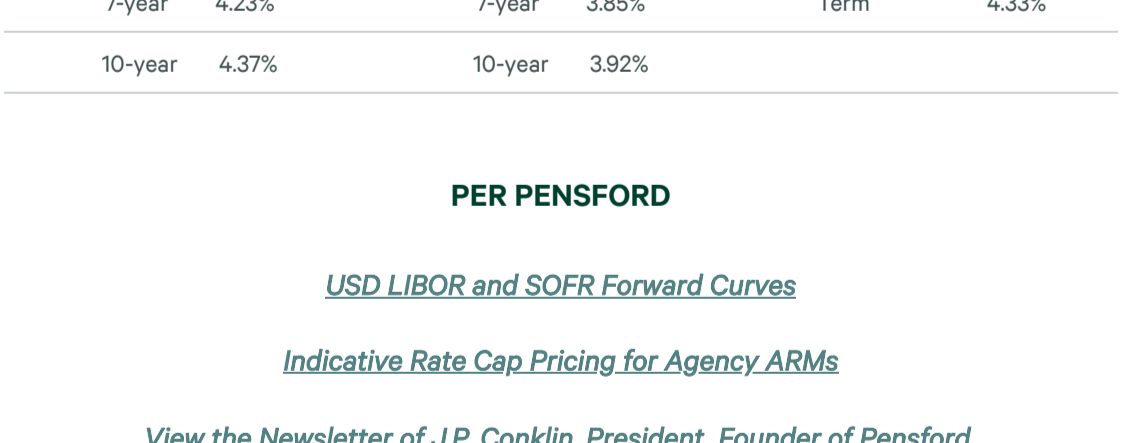
Sponsors with 2K units or more under ownership and compliant NW / Liquidity (no longer 2x requirement)

- 1.25x / 35yr am
- 70% maturity LTV (allowing to potentially offer additional partial IO)
- Partial Term IO

Our team is here to help you navigate financing options and provide color on what we are seeing in today's market.

Historical Cap Pricing

The chart below illustrates how cap pricing has changed over the past 2 years.



As of February 14, 2025

Podcast: "The Weekly Take"

River of Dreams: The story behind Chicago's real estate resilience

We explore Chicago's vibrant real estate scene with CIBC's Karen Case and CBRE's Lisa Konieczka. They discuss market dynamics, Fulton Market's emergence and transformation, and ongoing capital markets challenges and opportunities.

[LISTEN NOW](#)

Today's Rate Snapshot

Treasuries		Swaps		SOFR	
5-year	4.10%	5-year	3.79%	30-Day Avg.	4.33%
7-year	4.23%	7-year	3.85%	Term	4.33%
10-year	4.37%	10-year	3.92%		

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[USD LIBOR and SOFR Forward Curves](#)

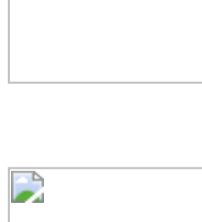
[Indicative Rate Cap Pricing for Agency ARMs](#)

[View the Newsletter of J.P. Conklin, President Founder of Pensford](#)

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