

Fed Raises Benchmark Rate, Intensifying Borrowing Cost Blues

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Federal Open Market Committee members voted unanimously Wednesday to raise the **Federal Reserve's** benchmark rate, an expected but significant shift in the central bank's fight to tame inflation.

The decision is the first rate increase since July 2023 and ends a five-meeting string of votes to hold rates flat. Investors started the year confident that the path forward from the FOMC in 2026 would be rate cuts, but stubbornly elevated inflation shifted expectations and forced the Fed to go the opposite route.

"For more than five years, inflation has been running above target," Fed Chairman **Kevin Warsh** said during a press conference after the vote. "So our predominant focus is on the price stability side of our mandate. The plain fact is that inflation is too high and has been for too long."



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Fed Chairman Kevin Warsh answers questions at the FOMC press conference in June.

A 25-basis-point hike was the widely expected result of the FOMC vote, according to CME Group's [FedWatch tool](#), but it nonetheless comes as rising Treasury yields are already pushing up borrowing costs. For commercial real estate investors, deals of all types and sizes are likely to get more expensive as buyers become more cautious.

"Whenever a rate increase actually materializes, questions arise regarding broader economic impacts, the feasibility of investment mandates, and the pace of doing business," [Harry Klaff](#), U.S. president at [Avison Young](#), said in an email. "Cap rate movement is unlikely to be unilateral — market by market, sector by sector — but certainly a trend toward higher capital costs will impact transactional volume."

In its statement released with the decision, the Fed said the economy remains relatively robust despite elevated uncertainty, and the central bank was clear that the move to raise rates was meant to target the pace of price hikes.

"Inflation remains elevated. Today's policy action will support a timelier return to the Committee's 2 percent goal. The Committee will deliver price stability," the statement says.

Warsh said there were three changes to the macroeconomic picture over the last seven weeks that helped drive the decision to raise rates. Evidence indicates that the economy is strengthening, inflation remains elevated, and there was "no hiding from hot spots around the world" relative to geopolitics, he said.

The central bank is tasked with price stability and maximum employment, and the move to raise the benchmark rate to a range between 3.75% and 4% represents its most aggressive attempt in years to tamp down inflation.

But the rate hike comes as investors already face a challenging debt environment, with yields on 10-year Treasury bonds [surpassing the 5% mark](#) and pushing up borrowing costs at the same time that [delinquency rates are climbing](#).

"The impact of the recent rate increase will likely tame enthusiasm for any marginal development projects and could elevate capitalization rates," [Noel Liston](#), managing broker at Core Industrial Realty, said via email. "However, the rate increase reinforces the Fed's commitment to tame inflation and longer-term bond yields may not increase much if the market believes the pain of higher rates will be shorter in nature."

Yields on 10-year Treasuries jumped during Warsh's press conference Wednesday and cleared 5% as he spoke before moderating slightly after the Fed chair left the lectern.

The FOMC also released updated financial projections with the September decision showing that members now expect interest rates to broadly remain higher for longer. Projections also moved toward a tighter labor market and a narrower expected range for inflation this year, coalescing around a 3.75% midpoint and staying above 3% across 2027.

The latest version of the dot plot, which shows where members of the FOMC see the appropriate midpoint for rates, indicates further rate hikes are likely on the horizon this year.

Two members put the appropriate midpoint below 4%, while the majority put the target range for 2026 between 4% and 4.25%.



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Fed Chairman Kevin Warsh and Governors Philip Jefferson and Michelle Bowman

Wednesday's decision to raise rates was expected, and the financial projections indicate another 25 bps hike is likely this year, Michael Pearce, chief U.S. economist at Oxford Economics, said in an email.

"The accompanying projections suggest the key motive for raising rates was risk management," he said. "We don't think this is the beginning of another major tightening cycle and markets have too much tightening priced in over the coming year."

The consumer price index recorded 3.4% annualized inflation in August, up by 0.4% from the prior month and far from the central bank's longtime 2% target. That data pushed investors and bettors on sites like Kalshi to **shift heavily to favor a rate hike** ahead of Wednesday's meeting.

Warsh arrived at the top of the central bank in May after **being nominated in January** by President **Donald Trump**, who has **made no secret of his preference** for rate cuts.

The central bank opted to hold rates flat in Warsh's first two meetings at the helm, but there were signs that a hike may be on the horizon. Three FOMC members dissented in July in favor of a 25 bps hike, and Wednesday's decision could help bolster the Fed's independence after **unprecedented interventions** from the White House.

"The increase reinforced that the Fed remains focused on inflation, and is willing to maintain restrictive policy even as higher borrowing costs weigh on rate-sensitive sectors," Andrew Koller, research analyst at **Wolf Commercial Real Estate/CORFAC International**, said in an email.

"An additional 25 basis points by itself is unlikely to fundamentally change a transaction, but a longer period of elevated rates can cause borrowers or buyers on the margins to delay transactions," he added.

Contact Matt Wasielewski at matthew.wasielewski@bisnow.com