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2026 CRE Debt Report

July 2026

RSQUARE Research Center

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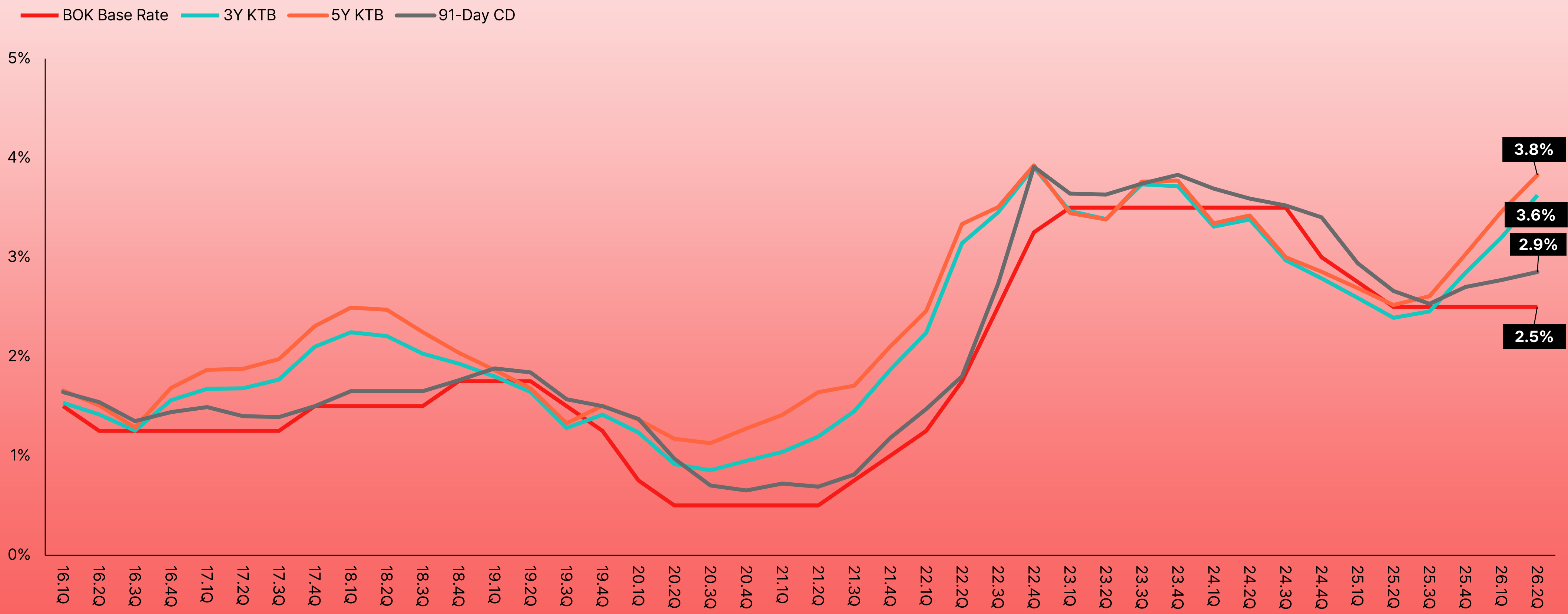
CRE Debt Costs Are Turning Higher

Following rate hikes by major central banks, including the European Central Bank (ECB) and the Bank of Japan (BOJ), the global monetary policy stance is shifting from easing toward tightening. Korea has likewise ended the rate-cutting cycle that began in the second half of 2024 and entered a rate-hiking phase.

At its Monetary Policy Board meeting on July 16, 2026, the Bank of Korea raised the Base Rate by 25 bps, from 2.50% to 2.75%. The central bank also indicated that it would need to maintain its rate-hiking stance going forward.

Key market rates including 3- and 5-year Korean Treasury bond yields and the 91-day CD rate have risen since bottoming out in mid-2025, pricing in expectations of a Base Rate hike. With inflationary uncertainty persisting, the latest rate hike is expected to place further upward pressure on both market rates and CRE mortgage rates.

BOK Base Rate(Korea Policy Rate) and Key Market Rates



Source Bank of Korea Economic Statistics System

Macro Backdrop & Rate Cycle

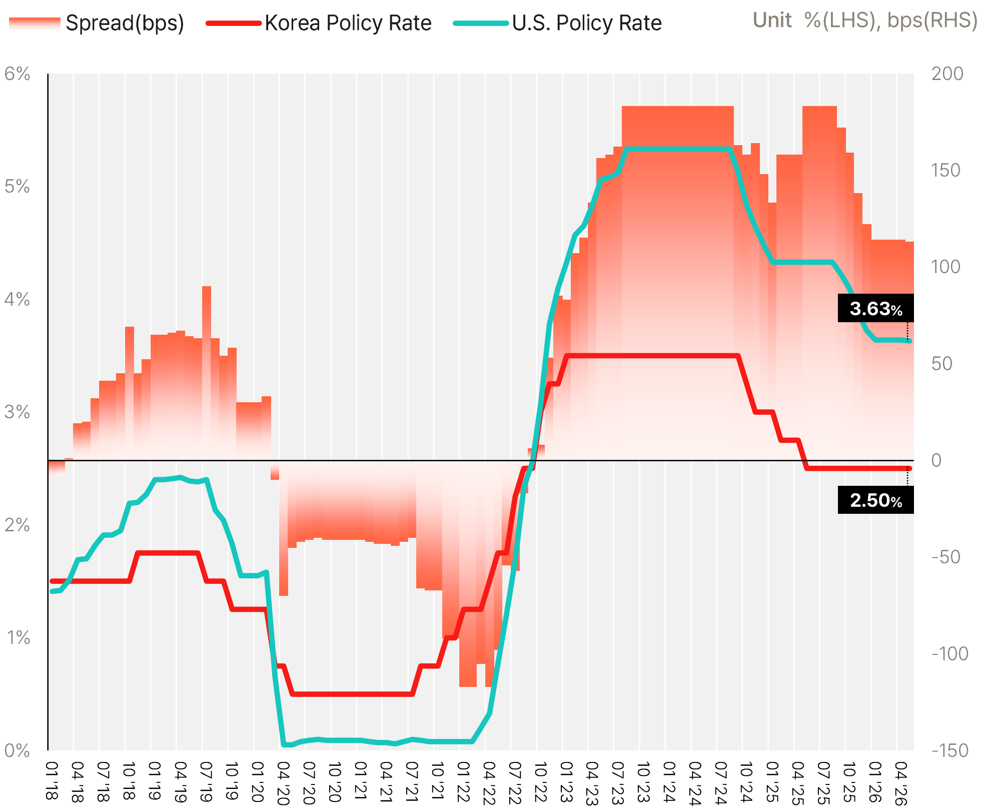
Macro & Financing Costs

Policy rates in Korea and the US rose sharply after the pandemic before declining from late 2024. Prolonged geopolitical conflict and higher oil prices have since revived inflation, bringing rate hikes back into consideration.

Korea's 2.50% Base Rate remains more than 100bp below the US rate of 3.50–3.75%. The persistent differential has contributed to KRW depreciation, with the KRW/USD rate reaching approximately 1,560 in June 2026.

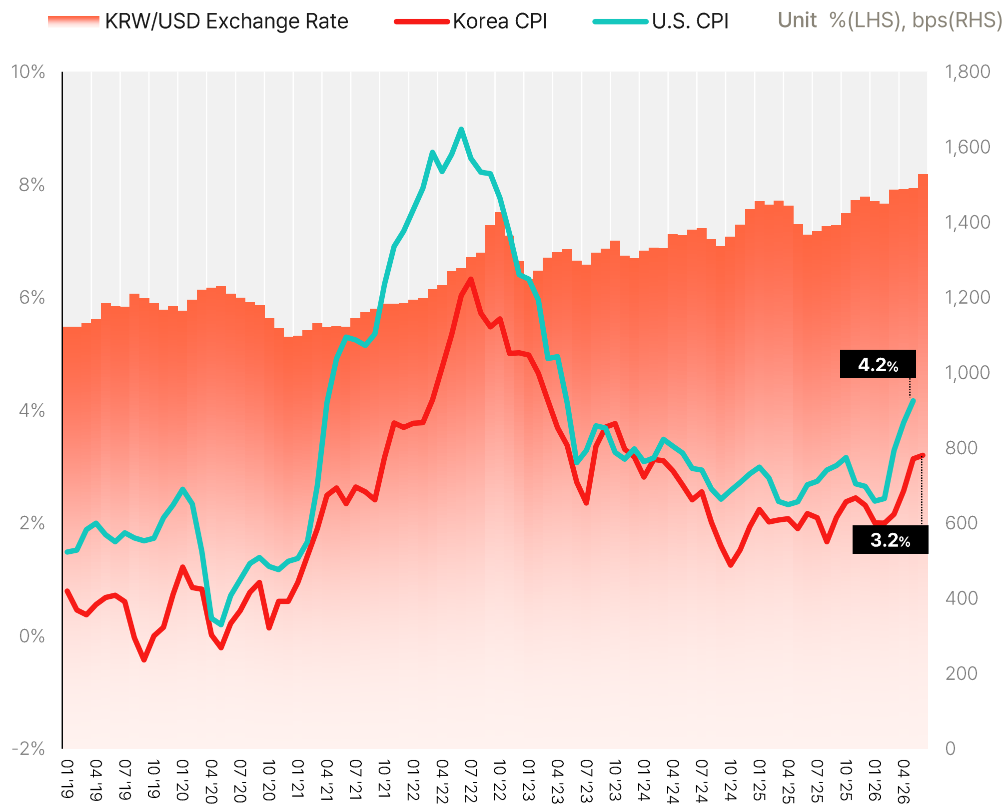
After peaking at over 6% in Korea and 9% in the US in 2H 2022, CPI inflation eased steadily. Oil-driven price pressure has re-emerged in 2026, however, pushing market rates higher.

