

## Market, Industry Rallies After Fed Rate Cut

By Erika Morphy. 9/20/07



WASHINGTON, DC—Yesterday's decision by the Federal Open Market Committee to lower its target for the federal funds rate by a larger than expected [50 basis points](#) to 4.8% has buoyed spirits within the commercial real estate industry with lenders and brokers predicting a loosening, if only slight, in the credit markets. This unexpected dollop of liquidity, the hope is, will translate into a more favorable investment and leasing climate.

"This will boost the market's mood considerably," Matthew McManus, chairman of BlueStone Real Estate Capital, a real estate investment bank, tells GlobeSt.com. "Even today [the day after the cut was announced] lenders are sending signals that they might be more willing to look at real estate deals." McManus says he began receiving emails and phone messages from lenders shortly after the rate cut was announced stating that it would be a big help. "There is no downside to a rate cut," he says.

On the leasing side, according to Grubb & Ellis' Bob Bach, SVP and national director of research, the Fed's action should signal to tenants that it is moving to forestall a recession by increasing liquidity. "This is likely to help tenants feel more confident that they can execute their plans to expand or move into new space, actions that will support leasing volume and absorption of space," he says.

More immediately, the cut lifted share prices of housing related stocks--despite dismal data that had also been released recently. "Shares of housing related companies have performed very well since the Federal Reserve announced that it was cutting both its fed funds and its discount rates by .5%," Frederic Ruffy, an analyst with the investor education firm Optionetics, tells GlobeSt.com.

"The SPDR Homebuilders Trust [XHB], which is an exchange-traded fund [ETF] that tracks the performance of 20 different housing and homebuilding stocks, is up from \$23.50 a share to \$25.50 since the announcement was made," he says. XHB rallied despite another round of disappointing news for the housing sector, Ruffy went on to note.

On Tuesday, the National Association of Homebuilders said that its index of builder confidence sank to 20 from 22 during the month of September. "The index has fallen 16 points during the past six months and, at only 20, is equal to its all-time low set in early 1991. The sales in the next six months, which is the most forward looking component in the report, fell five points to 26 and below an all-time low of 31 set in August.



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"Then, Wednesday morning, the Commerce Department reported that housing starts fell during the month of August. The report showed builders breaking ground on new homes at an annual rate of 1.33 million units, down from 1.38 million the month before. Building permits, a better gauge of future activity, fell to 1.31 million, down from 1.37 million in July."

In short, Ruffy says, the rebound in the housing stocks is a sign that investors are looking beyond today's bleak headlines and at a potential recovery down the road. "In addition, the sector might also find support from signs that some of the individual builders are taking bold steps to sell homes and clear inventory," he says. "Hovnanian Enterprises, for example, held a three-day sales promotion over the weekend called Deal of a Century. Prices of some homes were cut by \$100,000. Earlier this week, the company said that sales during the promotion were two times better than expected (2,100 versus expectations for 1,000). The market responded positively. HOV is up more than 30% this week."

In other areas, though, it will take longer for the Federal Reserve action to make an impact. Bach notes that the conduit market will take some time to sell the loans lenders are already holding and for the buyers of these securities to regain confidence in their stability and safety.

"This will help most the housing industry," Eric Anton, executive director of Eastern Consolidated in New York City, tells GlobeSt.com. "That is what it is geared to do. But it certainly won't hurt us and hopefully the commercial banks and Wall Street lenders will get a little breathing room." Anton says that, three months into September, the markets are still behaving as though it were the last few days before Labor Day weekend. "Nothing is moving; everyone is waiting to see what will happen." The rate cut, he says, is an opportunity for lending institutions to make a little money and hopefully clear some of the debt from their books.

The rate cut, though, also offers some drawbacks. Critics of the so-called "easy money" that has flooded Wall Street and the capital markets feel it is one step backward from necessary reform. There is also this to consider, says Kraig Kast, CEO of Atherton Trust in Redwood Shores, CA. "Don't forget, there are two sides to the rate cut: One is that credit will be easier and thus prevent a slow down in commercial sales and leases, but that also means there is a high probability that demand will accelerate and therefore keep cap rates lower than historic norms."