

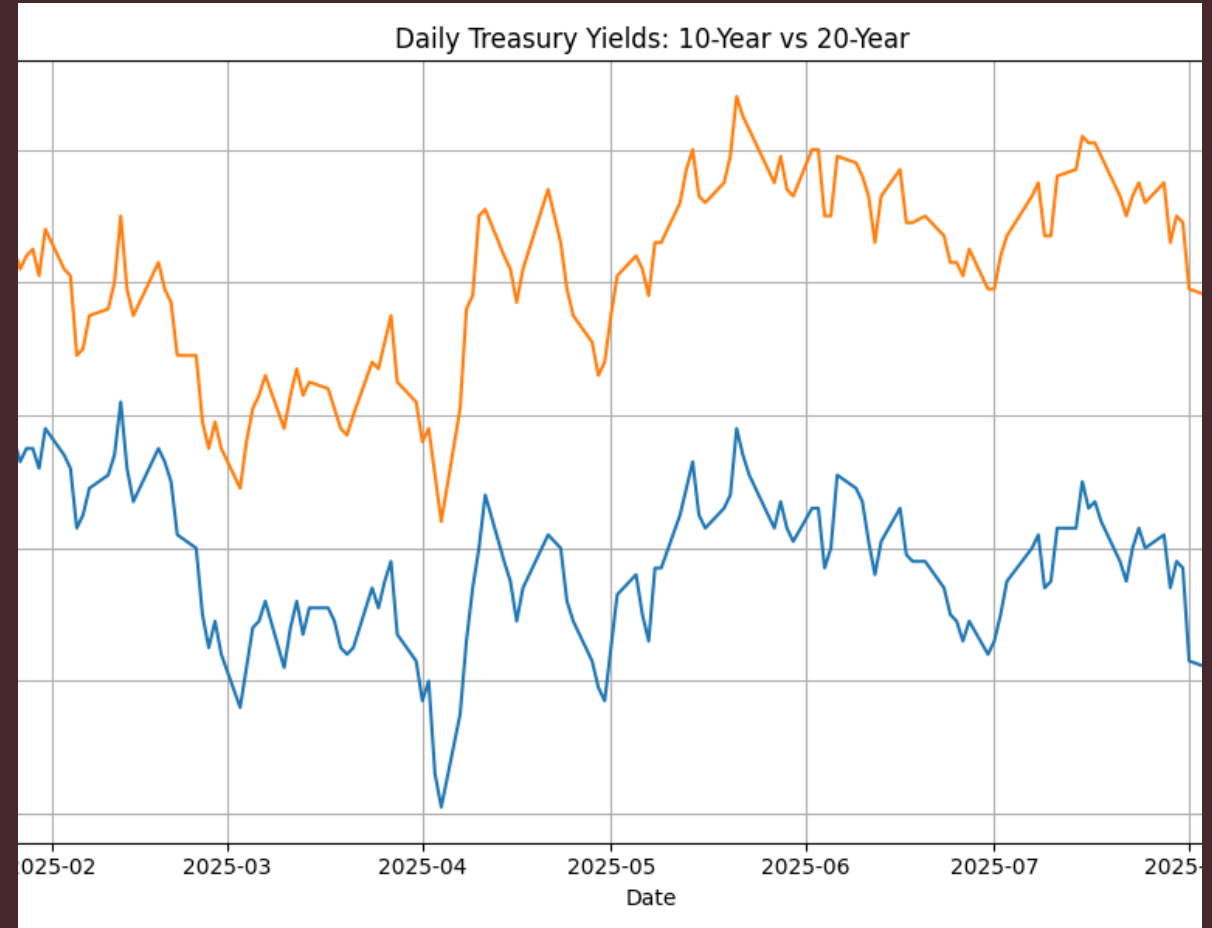
Market Insights for Real Estate Developers

Analyzing trends to inform strategic development decisions

Market Trends Today

Treasury Yields

After a period of rising, Treasury yields have started to decline, influenced by employment trends and other pressures.



Interest Rate Outlook for 2026

Projected Interest Rate Range

Interest rates are expected to decrease to between 3.7% and 4.3% in 2026 due to employment figures and other pressures.

Monitoring Economic Indicators

Developers should track Federal Reserve decisions, inflation, and macroeconomic trends to adjust projections.

Scenario Planning and Stress Testing

Using scenario planning and stress testing helps identify risks and improve financial resilience.





