Taking Stock of CRE Yield Spreads: Trends, Differences, and Future Implications

Overview: Cap Rate Spreads and Why They Matter

In commercial real estate (CRE), the **yield spread** typically refers to the difference between property capitalization rates (cap rates) and a benchmark risk-free rate (often the 10-year U.S. Treasury yield). This spread represents the risk premium investors demand for holding CRE assets over safer bonds. Over the past decade, CRE yield spreads have compressed significantly – reflecting strong investor demand and abundant capital. At the start of 2015, the average spread between CRE cap rates and the 10-year Treasury was about **393 basis points (bps)**. By the first quarter of 2025, that spread had narrowed to around **180 bps**, less than half its level a decade prior. In other words, CRE cap rates have not risen as fast as interest rates (and in some cases fell), reducing the excess yield investors get from real estate. Such compression is important because **tight spreads signal high property valuations and confident sentiment**, whereas widening spreads signal rising risk aversion and downward pressure on prices.

Historically, from 2015 through 2020, cap rate spreads for different property types clustered fairly tightly around ~3.8%–4.2% over Treasuries. Since then, however, spread trends have diverged markedly by sector. Below, we delve into two key sectors – **multifamily apartments and industrial** – followed by geographic and lender-based differentials, and finally the COVID-era distortions and what current spreads imply for future pricing and lending.

Multifamily and Industrial: Unprecedented Spread Compression

Multifamily and industrial properties have seen the most dramatic spread compression in recent years. Back in Q1 2015, multifamily cap rates carried about a **3.8%** premium over the 10-year Treasury, and industrial about **4.1%**, roughly in line with other major sectors. By Q1 2025, those spreads had collapsed to roughly **1.11% for apartments and just 0.33% for industrial**. In other words, industrial real estate in particular is now priced with virtually **no risk premium** above the 10-year Treasury yield – an extraordinary shift. Multifamily, while not quite as extreme, also offers barely a 100 bps premium despite historically being considered one of the safest property types.

Several factors drove this tightening. **Investor confidence and fierce competition** for these assets pushed cap rates down even as interest rates fluctuated. Industrial cap rates fell especially fast due to the e-commerce and logistics boom – rent growth was "super-charged" during the pandemic, which led investors to bid aggressively and accept lower yields. For multifamily, strong housing demand and low vacancy rates (aided by demographic trends and the low interest rate environment of 2020–2021) had a similar effect. Trepp's analysis confirms that **multifamily and industrial now trade at the tightest spreads** of all sectors, reflecting a broad flight to quality in these income streams. Even retail properties, historically riskier, saw their spread fall to ~1.6% by 2025 (from 4.2% in 2015) – a sign that investors view certain retail (e.g. essential retail) more favorably now. Office is the outlier, with spreads still above 2.2% (down from ~3.9% in 2015) due to persistent uncertainty in that sector.

It's worth noting just how **extreme the pricing for industrial and multifamily became** during the recent boom. In fact, private-market appraisals for top-tier warehouses and apartments showed cap rates so low that **for the past 2–3 years they were at or below the risk-free rate** itself. In 2022–2023, many industrial deals had cap rates *below* the 10-year Treasury yield – effectively a negative spread, implying investors were willing to accept bond-like or lower returns for the perceived safety and growth potential of those assets. (By comparison, publicly-traded REITs' implied cap rates for industrial stayed higher, suggesting the private valuations were unsustainably rich.) This unprecedented situation – essentially **no risk cushion** – underscores the froth in those markets during the peak of the cycle. It also suggests vulnerability: such ultra-low spreads **may not be tenable long-term**, and some correction or re-pricing is possible if either interest rates remain elevated or growth prospects cool. In fact, market observers have warned that industrial cap rates cannot indefinitely remain below Treasuries, and **write-downs or spread widening are likely ahead** for those valuations absent a major drop in Treasury yields.

