

### Commercial Real Estate Interest Rates Have Edged Lower with Implications for Sales

**Borrowing rates have eased slightly.** Interest rates on commercial real estate loans have declined by roughly 50 basis points on average over the past year. Monetary policy changes and several other factors have caused the decline.

- Between September and December of last year, the Federal Reserve lowered the overnight lending rate 100 basis points.
- At the same time, the 10-year yield rose 90 basis points.
- Yet, CRE investment sales in the fourth quarter of 2024 were up 20 percent from the same span in 2023.
- The Fed has cut **50** more basis points so far this year. The 10-year responded with a bump of about **10 basis points**.
- Determining if these changes will again **lift sales** requires understanding some of the other factors involved.

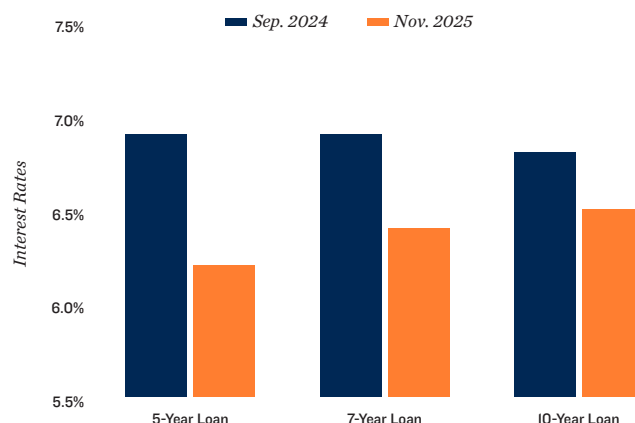
**Greater lending liquidity pushing down on rates.** Beyond changes in benchmark metrics, interest rates on CRE loans have also been affected by shifts in lender composition.

- Banks were less active than usual last year, comprising **27 percent** of loans for sales \$2.5 million and above. Between 2015 and 2019, the average share was **40 percent**.
- These institutions needed to reduce their balance sheet exposure to CRE default risk by boosting deposits, clearing off more risky loans, or deferring maturities.
- As of late 2025, that process is largely complete, with banking regulations potentially easing.
- In the first half of this year, banks comprised about **33 percent** of lending on trades of \$2.5 million or more.
- Private lending capital has also increased in the market, often focusing on shorter-term bridge loans.
- In the first three quarters of 2025, private CRE lenders raised about **\$24 billion** of capital, versus \$13 billion a year prior.
- Increased debt liquidity has in turn bought lower CRE lending rates, with hopes of more Fed rate cuts on the horizon.

**Yield spread relative to cap rates favorable for now.** CRE loan rates vary due to borrower strength, leverage amount, loan term, location, asset quality and other factors. But general benchmarks offer some guidance.

- As of early November, debt on multifamily assets from government-sponsored agencies was in the **high-4 percent** range. This compares to the low-5 percent zone a year ago.
- Life insurance companies were also dipping near the **high-4 percent** band for select assets.
- Bank lending rates for commercial properties have been in the **low-5 percent to low-6 percent** range. CMBS debt has run in the **high-5 percent to 7 percent** zone.
- Debt funds have been lending in the **mid-6 percent to mid-8 percent** range across a variety of property types.
- While borrowing rates have fallen, cap rates remain elevated compared to 2021 and 2022. This offers an increasingly **positive leveraged yield climate**, at least for now.
- Interest rates may not continue to fall. Wall Street's expectations for another Fed rate cut in December have fallen to about **70 percent** over the past few weeks. That's down from over 90 percent just before the last rate cut.

CRE Interest Rates Are Down Versus A Year Ago



Sources: Marcus & Millichap Research Services; CME Group; Commloan; CoStar Group, Inc.; Federal Reserve; Prequin; Real Capital Analytics