Inflation's Impact on Real Estate

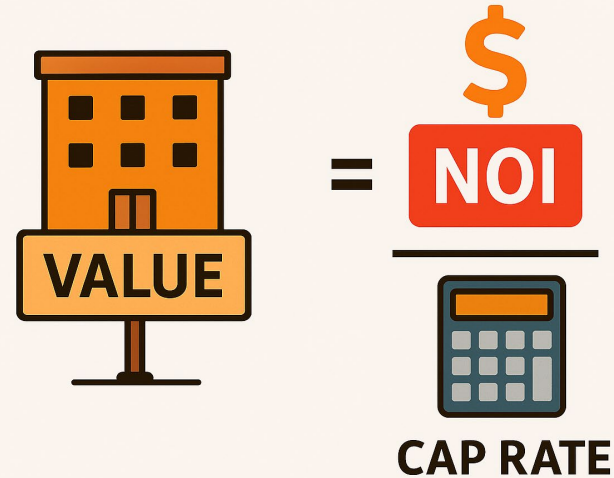
Operating Expenses and Income

- Inflation raises operating expenses like insurance, utilities and maintenance, which can reduce net operating income if disproportionate to rents.

Inflation's Impact on Real Estate

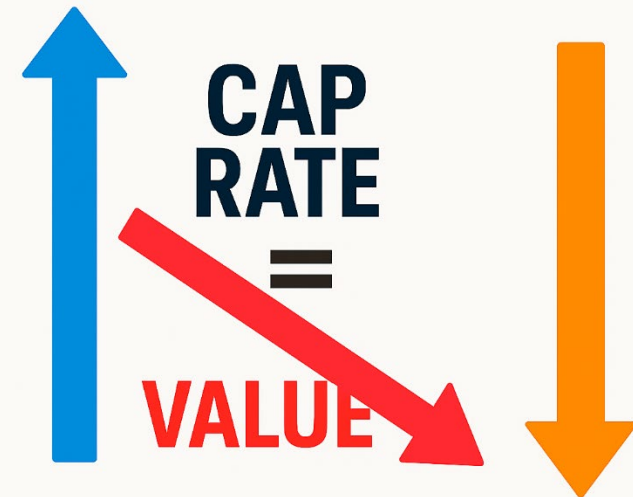
Cap Rates and Valuations

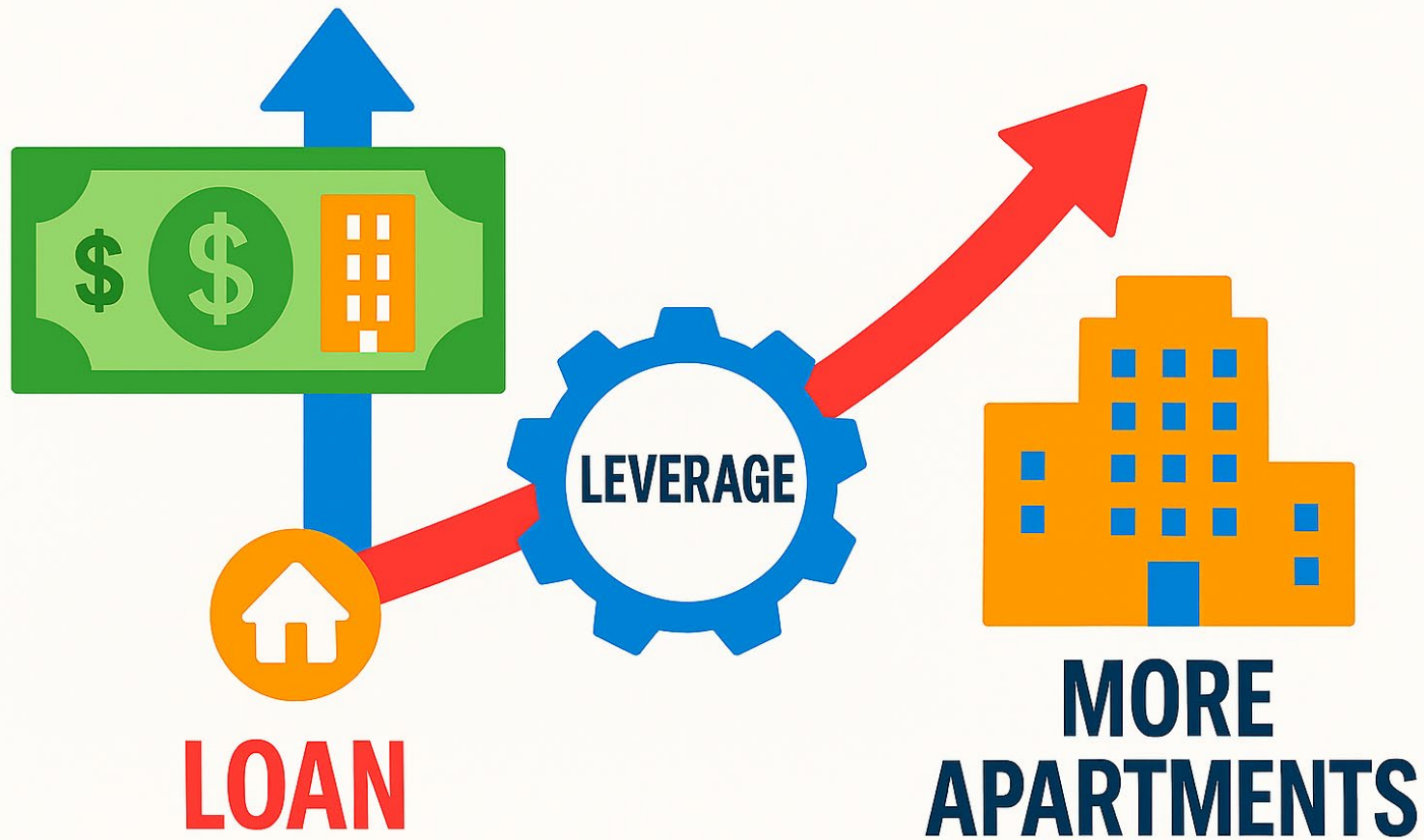
Rising inflation leads investors to demand higher cap rates, typically lowering property valuations.