In summary, multifamily and industrial real estate have been the darlings of investors over the past decade. Their yield spreads compressed to **historic lows** – indicating high prices and optimism – which has short-term supported values and kept lending robust for these sectors. But such tight spreads also imply that **future CRE pricing in these sectors is sensitive**: if sentiment sours or financing costs rise, there is very little risk premium buffer, and cap rates could adjust upward (bringing prices down).

Geographic Variations in Spread Compression

Yield spreads (and cap rates) have not compressed uniformly across all geographies. In fact, during the past decade – especially the post-2020 investment surge – **high-growth secondary and Sun Belt markets saw much greater cap rate compression** than some traditional gateway cities. A "clear geographic pattern" emerged for multifamily: markets in the Sun Belt and other fast-growing regions experienced the **greatest declines in cap rates** (hence spreads) as investor capital flooded into these areas. By late 2021, more than 80% of investors surveyed believed that pricing in many **secondary markets had converged**

with gateway markets, erasing much of the historical yield premium that secondary/tertiary locations used to offer. In other words, cap rate spreads between, say, a Dallas or Phoenix apartment asset and one in New York or San Francisco narrowed significantly – a reflection of both **migration trends (demand growth in Sun Belt)** and investors' willingness to chase yield in new places until those yields weren't much higher than in coastal metros.

For example, CBRE's data showed **"very low cap rate levels" in Sun Belt industrial hubs** like Riverside (Inland Empire CA), Phoenix, and Dallas by the end of 2021, nearly on par with supply-constrained port cities such as Los Angeles and Northern New Jersey. This convergence indicates that the **geographic risk differentials compressed** – investors saw booming Sun Belt markets as nearly as "core" as gateways, given strong fundamentals, and bid accordingly. Markets with strong job and population growth (Austin, Nashville, Atlanta, etc.) similarly saw cap rates fall sharply through 2021, shrinking their spreads to Treasuries more than in slower-growth regions.

On the other hand, **some regions saw relatively less spread compression**. Generally, Midwestern and certain Northeast markets that didn't experience huge inflows of capital or outsized growth retained higher cap rates (and thus higher spreads) compared to the national darlings. These markets simply didn't see the same frenzy, so while their absolute cap rates did decline in the low-rate era, the *degree* of compression was milder. The net result by 2025 is a **flatter landscape of yields across geographies** – the gap between lowest-yield and higher-yield metros is smaller than a decade ago. This means investors today aren't getting paid much extra for going into a secondary market; in 2015 they might have gotten 100–200 bps more yield in a secondary city versus a gateway, but by the early 2020s that spread shrank considerably.

It's important to note that **this pattern can shift in changing market conditions**. The convergence happened in an environment of plentiful capital and optimism. As the cycle turned more volatile in 2022–2024, one might expect investors to differentiate more between core and non-core markets. Indeed, if risk aversion rises, spreads could widen more in less proven markets (i.e. cap rates could increase faster there). So far, the evidence suggests the Sun Belt and growth cities are still highly favored, but going forward, **geographic yield spreads could diverge again** if the market places a premium on stability and liquidity of primary markets. For now, though, the key takeaway is that **certain geographies (Sun Belt, high-growth metros) experienced far greater spread compression**, fundamentally altering the risk/return map of CRE investment in the last decade.

Spread Dynamics by Lender Type

Yield spreads are not just a factor for investors – they also play into **lending rates and vary by lender type**. In CRE finance, different lender groups (banks, life insurance companies, government agencies, CMBS, debt funds, etc.) each have their own cost of capital and risk appetite, leading to different **credit spread** requirements on loans. Over the past couple of years, we've seen notable shifts in who is lending and at what spreads:

