

Commercial Economic Summary, 1Q26

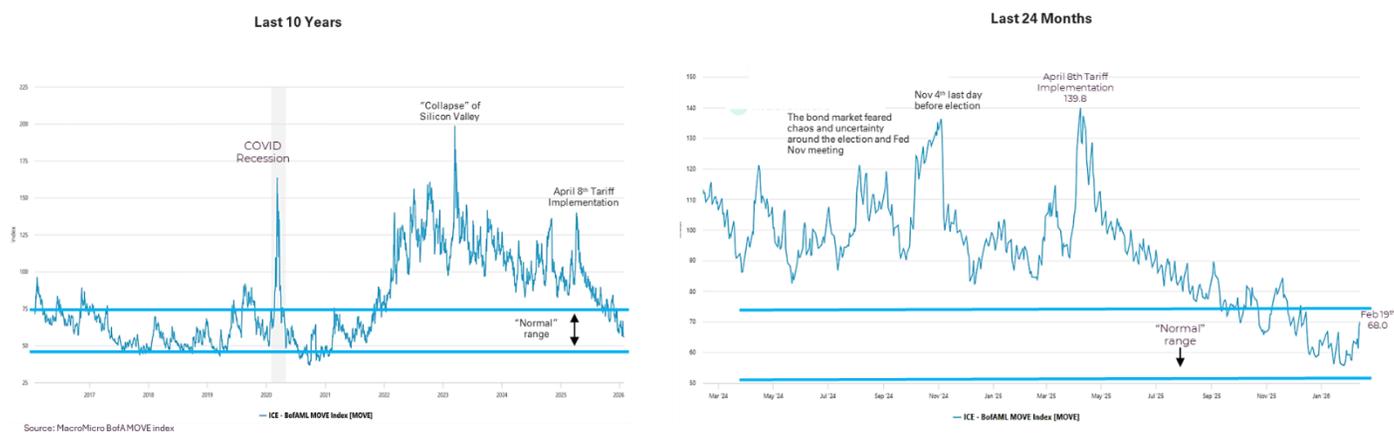
By: Jeff Lanier, Head of Commercial Finance

Since our October update, financial markets have stabilized, though the macro environment remains conflicted. Long-term yields have moved higher, inflation pressures persist, labor conditions have softened, GDP growth has flattened, and tariff uncertainty lingers. Yet beneath the mixed signals, several developments are constructive for commercial real estate: interest-rate volatility has moderated, pricing have reset, and a significant wave of loan maturities is reaching a decision point. Together, these dynamics may set the stage for a strong commercial year—likely more influential than the next quarter-point move in Fed policy.

With 2025 transaction volume up 23% year-over-year¹, most major asset classes posting double-digit growth, and annual volume of \$545 billion—comparable to levels seen in the early post-Global Financial Crisis recovery years—the data suggest that commercial real estate has moved beyond correction and into an early recovery phase.

One driver of that recovery is the **decline in rate volatility**. The single most important factor in financial markets is confidence and certainty in expectations. The central challenge was not simply higher rates, but their speed and unpredictability. That instability made it difficult to not only price deals but encourage investors to participate at all. Illustrating this point, the MOVE Index—a widely used gauge of Treasury market volatility, or more simply a measure of how uncertain banks are about future interest rates—has fallen by roughly 72 points into what is considered a normal range, though it has edged modestly higher since late January. This decline signals greater confidence in the pace and predictability of interest-rate changes, reducing the need for banks to build in uncertainty-related “buffer,” or premium, into pricing. Banks and investors will be more willing to participate in the commercial market and at better rates. The question is whether this will hold or retreat upwards again.

Lower Rate Volatility Signals Greater Confidence in the Interest-Rate Path



¹ MSCI Capital Trends, “U.S. Big Picture”. 2025

As a result, the spread between the 10-Year Treasury and the BBB- rated CMBS continues to narrow, from 1.24 percentage points last quarter to 0.86 as of February 19th. While this measure is not a full risk-adjusted credit spread as defined in trading markets, it serves as a practical and transparent proxy for how interest-rate uncertainty translates into borrowing costs for commercial real estate. This suggests lenders are incrementally more comfortable deploying capital across asset classes.

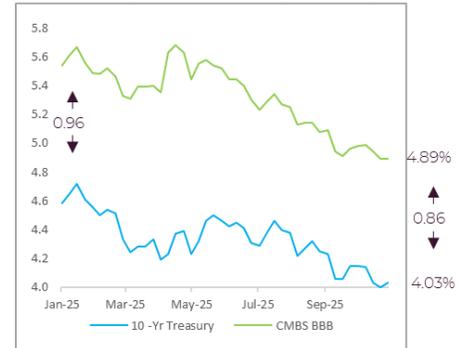
Capital Cost Rate Has Retreated in Recent Weeks.

