The National Financial Picture

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With the Big Beautiful Bill in headlines worldwide (and estimated to add $3.4T in national costs over the next 10 years) and Moody's joining Fitch and S&P in downgrading the United States' credit rating, we thought reviewing the United States as if it was a commercial real estate asset might help us to better understand our country's fiscal situation, where we are, and where we might be headed.

This is not a political paper and there is no hidden agenda. We are real estate investors, conservative and long-term in nature, and curious about how to better frame the risks of the American financial situation

The Status Quo

Similar to a commercial real estate asset, we created an income statement to compare net revenues, operating expenses, and the resulting annual net operating income. We then include the debt's interest payments to arrive at a cash flow after debt service.

Source: CBO [1]

U.S. Income Statement ($ in T's)	2024	2025
Total Annual Revenues	**4.889**	**5.037**
Total Annual Operating Expenses	**5.988**	**6.762**
Net Operating Income	**-1.099**	**-1.725**
Annual Debt Service (Interest Payments)	-0.892	-1.016
New Cash Flow After Debt Service	**-1.991**	**-2.741**

A negative net operating income and therefore further negative cash flow after debt service is an obvious challenge for any asset. While admittedly the United States is not explicitly intended to operate as a positive cash flowing asset, continuing our real estate analogy, when if debt payments exceed operating income, we assess the asset's path and probability of reversing that equation.

In a case where the net income statement resembles the United States', we evaluate the "turnaround" plan and potential. Can we raise revenues, can we lower expenses, how likely and how quickly can we improve operations? How much cash will it take to achieve breakeven? Let's explore.

Revenues

How can the United State raise its revenues, which are essentially taxes?

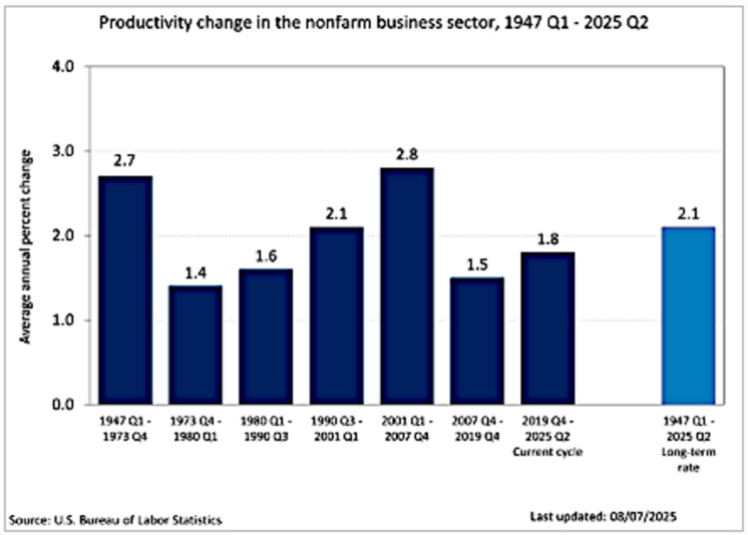
Congress can, of course, raise tax rates if we put aside the political challenges of this decision. We assume it is unlikely that a majority of politicians are willing to upset many voters in pursuit of financial discipline, and it's worth noting raising taxes has historically reduced productivity, potentially offsetting some intended revenue gains.

Source: CBO [1]

U.S. Income Statement ($ in T's)	2024	2025
Individual Income Taxes	2.447	2.550
Payroll Taxes	1.678	1.737
Corporate Income Taxes	0.525	0.49
Other	0.239	0.26
Total Annual Revenues	**4.889**	**5.037**

There have been (very) well publicized tariff movements of late that have increased revenue. According to the U.S. Treasury[2], in 2024, customs and excise collections were $98B, approximately $8.2B per month, and in July 2025 the US collected $29B, a $348B annual pace. While that is a projected $250B annual increase, with $1.9T annual negative cash flow in 2024 and $2.71T in 2025, it gets us approximately 10% of the way towards breakeven. Increasing tariffs helps, but they only move the needle so much. Moreover, and we won't delve too deeply here, most economists and our own Federal Reserve Bank see tariffs as inflationary and ultimately increasing taxes on Americans, leading to potentially reduced consumption, lower profit margins or both. In other words, long-term adverse impacts to other tax revenue could offset the fiscal tariff increase benefit.

