

Economic Update

 **SVN | Research**

APRIL 26, 2024

1. FIRST-QUARTER GDP

- The US economy expanded by a 1.6% annualized rate during the first quarter of 2023, according to the latest data from the US Bureau of Economic Analysis.
- First quarter GDP fell short of most estimates. Economists surveyed by Bloomberg, on average, forecasted a 2.5% pace of growth during the quarter.
- Q1 2024 was the second consecutive quarter where economic output slowed. It was also the lowest pace of growth since the economy contracted in the first half of 2024.
- Consumer spending slowed to an annual pace of 2.5% compared to 3.3% during Q4 2023. The downtick was mainly due to a fall in goods consumption while spending on services accelerated.
- Interestingly, the slowdown in consumption defies an uptick in price pressures evident in the March CPI release and challenges the reliability of recent inflation metrics. A central theory to this inconsistency is that inflation metrics' use of "owners' equivalent rent" as a proxy for rental costs distorts their shelter components, potentially resulting in overestimating price increases.
- Non-residential investment eased during the first quarter, but residential investment jumped tremendously, climbing from 2.8% during Q4 2023 to 13.9% in the latest reading.
- Government spending decelerated from an annualized 4.6% to 1.2%. Exports slowed sharply while imports soared. Meanwhile, private inventories continued to contract.

2. COMMERCIAL REAL ESTATE PRICES

- According to the MSCI-RCA commercial property price index (CPPI), the pace of decline in US commercial sector prices slowed for the eighth month in March.
- Prices fell 3.0% year-over-year through March and just 0.2% from February.
- The industrial sector again arose as the only property type with an annual increase in March. The average price on an Industrial property climbed 0.7% month-over-month from February and 5.7% over the past 12 months. Annualizing the Industrial sector's growth in March would bring the sector to a 9.2% increase over the next year.
- The pace of decline for Apartment sector prices has slowed in each of the last seven months, with prices

Economic Update



charting an 8.4% year-over-year decrease in March. On a monthly basis, the Apartment price index has declined for 20 consecutive months. Still, the sector is up 11.0% above its pre-pandemic level.

- Retail sector prices also improved. The sector's annual price decline narrowed for the eighth straight month to 1.2% in March. Retail also joined Industrial as the only sector that saw prices climb monthly, climbing 0.1% from February.
- CBD office prices continue to fall more steeply than their suburban counterparts, falling 33.2% year-over-year compared to just 11.4%.

3. DOWNTOWN RECOVERY TRENDS

- Cell phone activity data tracked by the University of Toronto School of Cities show that between March 2023 and March 2024, downtown US and Canadian cities saw a median increase of 9.3% in foot traffic.
- While the findings do not detail the type of places where new activity occurs, they suggest that most downtown areas continue to gradually recover from the pandemic.
- Of the metros tracked, 50 cities have downtown areas experiencing a recovery compared to 14 that are trending downward.
- Notably, the report points out that among the metros trending downward are cities that had previously topped their rankings, suggesting that many of them recovered more quickly.
- The top five metro areas by year-over-year downtown activity growth were Minneapolis (+45.7%), Ottawa (+39.5%), Montreal (+38.6%), Chicago (+36.6%), and Louisville (+31.9%).

4. FED'S BEIGE BOOK SUMMARY

- According to the Federal Reserve's latest Beige Book, nationwide economic activity has expanded slightly over the past six weeks. Still, performance has varied by region. 10 of 12 districts reported slight or modest increases in economic growth, up from 8 in the last round of reporting. Still, mixed sales activity across the 12 Fed districts meant that overall, consumer spending saw only a slight increase in consumer spending.
- Several districts reported declining discretionary spending as consumers remain increasingly price-

Economic Update



sensitive to several goods categories. Some districts saw auto sales rise as inventories improved and dealerships wooed buyers with new discounts and incentives. Others saw modest increases in tourism as the spring season began, but reports vary.

- Commercial real estate leasing fell slightly, while non-residential construction was essentially flat. The most positive CRE sentiment came from the Minneapolis Fed district, where construction activity improved slightly.

5. CRE OUTLOOK IMPROVING, SAYS DOUBLE LINE

- A new research paper by DoubleLine suggests that a 2024 pivot in the Federal Reserve's interest rate policy will open the door for price discovery and improve the market's stability generally.
- As the interest-rate outlook becomes clearer, commercial real estate transaction activity should pick up, and market pricing will become more transparent. The report suggests that these mechanisms will allow for improved credit access and unlock existing demand.
- Roughly \$2.8 trillion of CRE debt will mature between 2024 and 2028, making price discovery crucial as lenders seek market share.
- The paper expects payoff outcomes to persist among multifamily, industrial, and lodging while larger office loans and struggling mall properties may face additional refinancing difficulty.

6. NMHC APARTMENT INDEX

- According to the latest quarterly release of the NMHC Apartment Index, while rent growth in the Multifamily sector has slowed in recent quarters, sales volume has increased, and the equity financing environment has become more favorable.
- The first quarter of 2024 was the first time in two years that the Multifamily sector saw higher deal flow than the previous quarter. 21% of respondents surveyed by NMHC reported higher sales than just 6% during the final quarter of 2023.
- Equity financing improved marginally, but 60% of respondents found that availability was unchanged. Meanwhile, the debt financing environment has become tighter, with the Fed's decision to push back

Economic Update



potential rate cuts noted as a primary culprit.

7. FIVE APARTMENT MARKETS WHERE RENTS HAVE ROOM TO GROW

- According to a recent Chandan Economics analysis of Zillow data, as a home price rally during the pandemic spurred massive rent growth across the nation, some markets have seen home prices grow more quickly than rents. The gap suggests several of these rental markets have room for growth in the years ahead.
- McAllen, TX; Charlotte, NC; Durham, NC; Raleigh, NC; and Seattle, WA were identified as the top five metros for rent growth opportunities. Each metro has experienced a 20% or more difference between the growth rates of its home values and observed rents over the past four years.
- Since 1985, rents and home prices across the 100 largest US metros have had a 96% correlation. Cyclical factors such as those experienced during the pandemic can distort such longer-term structural relationships, suggesting that several of these markets may close the gap over time.

8. RATE UNCERTAINTY TAMES HOMEBUILDING MOMENTUM

- According to the latest data from the NAHB/Wells Fargo Housing Market Index (HMI), homebuilding held steady during April. Still, it ended four consecutive months of increases as interest-rate uncertainty dampens new activity.
- The components measuring current sales conditions and the traffic of prospective buyers each increased, albeit slightly. Meanwhile, sales expectations for the next six months fell somewhat.
- The report suggests that April's flat reading indicates that homebuilding demand is present but in a holding pattern as would-be buyers assess the interest-rate outlook. As the potential for rate cuts in 2024 becomes clearer, pent-up demand may continue to materialize.

9. CRE FORECLOSURES JUMP

- According to data from ATTOM, foreclosure filings rose by 117% year-over-year through March 2024, with roughly 625 CRE foreclosures in just the past month.

Economic Update



- Foreclosures are up 6% from February. The figure considers commercial properties with at least one filing of a default notice, scheduled auctions, or bank repos.
- Foreclosures have risen steadily since May 2020, when, for context, they hit a record low of 141 properties during that month.
- California had the highest concentration of foreclosures during March, with 187, accounting for almost 30% of all foreclosures during the month. The Golden State has had an astonishing 405% year-over-year jump in CRE foreclosures.

10. PCE PRICE INDEX

- According to the latest data from the US Bureau of Economic Analysis, the PCE price index experienced its largest annual increase in four months. However, core prices (mirroring February's rate) repeated their slowest rise in three years.
- The headline PCE price index rose 2.7% year-over-year, up from 2.5% in February.
- However, the core-PCE price index, the Federal Reserve's preferred inflation metric when considering monetary policy, rose by a steeper 2.8% year-over-year in March. Alongside a similar uptick in February, it is the slowest increase for core prices since March 2021.
- The latest PCE data caps a complex month of data releases. Recent job growth and consumer prices rose higher than expected while consumer spending and the prices of those expenditures slowed.

Economic Update



SUMMARY OF SOURCES

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