RESEARCH BRIEF
FINANCIAL MARKETS

IPA INSTITUTIONAL PROPERTY ADVISORS

DECEMBER 2025

Lower Rates Aiding Transactions; Opinions Vary on 2026 Outlook

Fed cuts overnight rate again in December. As widely expected, the Federal Open Market Committee conducted this year's third 25-basis-point cut to the federal funds rate, setting a new lower-bound target of 3.5 percent. The total reduction since mid-September has helped bring down other benchmark short-term rates such as SOFR, which has fallen about 50 basis points over the past four months to 3.93 percent. During the same period, the yield on the 10-year Treasury has fluctuated between 4.0 percent and 4.2 percent, down from the mid-4 percent range earlier this year. Through Fed actions and other market forces, borrowing costs have eased modestly this year.

Expectations for next year are in flux. Looking ahead, borrowing rates could continue to decline modestly. A summary of expectations from FOMC members indicates that, overall, the committee may find it necessary to cut the overnight rate by an additional 25 basis points in 2026. This is not a formal policy statement, however, and members have widely different views. Market conditions will also continue to change. If tariffs put increased upward pressure on vacancy, they could prompt the Fed to hold off on lowering rates. Conversely, labor market turbulence could lead to friendlier monetary policy. Already, the Fed is starting to purchase short-term Treasuries to improve reserves and reduce the strain the repo market has experienced in recent weeks.

Transaction activity already benefiting from recent reductions. Even without further rate cuts from the Fed, lending and investment sales markets for commercial real estate are gaining momentum. The flow of capital into commercial real estate focused investment funds increased in 2025, bolstering sales activity. The number of closed transactions across major property types is up more than 15 percent this year compared to 2024. Lenders are engaging in more business, with competition for the best assets leading to slightly narrower spreads. A 20.5 percent increase in the caps for Freddie Mac and Fannie Mae for 2026 suggests that these agencies will be more competitive next year, a boon for multifamily investment sales.

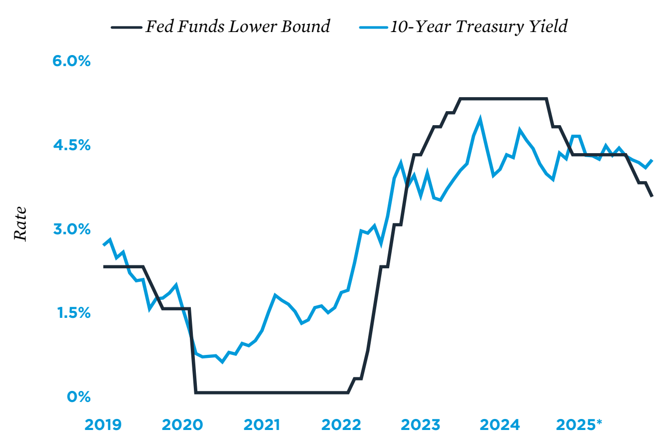
Property Type Trends

The office sector may be turning the corner. More than 127 million square feet of office space has been absorbed on net since March 2024, bolstered by increased workplace attendance. A 25-year-low delivery slate for 2026, paired with modest demand growth, should keep vacancy rates declining, facilitating office investment. Private investors, who account for about half of recent buyers, are benefiting from less competition from larger parties in deals, while tenants are taking advantage of current pricing to lease their space.

Outperforming industrial properties gaining attention. Although a construction wave has more than doubled the U.S. industrial vacancy rate over the past three years, vacant space remains concentrated in larger properties and select markets. Vacancy is much lower in less built-out metros and smaller footprints. Industrial investment is also climbing, aided by higher cap rates averaging in the upper 6 percent band. If trade policy stabilizes, it could generate new space demand sufficient to curb the recent upward trend in vacancy.

3.50%	4.16%
Federal Funds Rate Lower Bound	*10-Year Treasury Yield on Dec. 10, 2025*

Fed Funds Rate and 10-Year Yield Trends



** Through Dec. 10*

Sources: IPA Research Services; CME Group; CoStar Group, Inc.; Federal Reserve; FHFA