

Thoughts on the Market

Investments in Heartland Housing

MARKET COMMENTARY

The Fed hikes, and yields rise across the curve

The S&P 500 closed September at 7,651.54, down 0.45% on the month and up 11.8% year to date, ending the third quarter with a 2.0% gain. At the same time, the bond market continues to pressure the cost of capital with yields rising across the curve. Rate sensitive sectors felt the pain with financials falling 6.3%, their worst month since March 2023, Blackstone down 21%, and the REIT index down 7.9%.

The FOMC raised rates on September 16, a quarter-point move to a range of 3.75% to 4.00%. This was the committee's first increase since July 2023, and it passed unanimously. The projections showed 16 of 18 participants expecting a second increase this year and placed the return to 2% inflation in 2029. Two weeks later, inflation data softened as August PCE came in below expectations on both headline and core, at 3.4% and 3.0%, respectively (3.7% and 3.3% consensus). Market-implied odds of an October hike fell to 35% from 70% after the PCE data. Previously released August CPI had core at 2.4%, the lowest since March 2021.

Yields remain under pressure as the 10-year has risen from 3.97% on February 27, its low for the year and the last close before the war, to 5.28% at the end of September. This represents 131 basis points in seven months with 52 this month alone. The 10-year is now at its highest month-end level since 2007, and the 30-year, at 5.62%, sits at a level last seen in 2002. The market shrugged off Treasury Secretary Bessent's attempt to intervene with enlarged Treasury buybacks, continuing its upward march in spite of this activity. Clearly, \$5.2 billion of additional buybacks vs. roughly \$2 trillion of net new treasury issuance didn't have much impact. The 30-year mortgage hit 7.58%, its highest since November 2023.

EXHIBIT 1 Market benchmarks

Levels and change · through September 2026

Benchmark	LEVEL			1-MONTH CHANGE		CHANGE FROM YE	
	YE-2025	Aug-26	Sep-26	Δ	% Δ	Δ	% Δ
Fed Funds	3.63%	3.63%	3.88%	+0.25%	+6.90%	+0.25%	+6.90%
1-Month SOFR	3.69%	3.68%	3.92%	+0.23%	+6.29%	+0.23%	+6.18%
10-Yr Treasury	4.16%	4.76%	5.28%	+0.52%	+10.92%	+1.12%	+26.83%
S&P 500	6,845.50	7,686.14	7,651.54	(34.60)	-0.45%	+806.04	+11.77%
REIT Index¹	125.39	137.82	127.00	(10.82)	-7.85%	+1.61	+1.28%
VIX	14.76	14.92	16.34	+1.42	+9.52%	+1.58	+10.70%

1. Vanguard Real Estate Index Fund (VGSIX), which tracks the MSCI U.S. REIT Index. Fed Funds shown at the effective rate. Treasury and SOFR at month-end. Source: Bloomberg, Federal Reserve, Caisson Capital Partners.

Two other factors, general macro data and the war in Iran, are not helping the prospects of lower rates. On economic strength, August payrolls rose 162,000 against a 53,000 consensus, unemployment held at 4.1%, and prior months were revised higher. The war also shows no signs of cooling. President Trump, speaking to the UN General Assembly, demanded the

reopening of the Strait of Hormuz, and said that Iran has two choices: either come to the table for a deal or face annihilation. Most of Iran's delegation walked out and the next day Masoud Pezeshkian said Iran would not yield on its nuclear program, its missiles, or control of the Strait. Oil closed the month at \$102.59 with Hormuz transits at 38% of the prewar baseline.

01 The cost of money, and who is left to buy

The 10-year Treasury closed September at 5.28%, its highest month-end since 2007, and the 30-year reached 5.62%, a level last seen in 2002. Various reasonable conclusions can be

drawn from the data and three highly respected individuals all weighed in over the last two weeks.

