JOHN B. LEVY & COMPANY
REAL ESTATE INVESTMENT BANKING

MARKET PERSPECTIVE
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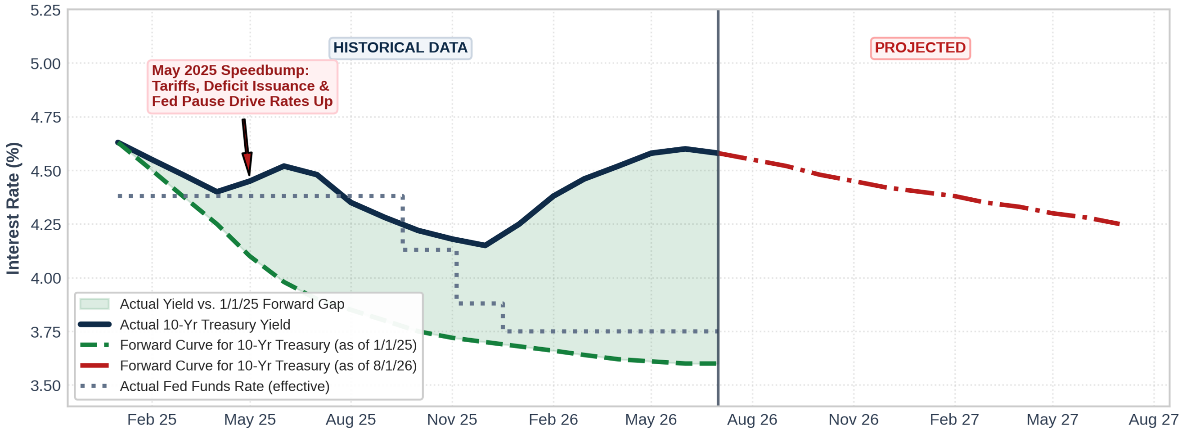
STUCK IN SECOND GEAR: WHY CRE IS MOVING FORWARD BUT CAN'T REV ITS ENGINE

The 10-Year Treasury vs. the Forward Curve: January 2025 – July 2026

BIG PICTURE SUMMARY

At the start of 2025, financial experts predicted interest rates would fall quickly toward ~3.6%. Instead, real long-term rates stayed high, holding around 4.5%. Commercial real estate is still moving forward, but higher borrowing costs mean the market is stuck in second gear—and sponsors must adjust their capital plans to higher rates.

The Dashboard: Actual vs. Forward 10-Year Treasury, and the Fed Funds Rate



Sources: U.S. Dept. of the Treasury, Federal Reserve Bank of New York (EFFR), Bloomberg L.P., & CME Group

🚦 CHECK ENGINE LIGHT: WHAT HAPPENED IN MAY 2025?

In **May 2025**, real interest rates split away from predictions due to three main events: **(1) Trade Tariffs** caused fears of rising prices (inflation); **(2) High Government Debt** forced the U.S. to issue more bonds, requiring higher interest to attract buyers; and **(3) The Federal Reserve Paused Rate Cuts**, proving that lower borrowing costs were stuck in the rearview mirror.

DASHBOARD INSIGHTS

- **Forecasts Are Not Guarantees:** Wall Street expected rates to drop by 1%, but real rates stayed nearly 1% higher than predicted.
- **May 2025 Was the Fork in the Road:** Moody's downgrade sent actual yields decisively above the original forward curve.
- **Central Bank Cuts Don't Fix Long Loans:** Even when the Fed cut short-term rates from 4.50% to 3.75%, 10-year Treasury rates moved higher, not lower.
- **A New Normal for Rates:** The forward curve (8/1/26) slopes down gradually toward 4.25%, establishing a steady floor above pre-2025 assumptions.
- **Long-Term Debt Is More Expensive:** Permanent debt benchmarks have permanently decoupled from short-term liquidity policy.

NAVIGATING THE ROAD AHEAD

- **Underwrite to 4.25%–4.75% Reality:** Budget new acquisitions and refinancings around today's higher baseline rather than waiting for sub-4.0% rates.
- **Deficits Set the Ceiling, Not Just the Fed:** Fiscal concerns and energy-driven inflation push long rates up even while the Fed holds or cuts.
- **Spread Compression Is the Realistic Lever:** With Treasuries stabilizing, savings come from lender selection, structure, and execution rather than rate cuts.
- **Make Early Pit-Stops for Loans:** Loans originated in low-rate years are coming due into a higher-floor market—refinancing early beats waiting for a cut that may not come.

LET'S TALK ABOUT YOUR FINANCING OPTIONS

With the 10-year Treasury finding a more stable floor, sponsors should expect the cost of debt capital to remain elevated, making waiting for interest rates to fall significantly no longer a viable strategy; to navigate this, John B. Levy & Company leverages its national network of capital sources to identify the most competitive financing solutions available—whether you're refinancing an existing asset, acquiring a new property, or evaluating your options in today's higher-rate environment. **Contact us to discuss your financing needs and see what the market can offer.**

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