Economic Update

AUGUST 20, 2021

1. RETURN TO OFFICE

- A survey by Morning Consult that tracks employees' appetite for returning to the office showed that sentiment has fallen in recent weeks, with only 55% of workers saying that they feel comfortable returning to the office. According to the report, the share had reached a high of 73% just three weeks ago.
- The results reflect a growing concern among workers about the threat that the emerging Delta variant may have on a safe return to the workplace. Perceptions about traveling to work have played a significant part in the overall decline. The share of workers who feel comfortable traveling domestically for work has fallen from a pandemic-high of 48% on July 24th to 40% in the most recent survey–the lowest reading since early May.
- Positive attitudes around remote work have also played a role in shaping worker sentiment and opinions on returning to the office. According to the report, 87% of employees enjoy working remotely, with 75% feeling that they are more productive while working remotely, and 72% saying they are more likely to apply for a job that offers remote work as an option.

2. NEW U.S. CENSUS FIGURES

- New figures released by the U.S. Census Bureau provide additional context to the population and migration patterns noted in the 2020 survey, with the number of Americans who live in rural counties shrinking by 2.8%, while 4 out of 5 U.S. metros grew over the past decade. Most of the growth has occurred in the South and West regions of the country.
- All 10 of the nation's largest cities: New York, Los Angeles, Chicago, Houston, Phoenix, Philadelphia, San Antonio, San Diego, Dallas, and San Jose, saw their populations grow since 2010. For the first time in history, each of these cities has more than 1 million residents.
- On the metro level, the smaller metros of Grand Rapids, Tucson, Arizona, Honolulu, Tulsa, and Fresno all eclipsed 1 million residents for the first time.
- The nation's adult population also notably increased faster than the under-18 population in the last decade, indicative of the aging baby boomer generation that remains the largest cohort in the nation. The adult population grew by 10% since 2010, while the under-18 population shrunk by 1.4%. Roughly three-quarters of the U.S. population is now over the age of 18.

3. SUB-SECTORS AND MARKETS: APARTMENT

- According to real capital analytics, apartment cap rates are averaging 4.9% through the second quarter of 2021. Of the three subsectors that RCA tracks, garden apartments have observed the most cap rate compression over the past year, declining by 28 basis points (bps) to settle at an average cap break of 5.0%.
- Mid/highrise properties follow next, observing 16 bps of cap rate compression over the past year, settling at

4.7% through Q2 2021. Meanwhile, student housing, a subsector that has been particularly hampered by the pandemic, currently sees cap rates one basis point higher today than they had one year ago, averaging 5.4% through Q2.

- Garden apartments have also seen the most price appreciation over the past year, growing an impressive 13.2%. Student housing and mid/highrise properties follow with year-over-year price growth totals of 5.5% and 4.1%, respectively.
- No metro market has seen more apartment cap compression over the past year than Charlotte, NC. according to real capital analytics, apt cap rates in Charlotte are down to just 4.4%, shaving off 64 bps from one year ago. Following closely behind is Phoenix, which similarly has apartment cap rates averaging 4.4% with 45 bps of compression observed over the past year.

4. SUB-SECTORS AND MARKETS: OFFICE

- Single-tenant office assets have observed the most cap rate compression through Q2 2021 of all other tracked office sub-types, declining 27 bps year-over-year to land at 6.3%. Suburban office assets and medical office properties follow close behind, shaving off 21 bps and 7 bps, respectively.
- Single-tenant and suburban valuations are rising neck-and-neck gains, rising by 8.6% and 8.2% year-over-year, respectively. Medical office assets prices are up by an average of 5.3%.
- Central Business District located office assets, unsurprisingly, are lagging the pack. Through Q2 2021, CBD located office asset cap rates sit at 5.6%– 10 bps higher than where they were one year ago. Moreover, CBD assets have seen a dip in valuations over the past year, posting price declines of 5.7%
- The Midwest is enjoying regional outperformance in the office market recovery. Detroit leads all domestic markets, posting the most cap rate compression of any U.S. metro market. Through Q2 2021, office cap rates in Detroit average 7.0%, down 83 bps from last year. Chicago and Columbus both perform favorably as well, notching cap rate declines of 63 bps and 55 bps, respectively.

5. SUB-SECTORS AND MARKETS: INDUSTRIAL

- Portland's industrial sector has seen the most cap rate compression out of all domestic markets over the past year ending Q2 2021. Through the middle of this year, cap rates in Portland are down by 82 bps from the same point last year, landing at 4.8%. Boston and Tampa Bay follow next, posting cap rate declines of 76 bps and 60 bps, respectively.
- Single-tenant industrial properties saw a significant step up in pricing over the past year. According to Real Capital Analytics, the price per square foot for single-tenant space grew by 19.2% year-over-year. Cap rates for the sub-type declined over the past year, albeit a marginal 14 bps.
- Warehouse industrial properties saw the most cap rate compression of any industrial sub-property, dipping

32 bps from one year earlier. Valuations for the sub-type grew by a healthy 11.4% over the same period.

- Flex industrial space, while still notching positive annual momentum, is the clear laggard of the group. Through Q2 2021, cap rates for flex industrial space edged down by just 6 bps, and prices are up by 6.9%.

