FED MAKES FIRST INTEREST RATE CUT IN NINE MONTHS. TWO MORE EXPECTED BEFORE YEAR'S END.

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The U.S. Federal Reserve cut its benchmark interest rate by a quarter-percentage point on Wednesday, the first reduction in nine months.

The median projection from policymakers suggests two more quarter-percentage-point rate cuts before the end of the year, an increase from earlier forecasts.

The central bank moved the interest rate down to the target range of 4% to 4.25%, after holding rates steady for five consecutive meetings this year.

Recent economic indicators — including slowing payroll growth, higher unemployment and warming inflation — have changed the Federal Reserve Board's policy stance. Property professionals view the decision, which wasn't unanimous, as a step toward more commercial dealmaking and lower borrowing costs for prospective homebuyers.

"Changes to government policies continue to evolve, and their effects on the economy remain uncertain," Federal Reserve Chair Jerome Powell said during the Wednesday press conference. "Higher tariffs have begun to push up prices in some categories of goods, but their overall effects on economic activity and inflation remain to be seen."

The Fed took the action as the independent board weathers political pressure and a membership shake-up. President Donald Trump and the head of the Federal Housing Finance Agency have sought to oust a member over alleged mortgage fraud, and a new one was sworn in Tuesday to fill a vacancy.

Fed reacts to slow job creation" The labor market is really cooling off. That warrants a shift in policy stance," Powell said at the press conference. "Unemployment remains low, but we see downside risks."

His comments came as no surprise. He telegraphed the decision last month, signaling that the economic trajectory was changing in a direction that would call for the central bank to adjust its policy stance.

Since the Fed's last policy meeting, inflation has heated up for the fourth consecutive month, returning to the highest level since the start of the year. At the same time, job creation has stalled, clearing the way for more consensus among policymakers that it's time to make monetary policy less restrictive.

Real estate professionals say the Fed's decision injects a surge of confidence in transaction activity and more favorable conditions for investment on the commercial and residential fronts. At the same time, the singular move won't dramatically move the needle alone, especially as other factors like the effects of tariffs are still shaking out.

The decision came the same day as Canada's central bank cut its key overnight lending rate by a quarter percentage point, to 2.50%, the first cut in six months and in line with investor expectations.

In the United States, analysts and economists are already looking toward the outcome of future Fed meetings.

"Recent evidence that the labor market has been weaker than was earlier expected evidently moved policymakers to focus on the jobs market today, more so than worrying about inflation," Christine Cooper, the chief U.S. economist at CoStar Group, said via email. "Still, inflation has not eased to meet the Fed's target yet, and a rate cut followed by more cuts later this year would be expected to boost growth and add pressure to prices, as the committee's projections show."

"At the same time, Powell expects the impact of tariffs to still fully emerge in higher prices, but the effects have been 'smaller and slower' than anticipated, giving the Fed some space for now to help bolster the labor market, which could easily be at risk of weakening further," Cooper said.

TWO MORE CUTS EXPECTED THIS YEAR

Some professionals in the commercial real estate industry were galvanized by the Fed's move, saying it could allow groups to move aggressively back into the market. But others understand that the incremental cut may only marginally create deal momentum.

"The real question is what comes after this cut," Michael Lee, partner with New York-based HKS Real Estate Advisors, told CoStar News via email.

A narrow majority of policymakers sees at least two quarter-point rate cuts by the end of this year, according to the Fed's well-known "dot plot" visualization, which displays the spread of the midpoint of the target range for the federal funds rate. This implies consecutive moves for the next meetings in October and December.

That's higher than what was projected in June, when a majority of the monetary policy group estimated that it would trim borrowing costs only twice by a quarter percentage point by the end of 2025. At least two suggested that one cut would occur, eight said it would happen twice, and another pair predicted it could happen three times. A divergence of views seen in the dot plot this time around, however, could complicate how the Fed acts at future meetings.

"Usually, these smaller changes in interest rates, and especially the ones which are expected, don't have a massive impact because people are adapting to it," JLL CEO Christian Ulbrich told Bloomberg this month. Ulbrich added that going forward, one or two rate cuts this year will support the overall environment for real estate investment, but they would not have a massive impact.

