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Fed cuts interest rates again, but CRE slowdown looms for next year

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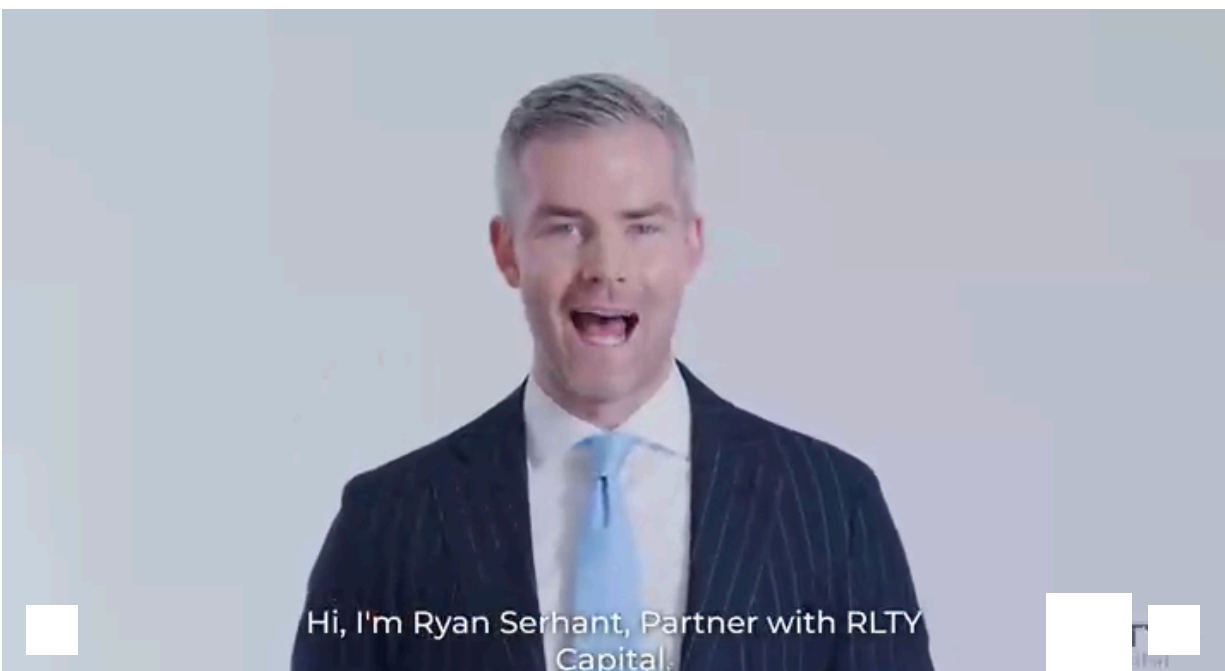


Federal Reserve chair Jerome Powell (Getty)

By TRD Staff

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The Federal Reserve cut its benchmark interest rate by 25 basis points this week, the Commercial Observer reported, in the third rate cut of the year.



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It matched last month's quarter-point cut, which came after a half-point drop in September.

Interest rate cuts — or a lack thereof — could prove disappointing to real estate next year, though. In its post-meeting report, the Fed hinted that there may only be two cuts next year, below the four the Fed projected in September and the three projected by economists in a recent Bloomberg survey.

Analysts were already anticipating slower rate cuts in 2025. Inflation hasn't budged much in recent months, giving the Fed a reason to keep interest rates elevated. While the impact of Donald Trump's proposed policies remains to be seen, mass deportations, more tariffs and tax cuts could spark further inflation.

For now, however, real estate will celebrate another interest rate cut, an antidote to the quickly spiking borrowing costs that started shooting up as the Fed began raising rates in 2022.



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The multifamily sector is in a better place than it was a day ago, Kevin Fagan of Moody's told the Observer. The decrease creates more favorable borrowing conditions as "near record" absorption comes next year, Fagan added.

Other figures in the industry noted the importance of clarity provided by the Fed, at least in the near term.

Commercial real estate players want to see the trend of interest rate cuts continue.

"No doubt this helps, but it's not the panacea because you would need I think another 100 basis points for this to kind of clear up the issue as it relates to refinancing existing low coupon loans on commercial real estate into today's environment," CRE Finance Council executive director Lisa Pendergast told the Observer.

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