

Fed Chair Powell Shifts Focus to Labor Market Fragility

By Joe Palmisano | Originally published on connectcre.com on September 17, 2025

The Federal Reserve delivered a widely expected quarter-point rate cut on Wednesday, lowering its benchmark range to 4.00%--4.25%, after Chair Jerome Powell signaled last month that the central bank would tilt toward employment risks over lingering inflation concerns.

The move, however, underscored divisions within the FOMC. Governor Stephen Miran dissented, pressing for a deeper 50-basis point cut, while Governors Christopher Waller and Michelle Bowman--who had previously argued for easing--joined the majority this time. Updated projections suggest another 50 basis points of easing by year-end, likely through two quarter-point reductions, taking rates to 3.50%--3.75%, notably below June's forecast.

The cut reinforces expectations that the Fed is entering a more accommodative phase, but the rationale--weakening labor market data--raises questions about the durability of growth. Equities and credit markets are likely to interpret the decision as supportive for risk assets in the near term, with cheaper financing conditions boosting investor psychology. However, the Fed's projections--unemployment rising to 4.5%, core inflation at 3.1% in 2025, and only returning to 2% in 2028--suggest a slow glide path to stability.

"This rate cut is in direct response to the growing signs of labor market weakness," said Bryan Jordan, chief strategist at Cycle Framework Insights, citing slowing job growth, fewer openings, and softening consumer sentiment. "A contracting labor market would very likely mean a recession in the economy at large, so there is a bit of urgency in this action."

For commercial real estate, the cut is expected to deliver more of a psychological lift than an immediate financial one. "The Fed's interest rate cut delivers a critical confidence boost for the commercial real estate industry, signaling a positive shift in market sentiment and supporting the ongoing recovery cycle," said Mark Rose, Chair & CEO of Avison Young.

Yet not all see the move as an outright positive. "There is no dispute that lower rates on short-term debt are good for real estate," said David Scherer, co-CEO of Origin Investments. "But interest rates moving lower because of a weakening economy, higher unemployment, and slower wage growth is problematic because of its negative impact on rent growth."

Private lenders pointed out that competitive dynamics are already shaping borrowing conditions. "It shouldn't have any immediate, meaningful impact on borrowing conditions for new direct loans on commercial property," said Seth R. Niedermayer, Partner at HSF Kramer.

From a lender's perspective, the cut could stimulate deal activity. "Lower interest rates will allow for higher debt service coverage, which will allow for more loan proceeds and the ability for equity investors to underwrite more attractive levered returns," said Eddie Prosser, Principal at Thorofare Capital, Inc. "Overall, this first cut should message stability to the market and spur increased transaction activity, which has been muted for the recent quarters."

The broader message is more complex: easing into a weakening economy carries as many risks as rewards. With unemployment projected to rise and inflation only slowly converging toward the Fed's target, the central bank's actions may support confidence in the short term but leave questions about durability of growth unresolved.

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