- **Government-Sponsored Enterprises (GSEs / Agencies)** – For multifamily in particular, Fannie Mae and Freddie Mac have been major lenders, and their presence helped **compress loan spreads in 2024**. By Q4 2024, **multifamily loan spreads had tightened to ~156 bps** over Treasuries, the tightest level since early 2022. This was largely due to agency lenders lowering their pricing (a reflection of strong competition and their mandate to support rental housing) – effectively, **agency mortgage rates came down**, contributing to narrower spreads for borrowers. Agency loan interest rates averaged around 5.4% in late 2024 for 7–10 year multifamily loans, down from ~5.8% the prior quarter, despite high base rates. The agencies' willingness to accept modest spreads has provided cheaper debt for apartments and kept that sector's investment activity relatively buoyant.
- **Banks** – Banks traditionally offer some of the lowest-cost CRE loans (thanks to low-cost deposits), but they tightened dramatically in 2022–2023 amid rising rates and regulatory concerns. By late 2024, banks began re-entering the market more aggressively – in Q4 2024 banks accounted for 43% of non-agency loan closings (up from just 18% in Q3) as they benefited from a more favorable outlook and loan payoffs. On top-tier loans, especially for safer assets like stabilized multifamily, **banks can still price loans at relatively low spreads** – on the order of low-300s bps over the base rate for well-capitalized deals. However, banks have been requiring more conservative terms (lower leverage, recourse, etc.) when they do lend. During the height of volatility, many banks pulled back: 2023 lending by depositories dropped 63% versus 2022, creating a "financing gap" that other lenders filled. Now, as conditions stabilize, banks are returning, but they are **selective and disciplined on underwriting**, and their spreads, while low for the best deals, can widen quickly for riskier loans or secondary assets.
- **Life Insurance Companies** – Life insurers (life cos) are typically conservative lenders focused on high-quality properties. They often accept slightly lower yields in exchange for safety – meaning **life companies' loan spreads are often tight** relative to other lenders. In competitive markets, life companies have had to

“narrow spreads along with other lenders” to win deals. For instance, a life insurer might quote a trophy industrial or apartment loan at ~150–200 bps over Treasuries (for low-leverage, long-term money), whereas a riskier deal would not meet their criteria at all. During 2021’s boom, life cos were still “at the table” despite spread compression, indicating they matched some of the tighter pricing to keep investing. By late 2024, life companies were the second-largest non-agency lending group (33% of loan closings) and increased their share year-over-year. They continue to offer **attractive rates for quality** – often comparable to or slightly above bank pricing – but generally lend on only the best properties.

- **CMBS (Conduit)** – CMBS lenders package loans into securities, and their spreads are driven by bond investor demand. In volatile times, CMBS execution can require higher spreads to place the bonds. Indeed, conduit CMBS volume has been very low (just ~1.5% of Q4 2024 originations), indicating that borrowers found CMBS pricing less competitive. In early 2023, as interest rates spiked, CMBS loan spreads widened significantly, making conduit loans expensive or unworkable. They have since come in somewhat as credit markets calmed, but overall **CMBS spreads remain on the higher side** for many property types, especially for anything perceived as risky (e.g. offices in weaker markets). The low CMBS activity suggests that other capital sources have undercut conduits on pricing for most deals.
- **Debt Funds and Alternative Lenders** – Debt funds, mortgage REITs, and private credit lenders stepped into the void left by retreating banks, especially for **bridge loans, construction, and higher-leverage financing**. These non-bank lenders generally charge the **highest spreads** because they take on more risk (often lending on transitional assets or with higher Loan-to-Value). According to industry data, **debt fund loan spreads often range from the mid-400s to mid-500s bps** over the base rate for projects that merit 70–80% leverage without recourse. In other words, a bridge loan from a debt fund might be priced at 8–10% interest (given today’s base rates) to compensate for the risk, whereas a bank might offer ~6% on a safer, lower-leverage loan. These alternative lenders seized the opportunity when banks pulled back: throughout 2023–24 many borrowers turned to debt funds for refinancing and gap financing, even at higher cost. By late 2024, debt funds and mortgage REITs accounted for about 23% of loan volume (down slightly from a year prior as banks came back). Notably, debt fund capital was abundant (some raised large funds) so there was still competition among them – helping keep spreads “competitive” even for riskier loans, though still higher than bank/agency debt.

