



## **LOAN PRICING HITS MULTI-YEAR LOWS:**

### ***What Borrowers Need to Know***

After years of punishing borrowing costs, the tide has finally turned. Mortgage rates have fallen below 6% for the first time since September 2025, with the average 30-year fixed rate now sitting at approximately 6.01%—the lowest level in nearly four years. For commercial real estate borrowers, the news is equally promising: multifamily spreads have tightened to 152 basis points over Treasuries, down from 166 basis points just months ago.

For investors weighing acquisitions, private lenders positioning their capital, and agents advising clients, this moment represents a genuine inflection point. But as with any market shift, the opportunity comes with nuance. Here is what borrowers need to know about today's improving loan pricing environment.



### **The Rate Picture: How Low Have We Gone?**

The headline numbers tell a compelling story. The 30-year fixed mortgage rate has dropped approximately 80 basis points from February 2025, when rates averaged close to 6.9%. The 15-year fixed rate now averages 5.35%, also sitting at 52-week lows.

This improvement translates into real savings. On a \$300,000 mortgage, the difference between a 6.9% rate and today's 5.95% rate lowers the monthly principal-and-interest payment by roughly \$190. Over 30 years, that adds up to tens of thousands of dollars in interest savings.

For commercial borrowers, the picture is more varied but equally encouraging. Multifamily leads with the tightest spreads at 152 basis points over Treasuries, followed closely by industrial at 163 basis points. Even retail—a sector many had written off—has posted dramatic improvement, compressing 15 basis points to 173 basis points as lender appetite returns for grocery-anchored and experiential centers.

Office remains the outlier. Despite compressing from 237 basis points to 223 basis points since mid-2025, office spreads still carry a 71 basis point premium over multifamily—a persistent risk surcharge driven by elevated vacancy and uncertain return-to-office patterns.

### **Why Rates Are Falling**

Understanding the "why" behind today's lower rates helps borrowers gauge whether the trend has further to run. Several factors are converging:

- **The bond market connection.** Mortgage rates move in lockstep with the 10-year Treasury yield, not the Federal Reserve's short-term rate. The 10-year yield has eased to approximately 4.25%, down from 4.46% a year ago. This movement reflects a cooling labor market and easing inflation expectations.
- **Shrinking risk premiums.** A year ago, the spread between Treasury yields and mortgage rates exceeded 2.4 percentage points. Today, it is closer to 1.8 points. This tighter spread signals improved confidence in the mortgage market and lower perceived risk.
- **Fed policy expectations.** The Federal Reserve cut rates three times in 2025 and has signaled the possibility of one additional reduction in 2026. While the Fed does not directly set mortgage rates, its policy decisions shape investor expectations, and much of the anticipated easing is already priced into markets.
- **Lender competition.** With loan origination volumes needing to rebound, lenders are competing aggressively for quality borrowers. This competition is compressing spreads across most property types.

## The Outlook: How Much Lower Can Rates Go?

Forecasts from major institutions suggest limited but meaningful additional downside. Fannie Mae and Morgan Stanley project the 30-year fixed rate could ease toward 5.50% to 5.75% by mid-2026. Bankrate's forecast sees rates averaging 6.1% throughout the year, with a potential low of 5.7%.

However, the Mortgage Bankers Association offers a more conservative view, expecting rates to hover closer to 6.1% to 6.4% for most of the year. The Federal Reserve's signal of only one potential 2026 cut suggests that much of the optimism is already reflected in current pricing.

For commercial borrowers, CRED iQ's research team expects further modest compression across all sectors by year-end 2026, with multifamily and industrial spreads potentially falling below 150 basis points and 155 basis points, respectively. Combined with a base-case 10-year Treasury forecast of 3.85–4.00%, all-in rates for institutional-quality CRE loans should settle in the low-to-mid 5% range for favored property types.

The key takeaway: rates are unlikely to return to pandemic-era lows. The 3-4% mortgage environment is history. But stabilization at current levels—or modestly lower—provides a foundation for transacting that has been absent for several years.

## Strategic Considerations for Borrowers

With rates near multi-year lows, the question shifts from "will rates drop?" to "how should I act?" Several strategic considerations come into play.

- **The waiting risk.** While rates could edge slightly lower, waiting carries its own costs. Housing supply remains structurally constrained, with the inventory of homes under construction recently falling to its lowest level in nearly four-and-a-half years. That tightness is expected to push home

prices up 2% to 3% in 2026. On a \$400,000 home, a 3% increase adds roughly \$12,000 to the purchase price—potentially offsetting any benefit from a modest rate decline.

