Elections and hybrid rates: Oh my! - by Jerry Maffia

October 29, 2024 - Front Section

Jerry Maffia

The Federal Reserve's recent interest rate cut was a welcome reprieve, but a lower rate is not the same as a low rate. Even with the 50-basis-point decrease, the Federal Funds Rate is still higher than at any point from October 2007 to March 2023. Add to elevated interest rates the unwinding of hybrid work, higher unemployment, climbing household debt, and a high-stakes election, and you have all the ingredients for near-term uncertainty and volatility.

Here's how the bumpy ride ahead could play out for commercial real estate in New York City and across the country.

Healthcare construction will only get healthier

It's no surprise that healthcare construction has remained buoyant despite the challenging economic conditions of the past few years. Americans are more health-conscious than ever, and unlike office work, hands-on health care is hard to deliver remotely. New Yorkers demand not just health care, but state-of-the-art health care. As more capital resources start to flow, we expect healthcare construction in the city to not just survive, but thrive.

Elections will usher in a new era

Election years typically set the stage for significant economic uncertainty in New York real estate markets. It gets said a lot, but this election really is one of the most important in decades. Regulations impacting real estate stakeholders have proliferated across the nation, including in New York. The outcome of the election could determine whether these laws, and the agencies that administer them, are strengthened, weakened or even dismantled. Any change in policy or government spending has the potential to impact commercial real estate, posing significant opportunities or risks depending on what is affected.

Go, go, go, but not just yet

The elections could also impact how the Federal government proceeds with future rate cuts, and how those rate decreases translate into activity in the real estate sector. For example, a more conservative tilt in government might hasten the thaw in capital markets that rate cuts initiate. A lot of developers are ready to pull the trigger and initiate new projects, but are in a holding pattern until after the elections. Their position seems to be, "We've waited this long, why not wait a little longer?"

A resurgence in the office

Amazon is requiring employees to return to the office five days a week starting in January, and they won't be the last company to do so. The boost in occupancy that will come from organizations mandating return-to-office will lead to an uptick in office renovations and leasing activity. As organizations refine the hybrid model, commercial buildings will continue accommodating more workers in flexible work stations while keeping costs in check.

It's going to be an interesting few months (again)

We're in the midst of yet another period of uncertainty and volatility, but this time the outcome should be more positive for the real estate and development sector. New York is well-positioned to benefit as the landscape evolves in the months ahead. Buckle up and get ready for the ride.

Jerry Maffia is a vice president and a general manager at Project Management Advisors, Inc., Manhattan, NY.