Economic Update

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1. FED POISED TO PIVOT

- The FOMC is poised to cut interest rates in September for the first time in over two and a half years, evidenced by recent statements from Fed Chair Jerome Powell and a 100% consensus forecast that has formed in futures markets.
- During a speech at the Fed's annual retreat in Jackson Hole, Wyoming, Powell told onlookers that "the time has come for policy to adjust." While he went on to say that the "timing and pace of rate cuts will depend on incoming data," Powell's statements seemingly confirm the majority market sentiment that the committee's first cut will arrive at its upcoming meeting in September.
- According to the Chicago Mercantile Exchange's Fed Watch Tool, futures markets forecast a 100% chance of a rate cut in September. The conversation now focuses on whether recent signs of economic distress will persuade policymakers to cut by only a quarter or a half of a percentage point.
- While some Fed watchers believe that Powell's recent dovish signaling has made the chance of a 50-basis point cut in September less of a fantasy than would have been imagined just a couple of months ago, the FOMC is likely to ease into cuts gradually unless there are further, more meaningful signs of deterioration that surface over the next couple of weeks.
- As of August 27th, futures markets place a 65.5% chance that the FOMC will cut by 25 basis points and a 34.5% chance of a 50 basis point cut.

2. LABOR MARKET COOLS, BUT RECESSION RISKS LOW

- According to the latest labor market outlook by The Burning Glass Institute, the US labor market showed signs of cooling in August but has not entered a recession.
- Job growth has slowed slightly, and the unemployment rate has risen from 3.4% in April 2023 to 4.3% in July 2024. Hiring and quit rates have dropped from their post-pandemic highs, reflecting employers' and employees' more cautious approach in the current environment.
- While labor market data has been broadly moving in an unfavorable direction in recent months, the developments are not triggering a wave of job losses or resulting in a pullback of consumer spending. Wages have continued to grow in 2024 but are beginning to moderate.

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- Meanwhile, labor force participation has risen for prime-age workers, climbing from 82.4% in July 2022 to 84.0% in July 2024, its highest level since 2001.
- Productivity also remains a bright spot for the labor market, with labor market productivity up 2.7% over the past four quarters.

3. SWING STATE HOUSING AFFORDABILITY TRENDS

- According to a recent analysis by Chandan Economics, home prices in the seven key 2024 election swing states have surged in recent years, raising the salience housing affordability may have on the upcoming US presidential election.
- Utilizing valuation data from Zillow, while national home prices have risen by an average of 45.0% between January 2020 and July 2024, roughly 62% of swing state metros have seen home prices rise faster than the national average, with metros in the Sun Belt standing out.
- Rent increases have mirrored this trend, with 81.8% of tracked rental markets in the seven swing states experiencing growth higher than the national average of 32.2% since the start of the pandemic.
- The analysis suggests that rising housing costs will play a pivotal role in voter sentiment, with candidates' housing proposals likely to resonate more in these politically decisive states.

4. HOW HARRIS AND TRUMP PLAN TO TACKLE THE HOUSING CRISIS

- While the two major political parties do not agree on much, there is a uniform consensus heading into this year's election that the erosion of housing affordability is a paramount concern.
- Last week, Vice President and Democrat presidential nominee Kamala Harris pitched a set of housing plans in her campaign's first policy proposal release. The plan, while short on details, proposes the construction of three million new homes over the next four years with an emphasis on affordable housing construction.
- The campaign of former President Donald Trump has highlighted federal regulation as a barrier to new housing development and has placed deregulation and tax cuts at the center of their strategy.
- Overall, policy details are scant, but each candidate assesses that the persistence of the crisis is primarily

a supply problem. The candidates' mutual acknowledgment of the problem and their shared diagnosis of the main contributing factor raises hopes that the housing crisis will be taken earnestly in either eventual administration.

5. COMMERCIAL PROPERTY PRICES

- According to the MSCI-RCA commercial property price index (CPPI), US commercial sector prices declined 1.0% annually in July, faring significantly better than one year ago when prices posted a 10.8% year-over-year decline.
- The industrial sector was the only property type that posted a year-over-year increase during July, rising 9.1% over the past 12 months, its fastest pace in nearly two years.
- The Apartment index was the only sector that did not have an improving annual price trend relative to June, falling 8.4% year-over-year.
- Retail price fell the least out of all negative annual price trends, down just 0.8% year-over-year.
- Suburban Office properties posted their third consecutive monthly uptick, climbing 0.3% from June, while annual price declines slowed to -6.6% year-over-year. CBD office price declines also slowed to -27.2% year-over-year.