In summary, spread dynamics by lender type have been shaped by competition and capital availability. When there is a **"wall of capital"** eager to lend – as was the case in late 2020/2021 and again in late 2024 – it leads to **tight spreads across the board**. For example, by Q4 2024, virtually all lender categories (banks, life cos, agencies, CMBS, debt funds) were facing enough competition that spreads compressed from their mid-2023 highs. This kept overall borrowing costs from rising as much as Treasuries did. Conversely, in early 2023 when uncertainty was higher and some lenders paused, the **remaining lenders widened their spreads** to account for risk. Thus, borrowers have seen that lender spreads are dynamic: **agency and bank loans may offer the tightest spreads for low-risk multifamily/industrial deals**, whereas a borrower in need of high leverage or dealing with a challenged asset might pay a much larger spread to a debt fund or mezzanine lender. Tracking these differences is crucial for understanding financing costs and how they may change if some lender groups withdraw or return to the market.

COVID-Era Distortions and Recent Spread Movements

The pandemic era introduced significant **distortions in capital flows and investment velocity**, which in turn affected yield spreads in unusual ways. Initially, when COVID-19 hit in early 2020, CRE transaction activity froze and uncertainty spiked. Risk spreads **briefly widened** as investors demanded more yield for the sudden economic risk. However, aggressive monetary easing and fiscal stimulus soon flooded the market with liquidity. By late 2020 and into 2021, interest rates were at historic lows and investors were armed with unprecedented capital. The result was a **frenzy of CRE investment in 2021–early 2022**, with record transaction volumes and rapidly rising prices. Cap rates for in-favor sectors (multifamily, industrial, and certain niches like life sciences) **plummeted**, reaching record lows. Because the 10-year Treasury yield remained low (~1%–2% in that period), the already-low cap rates meant **yield spreads compressed dramatically**.

During these boom years, **capital was so abundant that traditional risk pricing patterns broke down**. Normally, when interest rates fall, some investors settle for lower spreads (accepting lower overall yields), but others worry about future rate rises and demand a cushion. In 2021, however, **investors largely chased yield down** – spreads tightened even as base rates were low, reflecting a risk-on mentality and expectation of strong NOI growth. As noted, by late 2021 **spreads for multifamily and industrial hit unprecedented lows**, and even riskier assets saw compression due to the sheer weight of money looking for returns. Many termed it **"cap rate compression"** across the board, and indeed CBRE reported cap rates fell in virtually every sector and market in H2 2021. This was the period when **Sun Belt cap rates converged with gateway markets** (as discussed) and even secondary asset classes benefited from yield-hungry investors. Effectively, the COVID-era liquidity pushed CRE pricing to heights that implied very low risk premiums.

The environment shifted in 2022–2023. Faced with soaring inflation, the Federal Reserve undertook rapid interest rate hikes. The 10-year Treasury spiked from under 1.5% in early 2022 to ~4% by late 2022/2023. Ordinarily, one might expect cap rates to rise in tandem with interest rates to maintain spreads. However, reality was more complex. In *_2022 and most of 2023, we saw treasury yields and credit spreads_ ***rise together*** – defying the old playbook where they move opposite. Essentially, because inflation and recession fears were looming, investors demanded higher returns **across the board** – Treasuries went up, and **risk premia on CRE debt and equity also went up**. This meant that by mid-2023, many properties' cap rates *did* start increasing (prices coming down) to deliver a higher spread as financing costs rose. However, private market cap rates were (and are) often sticky – they adjust with a lag. In 2022, some buyers and sellers were slow to transact, hoping the rate spike might be temporary. This led to periods where **cap rate spreads temporarily got squeezed** (e.g. early 2022, interest rates climbed but cap rates hadn't moved yet, compressing the spread to near zero for prime assets). As 2023 progressed, the reality set in: values had to adjust or deals wouldn't pencil. By late 2023, cap rates in private markets had *started* to rise, but not uniformly and often not as much as interest rates did. This is why, as noted earlier, **appraisal cap rates remained unrealistically low for multifamily/industrial through 2023**, implying spreads that were probably too tight to reflect new market conditions.