Policy Rate Trends in Korea and the U.S.



Source Bank of Korea, FRED

YoY CPI Inflation in Korea and the U.S. and KRW/USD Exchange Rate Trends



Source Bank of Korea, FRED, Statistics Korea

Macro Backdrop & Rate Cycle

Rate-Hike Cycle Resumes

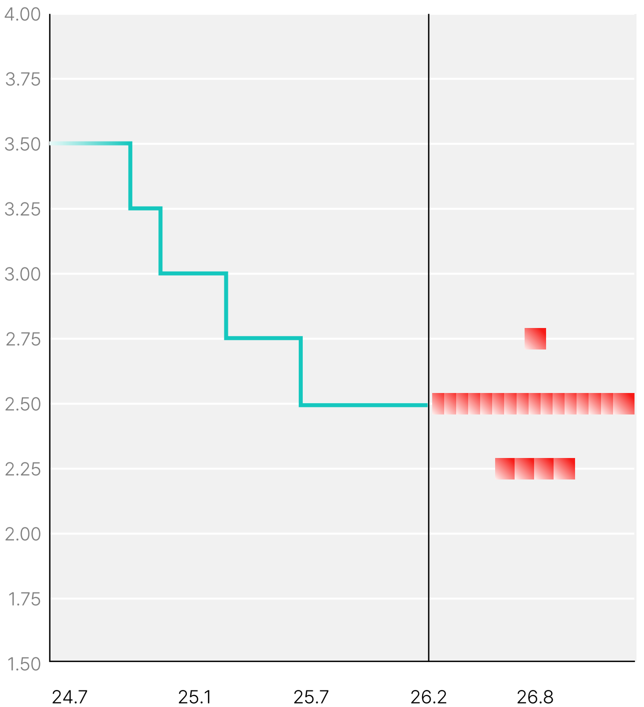
At its first Monetary Policy Board meeting under Governor Hyun Song Shin on 28 May 2026, the BOK held the Base Rate at 2.50% for an eighth consecutive meeting. Nevertheless, 19 of 21 dot-plot projections indicated a hike, signaling a shift toward tightening.

The market expects four further hikes—two in 2H 2026 and two in 1H 2027—with consensus building around a 3.50% terminal rate by end-2027. CRE mortgage rates are therefore likely to rise further.

MPC Members' Conditional Six-Month Policy-Rate Outlook

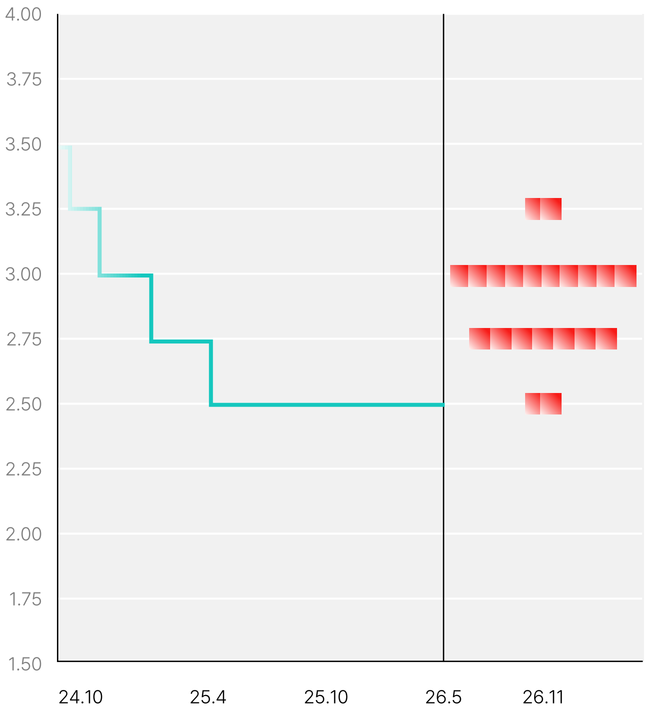
Outlook in Feb. 2026[1]

Unit %



Outlook in May 2026[2]

Unit %



1) Feb. 2026: 2.75% (1), 2.50% (16), 2.25% (4)

2) May 2026: 3.25% (2), 3.00% (10), 2.75% (7), 2.50% (2)

Source BOK, FRS

Policy-Rate Outlook: U.S. & Korea

Category	U.S. FOMC 17 Jun. 2026	Korea BOK 28 May 2026
Policy Rate	3.50–3.75% Hold	2.50% 8th Hold
Outlook Revision	3.4% → 3.8% Revised Up	2.50% → 3.00% Revised Up
Median	3.8% End of 2026	3.00% Six-Month Horizon
Mode	3.625% · 8 Members Hold	3.00% · 10 Members
Long-Run / Downside	Long-Run Neutral Rate 3.1% Mode 3.0%	2.50% · Responses Fell to 2
Policy Signal	Cut Expectations Fade, One Hike Signaled in 2026	Hawkish Hold

Macro Backdrop & Rate Cycle

CRE Debt Cycle, 2020–2026

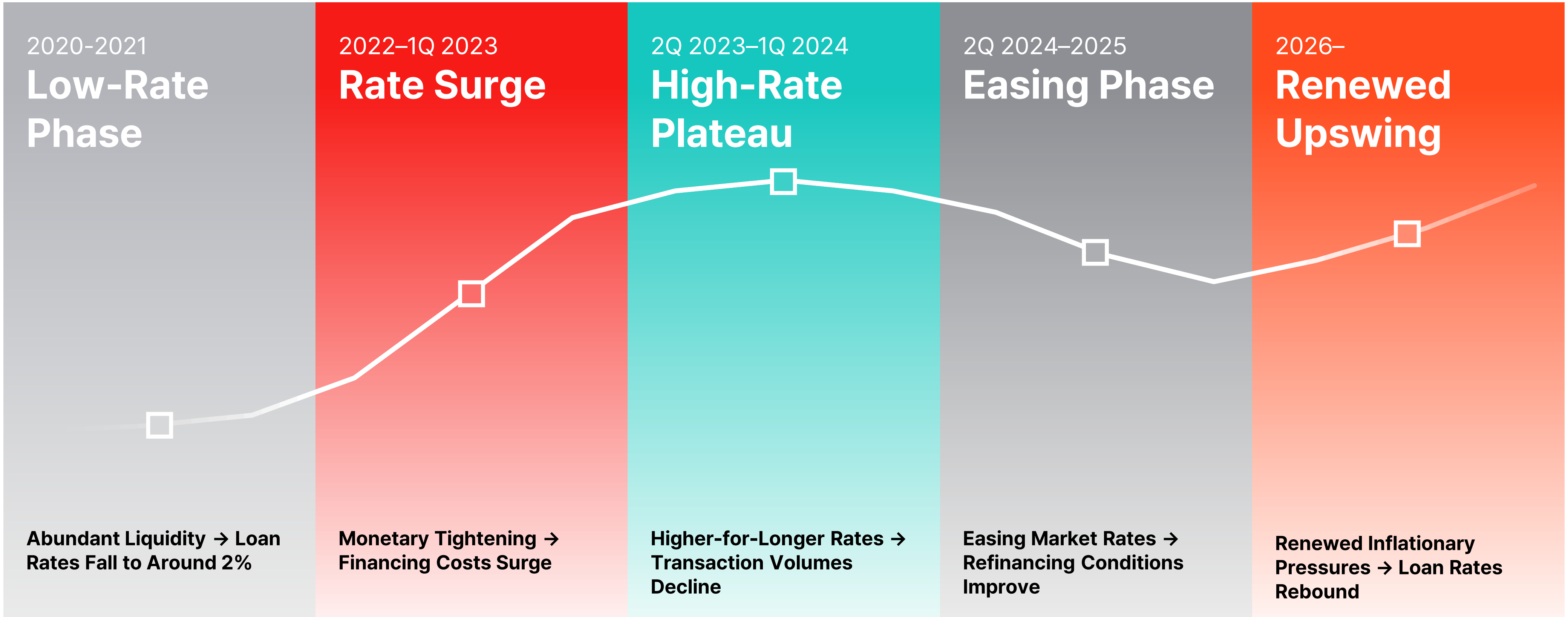
CRE mortgage rates moved through five distinct phases in less than seven years, from the pandemic through 2026.

In 2020–2021, abundant liquidity and accommodative policy drove senior loan rates into the high 2% range, while intense lender competition kept spreads low.

During the 2022–1Q 2023 surge, policy tightening rapidly lifted funding costs, and average All-in Cost on senior Seoul office loans reached the high-6% range. Rates then remained near 5% through 1Q 2024, producing negative leverage and weaker transaction activity.

From 2Q 2024 through 2025, lower market rates and easing expectations gradually improved debt pricing and created refinancing opportunities for loans originated at peak rates.

