Marcus & Millichap Capital Corporation

Market Commentary

March 20, 2025

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The Fed holds rates constant for the third consecutive meeting

Despite recent stock market turmoil, the Federal Reserve governors kept their hands in their pockets, choosing to hold the Federal Funds target rate at the 4.25% - 4.50% level again this month. While the stock market has fallen into correction territory stemming from fear over policies coming out of Washington, other key economic indicators continued to show strength, eliminating the immediate need for loosening by the Fed.

- Powell emphasized that the Fed doesn't need to rush into rate cuts, stating, "We do not need to be in a hurry," and that they are "well positioned to wait for greater clarity." However, he did make reference to slower growth and potential economic weakening. The 10-year Treasury yield decreased modestly following his commentary.
- The combination of a trade war and the President's direct admission that recession was a possibility, has led to a major stock selloff. The S&P 500 is down almost 6% since inauguration day.
- CPI increased 0.2% in February and by 2.8% for the trailing twelve months, comparing favorably to the January annualized increase of 3.0%. Core CPI also rose 0.2% in February and 3.1% for the trailing twelve months. This compared to a 3.3% annualized increase in January. Both CPI measures exhibited positive trends month over month.
- Total nonfarm payroll increased by 151,000 jobs in February, comparable to the 168,000 average monthly gain over the last twelve months. Employment gains in healthcare, financial services and transportation were partially offset by a decline in the federal government workforce.
- Unemployment was unchanged at 4.1% in February, staying within the 4.0% - 4.2% range of the last twelve months. The full effect of federal government layoffs and the impact of budget cuts on employment in other parts of the economy are not believed to have been fully realized yet.

4.25%

10-Year Treasury yield following the Federal Reserve meeting

The benchmark index is a full half percent below its January peak of 4.80%, though still a far cry from the 3.65% low realized during the September head fake.

- SOFR currently sits at 4.34%, having remained flat thus far in 2025. Despite the plateau, SOFR sits 100 bps below its level of just 6 months ago and the forward curve shows another 100 bp drop in the next 12 months. The aggregate effect is a far more attractive borrowing environment for short term bridge and construction loans.
- Following the Fed meeting the market is projecting only a 21% probability of a 25 bp cut in May, but a total of 50-75 bps in cuts by year end 2025.
- Further ahead in 2026, the yield curve indicates a flat environment, but with a wide range of possible outcomes given the concerns over tariffs, geopolitics and the overall macroeconomic environment.
- A correction in the equities market, with the benchmark S&P 500 having quickly fallen 10% in less than 30 days, usually prompts a sharp widening of spreads. However, that has yet to be realized given the wall of capital looking for real estate transactions and still solid – if jittery – economic fundamentals.

5.50% - 6.80%

Fixed rates for most loans

Recent relief in the 5 and 10-year Treasury indices have reduced borrower interest rates for most fixed rate loans to the 5.50%-6.80% range. Most lenders have full allocations and increased volume targets for 2025. Lender spreads have been stable despite recent economic uncertainty due to the high level of liquidity in lending markets.

- Banks and credit unions are gradually increasing their lending appetites as their balance sheets get closer to historical norms following the interest rate shock of recent years. Credit standards and scrutiny remain high but high quality loan requests from strong borrowers are increasingly competitive. Leverage remains in the 60% -70% LTV range with interest rates in the 5.60%-6.50% range.
- Life Companies remain a consistent source of capital for lower leverage, non-recourse loan requests on stabilized assets. Most deals price in the 5.50% - 6.25% range. Leverage levels remain on the low side, particularly for refinance requests, with all-in leverage in the 50% - 60% range. New entrants have come into the market, many private equity backed, with slightly more aggressive postures and lending rates at the top end of the range.
- The CMBS market continues to thrive following a surprisingly strong 2024. Liquidity among market participants and bond buyers remains robust, despite some tariff news which has given lenders pause in recent weeks. 5-year, full-term interest only loans remain in high demand. 10-year loans are often interest only as well. Rate buy downs are commonplace and often used as a tool to increase proceeds in a DSCR constrained environment. Rates center around the 6.25% - 7.25% range. Retail, hospitality and self-storage backed loans lead most pools, while the sector continues to fight for multifamily loan collateral for deals the agencies and banks are either passing on or unable to meet the leverage levels required.
- Fannie Mae and Freddie Mac continue to dominate multifamily non-recourse lending with the former being the market leader thus far in 2025. Increased production targets for 2025 are deemed critical to reach despite regulations that depress deal flow. Agencies are quoting typical 65% LTV, 1.25x DSCR multifamily loans at 5.30% - 6.70% with the tighter end of the range being reserved for better quality deals with high levels of mission and affordability components.
- Debt fund proliferation is rampant with a seemingly endless array of new participants having entered the market in the last 12 months. Originations are focused on value-add opportunities with some capital reserved for ground up development projects. The multifamily, retail and industrial sectors comprise the majority of the volume. All-in borrowing costs generally range from 6.50% - 8.75% with leverage levels at the aggressive end of the market, usually in the 65% - 75% LTV range.