6. SUB-SECTORS AND MARKETS: RETAIL

- The Austin retail sector is outperforming all other domestic markets in terms of annual cap rate compression, notching declines of 84 bps to land at 5.9%. Following right behind Austin are Kansas City and Baltimore, which have posted retail asset cap rate declines of 61 bps and 54 bps, respectively.
- Through Q2 2021, drug stores, shops, and single-tenant retail assets are cap rate decline standouts, falling year-over-year by 22 bps, 20 bps, and 18 bps, respectively.
- On the pricing front, single-tenant retail assets lead the way, posting price growth totals of 5.4% year-over-year. Big box retail assets follow closely behind, posting price growth totals of 5.3% year-over-year.
- Lifestyle/power center and urban storefronts have seen their valuations dip the most as a result of the pandemic disruption, registering declines of 6.7% and 2.3%, respectively.

7. TREPP DELINQUENCY DATA

- According to figures reported by Trepp, the CMBS delinquency rate declined from 6.15% to 6.11% between June and July 2021. While delinquency rates have continued to grind lower, the pace of improvement has slowed considerably in recent months, falling by a total of just 5 bps since May.
- Notably, the multifamily CMBS delinquency rate more than doubled between June and July, surging from 2.02% to 4.52%. However, the report notes that the surge is primarily due to a large loan that had previously been marked 30 days delinquent for some special servicers and current for others. While not yet substantiated, the report's authors claim that administrative errors are widely suspected.
- Retail CMBS delinquency rates have remained stubbornly high, currently sitting at 10.54% through July 2021. Retail delinquency rates entered the crisis at just 3.89% before ballooning to 18.07% in June of last year. After some significant progress through the first quarter of 2021, improvement has crawled to a near standstill in recent months, shaving off just 35 bps since March 2021.
- Industrial CMBS delinquency rates sit at a sparkling 0.63% through July 2021. Even during the worst of last year's shutdown, industrial CMBS delinquency rates never eclipsed 2%. Meanwhile, office CMBS delinquency rates rose by 7 bps in July to land at 2.16%. Office CMBS delinquency rates have oscillated between 2% and 2.4% for the past twelve months, without much clear directionality.

8. JOBS REPORT

- The Labor Department's July Jobs Report indicated that nonfarm employment grew by an encouraging

943,000 jobs last month– the third consecutive month of improving job growth totals. The July tally marks the highest pace of job growth since August of last year. The reading comes in 98,000 jobs above the Dow Jones economist survey consensus forecast, but some warn that the July numbers do not reflect the impact of the recent COVID surge brought on by the Delta variant, which began to spread near the end of the surveying period.

- To put the current pace of re-hiring and job growth in context, the most jobs added in a single month in the aftermath of the Great Financial Crisis was 540,000 in 2010.
- Despite the recent surge in job growth, the labor market has still yet to eclipse February 2020 peak employment totals. Compared to the pre-pandemic high watermark, nonfarm employment remains down by 3.7%.
- The civilian unemployment rate fell to 5.4% in July. The unemployment rate has now recovered by a full 9.4% since reaching a shutdown-triggered 14.8% in April 2020. The current unemployment rate sits just 1.9% above the generational low of 3.5%, observed just before the onset of the pandemic.
- The labor force participation rate (LFPR), while improving, has remained a sore spot in the pandemic recovery. Through July 2021, the LFPR sits at just 61.7%– up from the April 2020 low of 60.2%, but well off from the 63.4% right before the pandemic.
- The percentage of employed persons who reported teleworking (work from home) as a result of the pandemic declined from 14.4% in June to 13.2% in July.

9. OPENINGS, HIRES, & QUITS

- Job openings resumed their stratospheric rise in June 2021, improving on May's total by 590,000 and setting a new all-time high of 10.1 million openings.
- Through June, there were 1.06 available job openings available for every person counted as unemployed. Before the onset of the pandemic, the ratio had stabilized near 1.2 openings per unemployed work, and in the depths of the shutdown, the ratio fell as low as 0.2.
- Surging job openings, measured both in absolute terms and relative to the number of unemployed workers, are a signal that employers are gaining confidence in the economic rebound and are trying to keep pace with consumer demand.
- Unsurprisingly, hires are also reaching lofty highs. In June, nonfarm hires totaled 6.7 million. Excluding the first two months of re-opening the country late last Spring, the June hiring total marks a record.
- The quits rate, which is the number of quits as a share of total employment, ticked up to 2.7% in June, up 0.3% from the month prior and just off the all-time high of 2.8% recorded in April this year. The past three months of data represent the three highest quits rate observations on recording, topping the previous high of 2.4% measured in 2001. The elevated quits rate signals a competition amongst employers for talent and a

willingness of employees to test the job market.

10. EVICTION MORATORIA / METRO LEVEL EVICTION RISK

- On August 3rd, the CDC issued a targeted eviction moratorium following the expiration of the previous order on July 31st. The new order temporarily halts evictions in counties with "heightened levels" of COVID-19 transmission through October 3rd and comes after a recent surge in virus transmission as the Delta variant takes hold across the country. The order covers roughly 90% of all renters, and in counties that show improvements in their COVID-19 transmission rates for 14 consecutive days, tenants will no longer be protected by the moratorium.
- Prior to the expiration, some estimates projected up that up to 11 million people could be at risk of eviction, though the underlying assumptions and data behind the forecast have been disputed. According to data from Eviction Lab, which tracks court filings in 6 states and 21 cities, 473,346 evictions have been filed by landlords during the pandemic as of August 07th, 2021, with 4,809 filed in the most recent week.
- Currently, the states of California, Hawaii, Illinois, Minnesota, New Jersey, New Mexico, New York, Vermont, Washington, and the District of Columbia have at least some forms of emergency eviction protections in place, with many localities across the nation following suit. Most in place statewide moratoria expire in September.
- On August 12th, the Supreme Court partially blocked New York's moratorium, while on August 13th, a Federal District Court judge left in place the nationwide moratorium after a challenge from various landlord associations.

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SUMMARY OF SOURCES

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