The cycle reversed again in 2026 as oil-price shocks and inflation pressure revived hike expectations and pushed CRE debt costs higher.



Debt Structure

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Debt Structure and Lenders

Loan pricing generally builds from a base rate, followed by a credit spread and fees.

Short-term market rates such as the 91-day CD serve as the benchmark. A spread reflecting borrower credit, LTV and collateral risk is added to determine the contractual coupon. Arrangement, underwriting and commitment fees are then annualized over the loan term to derive the borrower's All-in Cost.

Because All-in Cost captures both interest and fees, it is the appropriate metric for comparing effective financing costs across assets.

Banks and insurers typically provide senior loans on prime assets at lower spreads. Debt funds invest across senior, mezzanine and junior tranches, targeting returns commensurate with risk.

CRE Mortgage Pricing Stack

Base Rate
e.g. 91-day CD rate

+ Credit Spread
Credit Profile · LTV (bp)

+ Fees
Upfront · Ongoing · Contingent

= Loan Interest Rate ((Contractual Rate))

= All-in Cost (Total Financing Cost)

Lender Composition

Banks · Insurers

Senior Debt · Lower Spreads

Focuses primarily on senior loans secured by high-quality assets, applying relatively low credit spreads supported by stable cash flows.

Debt Funds

Multi-Tranche · Risk-Based Returns

Invests across all debt tiers in line with its investment strategy, targeting returns commensurate with the underlying risk profile.

Debt Structure

Spreads by Debt Seniority

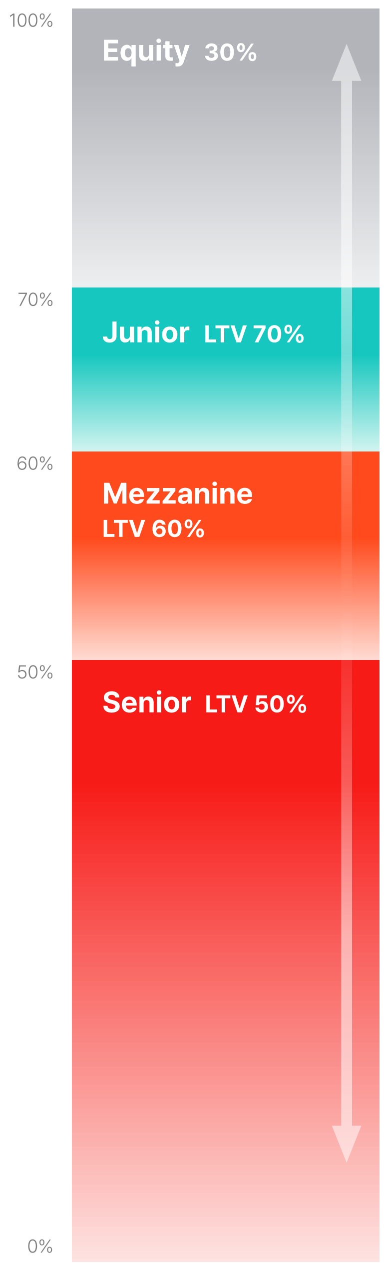
CRE mortgage debt is divided into senior, mezzanine and junior tranches based on repayment priority. After statutory senior claims, collateral proceeds are distributed by rank; lower-ranking tranches therefore carry greater principal risk and required returns.

Senior debt is the first-recovery, lower-risk tranche, typically provided by banks, insurers and pension funds. Its stable cash flow profile aligns with the ALM strategies of long-duration investors.

Mezzanine debt ranks between senior and junior debt. Savings banks, finance companies and debt funds participate at higher spreads than senior lenders.

Junior debt is the lowest-ranking debt tranche but remains senior to equity. It absorbs losses first among lenders, producing wide pricing dispersion; debt funds are the main providers, while strategic investors and developers may participate directly or through fund commitments.

Illustrative Debt Seniority and Capital Structure



Senior Tranche A

Holds the first-ranking mortgage and contractual priority, with first claim on loan proceeds upon enforcement of the collateral

Typical Lenders	Commercial banks, insurance companies, pension funds, and institutional investors
Key Characteristics	Lowest risk and lowest expected return Generally carries the lowest interest rate, with relatively narrow credit spreads

Mezzanine Tranche B

Ranks between the senior and junior tranches in the repayment waterfall

Typical Lenders	Savings banks, capital companies and debt funds
Key Characteristics	Medium-risk, medium-return profile Pricing varies depending on the LTV and DSCR levels, collateral quality and the overall loan structure

Junior Tranche C

Lowest-ranking tranche in the repayment waterfall
First-loss position among the debt tranches in the event of a decline in collateral value

Typical Lenders	Savings banks, capital companies and debt funds
Key Characteristics	High-risk, high-return profile Subject to significant repayment uncertainty and therefore priced with wider credit spreads

※ ALM(Asset Liability Management): matching asset and liability maturities, rates and liquidity exposures

Mortgage Loan Composition

Base Rate	+	Credit Spread	−	Preferential Rate (Pricing Adjustment)	=	Loan Interest Rate

Base Rate The benchmark rate used to price a loan. The final loan interest rate is determined by adding the applicable credit spread.

Mortgage Loan Benchmark Rate (Reference Rate)

91-Day CD Rate	Korean Treasury Bonds (Reference Benchmark)
• A short-term market rate based on the secondary-market yield of 91-day Certificates of Deposit (CDs) issued by banks • Reflects banks' short-term funding conditions and is commonly used as a benchmark for floating-rate loans • Loan pricing is generally determined as the 91-day CD rate plus a credit spread, with the rate reset at the agreed repricing intervals	• Secondary-market yields on government bonds by maturity, widely used as benchmarks for medium- to long-term market rates • In commercial real estate lending analysis, three- and five-year KTB yields are typically used to compare medium-term market rates with loan pricing • Reflect expectations for the Bank of Korea's policy-rate path, the economic and inflation outlook, and bond market supply and demand, and may therefore move ahead of actual policy-rate changes

Key Compositions of Credit Spread

Risk Premiums	Costs and Margin
Funding Risk Premium • Difference between the lender's funding cost and the benchmark rate • Increases as market funding costs rise **Liquidity Premium** • Compensation for refinancing and maturity-mismatch risk • Increases as liquidity weakens or maturity gaps widen **Credit Premium** • Compensation for borrower default and collateral impairment risk • Reflects credit quality, collateral volatility, LTV, DSCR, tenor and recovery prospects	**Cost of Capital** • The opportunity cost of capital required to absorb unexpected losses • Reflects internal capital allocation policies and prudential requirements, with costs increasing as loan risk rises **Operating and Other Costs** • Direct and indirect costs incurred in loan underwriting, documentation, execution and ongoing administration, including personnel and IT expenses **Target Profit Margin** • The target return established based on management objectives and prevailing market competition • May be adjusted upward or downward for individual loans depending on transaction size, client relationship and market conditions

Source Financial Supervisory Service (FSS), Korea Federation of Banks (KFB), and Korea Financial Investment Association (KOFIA)

CRE Mortgage Loan Fees

CRE mortgage loan fees are classified by timing and trigger as upfront, periodic or contingent. Upfront fees compensate arrangement, structuring and syndication at closing. Periodic fees cover undrawn commitments and facility-agent services during the loan term. Contingent fees arise upon events such as prepayment, maturity extension or covenant amendment.

Fee levels reflect not only lender risk but also committed capital and scope of work. Upfront fees compensate execution and underwriting; periodic fees compensate capital commitment and administration. Contingent fees offset reinvestment risk from early repayment or incremental risk from extensions and amendments.

Classification of CRE Mortgage Loan Fees by Payment Timing and Nature

A Upfront Fee
Paid as a lump sum at commitment or loan closing

- **Arrangement Fee**
  Compensation for lender syndication, financing structure design and due diligence coordination
- **Participation Fee**
  Paid to syndicate lenders that provide the loan proceeds
- **Advisory Fee**
  Compensation for project feasibility review and financing advisory services, typically comprising a retainer and success fee

B Periodic Fee
Paid periodically over the term of the loan

- **Commitment Fee**
  Charged on committed but undrawn loan amounts
- **Agency Fee**
  Compensation for administering the lending syndicate, managing cash flows and overseeing collateral

C Contingent Fee
Payable upon the occurrence of specified events

- **Prepayment Fee**
  Charged when the borrower repays the loan before maturity
- **Extension/Amendment Fee**
  Charged for extending the loan maturity or amending the loan terms

Source Financial Supervisory Service (FSS), Korea Federation of Banks (KFB), and Korea Financial Investment Association (KOFIA)

