

### Inflation Outlook Paving the Way for Improved Commercial Real Estate Debt Liquidity

#### Stabilizing housing costs will shape the 2026 price landscape.

Inflation will influence interest rates and the debt capital climate – driving commercial real estate investment this year.

- In 2025, the Federal Reserve maintained elevated interest rates amid concerns over tariff-related inflation risks, despite inflation increasing only modestly relative to expectations.
- Looking further into 2026, most inflation forecasts are relatively tame, in the **3 percent** range, which is above the **2 percent** target rate, but still well below the 2022 breakout levels.
- Although inflation remains elevated across select CPI categories, including services and food, shelter-related costs will **likely restrain overall price pressures** in 2026.
- Housing comprises **44 percent** of CPI, carrying about the same weight as the next four largest subcomponents combined.
- With home price appreciation and rent growth subdued at **1.2 percent** and **3.0 percent** last year, the heavy weighting and backward-looking nature of the housing component are likely to anchor headline CPI near **3 percent**.

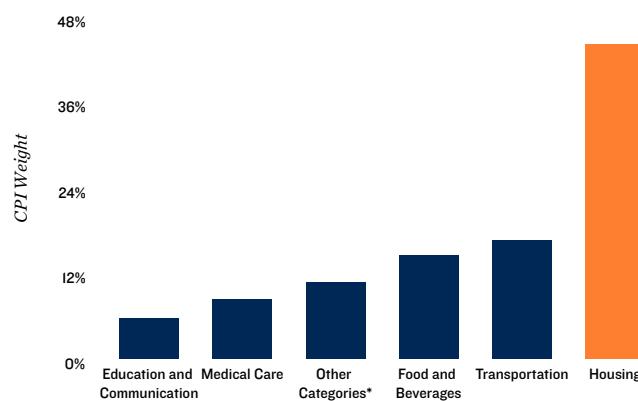
**Interest rates remain a key factor for the economic outlook.** Evolving monetary policy and market reactions will play an important role in determining the cost of debt capital.

- Inflation stability near **3 percent** would allow the Federal Reserve greater flexibility to adopt a more dovish stance, likely reinforced by the upcoming leadership transition.
- While a **25-basis-point** cut is possible in early 2026, additional cuts later in the year are more likely and should **bolster commercial real estate debt liquidity**, putting downward pressure on lender spreads.
- This outcome is not guaranteed, however, as the 10-year Treasury does not automatically track the federal funds rate, and market perceptions of risk could push long-term yields higher.
- That said, since August 2025, the 10-year Treasury has largely remained range-bound between **4.00** and **4.25 percent**.

**Debt capital availability poised to improve.** Expanding lender participation and supportive underwriting trends point to strengthening liquidity and improved deal flow.

- Since mid-2024, banks have been capturing a rising share of the lending market, a trend that should bolster debt liquidity.
- Fannie Mae and Freddie Mac have increased their lending caps for 2026 by more than **20 percent** to **\$88 billion** each, while the Mortgage Bankers Association forecasts a **24 percent** increase in commercial real estate lending this year.
- At the same time, the loan-to-value ratio for multifamily debt has been rising, and the LTV on commercial properties is **trending upward**.
- Together, these dynamics imply that **debt liquidity in 2026 will continue to strengthen**, and commercial real estate borrowing rates will remain stable or potentially decline modestly.
- This favorable lending climate will **strengthen commercial real estate transaction velocity** this year.
- There are risks to this outlook, however, as federal policies and financial markets have been unpredictable.
- Barring a significant event, though, commercial real estate debt markets are looking increasingly accretive for investors.

#### Housing Holds Outsized Share of CPI Composition



\* Other categories includes: Recreation, Other Goods and Services, and Apparel

Sources: Marcus & Millichap Research Services; CME Group; Federal Reserve; Mortgage Bankers Association; National Association of Realtors; Real Capital Analytics RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau