

Economic Update

SEPTEMBER 3, 2021

CHANDAN ECONOMICS

1. COMMERCIAL PROPERTY PRICES

- According to the Real Capital Analytics commercial property price index [CPPI], commercial property prices maintained their momentum through July, growing an average of 1.2% from a month earlier. Moreover, the national all-property type CPPI is up a robust 11.8% year-over-year, marking the fastest annual growth since 2006.
- Apartment assets continue to lead the way, notching the highest growth of all commercial property types. In July, the apartment CPPI grew 1.6% month-over-month and 13.5% year-over-year, both of which led all other tracked property types.
- Retail assets posted the next best month-over-month growth rate of the core-four property types, gaining 1.2% between June and July. However, measured year-over-year retail prices are by just 7.5%, which remains the lowest mark across the major property types.
- Industrial assets continue to plot a path of robust growth, growing 1.1% and 11.8% month-over-month and year-over-year, respectively.
- Overall, office price growth sits at 1.0% month-over-month and 8.8% year-over-year. However, the story across office subtypes tells a bifurcating story. Central business district located office assets have yet to be able to establish any positive momentum, posting price declines of -0.1% month-over-month and -4.6% year-over-year. Meanwhile, suburban office price growth has remained strong, growing 1.3% from a month earlier and 11.7% from last year.

2. SHIFTING HOUSEHOLD PREFERENCES

- According to new survey research from Pew Research Center, an increasing share of Americans are willing to live further away from urban amenities if it means that they can live in larger homes.
- Given two options, large homes with few urban amenities or small homes with many walkable amenities, the U.S. was almost evenly split the last time Pew asked this question in September 2019. Two years ago, 53% preferred the large home vs. 47% who preferred urban settings.
- In the July 2021 edition of the survey, a lopsided 60% preferred the option of large homes with few walkable amenities compared to 39% who preferred smaller homes in urban settings.
- Measured across every subset of race, age group, political affiliation, and educational attainment, the directionality of results were the same, with every group observing a preferential shift toward larger housing options with few urban amenities.
- The permanence of COVID accelerated migration patterns will be a developing story to watch in the years to come. However, a desire by employers to get their workforce back into the office is leading to optimism for a post-COVID reversion back to urban life. At the same time, WFH accessibility tools and greater employer-comfortability with WFH may contribute to a long-term shift toward remote work adoption.

Economic Update

SEPTEMBER 3, 2021

CHANDAN ECONOMICS

3. TREPP CRE SENTIMENT REPORT

- Trepp recently released the results of its inaugural CRE Market Survey, noting that commercial real estate professionals are both hopeful as well as concerned over structural shifts.
- 90% of the survey respondents expect that office vacancy and effective rents will continue to lag pre-pandemic levels over the next six months. Similarly, 80% of respondents believe that retail occupancy will trail pre-pandemic levels for the next six months.
- On the more optimistic side of the spectrum, 62% and 74% of respondents anticipate that multifamily occupancy and rents would be above pre-pandemic levels in six months, respectively.
- Asked about the effects of regulatory policy in the next 3-4 months (57.9%), new tax policy by April 2022 (63.9%), and interest rate policy (51.7%), a majority of respondents believe the impacts will be broadly negative to CRE.

4. SCOTUS EVICTION MORATORIUM DECISION

- On August 26th the U.S. Supreme Court blocked the CDC's national eviction moratorium, ending protections that had been in place for most renters for much of the pandemic.
- The moratorium was authorized by Congress in the CARES Act of March 2020 but has since expired and resumed by the CDC to prevent a spike in homelessness during the public health crisis. It was then extended by Congress in late-2020, expired again, and temporarily renewed again by the CDC, culminating in legal challenges to the order. The SCOTUS decision comes roughly three weeks after the most recent extension, which paused evictions in regions of the United States with "high" and "substantial" coronavirus spread through October 3rd.
- While the protections have been credited with preventing a wave of evictions during the pandemic, with many renters strained by COVID's economic impact, the moratorium has also been criticized for leaving landlords left saddled with the financial consequences of unpaid rents. Despite nearly \$47 billion in rental assistance approved by Congress over the past year, less than 10% of the funds have reached landlords.

5. WHITE HOUSE ECONOMIC FORECAST

- In recent days the White House has updated its projections for both inflation and economic growth over the next couple of years, forecasting that during 2021, both will reach their highest levels since the early 1980's.
- According to the Office of Management and Budget (OMB) real-GDP is expected to reach 7.1% in 2021, an increase from the 5.2% growth-rate that Administration officials projected earlier this year. To some degree, the upward revision follows the implementation of the \$1.9 American Rescue Plan, which sent consumer spending higher, while firms ramp up hiring and investment to meet demand.

Economic Update

SEPTEMBER 3, 2021

CHANDAN ECONOMICS

- OMB also more than doubled its inflation forecast, projecting that the Consumer Price Index (CPI) will average 4.8% in 2021. While most officials maintain that the inflation surge is a temporary consequence of the economy reopening, they conclude that price-pressures are likely to hold through the end of the year. OMB expects CPI to drop back to an average of 2.5% in 2022.