'It brings some positive momentum'

The office market, which has remained under stress due to higher vacancies and weaker valuations, is likely to welcome the move, Josh Winefsky, partner in the real estate practice at HSF Kramer, told CoStar News via email.

"Even if the office's anticipated recovery is likely to take longer than multifamily or other well-capitalized sectors, it brings some positive momentum to a category that needs it," Winefsky said. "Overall, lower financing costs will make commercial property acquisitions — and perhaps more important, equity investments — more appealing, likely increasing transaction volumes as deal activity picks up."

Others said the decision is especially positive for multifamily, where occupancy and long-term rental trends give investors confidence to move quickly when financing becomes more accessible.

The Fed's move signals some stability. It could persuade more buyers to come off the sidelines and help move inventory, some experts said.

Others emphasized that real estate is driven by more than interest rates alone, as tariffs, elevated material costs and broader policy shifts play roles.

"One rate cut will not save the economy or the labor market, but if it portends looser monetary policy ahead, it could provide a bit of a safety net, even if monetary policy cannot fix everything that ails the economy," Ryan Severino, the chief economist and head of U.S. research for Miami-based investment group BGO, told CoStar News via email.

WHAT DOES A FED RATE CUT SIGNAL FOR HOUSING?

The housing market has remained stagnant over the past few years, partially due to the central bank's restrictive policies. The widespread expectation that the Federal Reserve would cut interest rates has already offered some relief to housing.

While the Fed doesn't outright set mortgage rates, its actions influence what lenders offer prospective homeowners.

Lower rates could entice more buyers, especially if rates continue to trend downward and dip below 6%. But it may take some time for the effects to manifest in housing activity.

It's very likely to take a month or two before lower mortgage rates start to reflect in home sales volume, according to Morgan Stanley's housing strategist James Egan. Still, he believes mortgage rate drops could drive sales higher.

This potential momentum comes as the housing crisis takes center stage in Washington. Trump has criticized the Fed, particularly Powell, as being too slow to cut interest rates. Since the start of his second term, the president has pushed for greater housing affordability by lowering costs and expanding supply.

Some economists and experts believe a shift in the regulatory environment and easing monetary policy could create a favorable backdrop for mortgage rates to continue trending downward.

"This supports a positive trajectory for the housing market, as lower rates could enable more buyers to qualify for loans and encourage homeowners to list properties, easing a supply shortage," Jeff DerGurahian, loanDepot's chief investment officer and head economist, told Homes.com.

"Today's lower rates also offer millions of homeowners a chance to refinance, and that opportunity will only increase as rates fall further," DerGurahian added.

Data from loanDepot shows a borrower with a $462,000 loan, the median price for a single-family house, could save about $70 a month for every 0.25% reduction in the interest rate.

While a Fed rate cut can influence mortgage rates, it doesn't always lead to lower borrowing costs. Last year's 100-basis-point cut in the federal funds rate coincided with a 100-basis-point rise in mortgage rates due to higher inflation, underscoring the influence of broader economic factors.

CONFLICTING ECONOMIC SIGNALS COMPLICATE DECISIONS

The Fed is navigating a complex economic situation, with conflicting data that could complicate policy decisions. Employment growth is weakening, even as other economic indicators remain relatively stable. Consumer spending jumped despite higher inflation, raising fresh concerns about the economy's underlying health.

The labor market has shown signs of deterioration in recent months. On Tuesday, the Bureau of Labor Statistics revised previously reported net payroll gains, lowering the total from 1.8 million positions to 847,000 for the 12 months through March.

Separate data showed that the U.S. added 22,000 jobs in August, and the unemployment rate touched the highest level since 2021.

Meanwhile, inflation edged up last month, with consumer prices rising 2.9% from a year earlier, according to the BLS. This is nearly a full percentage point higher than the Fed's 2% target. This uptick comes as payroll growth stalls.

The combination of rising inflation and high unemployment is often characterized as "stagflation," a challenging scenario for Fed officials tasked with balancing their dual mandate of maximum employment and price stability.