Office Mortgage Rates

Office Mortgage Rates

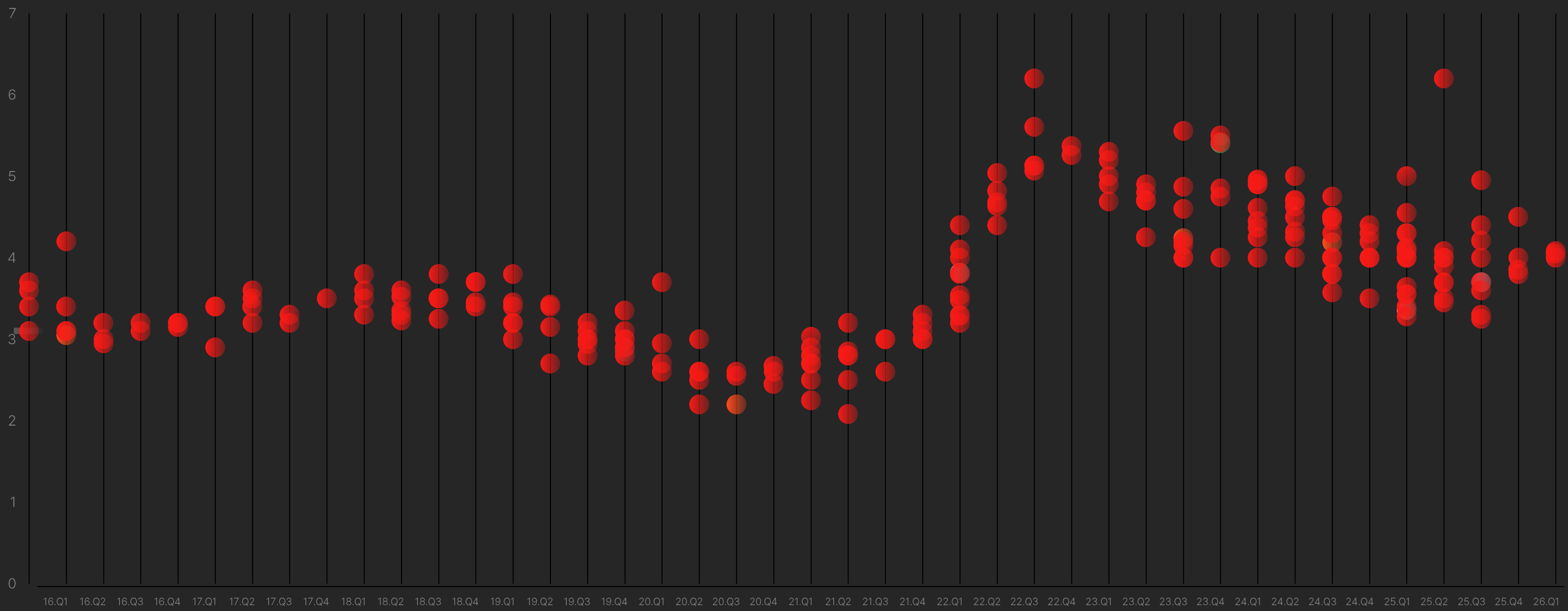
Senior Office Mortgage Rates

From 2016 to 2021, senior office mortgage rates remained broadly stable in the 3% range. Rates rose sharply in 2022 as higher market rates fed through to borrowing costs, with some loans exceeding 6%.

After declining through Q3 2025, lending rates began to rise again in Q4 and reached the low-4% range in Q1 2026. The recent rebound in market rates appears to be feeding through to lending rates, while pricing continues to vary depending on asset-specific factors, including location, tenant stability, and LTV.

Senior Mortgage Rate for Office in Seoul and Bundang - Rate Dispersion

Unit %



Source RSQUARE

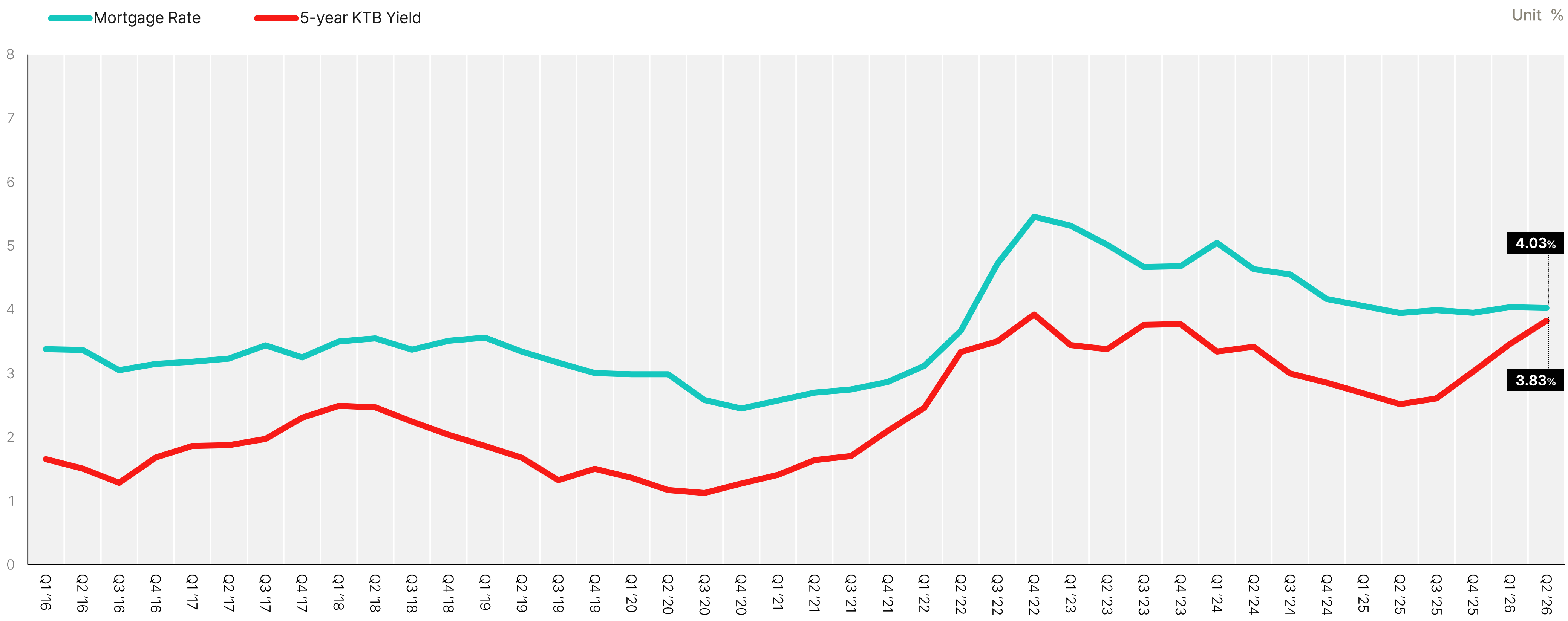
Office Mortgage Rates

Senior Office Mortgage Rates

Senior office mortgage rates in Seoul and BBD rose to the mid-5% range during the 2022 tightening cycle, then declined to 4.03% in 2Q 2026. The 5-year KTB yield, however, rebounded sharply from 2H 2025 to approximately 3.8%, narrowing the gap to about 20bp.

The recent increase in market yields has not yet been fully reflected in loan pricing. If KTB yields remain elevated or rise further, upward pressure on new loan coupons is likely to intensify.

Trends in Senior Office Mortgage Loans in Seoul and Bundang



Source RSQUARE, BOK

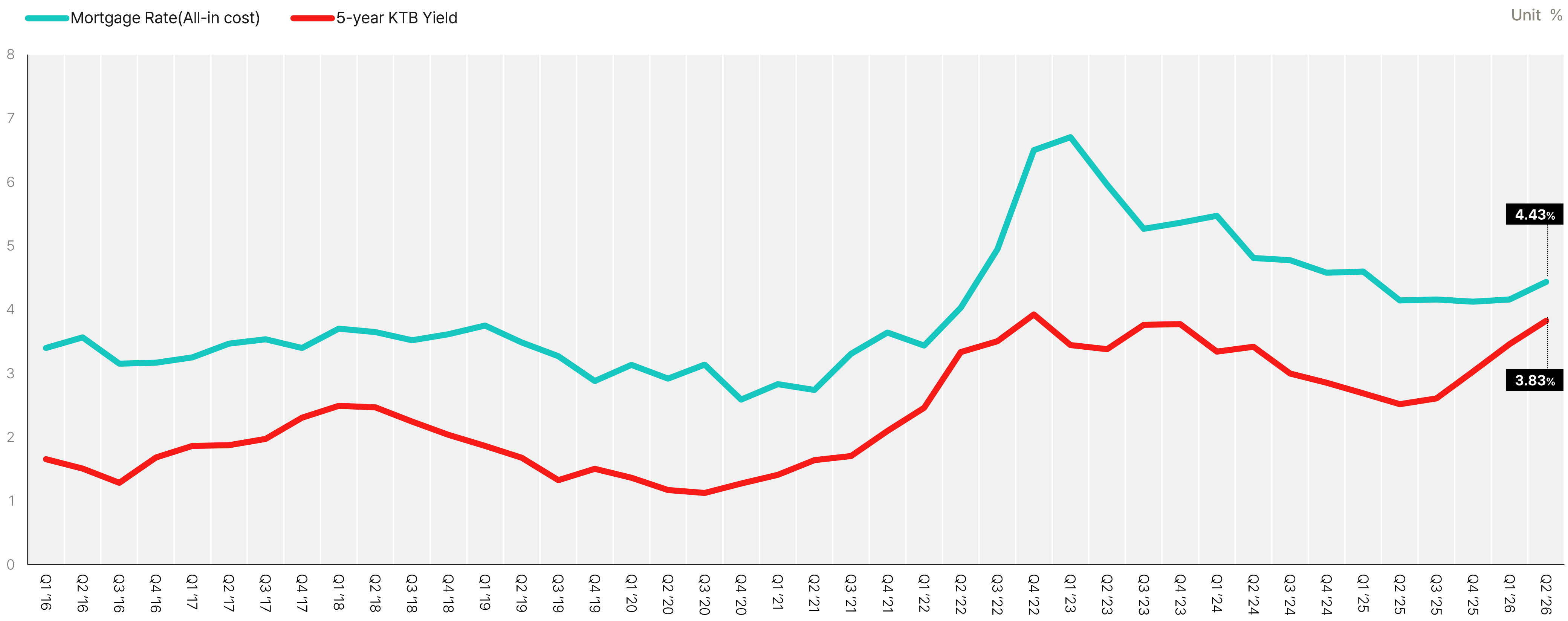
Office Mortgage Rates

Senior Office Mortgage Rates
All-in Cost

All-in Cost on senior office loans peaked in the mid- to high-6% range in 4Q 2022–1Q 2023, then declined to approximately 4.1% in 2H 2025 before edging up to 4.43% in 2Q 2026.