10 Yr Treasury and CMBS BBB- Rates (2020 – Today)



Charts by author
Source: Federal Reserve EconomicData (FRED)

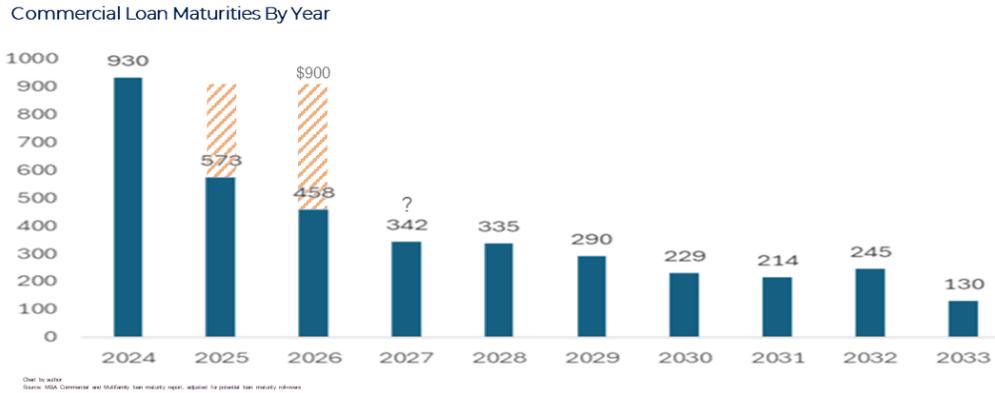
10 Yr Treasury and CMBS BBB (Rates YTD)



The second driver of renewed activity is the **adjustment in price expectations**. Sellers have recalibrated valuations from peak-cycle assumptions, while buyers have revised underwriting models to reflect higher capital costs and slower growth. Pricing has aligned with economic reality. As bid-ask spreads narrow, deals can be made and transaction volume improves. MSCI Real Capital Analytics data suggest pricing has largely stabilized. After the sharp correction following the rate spike, most sectors have leveled off. The RCA CPPI All-Property Index was up only 0.2% year-over-year in 4Q25—indicating that broad repricing has likely run its course. Stability—not rapid appreciation—is what allows the commercial market to function again.

Lastly, a third driver of potential transaction volume lies within the **maturity schedule** itself. With rate expectations stabilizing, credit spreads narrowing, and buyer and seller pricing assumptions largely aligned, the prolonged cycle of extensions is increasingly giving way to resolution.

While exact figures vary by source, most estimates suggest that nearly \$900 billion in commercial loans are scheduled to mature in 2026—substantially above the roughly \$456 billion originally associated with traditional 10-year duration loans. The elevated total reflects a combination of standard 10-year maturities, 2019–2021 short-term and construction financings, and loans extended from 2024 and 2025 that have now reached practical limits.



Unlike the past two years when volatility justified temporary extensions, the improving capital markets backdrop may increase the likelihood that these maturities translate into refinancing, recapitalization, or sale activity rather than further delay. 2026 may be the year these loans reach a decision point with extension no longer an option.

With these dynamics in place, what should the title industry expect in 2026—and what might “normalization” truly mean in this cycle?

First, normalization does not imply a return to the ultra-low borrowing costs of the prior decade. We are operating in a structurally higher cost-of-capital environment. The extended period of near-zero rates was not organic—it was policy-driven. During the 2008 financial crisis and again in 2020, the Federal Reserve actively purchased long-term Treasuries and agency securities, increasing demand and compressing yields to historic lows. In June 2020, the 10-Year Treasury fell to 0.62%. That structural intervention is no longer in place; instead, the Fed is reducing its balance sheet, and there is no signal of a return to large-scale asset purchases.

Normalization in this market therefore means discipline rather than cheap money. Debt structure matters. Cash-flow durability matters. Loan-to-value ratios are lower, underwriting standards more conservative, and capital allocation more selective. Given the diversity of asset classes, capital structures, and geographies involved, activity is unlikely to surge all at once. Instead, transactions should progress steadily—quarter after quarter—at a pace that lenders, investors, and operators can plan around. For title professionals, that implies not a sharp rebound, but a sustained and predictable flow of business.

As for the data, the **10-year Treasury rate** stood at **4.08%** on February 19, 2026. The rate retreated in the past week from 4.29 on February 4th, though it remains elevated compared to its five-year average of 2.63%. (For context, the 10-year Treasury’s long-term historical average since 1962 is 5.85%.) The AAA US Corporate Index Effective Yield increased slightly to 4.60% and the BBB is 4.89%. From a residential perspective, the **30-year mortgage stands at 6.01%** as of Freddie Mac’s February 19th release, creating a 1.93-point spread to 10-year treasuries—well above the typical range of 1.5% to 1.7% but the lowest this year.