6. NAHB HOUSING MARKET INDEX

- The NAHB/Wells Fargo Housing Market Index (HMI) dropped to 39 in August 2024, its lowest level of the year, down from 41 in July and missing forecasts of 43, according to the latest National Association of Home Builders data.
- The declining builder sentiment in August was primarily attributed to affordability issues and buyer hesitation due to high interest rates and home prices.
- The sub-index measuring present sales conditions fell by two points to 44, and the sub-index measuring traffic of prospective buyers dropped to 25. Conversely, expected sales in the next six months rose by one point to 49.
- Additionally, the August report notes that builders are increasingly cutting prices, with 33% doing so

in August, up from 31% in July. Nonetheless, if the increase in forward sales expectations is anchored further by an upcoming interest rate cut, the immediate sales situation may improve in the coming months.

7. INDEPENDENT LANDLORD RENTAL PERFORMANCE

- According to the latest data from Chandan Economics, in August, the on-time payment rate for independently operated rental units declined for the third consecutive month to 84.9%, down 332 basis points from the post-pandemic peak.
- Following exceptional apartment sector rent growth in 2021 and 2022, on-time payments began falling in the Spring of 2023 —from a high of 88.3% in April to the current low of just under 85%. After stabilizing in the Spring of 2024, on-time payment rates have fallen in the past three months.
- Of the three tracked property sub-types, single-family rentals had the highest on-time payment rate among sub-property types at 85.3%. Multifamily properties had the lowest on-time payment rate in August 2024, at 84.1%. Meanwhile, properties with 2-4 rental units were in the middle, with an on-time payment rate of 84.5%.
- Western states reported the highest on-time payment rates. On-time payment rates were highest in Idaho (93.8%), followed by Utah (92.0%), Colorado (91.2%), Nevada (90.1%) and New Hampshire (89.7%).
- August's forecast full-payment rate, which includes on-time payments, late payments, and expected late payments based on historical trends, came in at 94.0% — down 69 bps from July and 213 bps from this time last year.

8. RETAIL SALES

- According to the US Census Bureau, US retail sales surged by 1% monthly in July, rebounding from a downwardly revised 0.2% decline in June and far exceeding expectations of a 0.3% increase.
- July's tally was the largest monthly gain for Retail sales since January 2023, with the most significant sales growth seen in motor vehicle and parts dealers (+3.6%) and electronics and appliance stores (+1.6%).

- Other sectors, including grocery stores, building materials, and health and personal care, also saw increases. Meanwhile, sales declined in miscellaneous stores, sporting goods, and clothing.
- Excluding certain categories, sales rose 0.3%, compared to 0.9% in June, above forecasts of 0.1%.
- In total, these data suggest that despite recent labor market jitters and corporate earnings concerns, American consumers continue to spend, retailers are performing well, and recession signs remain dull.

9. SFR RENTS

- According to the latest data from the CoreLogic Single-Family Rent Index (SFRI), SFR rent prices have begun to stabilize and return to pre-pandemic growth rates.
- In June 2024, the latest month of available data, single-family rents grew by 2.9% year-over-year, matching the growth rate seen in the previous month.
- Moreover, several markets continue to perform well above the average. In June, eight of the 20 local markets tracked by Core-Logic rose by at least 4%. Washington, DC led all markets, with SFR rents climbing by 6.5% annually, followed by Seattle (6.1%) and New York (5.4%).
- The steady pricing across the nation reflects ongoing demand in the single-family rental market, which has shown resilience despite broader economic pressures. The trend also coincides with a decline in the SFR vacancy rates during the second quarter, marking the first decrease since 2021.

10. Q3 2024 SMALL MULTIFAMILY INVESTMENT TRENDS

- According to the latest data from Arbor Realty Trust, small multifamily activity continued to moderate during the second quarter of 2024, with valuations retreating slightly to begin the year but with limited market distress and an improving pace of originations.
- Through the second quarter, small multifamily originations are on pace to reach $48 million in 2024, 7.9% over last year's volume. The pace of originations is projected to stabilize in the coming quarters as interest rate pressures begin to recede.
- Asset valuations were down 1.5% year-over-year through Q2, driven by rising cap rates as operating incomes, expense ratios, and occupancy rates each improved during the quarter.

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- Occupancy rates across the sector averaged 97.1%, a 45 bps improvement over the first quarter and following two consecutive quarterly occupancy declines.
- Small multifamily cap rates averaged 6.1% during the quarter, reversing Q1 declines. Rising cap rates are seen as a double-edged sword for the sector, as they negatively impact asset values in the immediate term but improve forward-looking investment return profiles.

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SUMMARY OF SOURCES

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