LAW360 Real Estate Authority

Saul Ewing Atty Says Fed Interest Rate Cut Creates Optimism

By **Isaac Monterose** · 2024-09-23

Saul Ewing LLP's real estate practice vice chair and partner Damon Juha said in an interview with Law360 Real Estate Authority that the Federal Reserve's half-point rate cut is creating much-needed optimism in the world of real estate lending.

Damon Juha

The Federal Reserve, which announced the move on Wednesday, said the rate cut makes sense because the country's inflation rate was reaching 2%, job gains were slowing down and the unemployment rate stayed low despite increasing somewhat. The interest rate will land at 4.75% to 5%, according to the Fed.

"This decision reflects our growing confidence that, with an appropriate recalibration of our policy stance, strength in the labor market can be maintained in a context of moderate growth and inflation moving sustainably down to 2%," Fed Chair Jerome Powell said in a Wednesday press conference.

Juha was speaking with several commercial mortgage brokers on the phone when the Fed announced the cut, and the news created "this air of jubilation," he said.

The following interview has been edited for length and clarity.

How would you describe the environment for real estate lending before this interest rate cut was handed down?

For us, it was very, very quiet. The number of transactions occurring here was significantly less than what we've kind of gotten accustomed to in the lower interest rate environment. I was on the phone with a couple of brokers when the announcement was made, and there was this air of jubilation because, "Oh my gosh, we may actually get through some deals this year, finally."

So, it was definitely very quiet in terms of the lending market prior to the announcement, just from the sheer volume of transactions.

Why do you think the Fed made the decision to cut the interest rate?

It's the first cut in more than four years. It seems to me that the conventional wisdom is, "Hey, we finally have seemingly controlled inflation."

I don't pretend to know all the reasons, but it seems like they felt like, "We tackled inflation," or "that's well under control." Now they're trying to prevent a slowdown in the economy by balancing employment with inflation, since job gains have slowed now.

So it seems like they're trying to balance those two, but I think they're also trying to kind of jump-start the market by doing it.

The big part with the inflation, seemingly, is where they feel comfortable now, and they're trying to balance not having increasing unemployment at this point.

What are several ways you think real estate lending will be affected by the interest rate cut?

I think on the consumer side, we'll probably feel it before we will on the commercial side — so when you lease your car or people are going to refinance their house. We'll probably feel that before we will in the commercial sector. I think on the commercial side, there's probably some sense of "Hey, we have to do something."

They're probably hopeful that we have a chain reaction that will spur something, but it could also, right now, be more of an impact on pure emotions as it was during my call when I'm talking to two commercial mortgage brokers that were in jubilation.

I think it's creating optimism. I think the hope is that by reducing the borrowing costs, new projects can get going or people can refinance out of their higher-interest products. Maybe reinvest in existing facilities that might need expansions or renovations.

But there's definitely a ton of pent-up demand. It's just not clear whether the interest rates will be that jump start that spurs everyone else to actually do deals right now. But I think, at the consumer level, we definitely will see more of an immediate impact.

What would you consider to be a jump start in the context of lending here?

I just imagine the paddles of life coming in and trying to shock lenders into doing something, because if you look at transactions through 2024 in the commercial real estate market, there just hasn't been a ton of activity. In the space we played in the commercial real estate market, this is one way to spur that activity.

But I think part of the challenge is now you've got general elections looming in 47 days. OK, great, we've lowered interest rates. In theory, money should be cheaper to get, people can refinance out of products that might be too expensive, or they may have debt that's falling through that they couldn't afford but now they can.

Clients are literally telling us, "Hey, love that interest rates are lower, but I'm still going to wait 47 days to see what happens." They're also wondering, "Gosh, are interest rates even going to come down a little bit more? So maybe, not only wait until the election but maybe I wait until the next Federal Reserve announcement to see what I do."

What are the chances of the Fed cutting interest rates even more in the near future?

I think everybody in our market expects that it will come down a little bit more. It seems like we're just at the start of the cycle. I think in the announcement, there was something along the lines of, "Hey, we're at a good, strong start."

Also, if you look at the voting, there was only one Federal Reserve Board member that voted against the 50 basis point decrease. I think everyone expects it to come down a little bit further, which I think is part of what the challenge will be: Do people transact right now, or do they wait until the election and pay?

Maybe even at the next announcement, it goes down another quarter. But I think the chances are high that it will come down even more.

Which specific types of real estate lending transactions do you expect to see more of in the wake of these interest rate cuts?

I think multifamily properties are probably most primed to see an increase. I think there's some fundamentals in office properties that make it more challenging.

If all of a sudden your vacancy rate is 50% or you've got a single tenant that's not renewing in a large office building, even if your interest rate is better, it doesn't matter because the lenders say, "Listen, you don't have an asset that I can underwrite. I'd love to give you cheaper money," or your building is still 40% or 50% vacant.

Whereas, I think with multifamily, those assets tend to still be performing.

Is there anything else you would like to add on this topic?

Not particularly. I'm excited because I do know there's so much dry gunpowder sitting out there, and I think people just wanted some catalyst to do something. I think once we get through the election, I can see there being a mad dash to get deals done right after the election due to lower interest rates, and then you're through the election, now people have a little more clarity. My expectation is that we should have a very busy November and December.

--Editing by Haylee Pearl.