Then came another inflection: by early 2024, the rapid Fed tightening paused and the market began to anticipate future rate **cuts**. Indeed, by January 2025, treasury yields had eased off their peaks and liquidity was cautiously returning to CRE credit. With optimism creeping back (and even talk of deregulation in banking), **spreads tightened again to multi-decade lows** in the first part of 2025. Observers noted that credit spreads on both corporate and CRE debt in early 2025 were as narrow as they had been in 30 years. Importantly, however, **all-in borrowing costs remained high** because the base rates (Treasury yields) were still relatively high. In other words, the risk premiums got very thin, but the absolute interest rates for loans were still burdensome to borrowers. This dynamic – high Treasuries + low spreads – suggests a market cautiously optimistic but still digesting the new rate environment.

The "tariff-induced" volatility mentioned in April 2025 (a proxy for any new shock) is a reminder that **shifts in sentiment can quickly move spreads**. If a risk-off mindset returns (due to economic or geopolitical stress), we'd expect spreads to **widen** (investors and lenders demand more yield to compensate uncertainty) even if base rates fall. Conversely, in a steady growth scenario with cooling inflation, it's possible base rates fall and spreads stay tight (or tighten further), which would boost values again. The Covid-era showed how fluid these relationships can be when capital flows swing drastically.

Outlook: Future Pricing and Lending Implications

The evolution of yield spreads has direct implications for where **CRE values and lending conditions** go from here. With spreads for most property types (except troubled sectors like office) **near historical lows**, one critical question is whether they will **normalize (widen) or remain compressed**. A few key considerations:

- **Mean Reversion of Risk Premiums:** Over the long run, CRE has typically offered a spread of **~250–350 bps** above the 10-year Treasury. Today's average spread of ~180 bps is well below that norm. It suggests that either cap rates need to rise further or Treasury yields need to fall (or some combination) to get back to "normal" pricing. Analysts at Trepp point out that the **recent spread of ~160–180 bps has room to widen** – either via cap rate expansion or a decline in the 10-year yield. In practical terms, if interest rates were to pull back, cap rates might not compress one-for-one in response; instead, investors could use that relief to rebuild a cushion, causing spreads to enlarge again to more typical levels. Alternatively, if rates stay high or rise, eventually more investors may capitulate and demand lower prices (higher cap rates), again widening the spread. Many in the industry indeed expect some **upward drift in cap rates** in the next couple of years unless financing costs improve dramatically. Even a 50–100 bps increase in cap rates across multifamily and industrial would still leave those sectors' spreads below long-term averages, but it would signal a partial reversion toward historical risk pricing.

- **Soft Landing vs. Downturn Scenarios:** The path of the economy will heavily influence spreads. In a benign scenario (soft landing, moderate growth, and perhaps Fed rate cuts), **property income might grow and interest rates ease**, which could keep spreads relatively **tight** as optimism persists. We might then see cap rates hold steady or even compress slightly further for top assets, with values rebounding – essentially maintaining a low risk premium environment. However, if a recession or credit event occurs, risk aversion would spike and **spreads would almost certainly widen** (cap rates up) as investors seek greater safety margins. Notably, we are coming off a period where spreads hit extreme lows; history shows such periods are often followed by correction. For instance, the early 2000s and mid-2000s saw spread compression followed by widening during the Global

Financial Crisis. CRE isn't in the same bubble territory as 2007, but the **pricing today leaves little room for error** – any deterioration in fundamentals or tenant demand could force cap rates higher. Sectors like industrial and multifamily, priced for perfection, could see investors demand more yield if, say, rent growth slows or vacancy rises. That would push spreads up from the floor of 0–1% toward more normal levels.