So, as we think about the US as a repositioning real estate asset, generally, we don't think there is much market support to raise "rents" (i.e. taxes) on the American people, so can we increase "occupancy"? That opens a big and thorny immigration issue, so for now, let's assume, we aren't significantly increasing the population of tax-paying American's very soon, and when we look at macro demographic trends in the workforce like tepid birth rates and increasing attrition from aging baby boomers, the American "occupancy" trends look relatively flat[3]. If we don't want to raise tax rates, and we don't simply generate more people to tax, how does one increase overall tax revenue?



Long-term labor productivity in the nonfarm business sector since 1947.

Looking back on a 55-year history, since 1970 nominal federal revenues have increased on average by 6.70% annually, and the growth rate has been volatile with the largest annual increase of 22.2% and the largest annual decrease of -16.3%. With average overall tax rates (i.e. tax revenues as a percentage of GDP) flat since 1970, how have revenues historically increased? We observe three contributing factors: 1) population growth 2) productivity growth 3) inflation. Since 1970 to present, the U.S. population has increased 1.0% per year on average, productivity per nonfarm business hour worked has increased approximately 2.0% per year on average, and inflation has averaged 3.95% annually. As we look ahead 10 years, population and productivity are projected to grow at an annual average rate of 0.4% and 1.4% respectively[3,4]. However, we note that perhaps there is upside productivity growth potential with artificial intelligence's influence. In the chart below, to compare the next 10 years to the previous 55, we assume the Federal Reserve misses its 2.0% long term inflation target, and inflation averages 2.5% over the coming decade.

As the chart below illustrates, our analysis points to lower nominal tax increases (4.3% annual) than we have previously experienced, as tailwinds from both population and productivity growth are projected to be significantly less than the average growth rates of the previous 50+ years.

With all of the above pointing to difficulty raising revenues, let's turn attention to reducing operating expenses.

Average Annual % increases		
Period	1970 to Present	Present to 2035
Population	1.00%	0.40%
Productivity	2.00%	1.40%
Inflation	3.95%	2.50%
Total	**6.95%**	**4.30%**

Operating Expenses

Similar to nominal revenue increases, federal expenses have averaged a 6.80% annual growth rate since 1970 with the largest annual increase of 41.3% (2020) and the largest decrease of -15.4%. If we remove, 2020 from the analysis, the largest annual increase is 17.2% [4].

The US has made a deal with its taxpayers through its national retirement funding system and its healthcare system. So, let's assume these are not eligible for cost savings, and given the nation's demographics, these line items are collectively expected by the Congressional Budget Office (CBO) to grow 5.6% annually from present to 2035 [5].

Source: CBO[1]

Operating Expenses ($ in T's)	2024	2025
Social Security	1.452	1.549
Medicare	0.903	1.69
Medicaid, CHIP, Subsidies	0.750	0.935
Other Mandatory	1.086	0.755
Defense	0.849	0.905
Nondefense	0.948	0.928
Total Annual Operating Expenses	**5.988**	**6.762**

So, what operating costs can we reasonably reduce? Through DOGE, there was an effort to find savings and thus far, according to DOGE itself [6], that work has resulted in $202B in cumulative savings. While not an annual recurring figure, for this paper, we assume at least the reported $54.1 in contracts and lease savings are recurring, representing about 2.0% of the total $6.8T annual 2025 operating expenses (excluding interest). The effort is a step in the right fiscal direction, but like an operating real estate property, the US has many fixed costs (i.e. Social Security, Medicaid, Medicare) that for this paper's purposes, and in many people's views, just can't be changed.

For our overall analysis, on the following page, we start by assuming that Social Security, Medicaid, and Medicare cost (70%+ of the total budget) increase at the CBO projected 5.6% annual rate and the remainder increases at our 2.5% assumed inflation rate, for an overall 4.76% annual growth rate.

Debt and Interest

The United States currently owes $37.2T to its Treasury Bond holders, and it projects to pay $0.928T in interest this year. The US continues to borrow money to fund its annual operating deficit, so each year this interest payment is being driven higher by a growing debt balance, and recently, a rising rate of interest.

Overall Analysis

With current expenses greater than revenues, and our concluded 10-year 4.76% expense growth rate above the 4.30% revenue growth rate, annual losses will only grow along with the debt balance, and this is a clear financial death spiral.

So, how can revenue growth rates outpace expense growth rates? In this analysis, it comes down to inflation running higher than our previously assumed 2.5% rate. If we assumed inflation was 3.5%, revenues would grow 5.30% annually and expenses 5.03% annually. If we assumed inflation was 4.5%, revenues would grow 6.30% annually and expenses 5.30% annually. However, according to our math, this is still not enough of a growth rate spread to generate enough positive cash flow to cover the treasury bond interest obligations any time before 2050.