6. CRE UNDERWRITING STANDARDS

- According to the July 2021 Senior Loan Officer Opinion Survey, measured broadly across commercial real estate, lending standards are easing. Lenders report the most easing of underwriting standards on multifamily properties, with a net 18.1% of respondents loosening standards.
- Construction and development lending followed next, with a net 7.0% of respondents reporting an easing of underwriting standards. Moreover, construction and development underwriting standards saw the largest one-quarter change of all CRE lending sub-types. In the Q2 survey, a net 14.3 of responding senior loan officers reported tightening for construction and development loans. The third quarter observation represents a net 21.3% shift.
- A net 4.1% of senior loan officers report easing underwriting standards for nonresidential commercial real estate loans. The previous quarter, the net respondents reporting easing stood at 0%. These two-quarters of data together reflect a mixed bag of opinions and growth prospects throughout different CRE sectors.

7. FEDERAL RESERVE POLICY

- Minutes from the FOMC's July meeting indicate that the Federal Reserve is prepared to begin reducing asset purchases if the economic recovery continues "as anticipated," in the words of Fed Chair Jerome Powell.
- The Fed has been purchasing billions of dollars in government bonds on the open market since the early days of the pandemic and its subsequent recession to suppress interest rates and spur domestic spending, an effort known as Quantitative Easing. In a recent speech at the Kansas City Fed, Powell reiterated the year-end tapering goal, believing that the Central Bank has made do on its inflation target, while making substantial gains towards maximum employment.
- Powell notably signaled that while asset purchases could taper, interest rates will remain low as the economy continues to try and recover to pre-COVID levels. He warned that the Delta variant remains a risk to the economic rebound.
- The shift in policy-tone also comes amid rising inflation in recent months. In July the Personal Consumption Expenditures Index, the Fed's preferred inflation measure, rose 4.2% year-over-year, well above the bank's 2% target rate. Still, most officials hold the view that much of the price-pressures are transitory, as the economy experiences a supply crunch from reopening efforts. Officials are looking to ensure that inflation will sustain a 2% annual average after reopening price-pressures fade.

8. ARE UNEMPLOYMENT BENEFITS KEEPING WORKERS HOME?

- A leading theory as to why U.S. employment totals have failed to snap back full to pre-pandemic levels despite record levels of job openings is that continued unemployment benefits are acting as a disincentive. A total of 26 states have ended their participation in the Federal Pandemic Unemployment Compensation (FPUC) program, which provided an additional \$300 per week for unemployed workers.
- According to the Economic Policy Institute (EPI), states that have maintained their participation in the FPUC program have experienced higher levels of job growth than the 26 states that decided to end the program.
- States that have maintained full federal jobless benefits have averaged job growth totals of 1.6% between April and July 2021. Meanwhile, the average for states that cut unemployment benefits is much lower at 0.9%.
- Moreover, states that have retained full unemployment insurance benefits have seen state-level unemployment rates decline by an average of 0.4% compared to 0.2% in states that cut benefits.
- The EPI analysis notes that state-level estimates are volatile and gleaning too much from simple averages is cautioned. However, the data do offer evidence that cutting federal unemployment benefits has not supercharged economic growth the way that more than half the country's governors had hoped.

9. WEEKLY JOBLESS CLAIMS

- Seasonally adjusted initial employment claims totaled 353k during the week ending on August 21st, slightly higher than the week before and above the recent Dow Jones estimate of 350k. This comes one-week after jobless claims fell to their lowest weekly level of the pandemic.
- Continuing unemployment claims remained relatively unchanged at 2.6 million. However, the four-week moving average did fall by 108,500 to 2.9 million.
- While weekly claims have come far down from their 2020 average, they remain elevated above pre-COVID levels and have showed signs of flattening in recent weeks as the job recovery slows.

10. TSA TRAVEL UPDATE

- Domestic travel has moderated a bit in August following a strong ramp up in throughput that began in the Spring, according to the TSA. On August 30th, roughly 1.6 million people traveled by plane, dwarfing the same-day 2020 output of 711K but 30% below the 2.3 million that traveled on the same day in 2019.
- Traveler throughput throughout the summer has showed substantial progress towards pre-COVID levels, averaging more than 2 million daily travelers from June 15th to August 15th. Throughput in 2021 peaked on August 1st, with 2,238,462 travelers that day, the highest daily total since February 28th, 2020.
- Travel appears to have sustained in recent weeks despite the current surge in cases due to the Delta variant. A federal mask mandate on airplanes was recently extended past its September 13th end date to January 18th, 2022.

Economic Update

SEPTEMBER 3, 2021

CHANDAN ECONOMICS

SUMMARY OF SOURCES

- <https://app.rcanalytics.com/#/trends/cppi> [1]
- <https://www.pewresearch.org/fact-tank/2021/08/26/more-americans-now-say-they-prefer-a-community-with-big-houses-even-if-local-amenities-are-farther-away/> [2]
- <https://www.trepp.com/trepptalk/cre-sentiment-survey-executive-summary-hopeful-signs-structural-concerns> [3]
- https://www.supremecourt.gov/opinions/20pdf/21a23_ap6c.pdf [4]
- https://www.whitehouse.gov/wp-content/uploads/2021/08/msr_fy22.pdf [5]
- <https://www.federalreserve.gov/data/sloos/sloos-202107-chart-data.htm> [6]
- <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm> [7]
- <https://www.federalreserve.gov/newsevents/speech/powell20210827a.htm> [7]
- <https://www.epi.org/blog/cutting-unemployment-insurance-benefits-did-not-boost-job-growth-july-state-jobs-data-show-a-widespread-recovery/> [8]
- <https://www.dol.gov/ui/data.pdf> [9]
- <https://www.tsa.gov/coronavirus/passenger-throughput> [10]