- **Interest Rates and Debt Markets:** From a **lending perspective**, the current narrow spreads mean lenders aren't pricing much extra cushion for risk; they've been able to stay tight because of competition and an improving outlook. If conditions worsen (credit tightening, defaults rising), lenders will likely increase spreads quickly – making loans more expensive independent of Fed moves. Already, hundreds of billions in CRE loans are maturing in 2025–2026, and refinancing them will test the market. Borrowers will face not only higher base rates than a few years ago, but potentially wider credit spreads if lenders grow cautious. **Lender type differences** will also play a role: for example, banks, now recovering, could pull back again if their balance sheets get stressed, forcing borrowers to turn to debt funds at higher spreads. Alternatively, if the Fed cuts rates to combat a recession, banks might lower their loan rates (base + spread) more slowly, effectively widening the margin. One positive sign is that as of Q4 2024, a "wall of capital" was eager to lend, which helped keep spreads in check. If that capital remains available (from life insurers, agencies, private equity, etc.), it could prevent excessive spread widening. **However, new financial shocks** – such as the bank failures seen in 2023 or global market volatility – could dry up liquidity and **sharply widen spreads** for a time, as was briefly experienced in mid-2023.
- **Property-Type and Geographic Nuances:** We expect **differentiation to increase** going forward. The past years lumped many assets together in a global hunt for yield; now, investors and lenders are more discriminating. This likely means **office and other challenged sectors will see spreads stay wide or even widen further** until clarity on their stabilization emerges. Multifamily and industrial may continue to enjoy tighter spreads, but perhaps not as uniformly as before – secondary-market apartments or warehouses might start carrying a bit more premium relative to prime coastal assets if risk sensitivity grows. Indeed, some investors are already re-examining whether Sun Belt cap rates got too low given potential oversupply or economic concentration risks. Early 2024 data showed **cap rates holding steady or even compressing slightly for industrial/multi as sentiment improved**, but it's

possible later 2025 could bring an inflection if borrowing costs don't ease. Geographic spread convergence may partially reverse if investors retrench to safety.

Bottom line: The current ultra-tight spreads for multifamily and industrial illustrate **strong confidence** in those sectors, but also **heightened valuation risk**. Going forward, many observers expect at least a modest reversion toward higher risk premiums – whether through asset repricing, higher income growth (which effectively raises cap rates if prices don't keep up), or lower Treasuries giving breathing room. For CRE pricing, a widening of spreads generally translates to **downward pressure on asset values** (unless offset by rent growth). For lending, wider spreads mean **higher interest costs and potentially stricter terms**, which could further soften property demand and prices – a feedback loop. On the flip side, if inflation continues to recede and the economy avoids a hard landing, we might see a scenario of **moderately lower interest rates with still-healthy investor appetite**, in which case CRE cap rate spreads could remain relatively compressed even as all-in yields fall. In that scenario, CRE values would stabilize or rise, and refinancing would get a bit easier (lower rates, albeit still competitive lending).

At this juncture (mid-2025), the **spread metrics will be a critical signal to watch**. They encapsulate the tug-of-war between fear and greed in real estate markets. As one analysis put it, *"yield spreads are more than just numbers – they signal relative value, investor sentiment, and the ever-present risk premium"*. After a decade of compression, **any sustained spread widening would mark a regime change** for CRE, while continued tight spreads would suggest a resilient, low-yield environment. Thus, understanding these spread dynamics – by property type, geography, and lender behavior – provides valuable insight into where CRE prices and financing costs are headed. For now, investors and lenders should be mindful that **spreads tend to widen in times of uncertainty and narrow in times of optimism**. Today's ultra-narrow spreads imply a lot of optimism and abundant capital – conditions that can change quickly. Preparing for a possible re-pricing (or conversely, capitalizing on opportunities while debt is still fairly cheap relative to risk) will be key to navigating the next phase of the CRE cycle.

Sources: Recent GlobeSt and Trepp analyses of yield spreads; Nareit commentary on cap rates vs. Treasuries; CBRE cap rate and lending surveys; Slatt Capital market update; and Pension Real Estate Association insights on lending spreads.