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Reaction to the Federal Reserve's Recent Rate Reduction September 19, 2025

The Federal Reserve has lowered their benchmark rate by 1/4 point at their recent September meeting. It's important to stop and think for a moment about the implications of this and potential rate reductions to come. The financial markets have been clamoring for a rate reduction for almost a year now and it's critical to understand why the Fed cut their rate, not just the amount they cut. While most people look at Treasurys for assessing future mortgage rates, they should be watching the bond market. Long term bond yields have been trending lower due to anticipation the Fed will reduce rates and the increased risk from tariff uncertainty. The rate reduction can be a positive for consumers but also a warning for businesses.

If you want to measure the health of the industrial real estate, look to the unemployment rate. While unemployment remains low by historical standards (4.3%), the most recent government jobs report released in August showed the rate of hiring slowed more than expected. We will continue to monitor this key metric closely. The key to a strong industrial real estate market is a strong labor market and disposable income on the part of employed. Residential real estate may benefit from increased home purchases and home improvement projects if further decreases from the Fed lower overall borrowing costs. If these benefits materialize, there will be ancillary strength in textiles, windows, doors, frames, plastics, cabinets, tile, etc. A stronger domestic residential market will also boost service employment. The supply/demand function in industrial real estate cannot be overstated. We remain in a relatively supply constrained market but see an increase to supply forthcoming.

The Chicagoland industrial market has enjoyed a strong resurgence commencing in the pandemic and peaking in 2023. Supply has remained limited, and the net result was a surge in values for well-located industrial assets. Shallow bay, or buildings less than 100,000 square feet, have remained in limited supply post pandemic to present day. Large warehouses (250,000 SF or greater) for e-commerce related activities have experienced a cooling off period that commenced late 2024 and remains challenged today due to tariff uncertainty. Trucking and transportation related properties remain in high demand due to limited approved zoning opportunities and despite overcapacity and a weak freight market. Vacant land demand peaked in 2023 and now has moderate interest on a locational basis, infill land remains highly sought after, fringe locations in secondary or tertiary markets have seen demand fall noticeably. Overall occupancy and ownership costs have been on the rise post pandemic due to significant insurance premium increases and higher real estate taxes. More companies are now finding leasing an attractive alternative to ownership due to defined financial obligations and a quantifiable exit at the end of lease term which simplifies the process for selling the operating company.

We here at Core Industrial track these issues so you don't have to. Understanding the "why" is what separates us from other broker firms. This skillset allows us to advise clients with an eye on developing trends and provide the best long-term strategies for treatment of your industrial real estate asset. Please contact us with any questions.

Best regards,
Noel S. Liston, Managing Broker