The 5-year KTB yield rose sharply from its 2Q 2025 low to 3.83% in 2Q 2026, narrowing the gap to All-in Cost to 60bp. If market yields remain on an upward path, All-in Cost on new loans is likely to rise with a lag.

Trends in All-in Costs for Senior Office Mortgage Loans in Seoul and Bundang



Source RSQUARE, BOK

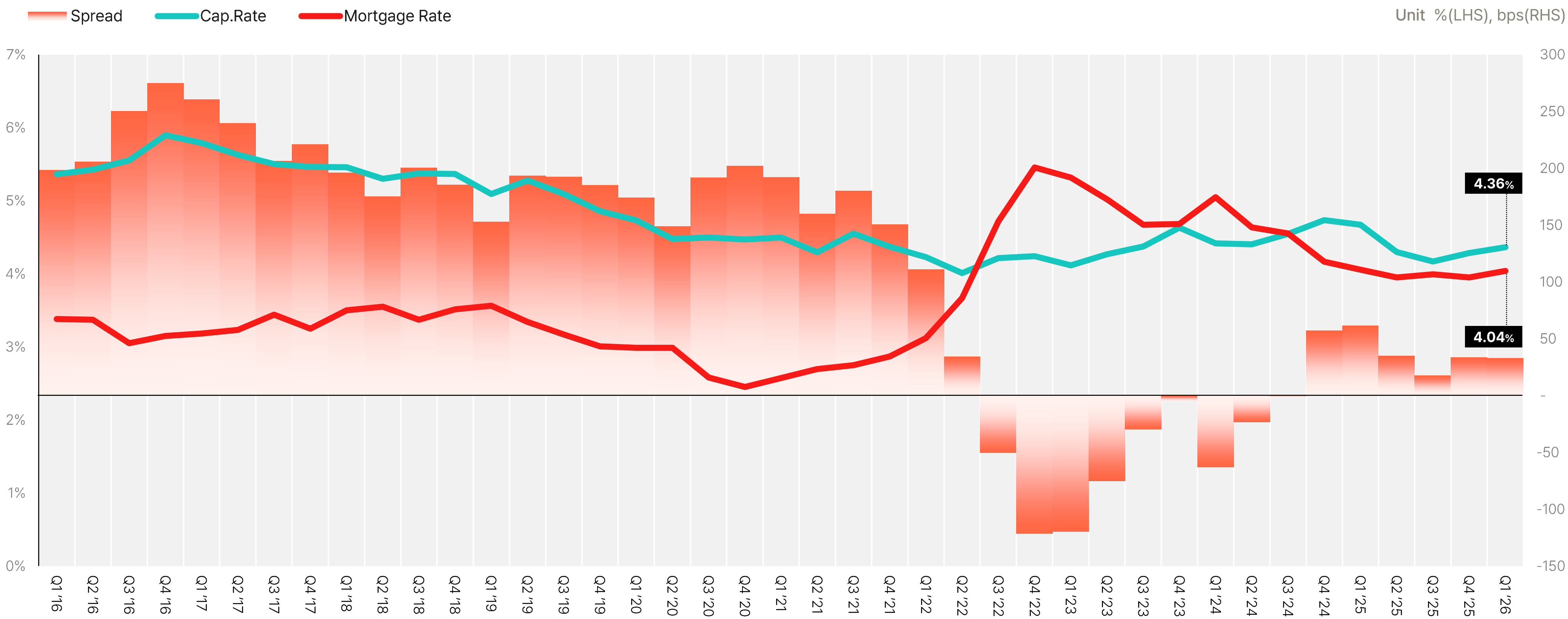
Office Mortgage Rates

Office Cap.Rates & Mortgage Rates

The spread between office Cap.Rates and senior mortgage rates generally remained within the 150–275 bp range from 2016 to 2021, supporting a positive leverage environment. However, as borrowing costs rose in 2022, senior mortgage rates exceeded Cap.Rates, pushing the spread to approximately –120 bp between Q4 2022 and Q1 2023 and deepening negative leverage.

The spread subsequently recovered as mortgage rates declined and cap rates expanded, returning to positive territory in Q4 2024. It reached approximately 32 bp in Q1 2026 but remained well below historical levels. Further spread expansion is likely to be limited if rising market rates are passed through to mortgage pricing.

Trends in Office Cap.Rates and Senior Mortgage Rates in Seoul and Bundang



Source RSQUARE ※ Based on nominal Cap.Rates

Logistics Mortgage Rates

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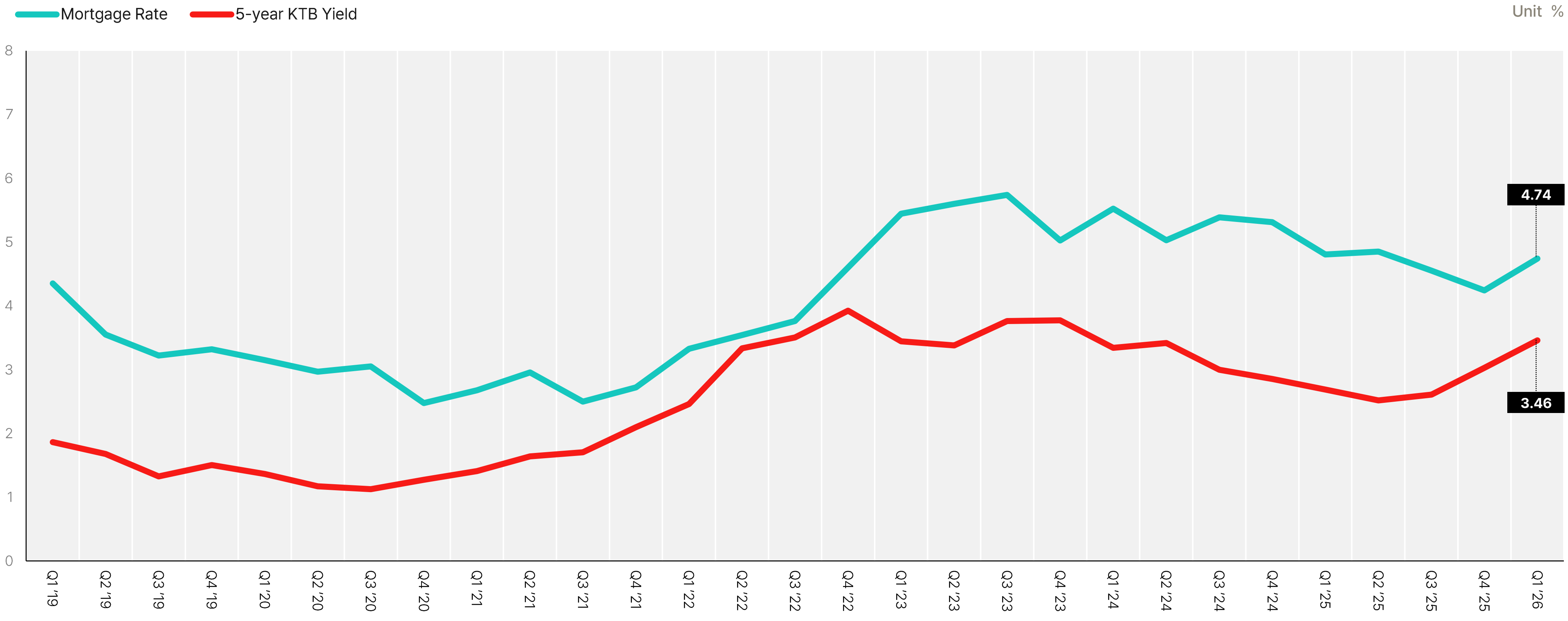
Logistics Mortgage Rates

Senior Logistics Mortgage Rates

Senior mortgage rates for logistics facilities declined after 2019, settling in the mid-2% to low-3% range during 2020–2021. They then rose sharply amid monetary tightening and more conservative lender risk management in 2022, peaking at 5.74% in Q3 2023 with a lag relative to the increase in market rates.

Following subsequent fluctuations, rates declined to 4.24% in Q4 2025 before rebounding to 4.74% in Q1 2026. This suggests that the upward trend in the 5-year KTB yield since Q2 2025 has begun to feed through to loan pricing. Should upward pressure on market rates persist, rates on newly originated loans may rise further.

