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### Election Results Herald Tax Policy Stability but Could Present Headwinds

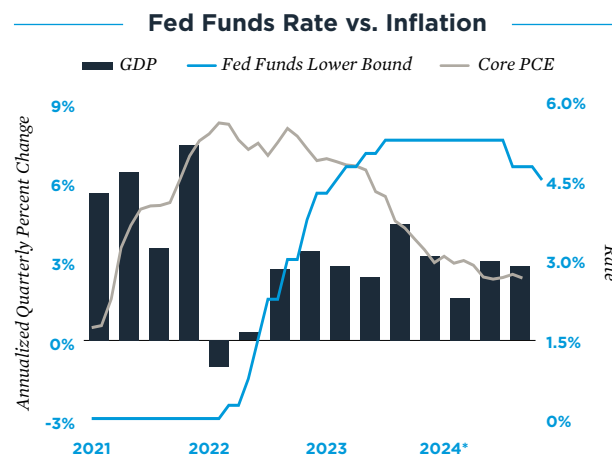
**Fed takes second step on gradual rate-lowering path.** After reducing the overnight lending rate by 50 basis points in September, the Federal Open Market committee opted to cut again by half that margin at the November meeting. This returns the target lower bound to 4.5 percent — a level not seen since March 2023 — reflecting progress on both sides of the FOMC's dual mandate for supporting price stability and full employment. While year-over-year core PCE inflation of 2.7 percent in September was still 70 basis points above the FOMC's target, the labor market showed more signs of softening in October. Easing growth in employee compensation and real disposable income also indicate that pricing pressure may abate further.

**Election outcome raises new possibilities.** While the FOMC enacted its widely anticipated 25-basis-point cut independent of the U.S. election, the outcome nevertheless poses new economic implications. President-elect Donald Trump will return to the White House in January, where he may pursue a range of economic policies with the aid of a slight Republican majority in Congress. These include a cut in the corporate tax rate from 21 percent down to as low as 15 percent, an extension of the Tax Cuts and Jobs Act, and potentially, the elimination of taxes on tips, overtime pay and Social Security benefits. These tax changes could encourage corporate investment, including on commercial real estate, as well as support consumer spending.

**New tariffs could raise costs for households and investors.** While the president-elect's tax policies would likely aid commercial real estate investment activity, especially for smaller companies, Trump has also been outspoken about his intention to implement new tariffs on a range of U.S. trading partners. During his campaign, Trump proposed a 60 percent tariff on goods imported from China and a universal tariff on other imports ranging from 10 percent to 20 percent, along with other specific import levies. If implemented, these actions could raise the cost of many goods, including construction materials, and could disrupt supply chains, causing delays or shortages. These risks would escalate if reciprocal tariffs are imposed on U.S. exports. Such elevated trade tensions could create headwinds for commercial real estate developers and investors, as well as financial markets and households more generally.

**Potential trade policies cloud near-term Fed outlook.** Widespread tariffs could reintroduce inflationary pressure and require the Federal Reserve to pause the rate cuts many Wall Street participants had been anticipating for 2025. Chairman Powell indicated that the Federal Reserve will not speculate on the impact of policies promoted on the campaign trail, implying they will await actual policy proposals before integrating them into their models. There is also the small possibility that consumers react negatively and suddenly if prices climb quickly, which could slow economic growth enough to prompt an acceleration in the Fed's initial rate reduction plans. It is also possible that President-elect Trump does not pursue or hold to these trade policies if financial markets react negatively. Ultimately, more clarity is needed before the Fed's potential responses can be considered.

**Sales velocity already on improvement path.** Commercial real estate transaction activity has trended up across most major property types over the course of 2024 in spite of the elevated interest rate environment. Higher cap rates on closed trades signal that more investors are coming to agreement or adjusting their criteria. Even with these additional hurdles, the total number of trades completed over the past 12 months ended in September was above any year prior to 2015. Deal flow should continue to gather momentum over the course of 2025 in line with this recent trend, even if interest rates do not shift meaningfully.



\* Fed Funds rate as of Nov. 7, Core PCE through September, GDP through 3Q  
Sources: Marcus & Millichap Research Services; Federal Reserve; Moody's Analytics;  
U.S. Bureau of Economic Analysis

