# RESEARCH BRIEF
## FINANCIAL MARKETS

IPA | INSTITUTIONAL PROPERTY ADVISORS

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## Fed Holds Rates Steady, While Taking Note of Emerging Economic Risks

**Fed opts for a rate hike hiatus.** On September 20, the Federal Open Market Committee announced there would be no change in the federal funds rate, while the institution would continue to reduce securities holdings. This will maintain the current lower bound of 5.25 percent first set in July, and mark the second meeting in 2023 during which the Fed chose to forgo a rate increase. Labor market dynamics played a major role in the FOMC's decision-making. Although labor demand still exceeds supply, job openings have declined as recruitment has tapered. Chairman Powell also reiterated the Fed's open-ended, data-dependent stance at the meeting. This contrasts the language used during June's pause, which explicitly referred to that decision as a skip, foreshadowing the increase in July. While FOMC projections imply another hike is possible, this is not an official goal, and, as of late September, Wall Street estimates the chance of a hold through year-end at over 60 percent.

**Multiple risk factors could impact Fed's decision-making.** September's meeting proceeded ahead of a possible government shutdown, the threat of which adds to economic instability, in addition to potentially inhibiting the collection of key unemployment and inflation statistics. Chairman Powell affirmed the Fed would proceed with its duties despite a shutdown, though a lack of data would complicate the policy-making process. Ongoing labor disputes in multiple sectors may also have a disruptive effect. The Writers Guild of America, Screen Actors Guild and United Auto Workers made headlines with prolonged stop-pages this summer, and an expiring contract at Kaiser Permanente may translate to additional protracted labor negotiations ahead.

**Overall economic health still bodes well for commercial real estate.** While some possible headwinds gather on the horizon, the robust labor market has so far outperformed previous expectations, supporting consistent consumer spending growth. This has bolstered fundamentals across multiple property segments, exemplified by retail properties holding a 4.6 percent nationwide vacancy rate since late last year, a multi-decade low. Similarly, industrial and multifamily vacancy also remain below their respective long-term averages on the national scale, despite an ongoing cooldown in both sectors.

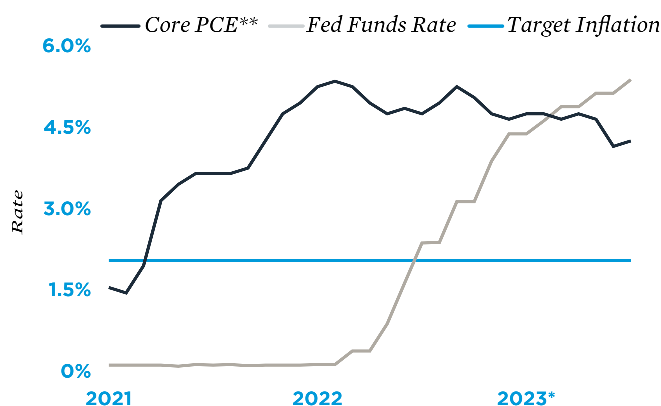
### Developing Trends

**Steadier interest rate policy eases transaction process.** Although the federal funds rate remains below the historical average, the rapid upward adjustment seen since March 2022 has complicated the financing and acquisition process across commercial real estate sectors. Many investors have remained sidelined so far this year as pricing continued to absorb the impact of elevated lending rates. The current hiatus, however, could translate to a more stable interest rate environment, which should facilitate transaction velocity moving forward.

**Tightening process may be longer than previously anticipated.** Between the June and September meetings, the FOMC raised its projected median federal funds rate for year-end 2024 to 5.1 percent. While this is not a guarantee, it does imply that rates could be elevated for longer than previously expected. An extended lowering of rates could delay the long-term improvement of transaction velocity, but reaching the peak of the current hiking cycle would be an important step to improvement. Current projections imply this is within striking distance.

| 4.2% | 5.25% |
|---|---|
| *July Core PCE Inflation*** | *Current Fed Funds Rate Lower Bound* |

### Fed Holds Rates Amid Softer Inflation




** Through July ** The Core PCE index tracks consumer prices (excluding food and energy) and is the Federal Reserve's preferred measure of inflation*
*Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics*

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