Trends in Senior Mortgage Rates for Logistics



Source RSQUARE, BOK

Logistics Mortgage Rates

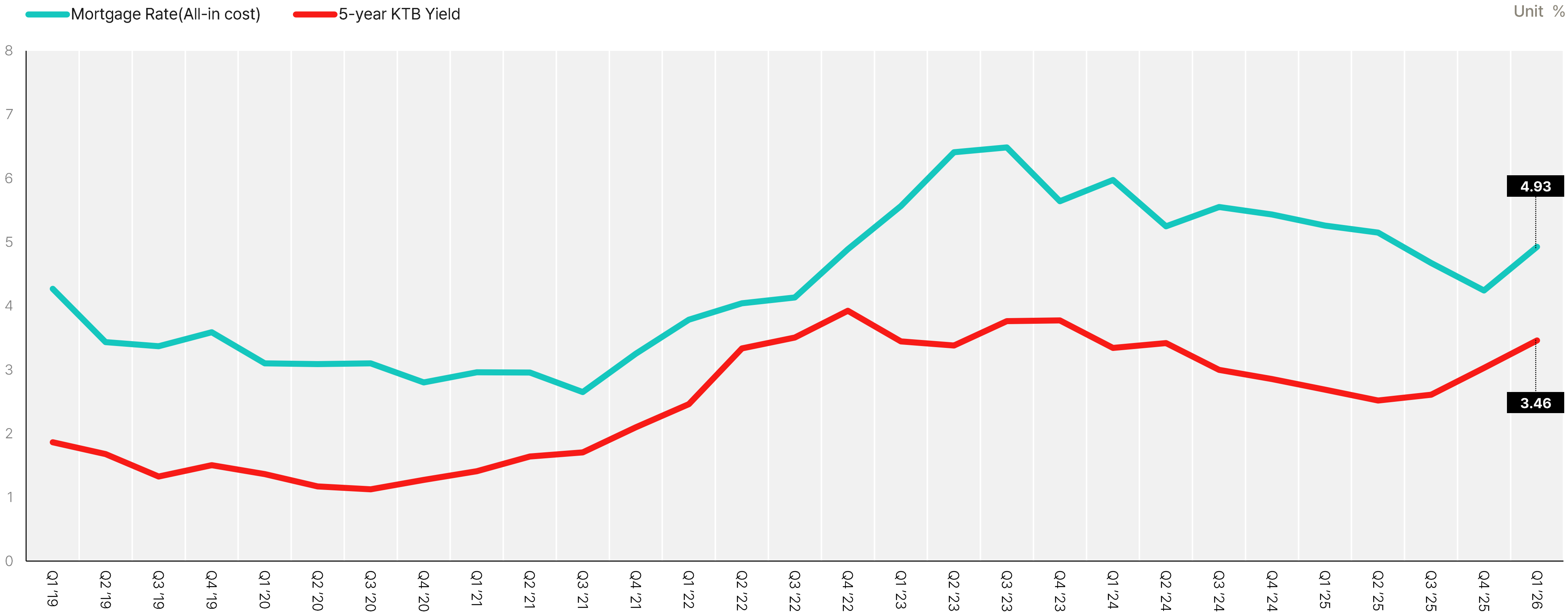
Senior Logistics Mortgage Rates

All-in cost

The all-in cost of senior loans for logistics facilities rose sharply amid monetary tightening, peaking in the mid-6% range in Q2–Q3 2023. Following subsequent fluctuations, it declined to 4.24% in Q4 2025 before rising again to 4.93% in Q1 2026.

The 5-year KTB yield also increased from its Q2 2025 trough, reaching 3.46% in Q1 2026, with a 147 bp spread to the all-in cost. As higher market rates continue to feed through to lending terms with a lag, a sustained upward trend could place further pressure on the borrowing costs of newly originated loans.

Trends in All-in Costs for Senior Mortgage Loans on Logistics



Source RSQUARE, BOK ※ 4Q 2022 estimated using a Bayesian model

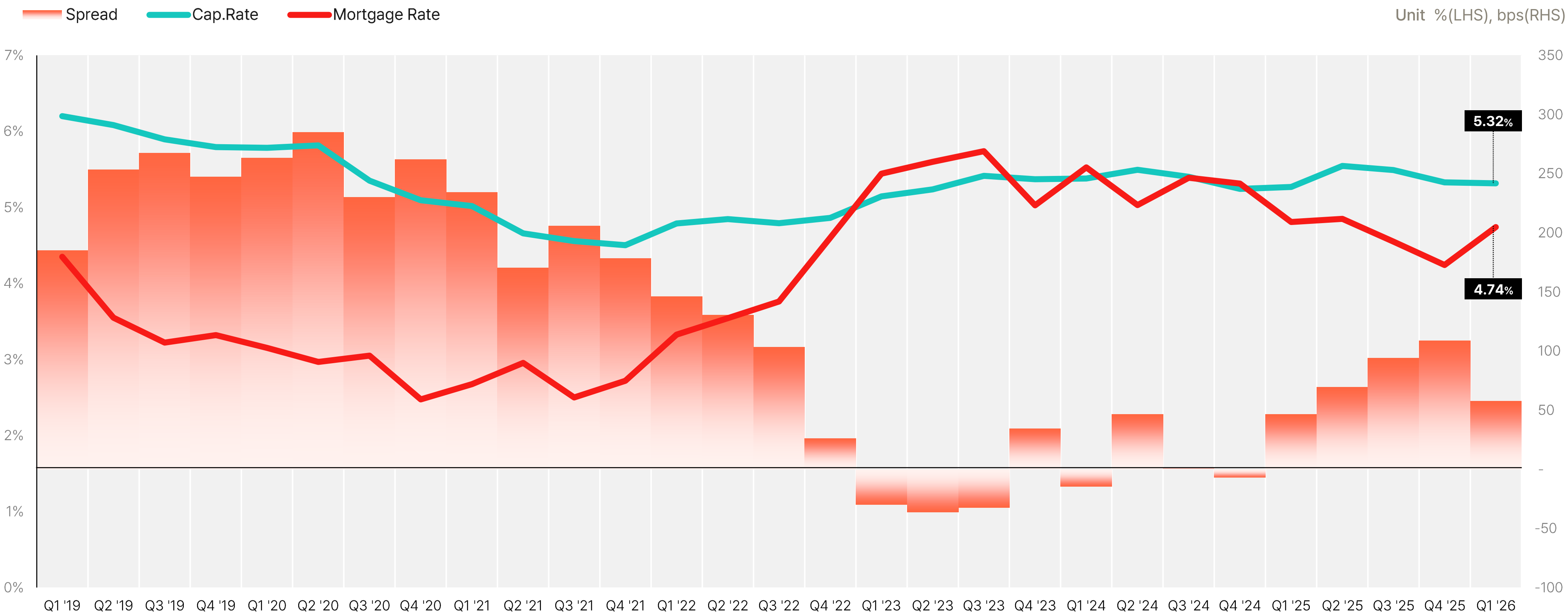
Logistics Cap.Rates & Mortgage Rates

Logistics Cap.Rates declined from approximately 6.1% in 2019 to 4.5% by year-end 2021, before gradually rising to around 5.4% in Q3 2023. Over the same period, senior mortgage rates increased more rapidly, reaching 5.74% and compressing the spread to approximately –30 to –40 bp during Q1–Q3 2023, thereby pushing the market into negative leverage territory.[1)]

As loan rates subsequently declined, the spread fluctuated around zero in 2024 before returning to positive territory in 2025. In Q1 2026, the Cap.Rate stood at 5.3%, compared with a senior mortgage rate of 4.74%, widening the spread to approximately 56 bp. Nevertheless, this remained well below the 170–280 bp range recorded during 2019–2021. Further recovery in the spread is likely to be limited if rising market rates are passed through to loan pricing.

1) Negative leverage refers to a situation in which borrowing costs exceed the property yield; it does not necessarily mean that the overall investment return is negative.

