

For Commercial Real Estate Investors, The Fed Rate Cut Brings Pros and Cons

Monetary policy shift aids transaction environment. As widely expected, the Federal Reserve cut the overnight rate by 25 basis points to a lower bound of 4.0 percent. Wall Street anticipates additional cuts in October and December and into 2026. For commercial real estate investors, however, the question remains: will the 10-year Treasury yield follow suit?

- The 10-year yield was in the **low-4 percent** band in mid-September — down from as high as 4.8 percent early in 2025.
- Investors **have a window** to lock in financing at comparatively low rates, although it is unclear how long that window will last.
- The 10-year rose when the Fed cut rates in 2024, and **upward pressure** could appear again over the next few months as the Treasury issues more notes to help the federal government meet its debt obligations.
- Lenders are already active in the market, however. If the 10-year stays range bound near 4 percent, it could **bolster commercial real estate investment activity**.

The Fed cut rates for a reason, and that bears consideration.

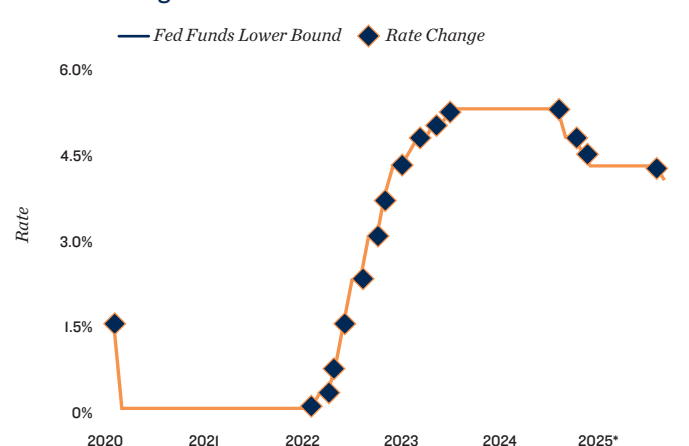
A primary motivator to lower interest rates is the weakening labor market, which carries implications for commercial property owners.

- For **offices**, a hiring slowdown could actually **aid** space demand as more companies pursue return-to-workplace strategies.
- While local conditions vary, nationally, office space net absorption **has been positive** for the last five quarters.
- For **retail** buildings, shopping has continued despite tariff concerns. Core retail sales were **up 2.2 percent** year over year in August on an inflation-adjusted basis.
- Household debt as a percentage of income was at 61 percent at the end of the second quarter, which is near **its lowest level in over 20 years**. Total savings, including from money market funds, was **up 4.2 percent** from last year. As such, consumption could continue to support retail space demand.

Multifamily outlook nuanced. Strong household balance sheets speak well of future consumer activity, even in the event of potential economic weakening. That said, such a slowdown could temper some of the momentum in multifamily.

- Apartment net absorption over the 12 months ended June was the **highest it has been on record** going back 35 years.
- Yet if the 10-year Treasury holds near 4 percent, single-family mortgage rates could come down, **unlocking more first-time home buyers**. This could modestly impact new renter demand.
- Another challenge to apartment performance is the softening employment market. Unemployment among people age 20-24 **increased to 9.2 percent** last month — up from a 50-year low in April 2023 of 5.5 percent. Difficulty finding a job in this prime renter subset may lead to softer apartment absorption.
- Thankfully, multifamily construction is slowing as well. About two-thirds as many apartments will be completed this year compared with last year. Fewer permits are also being pulled.
- As such, apartment supply and demand could remain **in broad balance**, restraining vacancy risk.

Changes in the Federal Funds Rate Since 2019



* As of Sept. 17

Sources: Marcus & Millichap Research Services; CME Group; CoStar Group, Inc.; Federal Reserve; Real Capital Analytics; RealPage, Inc.; U.S. Bureau of Labor Statistics; U.S. Census Bureau