- **Rate buydowns gain traction.** Temporary buydowns, such as 2-1 buydowns, allow borrowers to pay an upfront fee to reduce their rate for the first two years. Permanent discount points can lower the rate for the life of the loan, but only make sense if the borrower plans to stay long enough to recoup the cost. Builders are actively using rate buydowns to clear inventory, helping bridge the affordability gap.
- **Loan term considerations.** The 15-year mortgage offers significantly lower rates than the 30-year product—currently about 5.35% versus 6.01%. For borrowers with stable income who can handle higher monthly payments, the 15-year term can dramatically reduce lifetime interest costs and build equity faster.
- **Refinance opportunities.** For homeowners who locked in rates above 7% in 2024, today's environment may finally make refinancing worth revisiting. With the average 30-year refinance rate at 6.07%, those holding notes at 7.25% or higher have officially entered the "break-even zone". However, closing costs remain a hurdle. Most borrowers need to see at least a 0.75 to 1 percentage point drop to break even within a reasonable timeframe, especially if they plan to move within five to seven years.
- **Commercial borrowers face a "new normal."** In commercial real estate, the bet is no longer that rates will normalize, but that they won't—and that deals still have to work anyway. With a \$190 billion maturity wall bearing down between 2026 and 2028, investors are shifting from hoping for a rate rescue to underwriting a stubbornly expensive cost of capital. The most successful borrowers will be those who accept flatter yield curves, rely on lower leverage, and demonstrate durable cash flow rather than banking on future cap rate compression.

## Sector Nuances: Where Money Is Flowing

Not all borrowing opportunities are created equal in today's market. Capital is behaving "more like a spotlight than a floodlight," concentrating on assets where lenders can underwrite durable demand and near-term cash flow.

- **Multifamily** continues to attract the most favorable terms, with the tightest spreads and strongest lender appetite. Markets with high barriers to entry and supply constraints are particularly favored.
  - **Industrial** remains a lender favorite, with spreads of 163 basis points reflecting continued confidence in logistics and warehouse assets anchored by investment-grade tenants.
  - **Retail** has staged a surprising comeback, with grocery-anchored and experiential centers seeing significant spread compression as lenders return to the sector.
  - **Office** remains challenged. Even trophy single-tenant office assets price at spreads consistent with the broader office composite of 223 basis points. Borrowers in this sector should expect heightened scrutiny, lower leverage, and tighter covenant structures.
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## What This Means for You

### For Investors:

Today's rate environment offers the most favorable borrowing conditions in nearly four years. For buy-and-hold investors, this is an opportunity to lock in long-term financing at levels that support positive carry—particularly in multifamily and industrial where spreads are tightest. However, temper your expectations: rates are unlikely to return to 3-4% levels. Underwrite deals based on today's rates rather than hoping for dramatic further declines. For those facing 2026-2028 maturities, the improving rate environment may offer refinancing relief, but don't count on cap rate compression to save a marginal deal. The borrowers who succeed will be those who can demonstrate durable cash flow and maintain conservative leverage.

### For Private Lenders:

The tightening spread environment signals improved confidence and returning liquidity, but it also means increased competition from traditional banks and GSEs. Private lenders should focus on niches where conventional capital remains cautious—transitional assets, bridge financing, and borrowers with unique circumstances. The office sector, despite its challenges, may offer opportunities for private lenders willing to underwrite experienced sponsors and well-located assets at conservative LTVs. As spreads compress, maintain underwriting discipline; the "new normal" requires accepting that double-digit yields may be harder to find without taking disproportionate risk.

### For Agents:

The psychological impact of rates below 6% cannot be overstated. More than a third of homeowners told Bankrate in a July 2025 survey that rates would need to fall below 6% for them to feel comfortable buying, while 27% said the same threshold would make them comfortable selling. This represents a significant opportunity to activate sidelined buyers and sellers. However, manage client expectations: waiting for 4% mortgages is futile. The message should be that rates have stabilized at levels that make sense for long-term ownership, and that further price appreciation in supply-constrained markets may offset any benefit from waiting for modest additional rate declines. For clients considering refinancing, help them run the numbers on closing costs versus monthly savings to determine their true break-even point.

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Sources: *The Economic Times* ; CRED iQ ; Bankrate ; Globest/Trepp