

Economic Update

 **SVN** | Research

MAY 27, 2022

1. MSCI REAL CAPITAL ANALYTICS CPPI

- The US National All-Property Price Index, which produces a weighted measure of commercial real estate prices, rose by 17.9% over the year ending April 2022, according to MSCI Real Capital Analytics (MSCI RCA). Month-over-month, prices rose 0.5%, which would convert to a 6.3% annualized growth rate — a sign that some price growth momentum is slowing.
- Industrial properties experienced the fastest annual rise in prices among the major property sectors, climbing by 26.0% year-over-year. Industrial also saw the fastest month-over-month appreciation in April, rising 1.3% (17.0% annualized growth rate).
- Apartment prices were close behind, growing 23.0% year-over-year. Month-over-month, apartment prices also grew by about 1.3% in April (16.6% annualized growth rate)
- Retail and Office asset prices are up 18.4% and 11.8% year-over-year, respectively. The only sub-index in the MSCI reporting to see an increase in its year-over-year growth rate for April was Central Business District Office properties (12.3%).

2. SENIOR LOAN OFFICER OPINION SURVEY

- The Federal Reserve's April Senior Loan Officer Opinion Survey, which was conducted over the first quarter of 2022, indicates that lenders are increasingly pulling on the reins as borrower demand has lessened.
- For commercial properties, an equal number of lenders report tightening and loosening underwriting standards, though this is a shift of 14.5 percentage points toward tightening compared to the previous quarter. A net 3.1% of respondents saw demand fall for commercial loans over the first quarter — a shift of 16.3 percentage points from the prior quarter, when a net 13.2% reported rising demand.
- For Multifamily, a net 9.2% of respondents still reported loosening underwriting standards, though this is a 14.0 percentage point shift down from the end of 2021. For Multifamily borrower demand, 18.5% of lenders reported seeing growing borrower appetites, declining from 37.7% in the prior survey.

3. US INDUSTRIAL MARKET

- Prologis' newly produced "True Months of Supply (TMS)" metric shows that the US Industrial Market currently has a record-low 16-months of supply, according to data tracked across 30 US metros.
- According to Prologis, before 2021, the Industrial market had never sunk below 32 months of supply. Anything under 50 months of supply is generally considered a signal of rent growth throughout the market.
- Analysts predict that TMS will average 20 months of supply in 2022 with projected rent growth of 22%

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over the same period. Vacancy rates are expected to hold at a record low of 3.3%.

- Prologis states that the traditional Industrial Supply metric did not accurately reflect the rate of vacancies in the development pipeline, a large portion of which tends to be pre-leased, requiring an adjustment in how supply is calculated.

4. WEF GLOBAL OUTLOOK

- The World Economic Forum (WEF), which recently met in Davos, Switzerland for its annual conference, also released its quarterly economic outlook, where surveyed economists moderated their expectation of strong economic growth and normalized inflation.
- The US remains poised to have one of the better economic rebounds in 2022. 92% of WEF's Chief Economist Survey respondents see US activity being either moderate or strong in 2022 despite recent uncertainty. Only South Asia and East Asia/Pacific registered higher scores in this regard, capturing 96% and 95% of responses, respectively.
- When polled on inflation, respondents see the 2022 outlook to be most challenging for Latin America and the US, with 41% and 38%, respectively, expecting significantly higher inflationary pressures throughout the rest of the year.
- Real wages are also expected to decline, with over two-thirds of respondents expecting that the average real wage will reduce significantly across advanced economies.

5. HOUSING MARKET UPDATE

- The NAHB/Wells Fargo Housing Market Index (HMI) fell from 77 to 69 in May. All major subcomponents of the index – current single-family home sales, projections of single-family home sales over the next six months, and current traffic of prospective buyers – posted month-over-month declines.
- Regionally, sentiment in the Northeast and South continues to outpace the West and Midwest. However, the Northeast was the only region to see sentiment increase from April. Notably, sentiment in the Northeast consistently underperformed the South and West regions throughout most of 2021. As of May, the Northeast and South Regional HMIs are at the same level.
- New residential construction data from the Census Bureau this month shows that residential permits, starts, and completions all fell from March to April. The HMI historically tracks closely to these data.

6. INDEPENDENT LANDLORD RENTAL PERFORMANCE

- Research by Chandan Economics indicates that the on-time collection rate for independently operated residential properties declined by 111 basis points between April and May, falling to 78.1%. April's month-

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end on-time payment rate was revised down 24 basis points (bps) from the preliminary estimate to 79.2%.

