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‘A Sea Change In Optimism’: Real Estate Reacts To First Interest Rate Cut In 4 Years

September 18, 2024 Ryan Wangman

From sheer jubilation to fears that a 50-basis-point cut in interest rates could portend a weakening economy, real estate had a lot to say about the Federal Reserve's latest move.

Press releases and tweets flew fast and furious in the wake of the Federal Open Market Committee’s massively anticipated decision Wednesday.

Ahead of the policy action, capital markets had largely expected a 25-bps cut, a measure that might have had more impact on dealmakers' mindsets than on their bottom lines. A more sizable cut from the Fed could throw more weight behind growing CRE hopes that its worst days are behind it.

Richard Barkham, global chief economist at CBRE, said at a virtual media briefing that real estate is seeing the benefits of a “soft landing” playing out in the economy, with very little impact so far from a slowing labor market. A 50-bps cut will “be welcomed” by the real estate community, he said.

“In the last couple of months — and it will be consolidated and built on by this cut in interest rates — there's been a sea change in optimism in real estate capital markets, which have seen very low levels of transactions and have seen a fall in real estate values over the last 36 months,” Barkham said.
Bisnow rounded up industry reactions to the news from over a dozen people across various sectors of CRE:

The 50 basis point rate cut signals a more aggressive move from the Fed than many anticipated. While lower rates may help some needing to refinance maturing commercial real estate loans, clarity and consensus in terms of valuations may have taken a step back.
— Moody’s Head of CRE Economics Tom LaSalvia

This rate cut is welcome news for many sectors of the economy, and particularly for the real estate industry. If this initial cut is followed by additional cuts, and if we avoid a recession or other economic disruption, we will very likely see activity in 2025 that brings more supply to both the single-family and multifamily housing market. This will, in turn, help keep down single-family home prices and multifamily rents, helping the Fed get to its 2% inflation target. Shelter costs are a full one-third of the measure of inflation and high interest rates have helped to keep housing costs high in the past several years.

— Pembrook Capital Management founder and CEO Stuart Boesky

This rate reduction and the signal that additional cuts may follow send a powerful positive message to real estate investors and developers. While there are a host of different forces affecting residential investment, from burdensome regulations to high insurance costs, the demand for new multifamily product continues to grow, and a more accommodative rate environment will significantly increase investment activity in 2025.

— S3 Capital co-founder and principal Robert Schwartz

While interest rates are not the only force affecting investment in the commercial real estate industry, this reduction is a positive move that will begin to reduce uncertainty and position owners and investors to meet long-term demand trends. Lower borrowing costs combined with a steady economic environment in the near- and mid-term will likely significantly increase investment activity, enabling industrial real estate developers to advance new facilities that have not been viable in the past two years based on the cost of financing. At the same time, lower rates could enable property owners to reinvest in existing facilities through additions, expansions or upgrades.

— Greek Real Estate Partners Managing Partner David Greek