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The Push to Revive Housing Through Lower Interest Rates

August 1, 2025
— Categories: Real Estate

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Despite hopes that lower interest rates could jumpstart housing construction, developers say that broader economic and regulatory hurdles continue to block progress. The Federal Reserve's decision this week to hold rates steady has dampened earlier optimism of a significant cut by year's end, leaving many in the real estate sector skeptical that minor reductions will be enough to revive the struggling industry.

At its latest meeting, the Federal Open Market Committee (FOMC) voted 9-2 to maintain current interest rates. While markets had priced in the possibility of a 50 basis-point (bps) reduction by the end of the year, expectations have now shifted toward a more modest series of cuts, 25 bps in September and another 25 bps in December.

Developers argue that even these anticipated cuts won't sufficiently offset the deeper challenges plaguing the sector, such as labor shortages, inflated construction costs, and tighter lending standards. Traditional financing has become harder to obtain, with banks tightening liquidity requirements and slashing loan-to-cost ratios, now often capped at 50–60% for all but the most secure borrowers.

“The rate cuts may help underwriting look better, but they don't fix bad fundamentals,” said Brad Werner of consulting firm Wipfli. Declining confidence in rent growth and stricter underwriting are among the reasons many developers are still struggling to move projects forward.

Brandon Blaser, president of Blaser Ventures, noted that uncertainty surrounding rate cuts has discouraged banks and developers alike. “To move the needle, we would need some consistency,” he said, adding that only large, well-capitalized firms can access traditional loans.

As a result, more developers are turning to costlier financing structures like mezzanine debt and preferred equity. While these can bridge funding gaps, they also increase interest costs and lower returns, making many projects financially unviable. “That lower leverage plus double the interest expense is taking any marginal deal off the table right now,” Blaser said.

Stephen Alfandre of Urban Alfandre added that higher liquidity requirements from banks are forcing smaller developers out. “Developers are rarely sitting on lots of cash that they aren't putting to work, which means that only very large and well-funded groups can show enough liquidity to get traditional loans that help projects pencil,” he said.

Some industry players are watching for relief from Washington. Michelle Bowman's recent appointment to a top regulatory role at the Fed has raised hopes that capital reserve rules and stress test requirements could soon be relaxed. Werner believes shareholder pressure may eventually push banks to lend more aggressively as falling rates squeeze profit margins.

However, developers stress that interest rates are only one piece of a larger puzzle. “The lowering of construction costs is the most important thing we need to get new projects moving forward,” said Alfandre. “A close second is rent stabilizing. In third place is the lowering of interest rates.”

Rent concessions and a glut of available units remain obstacles, with developers reporting that incentives, such as eight weeks free rent, must fall to two weeks before new construction becomes viable. “We need to see real demand and rental growth return,” said Blaser.