- Gateway markets have maintained higher on-time payment rates than units located elsewhere for five-consecutive months through May 2022. The May on-time rate for Gateway markets stands at 80.2%.
- Sun Belt rentals underperformed the rest of the US by 31 bps in April and 188 bps in May. As the region sees growing success, a concern arises that Sun Belt markets are re-pricing more quickly than some existing residents can handle.
- 2-4 Family rentals maintained the highest on-time payment rate of all sub-property types in May, coming in at 81.1%.
- Mid-priced rentals (\$2,000-\$2,499) continue to outperform all other price points, recording an on-time payment rate of 83.8%. Units with monthly rents below \$1,000 performed the worst.

7. THE STATE OF COMMERCIAL REAL ESTATE BUILDING OPERATIONS

- A survey of Commercial Real Estate professionals conducted by the firm Building Engines found that a large majority of CRE professionals saw their portfolios either increase or remain the same in 2021 relative to 2020. Further, most expect their tenants to reoccupy offices by summer 2022 (the reoccupation question was posed before the Omicron variant outbreak).
- According to respondents, the most common office tenant request was faster responses to work orders and maintenance requests (50%) (those surveyed could submit up to 3 answers for the question, so the total does not equal 100%). Enhanced health and safety protocols came in second (45%), and updates to tenant amenities were third (38%).
- 67% of respondents believe that their tenants plan to use a hybrid work model.

8. RETAIL TRADE/REBOOK INDEX

- Seasonally adjusted US retail and food service sales were \$677.7 billion in April, a 0.9% increase from March and an 8.2% increase above April 2021's level.
- Retail trade sales rose 0.7% from March to April and are up 6.7% from April 2021. Gas stations are up 36.9% year-over-year, while food and drinking places saw a 19.8% year-over-year increase.
- The May 21st release of the weekly Redbook Index, a sales-weighted measure of year-over-year same-store sales growth among US retailers, increased by 11.4% over the same week in 2021. Year-over-year growth in the Redbook Index reached an all-time high during the Black Friday/Cyber Monday week in November 2021.

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9. JOBLESS CLAIMS

- After beginning to climb from its pandemic floor throughout April and early May, initial jobless claims fell during the week ending May 21st, an encouraging sign as markets and policymakers brace for the possibility of an impending US recession.
- Initial jobless claims stood at 210,000 according to the Department of Labor's latest figures, a decline of 8,000 from the previous week. The four-week moving average for initial claims rose by roughly 7,000 to 206,750, mainly reflecting the consecutive increases registered earlier in the month.
- Continued unemployment claims, for which the latest data is available through May 14th, ticked up by 31,000 from the week before, landing at 1.34 million. However, last week's metric was the lowest on record, reflecting both the lag that continued claims have compared to initial claims and the overall favorable position of today's labor market despite increased economic uncertainty.

10. FED MEETING MINUTES

- Minutes from the Federal Reserve's January meeting show that the FOMC is prepared to conduct additional 50 basis point hikes in the future if needed to re-anchor inflation expectations, a divergence from what most market participants expect. Fed futures edged higher following the release.
- Additionally, the median Desk survey response indicates another 125 basis points of increases by the middle of next year, raising the median target range to 3.31%, much higher than predicted in previous surveys.
- Notably, the committee stated that they might move past having a "neutral" policy stance and into a "restrictive" one. While vague in detail, it is a clear signal that the Fed has moved into an increasingly aggressive approach to taming inflation.

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SUMMARY OF SOURCES

- (1) <https://www.msci.com/our-solutions/real-assets/real-capital-analytics>
- (2) <https://www.federalreserve.gov/data/sloos/sloos-202204-charts-data.htm>
- (3) <https://www.globest.com/2022/05/13/prologis-us-industrial-market-has-record-low-16-month-supply/>
- (4) https://www3.weforum.org/docs/WEF_Chief_Economists_Outlook_May_2022.pdf
- (5) <https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index>
- (5) <https://www.census.gov/construction/nrc/pdf/newresconst.pdf>
- (6) <https://www.chandan.com/independentlandlordrentalreport>
- (7) <https://www.buildingengines.com/resources/report/the-state-of-commercial-real-estate-building-operations-for-2022/>
- (8) https://www.census.gov/retail/marts/www/marts_current.pdf
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- (9) <https://www.dol.gov/ui/data.pdf>
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