A diagram illustrating the relationship between property value, net operating income (NOI), and the capitalization rate (cap rate). On the left, an orange building icon sits atop a sign that reads "VALUE". This is followed by an equals sign. To the right of the equals sign is a fraction: the numerator is a red box with "NOI" and a dollar sign above it, and the denominator is a calculator icon with "CAP RATE" written below it.

$$\text{VALUE} = \frac{\text{NOI}}{\text{CAP RATE}}$$





Inflation's Impact on Real Estate

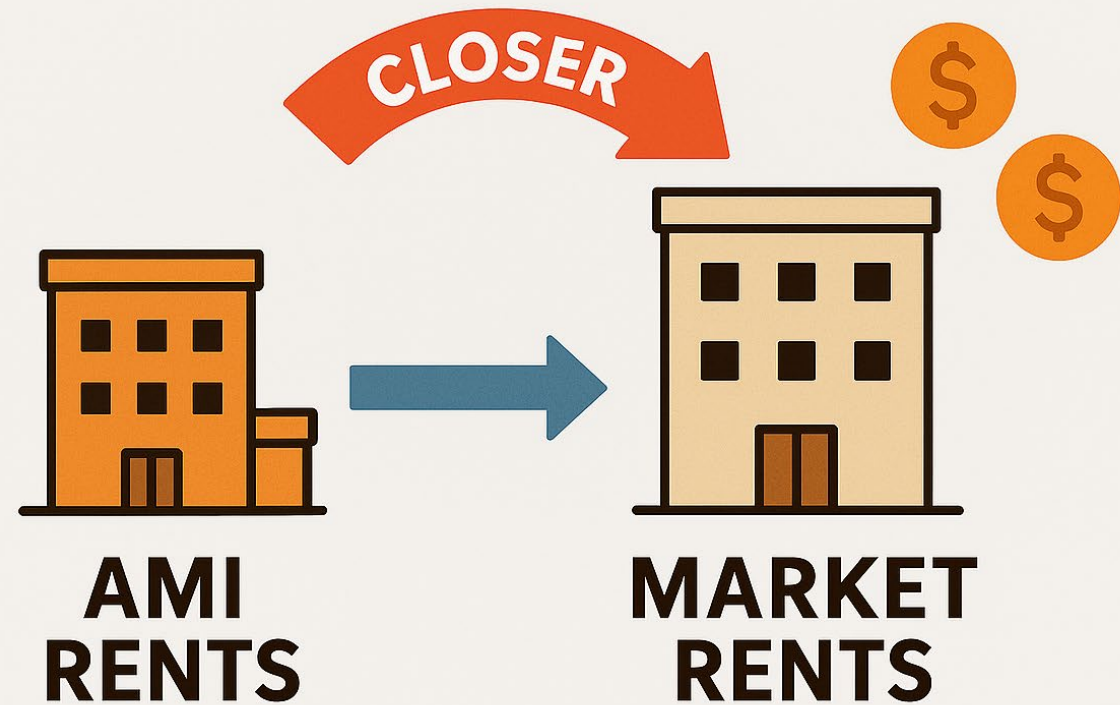
Leverage and Cost of Capital

- Inflation increases the cost of capital, reducing leverage availability and building power.

Inflation's Impact on Real Estate

Gap between HUD/ AMIrents &
Market Rents is shrinking

Rising inflation leads investors to
demand higher cap rates, typically
lowering property valuations
especially for fixed income assets.



Proactive Steps for Developers



Focus on proven relationships

The “best” deal quickly becomes the “worst” deal if you can’t execute.

Early and Open Engagement

Bring your trusted parties in soon and be open with all the challenges being faced.

Know the contingencies of additional debt

BABA requirements, additional restrictions and reporting.

Build a perm loan increase close into your LPA

Projects have changes – build some flexibility into your agreements.