Growth Rate Analysis				
Inflation Assumption	2.50%	3.50%	4.50%	5.50%
Nominal Revenue Growth Rate	4.30%	5.30%	6.30%	7.30%
Nominal Expense Growth Rate	4.76%	5.03%	5.30%	5.57%
Projected Break Even Yr	Never	2141	2057	2044
Projected Interested Coverage Yr	Never	2161	2067	2050

If we increase the inflation assumption to 5.5%, we get a 7.30% revenue growth rate and a 5.57% expense growth rate and positive cash flow able to cover interest payments in 2050, see chart below.

YEAR	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Revenue	5.037	5.40	5.80	6.22	6.68	7.16	7.69	8.25	8.85	9.50	10.19	10.93	11.73
Escalation		7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%
Operating Expenses	(6.76)	(7.14)	(7.54)	(7.96)	(8.40)	(8.87)	(9.36)	(9.88)	(10.44)	(11.02)	(11.63)	(12.28)	(12.96)
Escalation		5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%
Net Operating Income	**(1.73)**	**(1.73)**	**(1.74)**	**(1.73)**	**(1.72)**	**(1.70)**	**(1.68)**	**(1.64)**	**(1.58)**	**(1.52)**	**(1.44)**	**(1.34)**	**(1.23)**
Debt Balance[1]	37.2	40.0	42.8	45.7	48.7	51.7	54.9	58.0	61.2	64.5	67.8	71.1	74.4
Debt Service[2]	(1.02)	(1.09)	(1.17)	(1.25)	(1.33)	(1.41)	(1.50)	(1.58)	(1.67)	(1.76)	(1.85)	(1.94)	(2.03)
DSCR[3]	-1.70x	-1.59x	-1.49x	-1.39x	-1.30x	-1.21x	-1.12x	-1.03x	-0.95x	-0.86x	-0.78x	-0.69x	-0.61x
Cash Flow After Debt Service	**(2.74)**	**(2.82)**	**(2.91)**	**(2.98)**	**(3.05)**	**(3.12)**	**(3.17)**	**(3.22)**	**(3.26)**	**(3.28)**	**(3.29)**	**(3.28)**	**(3.26)**

YEAR, CONTINUED	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Revenue	12.59	13.51	14.49	15.55	16.69	17.90	19.21	20.61	22.12	23.73	25.47	27.33	29.32
Escalation	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%
Operating Expenses	(13.69)	(14.45)	(15.25)	(16.10)	(17.00)	(17.95)	(18.95)	(20.00)	(21.12)	(22.30)	(23.54)	(24.85)	(26.24)
Escalation	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%
Net Operating Income	**(1.10)**	**(0.94)**	**(0.76)**	**(0.55)**	**(0.31)**	**(0.04)**	**0.26**	**0.61**	**1.00**	**1.44**	**1.93**	**2.47**	**3.08**
Debt Balance[1]	77.6	80.8	84.0	87.0	90.0	92.7	95.3	97.6	99.7	101.4	102.7	103.6	104.0
Debt Service[2]	(2.12)	(2.21)	(2.29)	(2.37)	(2.45)	(2.53)	(2.60)	(2.66)	(2.72)	(2.77)	(2.80)	(2.83)	(2.84)
DSCR[3]	-0.52x	-0.43x	-0.33x	-0.23x	-0.13x	-0.02x	0.10x	0.23x	0.37x	0.52x	0.69x	0.88x	1.09x
Cash Flow After Debt Service	**(3.22)**	**(3.15)**	**(3.05)**	**(2.93)**	**(2.77)**	**(2.57)**	**(2.34)**	**(2.05)**	**(1.72)**	**(1.33)**	**(0.88)**	**(0.35)**	**0.25**

1) Debt Balance assumed to increase by the preceeding year's negative Cash Flow after Debt Service.

2) Debt Service assumed at the same ratio as the CBO projected 2025 $1.02T interest / $37.2T current debt balance.

3) Debt Service Coverage Ratio = Net Operating Income / Debt Service.

The above analysis suggests that this asset's time horizon to breakeven is not desirable, and back to our analogy, if these were the metrics of a real estate asset, an investment in such would be a quick pass for Thirdline. But, perhaps for a blue-chip global sovereign and its bondholders, this thin prospect of positive cash flow can allay some investor fears.

Two questions come to mind:

1) Have we been here before?