Howard Marks OAKTREE · SEP 22

Long yields reflect fundamentals, and the fundamentals are a deficit near 6% of GDP at full employment, roughly \$2 trillion of net new issuance, and a \$5 trillion AI build-out all bidding for the same capital. More demand for money means a higher price for it. Treasury buybacks are cosmetic. Nothing in the arithmetic argues for lower rates soon.

Mark Zandi MOODY'S · SEP 29

The simplest explanation is the war: oil near \$60 and the 10-year below 4% the day before the February strikes, \$100 and 5.25% now. Fiscal strain is second and an opaque Fed third. AI borrowing sits near the bottom of the list. It is small against Treasury supply, mostly 30-year paper, and the 30-year has lately fallen relative to the 10-year, the opposite of what an AI supply story predicts. End the war and long rates fall quickly, though not all the way back.

Kevin Warsh FEDERAL RESERVE · SEP 16

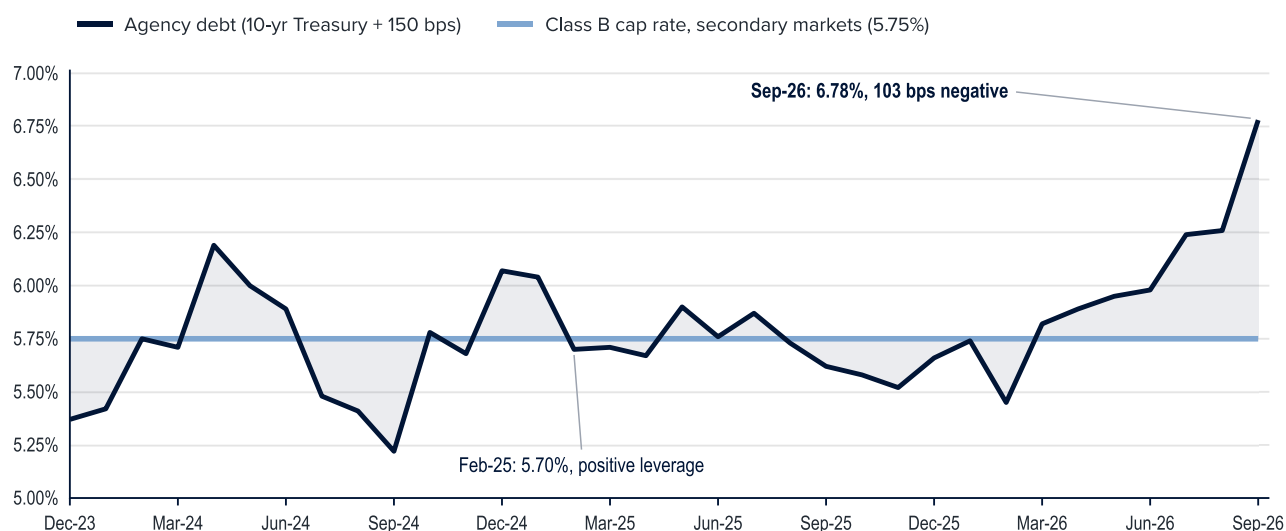
The competition for capital is real, and it partly explains the rise in yields. The Fed cannot affect any single price, oil included, but it will not let relative price changes broaden into inflation. The committee's projections are not his forecasts.

Caisson has followed this closely for years and cited various economic arguments over time. In October 2023 this letter attributed a 10-year above 5% to concern there were too few buyers for the supply. Six months later we quoted Goldman that policy expectations, not supply, were driving the market. Debates about the underlying drivers will continue but the fact remains that the cost of money has gone up and few believe that it is going down anytime soon.

Treasuries at this level put meaningful pressure on multifamily, dramatically reducing the number of viable cash-neutral refinancings and flipping most acquisitions back into negative leverage. In February 2025, with the 10-year at 4.20%, we wrote that positive leverage would bring transactions back. It did. Conditions have now reversed and at present levels, this is roughly 100 bps of negative leverage against a 5.75% cap rate. This is the widest negative spread since this analysis became relevant in 2023.

