RESEARCH BRIEF

Marcus & Millichap

FINANCIAL MARKETS & CONSUMER SPENDING

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Long-Awaited Cut Has Positive Implications for Commercial Real Estate and Consumers

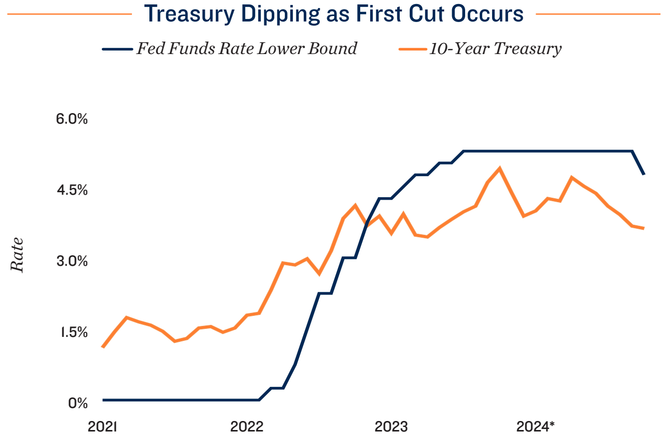
Decision kicks off greater reduction cycle. The Federal Open Market Committee (FOMC) slashed the federal funds rate by 50 basis points during its September meeting, setting the lower bound at 4.75 percent. The first cut since March 2020, this decision reflects the Fed's confidence that inflation is moving sustainably toward 2 percent and its intent to prevent further labor market softness. In August, headline CPI was up 2.5 percent annually, with unemployment sitting at 4.2 percent. With two meetings remaining in 2024, the Fed could lower interest rates further, which would aid investor demand for commercial real estate.

Outlook positive for investors. The reduction to the overnight lending rate and less upward pressure on the 10-Year Treasury — which fell to the 3.6 percent band in mid-September — will contribute to modestly lower borrowing costs for investors. This dynamic may help re-open the yield spread relative to cap rates. As such, additional sales activity could materialize, as elevated levels of dry powder capital await deployment. Encouraging tenant demand across most sectors should enhance the appeal of commercial real estate investment. In the first half, the apartment, retail, industrial, medical office and self-storage sectors all recorded positive net absorption.

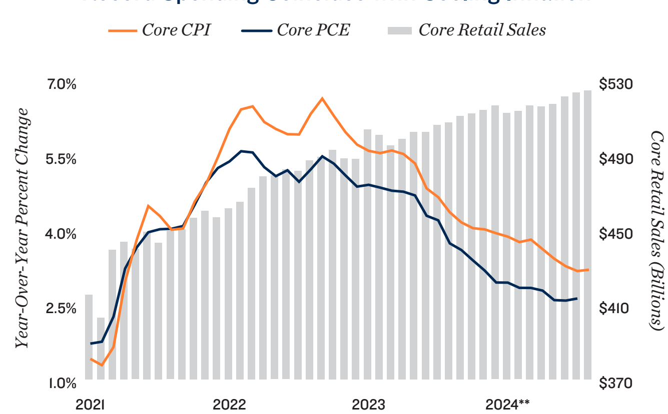
Policy shift could prove vital to Americans' finances. September's FOMC decision launches what will likely be an interest rate lowering cycle that extends through next year. As these reductions take place, the cumulative effect for consumers will be more meaningful. Downward pressure on mortgage rates, auto loans and credit card fees will give households an opportunity to save an impactful amount of money. Entering July, total household debt was at a record $17.8 trillion, with the U.S. personal saving rate at its lowest reading since late 2022. A cycle of cuts would also provide relief for those in the market for a home, automobile or other big-ticket item.

Yet another new benchmark set. Consumer resiliency translated to a 3.3 percent year-over-year rise in core retail spending during August, with sales up in real terms even after factoring in core CPI inflation. This marks the fourth consecutive monthly record for core retail sales. The miscellaneous retail and non-store categories, however, claimed the most pronounced gains, indicating consumers are gravitating to used merchandise stores and online avenues in search of discounts. Although overall sales have been resilient, future rate cuts would lift momentum. Nevertheless, tenant demand for space has been steadfast, with retail vacancy having hovered in the 4.4 to 4.5 percent range for seven-straight quarters.

Treasury Dipping as First Cut Occurs



Record Spending Coincides with Cooling Inflation



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** Treasury Yield as of Sept. 17 ** Core CPI through August, Core PCE through July, Core retail sales exclude auto and gasoline spending*

Sources: Marcus & Millichap Research Services; Bureau of Economic Analysis; Federal Reserve