Trends in Logistics Cap.Rates and Senior Mortgage Rates



Source RSQUARE

Fees &
Cross-Sector Comparison

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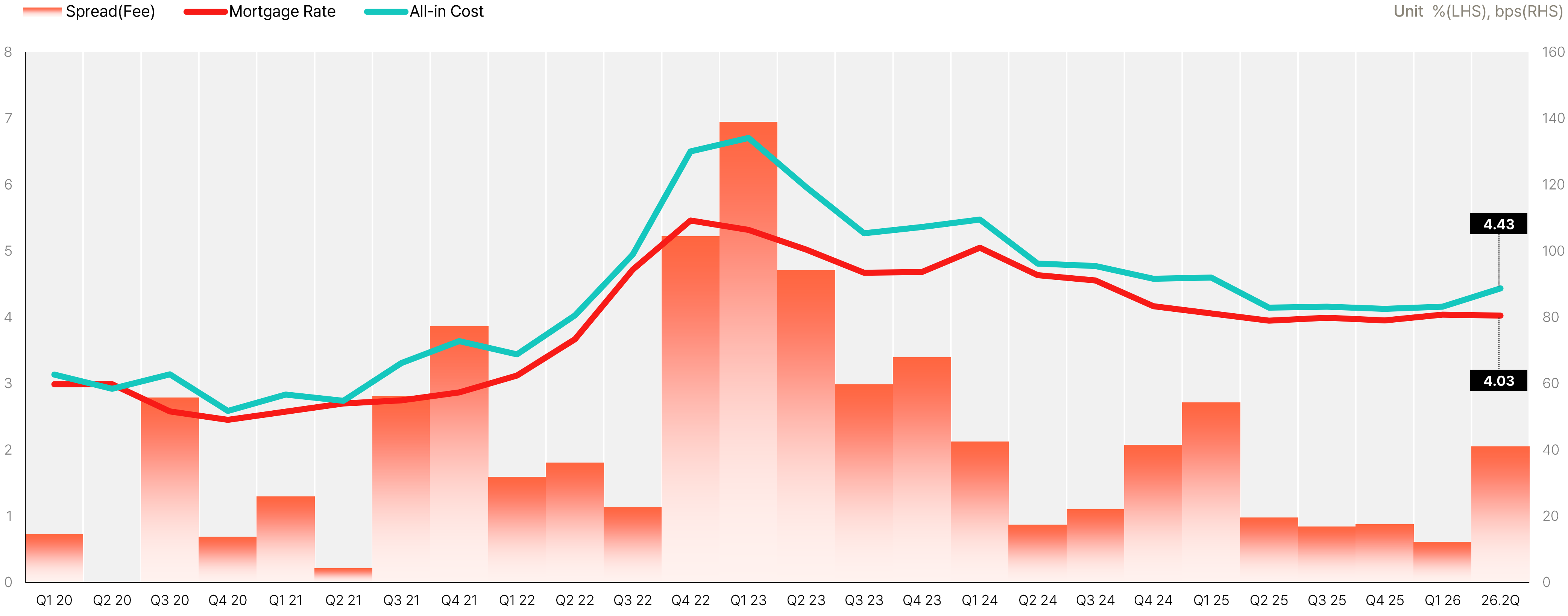
Office Loan Fee Comparison

The fee spread on office loans—defined as the difference between the senior mortgage rate and the all-in cost—captures transaction-related fees incurred in arranging and syndicating the financing. Amid heightened financial-market uncertainty, the spread widened to approximately 104 bp in Q4 2022 and 139 bp in Q1 2023, respectively, before gradually narrowing as loan rates declined.

In Q2 2026, the senior mortgage rate and all-in cost increased to 4.03% and 4.43%, respectively, widening the fee spread to 40 bp from the previous quarter. This indicates a renewed increase in loan execution costs. If market volatility persists and lenders become more risk-averse, fee burdens could rise further.

Comparison of Senior Office Mortgage Rates and All-in Costs



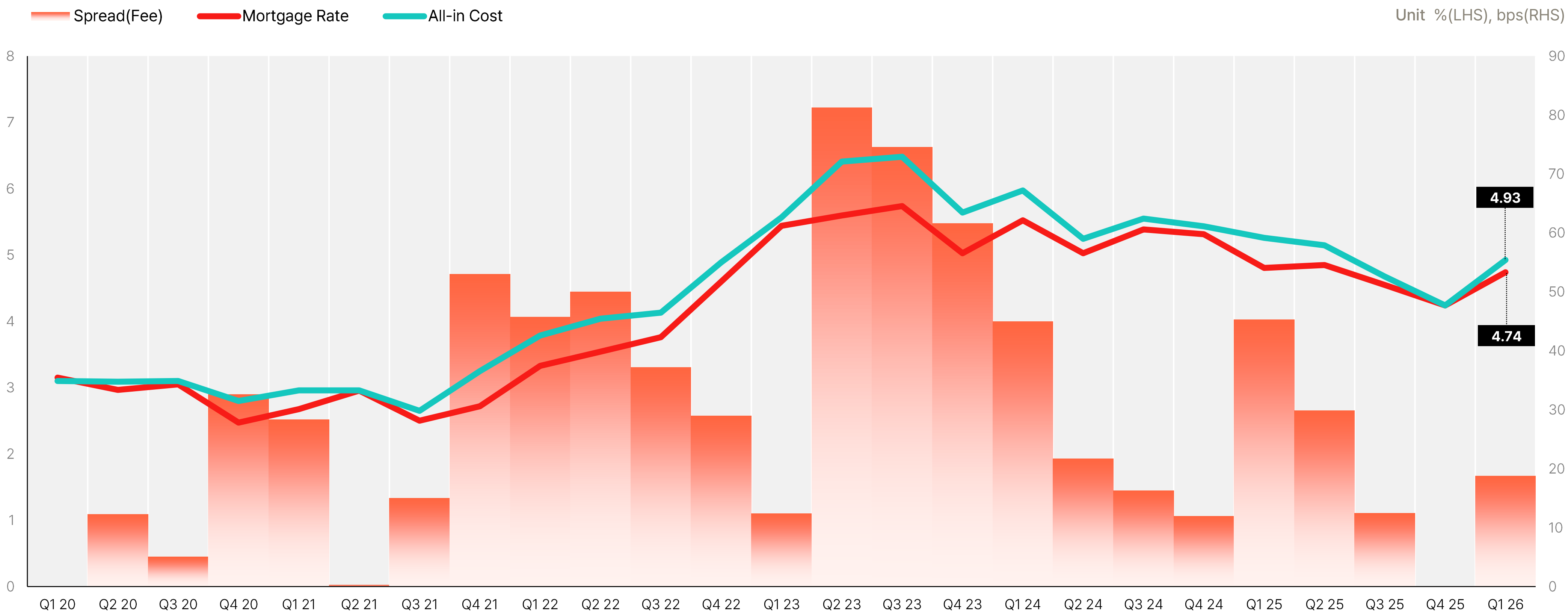
Source RSQUARE

Logistics Loan Fee Comparison

The fee spread on logistics loans generally fluctuated within the 0–50 bp range from 2020 to 2022. As lending-market uncertainty increased, the spread widened to 75–81 bp in Q2–Q3 2023, pushing the all-in cost into the mid-6% range.

The spread subsequently narrowed. In Q1 2026, the loan rate stood at 4.74% and the fee spread at 19 bp, resulting in an all-in cost of 4.93%. The recent rebound in the all-in cost was driven primarily by higher loan rates rather than increased fees.

Comparison of Senior Mortgage Rates and All-in Costs for Logistics



Source RSQUARE

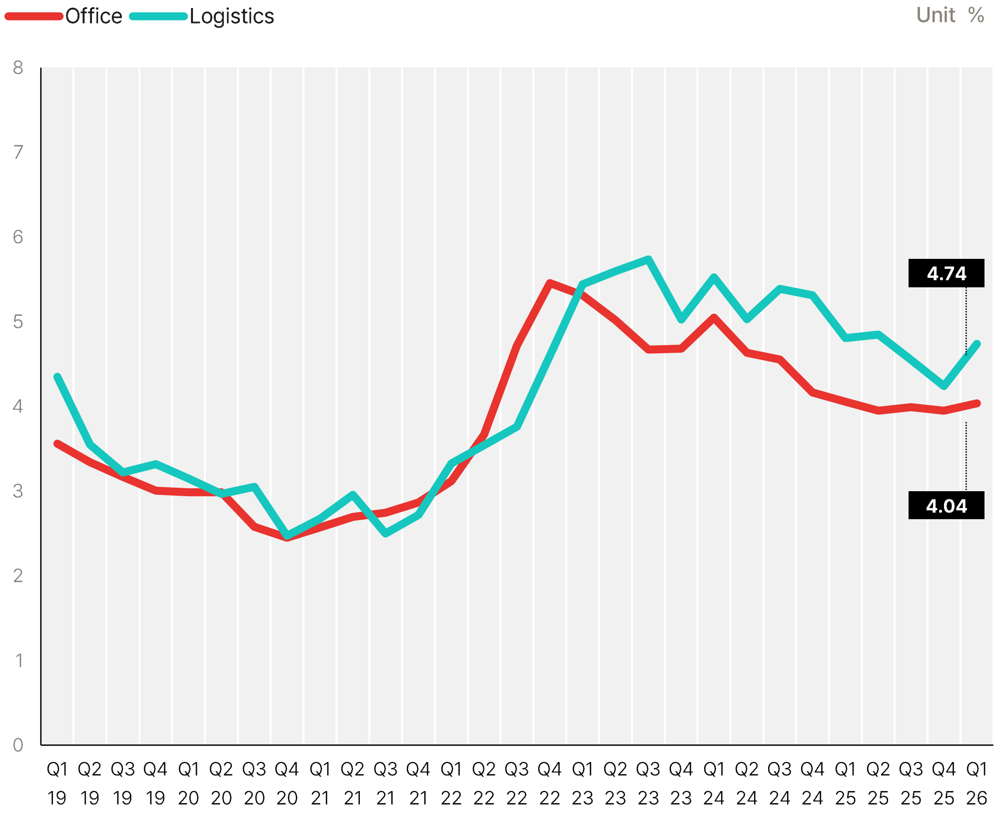
※ The Q4 2022 all-in cost for logistics facilities was estimated using a Bayesian model.

Mortgage Rate Comparison by Asset Type

Senior mortgage rates for office and logistics assets moved broadly in line through 2021. During the rate-hiking cycle, logistics loan rates lagged office rates by one to two quarters. Office rates peaked at approximately 5.5% in Q4 2022, while logistics rates reached 5.7%–5.8% in Q2–Q3 2023. More recently, rates have stood at around 4.0% for office and 4.7% for logistics, a gap of approximately 70 bp.

