



Rising Interest Rates May Create Opportunity for 1031 Exchange Investors

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Rising Interest Rates: What They Mean for Real Estate Investors

Earlier this week, the Federal Reserve increased interest rates for the first time in three years as part of its ongoing effort to address persistent inflation. While the Fed does not directly determine mortgage rates, changes to the federal funds rate often influence borrowing costs across the broader economy.

Mortgage rates, however, are more closely tied to the yield on the 10-year U.S. Treasury note. The 10-year Treasury yield reflects the government's cost of borrowing over a ten-year period and serves as a key benchmark for many financial products, including corporate bonds and residential mortgages. Because mortgage loans are long-term investments, lenders often use the 10-year Treasury as a guide when pricing mortgage financing.

Why Do Mortgage Rates Follow the 10-Year Treasury?

The connection comes down to timing. Although most mortgages are written with terms of 15 to 30 years, homeowners typically keep their mortgages for about 10 years before selling, refinancing, or paying them off. As a result, the 10-year Treasury provides a practical benchmark that closely aligns with the average life of a mortgage.

Recent increases in mortgage rates have been driven by several factors. Treasury yields have risen due to growing government debt, ongoing inflation concerns, and uncertainty about future economic growth. Geopolitical tensions and disruptions in global energy markets have also pushed oil prices higher, adding to inflationary pressures. Importantly, financial markets had largely anticipated the Federal Reserve's recent rate increase, and long-term borrowing costs had already been moving upward before the official announcement.

What Does This Mean for Real Estate Investors?

At first glance, rising interest rates may seem like bad news. Higher borrowing costs can reduce purchasing power and make acquisitions more expensive. However, experienced investors understand that changing market conditions often [create new opportunities](#).

Less Competition Can Create Advantage

As financing costs increase, some buyers and investors may put acquisition plans on hold. This often reduces competition in the marketplace, giving well-prepared investors greater negotiating power and access to opportunities that may have been difficult to secure in a more competitive environment.

Attractive Pricing and Improved Cap Rates

Higher interest rates can place downward pressure on property values. While that may concern sellers, it can create attractive buying opportunities for investors. Lower acquisition costs often translate into improved capitalization rates and stronger long-term return potential.



In addition, some property owners may face loan maturities, refinancing challenges, or higher debt service costs. These circumstances can create a larger pool of motivated sellers who may be more open to negotiating pricing, credits, or favorable contract terms.

Historically, many successful real estate investments have been made during periods when financing conditions were less favorable and market sentiment was cautious. Investors with available capital and access to quality financing often benefit from having fewer competitors in the market.

A More Balanced Market Environment

Rising interest rates can also help moderate rapid price appreciation and speculative activity. While fast-moving markets can generate excitement, steady and sustainable growth tends to create healthier investment conditions over the long term.

A more balanced market allows investors to focus on property fundamentals, cash flow, and long-term value rather than reacting to competitive bidding wars or fear of missing out.

Stronger Demand for Rental Housing

As homeownership becomes less affordable, many prospective buyers remain renters for longer periods. This often increases demand for both single-family and multifamily rental properties, leading to stronger occupancy rates, potential rent growth, and improved property performance.

At the same time, higher borrowing costs impact developers as well. Many planned projects may be delayed or canceled when financing becomes more expensive. As new construction slows, the supply of available housing can become more constrained, which may further support the performance of existing rental properties.

Why 1031 Exchange Investors Should Pay Close Attention

For investors completing a [1031 exchange](#), rising interest rates may present unique opportunities. Reduced competition, more attractive pricing, and an increase in motivated sellers can expand the pool of potential replacement properties.

Investors who remain focused on long-term fundamentals rather than short-term headlines are often best positioned to identify opportunities that may not exist in lower-rate environments.

While higher interest rates can place short-term pressure on property values, they can also create favorable acquisition conditions for disciplined investors with patience, liquidity, and a long-term perspective.

The most successful investors recognize that market shifts do not eliminate opportunity, they simply change where opportunity can be found. In many cases, periods of uncertainty and rising interest rates lay the groundwork for the next generation of strong real estate investments.