Asset Class Performance Snapshot²

Office: Office remains the most structurally challenged sector, though the narrative is increasingly one of bifurcation rather than uniform decline. 2025 posted 26% year-over-year volume growth, with each quarter improving sequentially. However, office delinquencies continue to increase, reaching their highest level at 12.3% last month. Is that the top? The issue is less “office” broadly and more functional obsolescence in older product lacking adaptability. Capital is highly selective. Lenders are underwriting to current cash flow rather than pro forma recovery assumptions. In markets where return-to-office momentum has strengthened, liquidity has improved modestly, but pricing remains heavily asset-specific. For title professionals, office transactions are fewer but increasingly complex—often involving restructurings, partial interest transfers, or layered capital stacks rather than straightforward refinances.

Industrial: Industrial continues to demonstrate relative resilience, though growth has normalized from pandemic-era highs. Pricing remains positive year-over-year (approximately 5%), even as absorption moderates and rent growth stabilizes. Demand for logistics, distribution, and light manufacturing space remains supported by supply-chain diversification and onshoring trends. For title agents, industrial transactions remain comparatively steady, particularly in warehouse repositionings, sale-leasebacks, and portfolio refinancings tied to private equity ownership structures.

Retail: Retail has quietly transitioned from turnaround story to steady performer. Disciplined supply, resilient consumer spending, and the absence of overbuilding have supported cap rate stability near 7%, with grocery-anchored and open-air formats attracting institutional interest. Much of the transaction activity involves redevelopment, pad sales, and adaptive reuse rather than traditional stabilized acquisitions. For title operations, retail continues to generate steady deal flow—particularly tied to refinancings and redevelopment capital—though underwriting remains conservative.

Multifamily: Multifamily has shifted from acceleration to recalibration. Pricing is up modestly (2–3% year-over-year), but rent growth has slowed as elevated new supply in markets such as Austin, Phoenix, and Nashville temporarily pressures occupancy. However, unlike office, multifamily benefits from structural demand drivers: demographic growth, affordability constraints in for-sale housing, and continued renter mobility. Higher interest rates have compressed cash-on-cash returns, and many 2020–2022 vintage loans are approaching maturity at materially higher refinance rates. Much of the activity in multifamily is recapitalization-driven rather than acquisition-driven. For title professionals, multifamily volume remains present but skewed toward refinancings, capital infusions, and structured transactions rather than aggressive expansion.

Energy/Infrastructure: Energy infrastructure and data centers remain active but distinct segments. Energy-related real estate—particularly in Texas, New Mexico, and Colorado—

² MSCI Capital Trends, “U.S. Big Picture”. 2025.

continues to benefit from both traditional production and renewable investment. Data center development is driven primarily by access to land, power, and water. Although sale transactions represented only 5% of 2025's \$545 billion in volume, development activity remains significant. Unlike office or population-driven development, data centers generate limited ongoing employment and therefore less secondary retail or residential spillover. While the sector appears structurally durable, capital is becoming more disciplined. Investors are increasingly evaluating infrastructure adaptability, lease rollover risk, and long-term exit strategies, even within a fundamentally strong growth story.

CMBS Delinquency and Credit Trends

CMBS delinquencies have climbed steadily, reflecting pressure on highly leveraged assets and structurally weaker sectors. According to Trepp, the overall delinquency rate reached **7.47% in January**, up from **6.56% a year earlier**—the highest level since 2013. Office continues to lead delinquencies by a wide margin at **12.34%**, reflecting persistent value erosion and refinancing challenges. Lodging (**5.6%**) and multifamily (**7.0%**) have also seen modest deterioration as higher borrowing costs and uneven operating performance weigh on debt service coverage. By contrast, industrial assets remain largely insulated, with delinquencies below 1%, supported by steady occupancy and lease growth. For title agents, these patterns suggest ongoing workout activity and an uptick in special-servicing transactions as borrowers, lenders, and investors navigate a slow and uneven repricing cycle. Pressure in private credit markets bears monitoring, as any pullback in non-bank lending could modestly constrain capital access for transitional CRE assets. Conversely, a moderation of Basel III capital requirements could provide a constructive offset, enabling banks to deploy more balance sheet into commercial real estate and improve liquidity for core assets.

Summary View

As we look toward 2026, the commercial market appears to be transitioning from correction to recovery. The forces that stalled activity over the past two years—rate volatility, valuation uncertainty, and extension-driven delay—are giving way to predictability in capital markets and clearer pricing across asset classes. This does not signal a return to the liquidity conditions of the prior decade, but it does suggest that the environment is becoming functional again.

Capital is available, but selective. Borrowers are active, but realistic. Transactions will not surge all at once; rather, they are likely to materialize steadily as maturities resolve, capital stacks restructure, and risk-adjusted pricing aligns. For title professionals, that implies a durable and increasingly predictable flow of work—complex in structure, varied by sector, but supported by improving market confidence. The repricing phase is largely behind us; the execution phase is underway. If capital markets remain stable, 2026 has the potential to be a strong year for commercial activity.

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