EXHIBIT 2 Multifamily debt cost vs. Class B cap rates

Dec 2023 – Sep 2026



Source: Treasury month-end 10-yr CMT, Caisson Capital Partners. Agency spread held at 150 bps. Class B secondary cap rate held at 5.75%, the February 2025 assumption.

The transaction market is reacting as we would expect. Brokers are reporting that deals are falling out of contract at a pace we have not seen in this cycle. Even in Dallas, one of the deepest workforce markets in the country, the buyer pool for Class B has thinned to a handful of names. Four conditions explain it, and together they favor the few groups still able to buy.

1 Debt above cap rates

With permanent debt a full point above asset yields, refinancing has become a cash-in exercise. In July, with the 10-year at 4.75%, Trepp estimated that 52% of the multifamily CMBS balance maturing in the second half of this year would need a cash injection to refinance, and 41% would need at least 20% of the loan in new equity. With the 10-year up an additional 50 bps, this situation has gotten even more acute. \$223 billion of multifamily debt comes due next year, on top of the loans extended this year. Berkadia projects that nearly half of all commercial real estate loans mature in 2027 and 2028 and that half of those will need a cash injection to refinance. Given the scarcity of equity capital, this could result in a significant wave of forced sales, increasing cap rates and a potential buying opportunity for the few groups with access to capital.

2 The syndicators are done

We have documented the syndicator sagas for the last two years: the Sun Belt value-add shops that bought aging apartments with floating-rate bridge debt in 2021 and 2022 and have spent every month since trying to outlast the rate cycle. Most of those stories are now in the late innings. S2 Capital, which pooled 10,000 units into a private REIT in 2024, issued a capital call in January, told investors in May to expect a full loss, and in July told LPs and preferred equity investors in its \$400 million first fund that they would receive no return of capital. Tides Equities, the Los Angeles syndicator whose Sun Belt portfolio began defaulting in 2023, reached the end of its road in a courtroom, where a judge ordered its two principals to pay Starwood \$50 million personally. Lurin's workout has become an FBI inquiry, with agents seeking information from its investors, and Vesta is now in bankruptcy and has lost control of 11 assets to YSA Investments, a firm owned by convicted international arms dealer Efraim Diveroli. Beneath those names, smaller groups and the sub-syndicators who raised their equity are quietly closing shop and many are returning to careers outside of the industry.

3 CRE allocations getting crowded out

Real estate is on pace for its slowest fundraising year since 2012 after institutional target allocations fell in 2025 for the first time since 2013. The reasons are not mysterious. Institutional real estate returned 1.4% in 2024 after losing 1.4% in 2023, and portfolios trail their targets on a ten-year basis. With transaction volume down, there are no exits, and with no exits there are no distributions to recycle into the next fund. An asset class that is not paying its investors back is not well placed to ask them for more.

At the same time, OpenAI and Anthropic raised \$122 billion and \$65 billion respectively. The AI financing shows no signs of slowing down, and the leak of Anthropic's draft IPO registration shows a target valuation above \$2 trillion. That capital is not coming out of the Treasury market. It is coming from the same allocators who fund private real estate. Several of our largest investors now field requests for AI capital at a pace that did not exist two years ago, and the constraint is not only their dollars but their attention. Investor time focused on a workforce