Today's debt to GDP ratio is slightly over 120%, a near all-time high (2020 was 132%), and just above the nearest peak of 119% in 1946. By the end of 1951 that ratio was down to 78% following a 5-year+ period of 6% average inflation and over 8% average GDP growth [7].

In such a period, with goods, services, and its citizens' earnings increasing, so too do tax revenues,

even if tax rates remain unchanged. In an inflationary environment, the nation's operating costs will increase as well, healthcare costs, military costs, etc. will rise, therefore offsetting some gains in revenues, but if tax revenues can grow faster than operating expenses over a protracted time period, as we have modeled out above, the annual losses can start to subside, and the nation can start to approach breakeven. Once the nation achieves positive operating cash flow it can start to cover its interest payments and stop borrowing additional dollars.

2) How do Treasury bond investors gain comfort?

In addition to the history of the U.S. never having missed a payment, an interesting perspective that may paint a more palatable overall sovereign investment picture is put forth by Peter Linneman and his Linneman Associates. They argue that since the United States's debt is backed not just by US net operating income, but by the full faith and credit of the United States and therefore (indirectly) by its citizens, that one can look to American GDP as a way to compute the collateral held by its bondholders. To derive a collateral value, they estimate that the net present value of that approximate $30 trillion in GDP equals $600T-$800T (suggesting a 50 yr time period and a 5% discount rate). If the "value" of the United States is in fact that great, then its $37.2T debt balance is a mere 6% loan-to-value (LTV) ratio! As a lender to stable real estate assets, that is an LTV that we can get behind, though we'd have some questions about the asset's liquidity. However, we believe this example isn't very realistic as it assumes 100% of GDP could be "encumbered" as debt collateral, which would include 100% of people's wages. We understand Mr. Linneman's point but we see this calculation more as an upper-bound on the collateral value.

Alternatively, if you believe that the full faith and credit of the United States carries over to its citizenry, it introduces the idea that the citizens could simply pay the debt. The net assets (i.e., asset minus liabilities) held by U.S. citizens is approximately $146T and excluding residential real estate assets it is $122T[8], and therefore this debt to value ratio computes to a manageable 25%-30% depending on whether you choose to include a citizen's shelter as collateral. The obvious problem is the question of exactly which citizens would come up with the cash to pay down our nation's debt. At $111,000 per capita and $293,000 per household, we find it hard to imagine the American people finding an equitable and executable national debt paydown participation method.

Summary

To review, the US cash flow picture is bleak with the potential to get bleaker without significant tax increases or spending cuts. A long-term inflationary period with strong GDP growth could potentially change the math such that the country can cover its interest payment obligations and this is our projected outcome given historical precedent. As we've already stated, through the lens of a real estate asset, these US operating metrics and the prospects of changing them lead Thirdline to pass on buying this sovereign asset. However, there is much to consider. The country is a global leader, it has never missed an interest payment, and if push really came to shove, perhaps there is ample collateral value backing to ensure American Treasury bondholders' return.

Perhaps US Treasury bonds are still a riskless income investment, perhaps $37.2T of investor capital can't be wrong, and perhaps there is a lot to think about before buying your next Treasury bond. We are hopeful this paper's framing of the US fiscal situation provokes thought and is helpful in some way. For us, it gives comfort that hard assets like real estate perform relatively well in an inflationary environment.

About the authors

Mr. Hutchens is Co-Founder and Managing Director at Thirdline Capital, an investment advisor and manager of a real estate credit interval fund and other private real estate investments. Prior to Thirdline, Mr. Hutchens spent over 15 years at The Holladay Corporation, a Washington, DC-based real estate investment and development firm, where, in his various roles, he led acquisitions, financings, construction projects, and asset management. He spent the two years prior in Walker & Dunlop's capital markets group.

Notes

1) An Update to the Budget and Economic Outlook: 2024 to 2034 | Congressional Budget Office
2) U.S. Treasury Fiscal Data Sets
3) Congressional Budget Office projects the Social Security area population
4) Increasing Productivity Is Key to Generating Federal Revenue | ITIF / An Update to the Budget and Economic Outlook: 2024 to 2034 / Productivity Home Page : U.S. Bureau of Labor Statistics
5) Federal Government: Current Expenditures (FGEXPND) | FRED | St. Louis Fed
6) DOGE Savings
7) St. Louis Fed / Macotrends
8) US Census Bureau, "Wealth and Asset Ownership" (2025) / Federal Reserve Board, Financial Account of the United States Z.1 Release, Q4 2024

The Budget and Economic Outlook: 2025 to 2035 | Congressional Budget Office
CBO Budget and Economic Data | Congressional Budget Office.
