

# Cap rates have held near 7%. The cushion under them has not.

Cap rates and commercial real estate debt, 2023 to 2027.

## CAP RATES

**Flat near 7.2% since 2023** while the 10-year Treasury kept climbing.

**The cushion is thin:** about 200 bps over today's 5.28% Treasury, against about 300 since 2023.

**We expect upward drift:** about +35 bps in 2027. Our odds: 50% base, 30% higher, 20% lower.

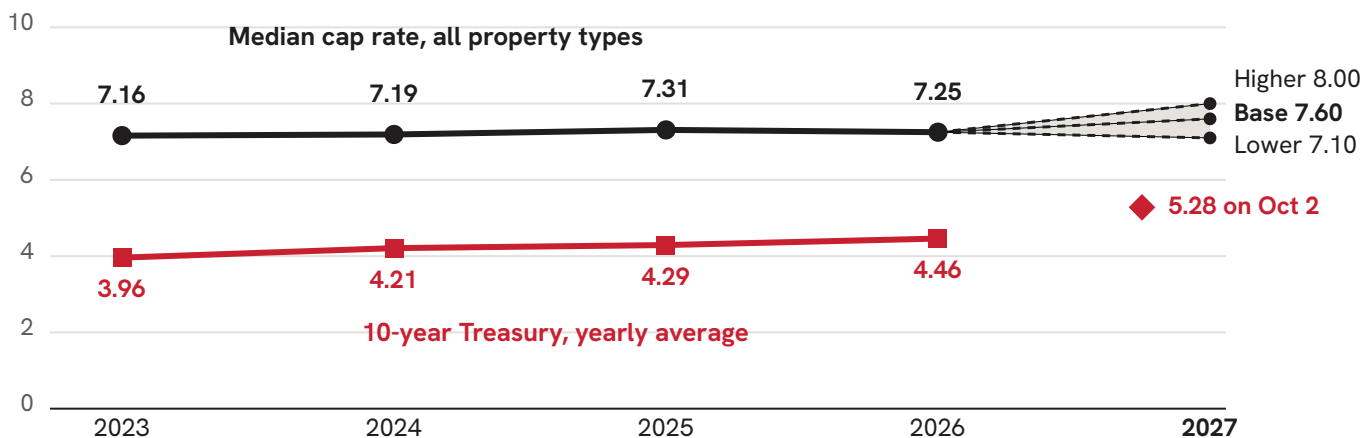
## DEBT MARKETS

**Debt costs about as much as the cap rate.** Loan quotes run near 7.25%.

**Refinance pressure stays high:** \$1.5 trillion matures across 2026 and 2027.

**Stress is spreading** from office to multifamily. Credit is dearer and more selective.

## MEDIAN CAP RATE AND THE 10-YEAR TREASURY, PERCENT



## MEDIAN CAP RATE BY YEAR, WITH NUMBER OF SALES

|                       | 2023              | 2024              | 2025†             | 2026 YTD†         |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
| <b>All types</b>      | <b>7.16</b> (315) | <b>7.19</b> (614) | <b>7.31</b> (928) | <b>7.25</b> (618) |
| Multifamily           |                   | 5.85 (65)         | 6.40 (91)         | 7.04 (51)         |
| Retail                | 6.54 (61)         | 6.69 (127)        | 7.00 (224)        | 6.80 (215)        |
| Office                | 7.70 (82)         | 7.68 (111)        | 7.55 (185)        | 7.71 (88)         |
| Industrial            | 7.45 (64)         | 7.48 (110)        | 7.75 (199)        | 7.58 (111)        |
| <b>10-yr Treasury</b> | <b>3.96</b>       | <b>4.21</b>       | <b>4.29</b>       | <b>4.46</b>       |
| <b>Spread, bps</b>    | <b>315</b>        | <b>297</b>        | <b>303</b>        | <b>288</b>        |

Percent, sales count in brackets. Spread = median of each cap rate minus the 10-year Treasury in its sale month, all types. Source: ARC internal data (2,475 sales, 2023 to 2026, mostly Southeast U.S.). † The mix of internal data changed in 2025 and 2026, lifting those medians about 35 bps. Like for like, 2026 is about 7.00%.

## Where cap rates may go in 2027

### BASE CASE · 50% ODDS

## +35 bps

To about 7.60% (7.40% to 7.80%). The 10-year holds near 5.0% to 5.25%.