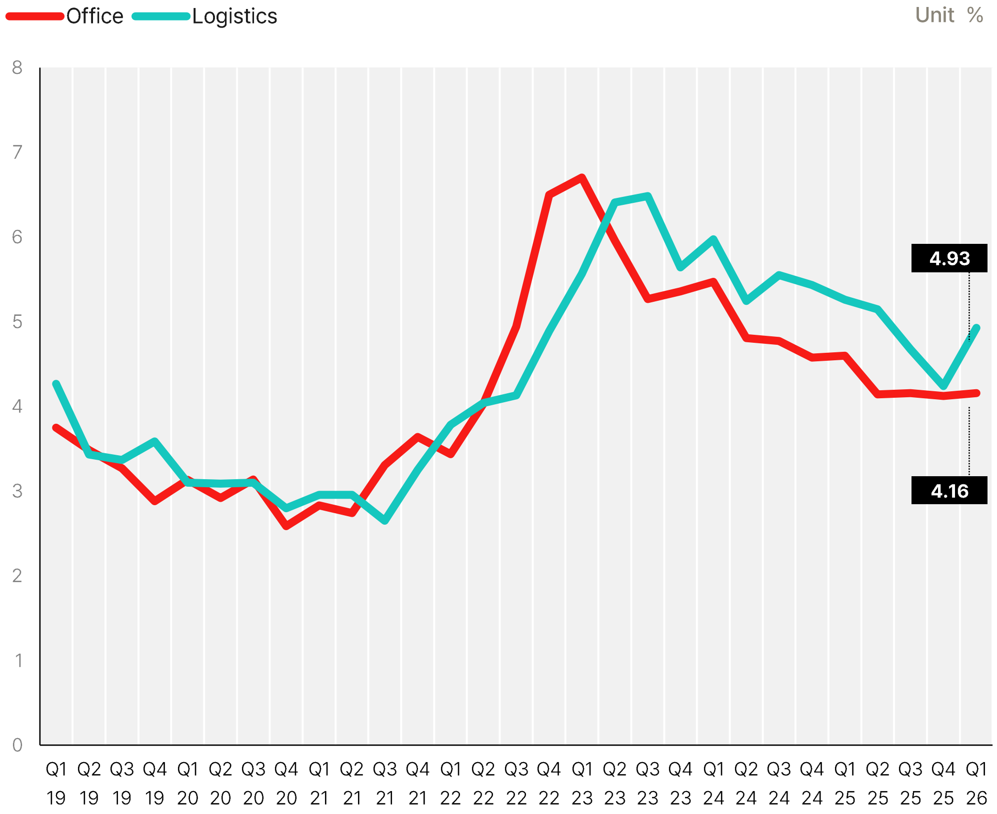
All-in costs also followed similar trends through 2021. Office costs rose first to the high-6% range, followed by logistics one to two quarters later, peaking in the mid-6% range. As office costs declined more rapidly, the gap widened to around 80 bp, with recent levels at approximately 4.1% for office and 4.9% for logistics.

Office vs. Logistics Senior Mortgage Rates



Source RSQUARE

Office vs. Logistics Senior Mortgage All-in Costs



Source RSQUARE

※ The Q4 2022 all-in cost for logistics facilities was estimated using a Bayesian model.

Market Evidence and Outlook

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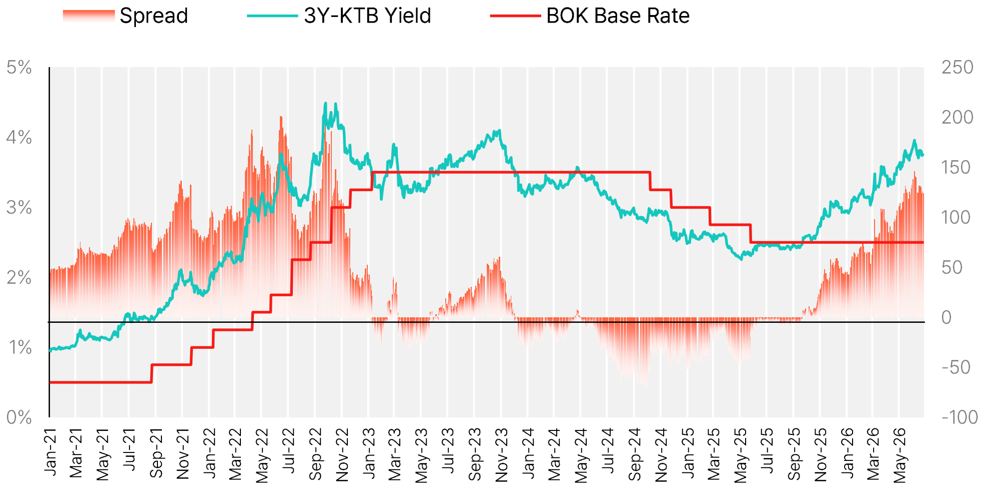
Rising Mortgage Rates

The widening gap between the BOK Base Rate and the 3-year KTB yield, together with the 3-year–1-year spread, indicates that market rates began to rebound in H2 2025 as expectations for further rate cuts weakened.

By June 2026, the 3-year KTB yield stood 124 bp above the policy rate, while the three-year–one-year spread widened to 52.3 bp, signaling increased upward pressure on medium-term market rates.

① 3-Year KTB Yield vs. BOK Base Rate

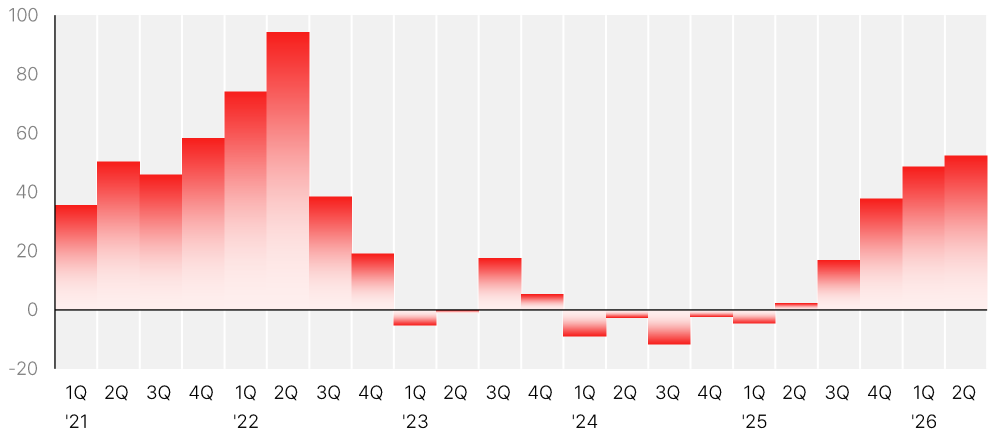


Gap Between Market Rates and the Policy Rate

- In June 2026, the three-year KTB yield reached 3.74%, 124 bp above the BOK Base Rate of 2.50%, as weaker rate-cut expectations pushed market rates higher.
- Since bottoming in May 2025, the yield has risen to the high-3% range, increasing upward pressure on new and refinancing loan rates.

Source BOK, Korea Financial Investment Association, RSQUARE

② 3-Year–1-Year KTB Yield Spread (bps)



Term Spread Between Medium- and Short-Term Rates

- The three-year–one-year KTB spread turned positive in Q2 2025 and widened to 52.3 bp by Q2 2026, reflecting weaker rate-cut expectations and a higher term premium.
- A further rise in medium-term rates could increase fixed-rate and refinancing costs, requiring greater attention to rate-fixing timing.

Source Korea Financial Investment Association, RSQUARE

Impact of Rising Debt Costs and Strategic Responses

	Market Impact	Strategic Response
Pressure on Asset Values	• Higher borrowing costs increase investors' required returns, placing upward pressure on cap rates and downward pressure on asset values. A wider pricing gap between buyers and sellers may also delay transactions.	• Entry pricing should be adjusted using conservative Cap.Rate assumptions. Higher financing costs should be offset by improving NOI through rent normalization, lower vacancy and greater operating efficiency.
Greater Refinancing & Repayment Burden	• When refinancing rates exceed existing loan rates, interest expenses rise and DSCR declines. Assets with insufficient cash flow may face additional equity requirements, recapitalization or sale pressure.	• Debt maturities should be staggered, with refinancing or extension terms negotiated well ahead of maturity. Conservative LTV management and sufficient liquidity are also needed to mitigate interest-rate and refinancing risks.
Widening Divergence in Financing Terms	• During periods of rising rates, differences in loan proceeds and pricing widen based on location, tenant credit quality and cash-flow stability. Lower-quality assets are more likely to face reduced leverage and wider credit spreads.	• High-quality assets should leverage stable NOI and strong tenant credit to secure favorable pricing and LTV terms. Lower-quality assets should increase equity contributions and reduce financing risk through lease stabilization and vacancy reduction.

Conclusion

Higher borrowing costs place greater adjustment pressure on Cap.Rates and asset values, while increasing refinancing burdens and widening differences in financing terms across assets. Conservative entry pricing, staggered maturities, proactive refinancing, stable NOI and prudent LTV levels are therefore increasingly important. Financing competitiveness will ultimately depend on asset cash flow, tenant and borrower credit quality, and the leverage structure.

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