



Fed maintains key interest rate as real estate industry sets sights on possible September cut

Central bank says elevated economic uncertainty leaves it no choice but to hold steady for now



Jerome Powell, chairman of the U.S. Federal Reserve, speaks during a news conference in Washington, D.C., on Wednesday. (Mandel Ngan/AFP via Getty Images)

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The U.S. Federal Reserve is holding steady on its benchmark lending rate, leaving the real estate industry and President Donald Trump

waiting for the cut they desire.

As widely expected, the Fed said Wednesday it kept the interest rate at the current target range of 4.25% and 4.5%, because “uncertainty about the economic outlook remains elevated.”

Commercial real estate and financial professionals noted that while the central bank held its ground in maintaining the federal funds rate, chances look good for an interest rate cut to come in the fall. Federal Reserve Chair Jerome Powell said at a press conference following Wednesday's announcement that the Fed has “made no decisions about September, we don't do that in advance.”

Real estate industry professionals, however, are hopeful the Fed cuts rates during its Federal Open Market Committee meeting in mid-September.

“Like many, I anticipate that we'll see a rate cut this September, when the Fed should have a better view of the trajectory of the U.S. economy,” James Godman, a partner at law firm HSF Kramer who handles real estate deals, told CoStar News in an email. “A key driver of this decision could be the continued elevation of home mortgage interest rates, which has stymied the housing market. Although the real estate industry would undoubtedly like to see rate cuts in the near future, we're nevertheless seeing a large volume of transactions.”

The economic uncertainty created by the Trump administration's shifting tariff targets for U.S. trading partners are proving to be a wildcard, according to economists.

Wait-and-see approach

“The Federal Reserve is still waiting for the full impact of tariffs to be seen in the economic data, but so far, that hasn't really emerged,” said

[Christine Cooper](#), CoStar Group's chief U.S. economist, in an email. "However, that doesn't mean there hasn't been an impact."

In fact, she said, it appears some companies already are acting to blunt the effect of the trade duties.

"We have been listening to U.S. manufacturers as they report their second-quarter results, and what we've heard is that many are absorbing their increased costs rather than passing these on to consumers, so they are keeping their prices stable," Cooper said. "But that also means their profits are being compressed. Others have slowed production, so fewer imported parts are needed. Neither of these strategies is likely sustainable, so it's almost like we're waiting for the other shoe to drop, a frustrating time for market watchers."

Powell said at the press conference the ongoing wait-and-see approach remains appropriate, mentioning the Fed is doing what it can for the housing sector.

"The best thing that we can do for housing is to have 2% inflation and maximum employment," he said.

Separately, Powell said, "changes to government policies continue to evolve, and their effects on the economy remain uncertain."

In Canada, a country in trade talks with the United States, its central bank also held steady Wednesday on its benchmark lending rate.

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Decision not unanimous

In the U.S., not all members of the Federal Open Market Committee agreed the rate should have remained the same, as two members voted against the decision. It's the first time that more than one governor of the group voted against the chair since 1993, according to The Wall Street Journal.

The Fed forecast this summer that it would make at least two quarter-percentage point cuts before the year is out, CoStar News reported. It would be the first time it's made a cut since [December](#).

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Mike Kraft, commercial real estate treasurer for commercial banking at J.P. Morgan, said in a commentary that “if inflation remains tame and the labor market softens” then the Fed could indeed foresee the need to lower rates twice this year.

That could not come soon enough for Trump, who has repeatedly called for the interest rate to be cut.

In fact, he did just that last week when he visited the construction site for a Federal Reserve headquarters project that centers on an overhaul of two buildings in Washington, D.C. The president and his allies say the project is too costly, while the Fed said the multi-billion-dollar project will reduce costs over time by allowing it to consolidate most of its operations.

Powell declined at Wednesday's press conference to say whether he saw Trump's interest in the Fed's office renovation project as directly tied to the president's push to lower interest rates.

"There is no assurance of interest rate cuts resuming in September. But with two rounds of employment and inflation data on tap between now and then, the Fed will have plenty of data on which to decide," [Greg McBride](#), an analyst with financial information group Bankrate, said in an email to CoStar News.

The Fed said in a regularly released report this month that nonresidential real estate activity is "mostly steady," highlighting cities including Chicago and Boston. Powell also told lawmakers on Capitol Hill in June that commercial real estate is one of several industries the Fed watches, noting "it's not getting worse, it's getting a little better."

However, several experts contend that the unpredictability of the outcome of the U.S. trade talks continues to fuel unpredictability in the wider economy and could affect commercial real estate. On Friday, new tariff rates are expected to take effect, a move Trump doubled down on in a post on social media on Wednesday. Earlier this week, the White House announced a trade deal with the European Union.

"Tariffs have a negative impact on input costs, and uncertainty around what those input costs will be means equity capital becomes more scarce and expensive," said [Kurt Stuart](#), co-head of commercial term lending at Chase, in a mid-year commercial real estate outlook. "Ultimately, that means fewer properties get built."