### HIGHER CASE · 30% ODDS

## +75 bps

To about 8.00% (above 7.80%). The 10-year passes 5.5%.

### LOWER CASE · 20% ODDS

## -15 bps

To about 7.10% (below 7.40%). Yields fall back toward 4.5%.

Change from the 7.25% all-types median by the end of 2027. Odds are our best guess.

## What these moves do to value, LTV and DSCR

### A \$10 MILLION PROPERTY WITH A NEW 75% LOAN

Income of \$725,000 a year, which is \$10.0 million at today's 7.25% median cap rate. A 75% loan is \$7.5 million.

|                                  | Today     | Base     | Higher   | Lower     |
|----------------------------------|-----------|----------|----------|-----------|
| Cap rate                         | 7.25%     | 7.60%    | 8.00%    | 7.10%     |
| Loan rate, assumed               | 7.25%     | 7.25%    | 8.00%    | 6.75%     |
| Value                            | \$10.00 m | \$9.54 m | \$9.06 m | \$10.21 m |
| Change in value                  |           | -4.6%    | -9.4%    | +2.1%     |
| LTV on a \$7.5 m loan            | 75%       | 79%      | 83%      | 73%       |
| DSCR on a \$7.5 m loan           | 1.18      | 1.18     | 1.10     | 1.24      |
| DSCR on a \$6.5 m loan (65% LTV) | 1.36      | 1.36     | 1.27     | 1.43      |
| Largest loan at 1.25x DSCR       | \$7.09 m  | \$7.09 m | \$6.59 m | \$7.45 m  |

### A 2021 LOAN COMING DUE

Bought in 2021 for \$10.0 million at a 6.50% cap rate, with a \$7.0 million loan at 4.0%. The balance is now \$6.33 million. It just clears a 1.25x test today. Had it been interest-only, it would need \$0.65 million of new cash.

|                                       | Today    | Base     | Higher   | Lower    |
|---------------------------------------|----------|----------|----------|----------|
| Value                                 | \$8.97 m | \$8.55 m | \$8.12 m | \$9.15 m |
| Change from the 2021 price            | -10%     | -15%     | -19%     | -9%      |
| LTV on the \$6.33 m balance           | 71%      | 74%      | 78%      | 69%      |
| DSCR if refinanced in full            | 1.25     | 1.25     | 1.17     | 1.32     |
| New loan: lesser of 75% LTV and 1.25x | \$6.35 m | \$6.35 m | \$5.91 m | \$6.68 m |
| Cash needed to refinance              | none     | none     | \$0.42 m | none     |

Illustrations, not forecasts for any property. Income is held flat, loans amortize over 30 years, and loan rates are our assumptions. DSCR is income divided by yearly loan payments. At today's rates, coverage limits the loan before LTV does.

## Valuation and refinancing risks

**Value.** At these levels every 25 bps of cap rate is about 3% of value. A value set on last year's sales can be stale by the time a loan renews.

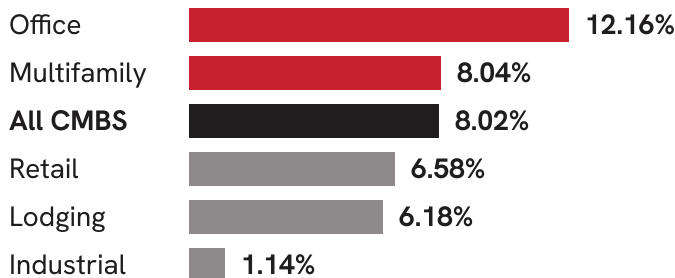
**DSCR.** Coverage follows the loan rate, not the cap rate. Moving from a 4% loan to a 7.25% loan cuts coverage by about 30%.

**LTV.** A lower value lifts LTV with no change in the loan. That can trip covenants or force a paydown at renewal or reappraisal.

**Refinancing.** Loans from 2021 and 2022 face lower values and higher rates together. Expect cash-in refinances, extensions or sales.

## Debt markets: where the pressure is

### CMBS DELINQUENCY, SEPTEMBER 2026



Loans 30 or more days late. Source: Trepp.

**\$1.5 tn**

of mortgages mature in 2026 and 2027. Loans made at 4% to 5% refinance at 7% or more.

**3.33%**

was the multifamily CMBS delinquency rate two years ago. It now tops the overall rate.