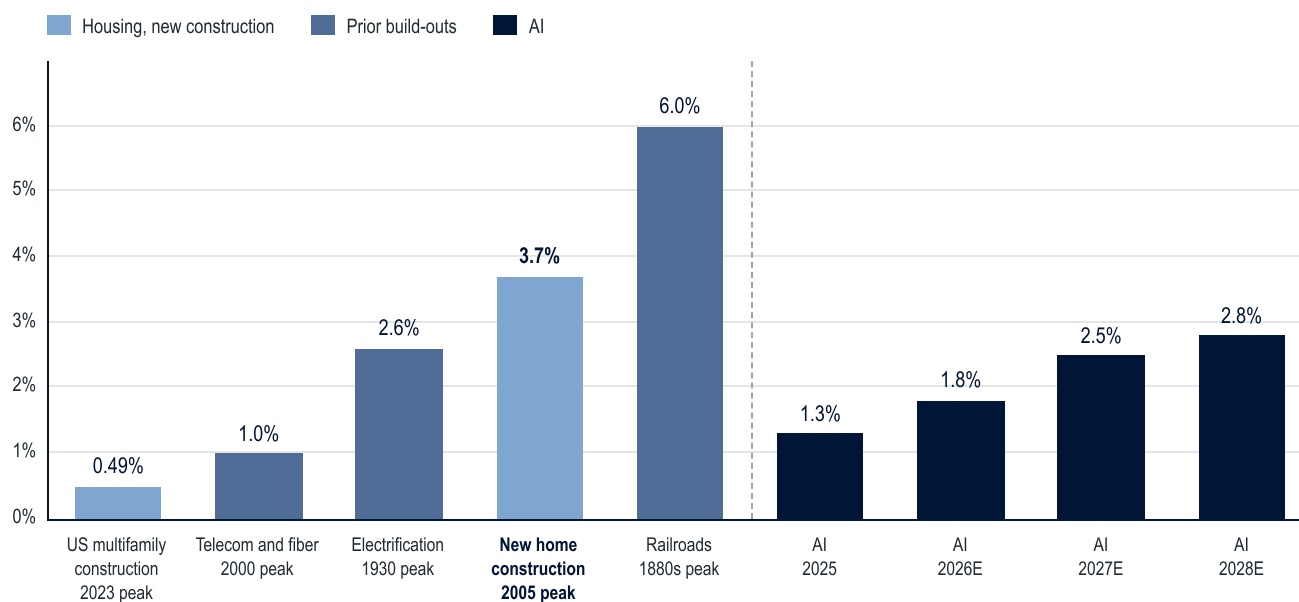
housing deal in Kansas City now competes with a dozen AI co-investment opportunities every month.

4 The economy has placed its bet

Goldman estimates US AI investment at \$581 billion this year, 1.8% of GDP, rising to 2.8% by 2028. Business investment overall runs near 14% of GDP, so AI is roughly one dollar in eight of it now and heads toward one in five. The entire US multifamily construction industry, at the top of the largest supply wave in forty years, reached 0.49% of GDP in 2023. Only two build-outs were bigger bets. The railroads reached an estimated 6% of GDP in the 1880s, and new home construction peaked at 3.7% in 2005, ahead of the financial crisis. Electrification peaked near 2.6% in 1930 and the fiber build-out near 1% in 2000, both below where AI already sits. Public equities have not been starved. The S&P 500 without its seven largest names has beaten the index this year. The squeeze shows up in private allocation, where decisions are made by people with finite time, and real estate gets crowded out first given recent performance and relative yields.

EXHIBIT 3 Infrastructure build-outs as a share of US GDP

Peak year



New home construction is new single-family and multifamily construction put in place (Census C30, \$481 billion in 2005), excluding improvements and brokers' commissions. Source: Kedrosky and Exante Data (railroads, telecom), FRED and MeasuringWorth (electrification), Census Bureau C30 (housing), BEA (GDP), Federal Reserve (2025 AI capex), Goldman Sachs Research (2026 to 2028 AI estimates). Historical shares are estimates.

02 What it means for us

No one can predict the future. Rates could retrace if the war ends, the maturity math could prove too pessimistic, and lenders have shown for three years that they would rather extend than foreclose. What we can say is that the conditions in front of us, more motivated sellers, fewer buyers, a thinner pool of equity, and debt that costs more than the assets yield, are the ones a patient workforce investor would hope to see.

We are also adjusting our approach in real time as basis plays become more attractive and selective distressed opportunities are starting to look interesting. Over the past two years, we have been successful in finding deals with positive leverage but, with the cost of debt at current levels, that is becoming even more difficult. Caisson is among a relatively small group of Heartland housing investors with capital to deploy, an advantage that enables us to be selective.

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