How Interest Rate Moves Are Likely to Impact CRE

Whether the Fed raises, lowers or stands pat on interest rates this year is anyone's guess. The key will be balancing economic growth with inflation control. Here's how interest rate moves could impact CRE.

Office

- Remote work is driving value resets
- Interest rate hikes will likely shrink values, impede refinancing
- Class B/C offices are most vulnerable to high interest rates, loan defaults
- Interest rate cuts could help stabilize the sector
- Lower rates might renew investor interest in trophy assets

Retail

- Sector has been stable but tenants, consumers are rate sensitive
- Rate increases would slow consumer spending, hurt retail sales
- Rate cuts would boost sales, benefit landlords, tenants
- More spending would spike CRE demand, elevate rents
- Key is balancing low borrowing costs with strong consumer confidence

Industrial

- Industrial fundamentals remain strong
- eCommerce, supply chain, manufacturing growth have fueled demand
- Rate hikes would likely have little impact on vacancies
- Higher rates could cool investment, development
- Conversely, rate cuts could spur investment, development
- Lower cap rates would keep prices elevated
- Long term, elevated interest rates will dampen sector growth

Multifamily

- Strong demand, rent growth have preserved values
- Development, acquisitions are highly sensitive to interest rates
- Rate cuts would likely spark investment, new construction
- Lower rates would likely compress cap rates, raise prices
- Higher rates could stifle home sales, boost apartment demand
- Conversely, rate cuts would lift home sales, hurt apartment demand
- Best case is moderate interest rates paired with steady job growth

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