Marcus & Millichap
Capital Corporation

Stabilized Financing - Market Terms*

	LTV	Interest Rate	Term	Fixed/Floating	Recourse	Product Types							
						Multifamily - Class A	Multifamily - Class B-C	Office	Industrial	Retail	Hospitality	Other - Stabilized**	Other - Opportunistic***
Life Co	50-60%	5.50-6.25%	5-20 years	Fixed (over Treasuries)	Non-Recourse	✓		✓	✓	✓			
CMBS	60-70%	6.25-7.25%	10 years	Fixed (over Treasuries)	Non-Recourse	✓	✓	✓	✓	✓	✓	✓	
Bank	60-70%	5.60-6.50%	3-10 years	Fixed /Floating (index varies)	Varies	✓	✓	✓	✓	✓	✓	✓	✓
Credit Union	60-70%	5.60-6.50%	5-10 years	Fixed (index varies)	Varies	✓	✓	✓	✓	✓			
Agency	55-65%	5.30-6.70%	5-30 years	Fixed /Floating (over Treasuries)	Non-Recourse	✓	✓						
Debt Fund	65-75%	6.50-8.75%	2-5 years	Floating (over SOFR)	Non-Recourse	✓	✓	✓	✓	✓	✓	✓	✓

* Other terms such as prepay penalty, amortization and future funding vary widely by lender, property and borrower; rates change daily
** Self-storage, mobile home parks, data centers, marinas, etc.
*** Construction, condo, land, pre-development, etc.

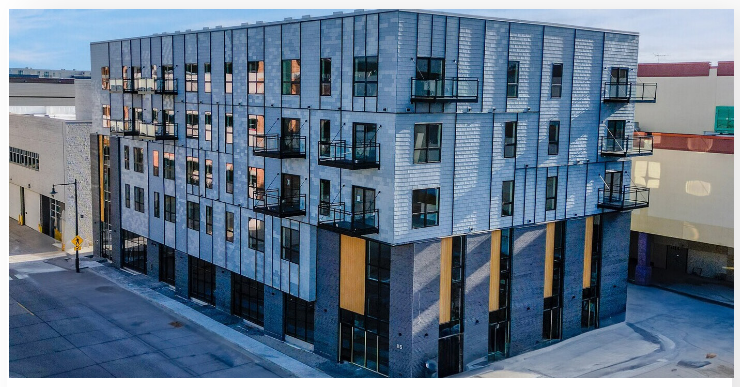
Recently Closed Transactions

$21,410,000

Torrington, CT
Self-Storage | CMBS

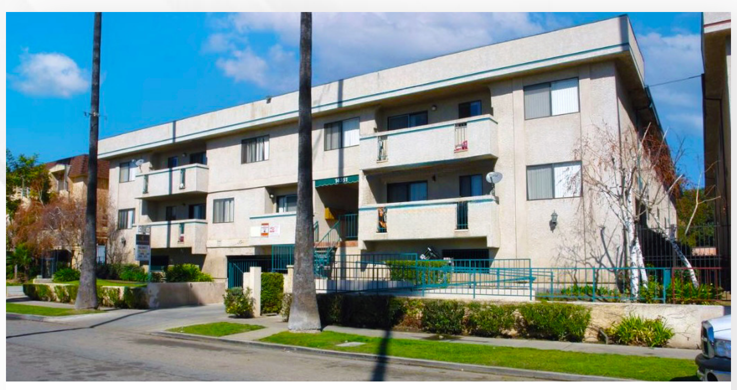
$8,750,000

Waco, TX
Hospitality | Bank



$10,377,000

Appleton, WI
Multifamily | Agency



$7,550,000

Van Nuys, CA
Multifamily | Bank

$10,500,000

Parker, CO
Industrial | Credit Union

$4,443,430

Manchester, NH
Mixed-Use | Bank

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