

Commercial Real Estate at a Crossroads: What the Recent Jobs Data Means for Rates and Liquidity

Softer hiring environment becoming even more clear. Recent monthly employment figures as well as other estimates point to a weaker labor market than previously understood.

- The U.S. economy added just **22,000 jobs** in August, bringing year-to-date hiring to **598,000** — about half of the number of positions created over the same span last year.
- Based on a preliminary estimate, about **900,000** fewer jobs may have been created between April 2024 and March 2025 than previously thought. That estimate will continue to change, however, before final numbers are released next February.
- All of these indicators point to a weaker U.S. economy than previously thought, although this has silver linings.

Likely monetary policy response has some bright spots.

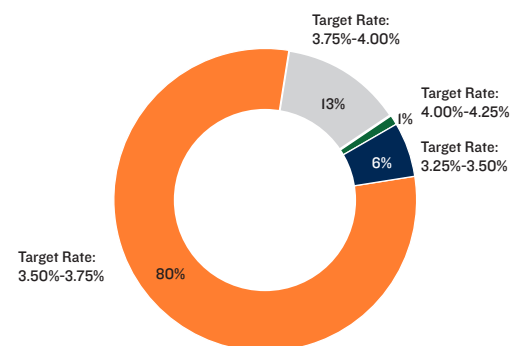
Half of the Federal Reserve's mandate is to preserve maximum employment. Recent softening in the labor market raises the probability that the Fed will cut the overnight lending rate at its mid-September meeting, which would have potential benefits for commercial real estate investors.

- Wall Street broadly expects the Fed will reduce the overnight rate by **75 basis points** before the end of the year, which would place the lower bound at **3.5 percent**.
- That widely held belief has put downward pressure on longer-term rates like the 10-Year Treasury, which has fallen to about **4 percent**. For commercial property financing, borrowing rates may now be in the mid-5 percent band generally.
- Agency financing on multifamily assets may have fallen into the low-5 percent range.
- Lower rates will shift more assets into positive leverage territory, as cap rates have risen between **80 and 130 basis points** on average over the last few years.
- A lower cost of capital does not imply that property values will climb and cap rates will fall; however, well-priced assets would have a **higher likelihood** of clearing the market.

Lower longer-term rates not guaranteed. While it is likely the Fed will lower the overnight rate soon, the 10-Year Treasury yield — upon which much commercial real estate lending is based — does not always follow suit. Between September and December of last year, the Fed cut the overnight rate by 100 basis points, but the 10-year increased from about 3.7 percent to roughly 4.6 percent. Federal policies on trade and other issues remain opaque, challenging business leaders and investors to make decisions. The short-term outlook remains clouded as a result; however, other indicators point to a clearer longer-run perspective for commercial real estate.

- General commercial real estate development is trending lower.
- Over time, this will **benefit occupancy levels** across a broad range of property types.
- It is unclear where longer-term rates will go if the Fed cuts the overnight lending rate. Even so, current capital market conditions still create a **narrow window of opportunity** that could **bolster liquidity**.
- Shifting government policies will nevertheless pose a near-term challenge, likely creating choppiness in the months ahead for both the labor market and economy at large.

Wall Street Expectations Favor 75-Basis-Point Drop Before 2026



Target Rate Probabilities for December Fed Meeting*

* As of Sept. 11

Sources: Marcus & Millichap Research Services; CME Group; Federal Reserve; Mortgage Bankers Association; Preqin; Real Capital Analytics; U.S. Bureau of Labor Statistics