**1.53%**

of bank CRE loans were delinquent in Q2. Banks hold a record \$3.14 trillion and look calm, so far.

## Where debt may go in 2027

Loan rate = 10-year fixed commercial mortgage, about 7.25% today (multifamily about 6.4%). Odds are our best guess.

**BASE**  
**50%**

**Loan rates of 6.75% to 7.75%.** Delinquencies keep rising, led by multifamily and office. More distressed sales pull cap rates up.

**HIGHER STRESS**  
**30%**

**Loan rates above 7.75%.** The 10-year passes 5.5%, banks pull back, and forced sales reset values.

**RELIEF**  
**20%**

**Loan rates below 6.75%.** Yields fall toward 4.5%, the refinance window reopens, and delinquencies level off.

### READING OUR NUMBERS

Cap rate figures come from ARC internal data. The mix of that data changed in 2025 and 2026 toward sales that run about 35 bps higher overall and over 100 bps higher for multifamily. Like for like, the 2026 all-types median is about 7.00%, so most of the multifamily rise is data mix, not market.

## For lenders: where collateral is strongest in 2027

**Industrial is the strongest class in our data.** It has the lowest delinquency (1.14%) and the widest margin of cap rate over loan rate. Necessity retail is second. Multifamily and office carry the most risk.

|                    | Median cap rate | Typical loan rate | Cap rate less loan rate | CMBS delinquency | 2027 risk view  |
|--------------------|-----------------|-------------------|-------------------------|------------------|-----------------|
| <b>Industrial</b>  | 7.71%           | 7.25%             | +46 bps                 | 1.14%            | <b>Lowest</b>   |
| <b>Retail</b>      | 6.96%           | 7.25%             | -29 bps                 | 6.58%            | <b>Moderate</b> |
| <b>Multifamily</b> | 6.65%           | 6.40%             | +25 bps                 | 8.04%            | <b>Elevated</b> |
| <b>Office</b>      | 7.56%           | 7.25%             | +31 bps                 | 12.16%           | <b>Highest</b>  |

Cap rates: ARC internal data, 2025 and 2026 sales combined (1,164 sales). Loan rates: market quotes, October 5, 2026.

Delinquency: Trepp, September 2026. Multifamily ranks higher risk because its delinquency is rising fastest.

### LOWER RISK

**Industrial:** warehouse, distribution and flex with tenants in place and functional buildings.

**Necessity retail:** grocery-anchored and service centers with several tenants. Retail is the only class where delinquency fell this year.

**Stabilized multifamily:** 5 units and up, sized on today's collected rents.

**Owner-occupied and medical office,** with the business behind the loan.

### HIGHER RISK

**Multi-tenant commodity office.** Delinquency is 12.16% and still rising.

**Multifamily on projected rents,** lease-ups, and refinances of 2021 and 2022 loans without new cash.

**Single-tenant net lease at low cap rates** with a short lease left. One vacancy removes all the income.

**Hotels.** Cap rates in our data run from about 6% to 10%, the widest range of any class.

### WHERE THE CUSHION IS, IN OUR SOUTHEAST DATA

**More cushion:** Alabama and Tennessee industrial (median cap rates of 8.06% and 7.69%). **Less cushion:** Florida and South Carolina retail (6.30% and 6.48%) and Alabama multifamily (6.23%). A higher cap rate can also signal a weaker market.

### STRESS TESTS WORTH RUNNING IN 2027

#### 75% to 80% LTV

is common bank policy. A 1.25x test caps most loans near 70% today.

#### 1.25x DSCR

or more, tested at an 8.00% loan rate.

#### 10% debt yield

or more: income divided by the loan amount.

#### In-place income

only, not projected rents. Favor leases that run past loan maturity.

An 80% loan today is about 88% LTV if the higher case arrives. Re-check insurance and taxes on the coast. Ask whether cap rate comps are closed sales or asking prices.

**This outlook is a judgment, not a certainty, and is not an appraisal, investment advice or lending advice. Each lender's own credit policy governs.** Standard sales only; going-concern, pro forma, leased-fee, ground-lease and portfolio sales excluded. Multifamily is 5+ units. Cap rate data: ARC internal. Outside figures: Federal Reserve, Mortgage Bankers Association, Trepp, CBRE, Wells Fargo Investment Institute, Deloitte, Select Commercial.