

CRE Outlook Favorable Despite Near-Term Shifts in Energy Prices and Interest Rates

Energy markets get their bearings. Following initial volatility tied to geopolitical conflict, oil and fuel prices have begun to stabilize, supported by coordinated releases from reserves.

- Crude oil prices have not roamed substantially above **\$100 per barrel** for prolonged periods, coming in lower than initial expectations following the onset of the Middle East Conflict.
- Coordinated releases from global emergency petroleum reserves have helped **offset restricted shipping** through the Strait of Hormuz.
- The U.S. Strategic Petroleum Reserve has declined materially, falling from roughly **415 million barrels** before the conflict to about **375 million barrels** by mid-May.
- About **10 million barrels** per week are being drawn from the Strategic Petroleum Reserve, helping to moderate near-term energy price volatility.
- Gasoline prices appear to be settling around **\$4.50 per gallon** nationally, while diesel is running near **\$5.60 per gallon**, which continues to pressure transportation and distribution costs.

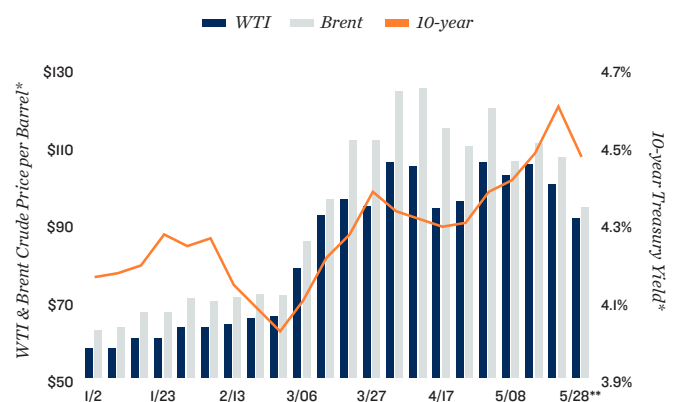
Inflation alters rate trajectory. Higher inflation readings have driven a reassessment of monetary policy expectations and bond yields, reshaping the broader interest rate environment.

- Elevated fuel costs are pushing inflation materially higher, with CPI inflation rising roughly **140 basis points** since February to **3.8 percent** in April.
- Upstream price pressures have accelerated sharply as PPI inflation climbed **260 basis points** since February to **6.0 percent**.
- The change in PCE has also moved higher, increasing from a **2.8 percent** annual rise in February to the **4.0 percent** range.
- As inflation expectations reset, markets have shifted from anticipating rate cuts in 2026 to pricing in a probability greater than **50 percent** of a rate increase by year-end, driving Treasury yields higher.
- Since late February, the 5-year has risen to about **4.2 percent**, while the 10-year has increased to the **mid-4 percent** range.

Long-term real estate dynamics improve. Near-term rate volatility may temper deal flow, but underlying market conditions support a constructive investment climate over the long run.

- While interest rate expectations have shifted higher, the policy outlook **remains fluid**, with potential de-escalation offering a path toward easing energy-driven inflation pressures.
- For CRE investors, the **rapid rise in borrowing costs** is the most immediate headwind, as deals that penciled earlier in the year have become more challenging.
- As a result, the bid-ask spreads between buyers and sellers are **widening again**, disrupting a market that had been moving toward greater pricing equilibrium.
- Despite interest rate volatility, substantial capital continues to target CRE, supported by the sector's **inflation resistance** and **durability** during economic slowdowns.
- Although borrowing costs are elevated, space demand remains sound while new supply pipelines continue to shrink, bolstering **national rent growth** in 2026.
- Beyond the near-term headwinds, national supply and demand fundamentals across all CRE property types remain **well positioned** for long-term growth.

Energy Volatility and Repricing of Treasuries



* Average weekly value ** Data for the partial week ended 5/28

Sources: Marcus & Millichap Research Services; American Automobile Association; Bureau of Economic Analysis; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; Preqin; RealPage, Inc.; TradingEconomics; U.S. Energy Information Administration