Fed cuts 50bps. Is it ‘risk on’?

The Federal Reserve finally cut rates for the first time in a few years and they went big with a 50 bps move. What are the ramifications? We asked.

NATIONAL REPORT - The Federal Reserve made an aggressive move on Wednesday, reducing interest rates a half-point to a range of 4.75% to 5%, marking the first cut since March 2020 after holding its key interest rate at a 23-year high for 14 months. The Fed also indicated that it expects to make two additional cuts this year and four next year.

CBRE wrote on Wednesday that it believes that the Fed will reduce the federal funds rate by an additional 25 bps in both November and December, followed by 125 bps in cuts next year. “We expect that the 10-year Treasury yield will remain under 4% at year-end and be in the mid-3% range for most of 2025 as the Fed eases monetary policy,” CBRE stated.

However, the Fed could pivot to faster cuts if the economy weakens and conversely slow rate cuts if the economy strengthens.

CBRE said the forthcoming rate cuts, coupled with lower bond yields, will bolster commercial real estate investment activity and asset values. CBRE forecasts a 5% increase in annual commercial real estate investment activity this year, with further acceleration next year.

Will this move open the spigot for more hotel M&A and development? Hotel Investment Today reached out to industry thought leaders to get what appears to be their mixed reaction to the Fed's move.

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Greg Freidman, managing principal, CEO, Peachtree Group, Atlanta
"Even after the Fed's delayed response, the federal funds rate will eventually settle and remain around 3%. This represents a significant drop from current levels, yet it is still substantially higher —three times the average rate during the decade leading up to 2019. Although rate cuts will provide some relief, commercial real estate markets will likely remain sluggish, as participants struggle to adjust to this new normal of higher rates. The timing and pace of these rate cuts will be critical in mitigating risks, but we still anticipate an increase in defaults and foreclosures, driven by an unprecedented wave of loan maturities amounting to trillions of dollars over the next several years."

Kevin Davis, Americas CEO, JLL Hotels & Hospitality, New York City
"I'm surprised to the upside and believe this is a material first step in jump starting the broader transactions market. We see this as the start of the next liquidity cycle and a number of our largest clients are communicating that they are going risk on."

David Duncan, president, CEO, First Hospitality, Chicago
"In simple terms, the rate cuts are intended to provide some steam to the economy, guard against higher unemployment while hoping to avoid inflation. This is some of the medicine that is needed on the operating side as we're seeing slight pullback in topline performance, especially from leisure travel (economic outlook/consumer confidence) and an increase in speed to fill open positions (higher unemployment / more jobseekers).

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"So, I'd say the move was needed. On the deal side, the rate cut will be helpful to create more liquidity in the deal market over time. However, from what I can tell the majority or the 50 bps current rate cut, as well as the anticipated future cuts, are largely priced in. So, the move hasn't changed our view on deal flow projections over next 6-9 months. It'll still be a challenge but we're looking forward to the velocity picking up and we'll continue to be very active sourcing new opportunities."

Glyn Aeppel, president, CEO, Glencove Capital, New York City
"This is good news for M&A, hotel development and acquisitions as it will begin to reduce the cost of capital and stimulate more transaction possibilities. Construction costs and acquisition pricing also need to adjust but this will be a great stimulant."

Krystal England, chief investment officer, TMGOC Ventures, Charleston, South Carolina
"One of the things that also plays into this is there has been for the last, let's call it 18 months, a substantial bid-ask spread or gap in the marketplace. With the interest rate environment that we're coming out of, and the new interest rate environment that we're going into, there's also a lot of sellers that have

been on the sidelines for quite a while, and we're starting to see some of them come to terms with the new [environment] and I would say, with buyer expectations to the extent that those sellers need to transact."

Cody Bradshaw, hotel investor, London
"50 bps will only put a dent in cap rates, which have widened 200-300 bps points in recent years. But it will give the market more confidence in the forward curve and interest rates stabilizing back down near historical long term averages of circa 3% by end of next year. That should facilitate more activity in the debt capital markets, which in turn will fuel increased transaction volumes."

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Adi Bhoopathy, managing principal, head of capital markets, Noble Investment Group, Atlanta
“The Fed's move for a 50-basis-point cut instead of 25 is an indication that it’s moving with conviction and willing to make decisions based on the data available, said The initial cut won’t have an immediate impact as it usually takes a quarter or two to settle in.

“All of the prognostications are already looking at the forward curve with meaningful rate cuts throughout the next year and a half. Lenders in general are already taking a positive view, and folks who were sitting on the sidelines are already picking up the phone and making proactive calls.

“In terms of hotel deals, those on the sell side are looking positively at a timeline that’s likely more near-term than previously anticipated, starting as soon as the beginning of the new year. The start of the year is when there should be meaningful evidence of activity starting to take place.

“Looking at its own investment pipeline, what it's underwriting today and talks with lenders, Noble expects 2025 to be a 'very active year' for transactions, Bhoopathy said. It will take time for buyers to actually secure that lending with the lower rates, so more movement will likely take place in the latter half of the year, but the deals process takes time anyway.

“We feel like it’s going to be robust activity, and definitely more in the second half onward.

> ***Availability of financing is the biggest driver of new development, and the restrictions and bank regulations will continue to be an obstacle. -*** Adi Bhoopathy

"As far as new development goes, while the lowering cost of debt is a factor, the main thing will still be the equity requirements from lenders. Availability of financing is the biggest driver of new development, and the restrictions and bank regulations will continue to be an obstacle.

"New supply will start showing from high-quality sponsors early on, but the general marketplace will be a laggard. Most markets have recovered, but not everywhere. Not every market needs more supply than what's currently in place."

Greg Mount, founder, CEO, Victory Hotel Partners, Denver
"In most markets a 50-basis point shift in interest rates can influence hotel development and M&A activity, as it alters financing costs and affects investment appetites, potentially leading to cautious decision-making and a reevaluation of project viability. However, the current market has been volatile regarding the bid-ask spread, the value that will attract capital versus the

perceived risk. Therefore, we do not expect any significant changes to the current capital markets because of a 50-basis point spread."

Michael Bellisario, analyst R.W. Baird, Chicago
"Lower interest rates – multiple positive drivers for the global hotel brands: (1) Higher overall valuation multiples (i.e., lower discount rates); (2) more accretive debt-funded share repurchases; and (3) a brighter light at the end of the construction tunnel as lower borrowing costs should help the development math better pencil (at least a little bit; construction loans are floating-rate debt). Also, lower interest rates could jumpstart real estate transactions, which could result in more conversion opportunities/wins for the global hotel brands."