September 2025 – A Long-Awaited Interest Rate Cut Arrives

The Federal Reserve reduced the federal funds rate by 25 bps in September, its first cut of 2025, to a target range of 4.00%–4.25%. Officials emphasized a data-dependent path. Long rates eased ahead of the decision and then moved back up: the 10-year Treasury briefly fell below 4% on September 10 before ending the month at 4.12% (−12 bps m/m). Equities finished higher (S&P 500 up ~3.5%), while implied volatility rose modestly, reflecting "easier, but not easy" financial conditions as the Fed recalibrates policy.

Market Benchmarks

	YE-2024	Aug-25	Sep-25	1-Month Change Δ	1-Month Change % Δ
Fed Funds	4.33%	4.33%	4.08%	-0.25%	-5.77%
1-Month SOFR	4.33%	4.28%	4.13%	-0.15%	-3.50%
10-Yr Treasury	4.57%	4.23%	4.12%	-0.12%	-2.72%
S&P 500	5,881.63	6,460.26	6,685.45	225.19	3.49%
REIT Index[1]	126.31	130.68	129.65	(1.03)	-0.79%
VIX	17.35	15.36	16.08	0.72	4.69%

1. Vanguard Real Estate Index Fund (VGSLX) tracks the MSCI U.S. REIT Index

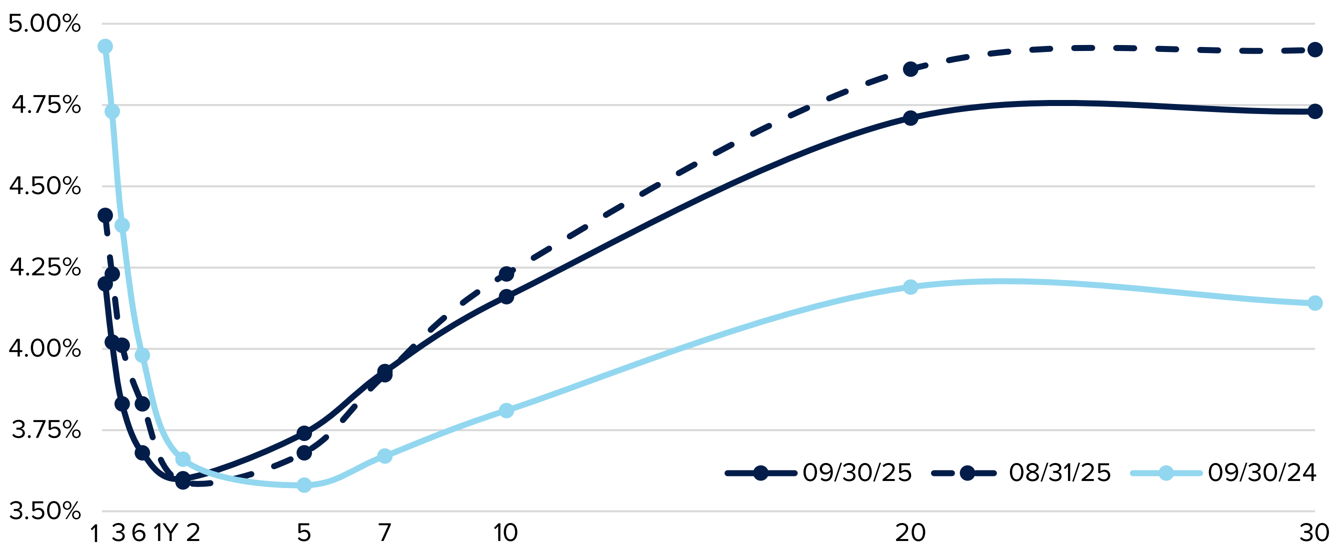
Inflation data remained mixed. August Core CPI (released in September) rose 0.3% m/m and 3.1% y/y, with shelter a persistent driver. Core PCE, the Fed's preferred gauge, advanced 0.2% m/m and 2.9% y/y, consistent with gradual disinflation. Producer prices eased slightly (PPI −0.1% m/m, +2.6% y/y). Together, the reports suggest progress curbing inflation, but sticky services inflation continues to slow improvement.

Labor markets delivered a downside surprise. The Bureau of Labor Statistics' annual benchmark revision revealed that 911,000 fewer jobs were created in the year through March 2025 than previously reported. That significant downward revision—paired with the ouster of the bureau's previous leader in August—put statistical credibility in the headlines and reinforced the view that the labor market has cooled more than earlier data suggested.

Rate Cut: Implications for Commercial Real Estate and Multifamily

The Fed's 25 bp cut is welcome, but commercial real estate values respond far more to the long end of the curve than to the policy rate itself. Compared with August, rates at the longer end of the curve are a little lower, but the 10 year is still ~35 bps higher than it was last fall. The punchline: borrowers with floating-rate debt feel some near-term relief from the Fed cut, but property values will only see real help if the 10-year and longer maturities keep easing.

U.S. Yield Curve - Current, 1 Month Ago, 1 Year Ago



For investors, that means sizing debt to today's curve, not to a projected easing cycle, and relying on operating cash flow rather than speculative cap-rate compression for returns. The broader market is waiting on the 10-year to stabilize meaningfully lower before financing relief shows up in a sustained way.

Encouragingly, price signals are firming up even without a major decline in long rates. All-property price gauges have turned higher on the year, led by sectors with durable demand, and the best "tell" on clearing levels—single-asset apartment trades—has improved even as large portfolios remain subdued. Historically, that mix helps narrows bid-ask spreads and bring more equity back into the market where stories are clean and debt is available.

Anecdotally, we are seeing a shift in allocator sentiment. Conversations with institutional investors that had been effectively "closed for business" for much of the last 36 months are now more constructive. The capital-raising environment feels stronger, there is visible dry powder on the sidelines with dialogue of funds being raised, and—for the first time in years—we were even asked by a fund allocator what it would take to hit our upside case in an underwriting. That framing hasn't been part of the dialogue in a long time. That single data point reflects a more equal balanced mindset: equity investors are starting to weigh upside and downside in tandem, after years of near-exclusive focus on risk mitigation.

Our conviction is that the market has entered a new cycle. Assets acquired in 2025–2026 should prove to be attractive vintages, with business plans that exit into a stronger environment as supply normalizes, financing steadies, and income growth compounds.