

Economic Update

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1. FED MINUTES AND JACKSON HOLE SPEECH

- Last week saw the release of the Fed's July meeting minutes and Jerome Powell's highly anticipated speech at Jackson Hole.
- The July minutes showed that a large majority of officials supported keeping rates unchanged, with two dissenting out of concern for a weakening job market. However, with officials continuing to advocate for a data-dependent approach to rate decisions, the recent weaker-than-expected July hiring data has increased the likelihood that they will act in September.
- At his Jackson Hole speech, Fed Chair Jerome Powell signaled that policymakers are shifting their emphasis toward labor market risks, acknowledging that current downside risks to employment are becoming an increasingly urgent threat.
- Equity and futures markets reacted to the speech dovishly, increasingly expecting a September pivot to rate cuts.

2. COMMERCIAL PROPERTY PRICES

- Commercial real estate prices rose in July, with each of the four major sectors rising on an annual basis for the second consecutive month—a first since mid-2022.
- According to MSCI-RCA, commercial prices rose 0.6% nationally on a month-over-month basis and 0.9% year-over-year.
- Industrial climbed the highest of the four sectors month-over-month, rising 0.7%, and rising 3.4% annually. Office rose 0.8% from June and 2.3% year-over-year.
- Retail prices were up 0.3% from June and 4.2% over the past 12 months. Apartment prices were flat from June but up 0.4% year-over-year.
- The monthly increase, if annualized, would imply a 7.7% growth rate for CRE over the next 12 months. MSCI-RCA reports that investor sentiment has been growing cautiously optimistic about the second half of 2025, as investment activity improved during the first half of 2025 compared to the same period last year.
- Investors are also eyeing expected autumn rate cuts by the Federal Reserve as a potential opportunity to



Economic Update

 | RESEARCH

create more favorable conditions for a market rebound.

3. RECOVERY OUTPACES RECESSION IN CRE

- Recent insights from Integra Realty Resources (IRR) suggest that there are now more markets in recovery than in recession for the first time in several years, though confidence remains uneven.
- Office vacancies remain elevated but show signs of stabilization in several Sun Belt metros, such as Miami and Charleston. Still, the performance gap between Class A and commodity space persists and is widening while new construction has slowed significantly.
- Multifamily is stabilizing nationally, with cities like Chicago, Philadelphia, and Minneapolis experiencing greater stability as new supply slows. Markets in the South and West, such as Phoenix and Austin, continue to adjust to the increased supply that has been delivered over the past two years.
- Retail has outperformed expectations, specifically in many mixed-use and grocery-anchored locations. The report notes Austin, Tampa, and Orange County (CA) as standouts in rent growth, while urban cores that rely on older mall formats, such as Detroit and San Francisco, continue to face headwinds.
- The industrial sector remains healthy but is entering a transition period, with vacancies on the rise in metros like Dallas-Fort Worth and Indianapolis, as new supply deliveries outpace absorption. Rent growth continues to fall in oversupplied areas.

4. BUILDER SENTIMENT

- According to the NAHB Housing Market Index, builder sentiment edged down from 33 in July to 32 in August, matching June's mark for the lowest level since December 2022.
- 37% of builders reported cutting prices in July to try to boost demand, while 66% reported offering sales incentives—a post-pandemic high. Many builders continue to express pessimism about the near-term outlook, citing high mortgage rates and regulatory hurdles on land and construction as headwinds to the housing market.
- Current sales conditions declined to 35, while future sales expectations remained unchanged from July at 43. Buyer traffic rose to 22 but remains low by historical standards.

Economic Update



5. BUILDING PERMITS & STARTS

- According to the latest data from the US Census Bureau, US building permits declined 2.8% between June and July to a seasonally adjusted annual rate of 1.35 million. Permitting is down by 5.7% compared to July 2024.
- Permits for single-family homes rose 0.5% from June to an annual rate of 870,000 in July. Multifamily permitting fell slightly to an annualized rate of 430,000.
- Privately owned housing starts rose 5.2% month-over-month to an annualized rate of 1.42 million and stand 12.9% above the July 2024 rate of 1.26 million.
- Housing completions rose 6.0% month-over-month to a seasonally adjusted annualized rate of 1.41 million. However, the pace of completions is 13.5% below that of one year ago.

6. NATIONAL RENT COLLECTIONS

- On-time rental payments in independently operated units improved in August 2025 — a positive development for a sector that has been plagued by declining performance for most of the year. On-time rent collections remain down substantially from a year earlier.
- End-of-month rent collections have performed better, indicating a rise in renters paying late. The three-month moving average of late payments in independently operated rentals has risen consistently since the middle of 2024, climbing from a low of 8.8% to a high of 11.7% in June 2025.
- Late payment rates typically drop off in the spring as many households receive their tax refunds. However, the sustained recent surge in late payments may indicate a structural misalignment of household cash flows.
- At the state level, continuing a consistent trend, properties in the West outperformed the rest of the country. On-time payment rates were highest in Montana (94.9%) during August, followed by South Dakota (93.3%), Hawaii (92.5%), and Wyoming (92.3%).

7. CRE DELINQUENCIES RISE

- According to Trepp, CMBS delinquencies rose for the fifth consecutive month in July, up 10 basis points



Economic Update

 | RESEARCH

to 7.23%. Rising distress in the CMBS market can signal tightening credit conditions and greater financing risk in commercial real estate.

- Last month's rise in overall delinquencies can be mainly attributed to an uptick in Multifamily loan distress. The Multifamily delinquency rate climbed the highest month-over-month, up 23 basis points to 6.14% in July. Industrial was the only other sector to see delinquencies climb, rising one basis point to 0.52%.
- Lodging saw the largest monthly decline in delinquency, with the rate dropping 21 basis points to 6.52% in July. Retail fell 10 basis points to 6.59%
- Meanwhile, the Office delinquency rate declined from an all-time high of 11.08% in June to 10.91% in July.

8. WILDFIRE DAMAGE AND MORTGAGE RISK

- According to a recent study by Cotality, as wildfire-related property losses rise, contractor shortages and soaring rebuilding costs are colliding with an underinsurance problem, putting mortgages and recovery efforts at risk.
- Insurance-to-value problems are becoming more noticeable in places like California following this year's devastating wildfires.
- In many cases, reconstruction costs now exceed the policy dwelling limit that homeowners are capped at, leaving insured households left to foot often prohibitive rebuilding costs even after claims are paid out.
- Cotality notes that this could have a domino effect on the mortgage market. Existing homeowners facing high and inelastic reconstruction costs are already driving mortgage delinquencies in affected areas. Meanwhile, property insurance requirements on loans underwritten by Fannie and Freddie Mac will likely prohibit many first-time homebuyers in a high-interest-rate environment.

9. CBO: TARIFFS TO REDUCE DEFICIT

- A recent forecast conducted by the Congressional Budget Office (CBO) estimates that the tariffs implemented during the period from January 6, 2025, to August 19 will reduce the US budget deficit by \$3.3 trillion if they remain in place through 2035.
- The CBO also projects that if tariff revenues reduce the need for government borrowing, it would reduce



Economic Update

 | RESEARCH

federal outlays for interest by an additional \$0.7 trillion.

- The forecast is accompanied by a high degree of uncertainty, given the lack of recent precedents for tariff policy. However, the CBO's methodology accounts for some diversion of trade away from countries facing high tariffs and toward those facing lower tariffs.
- The latest CBO analysis updates the forecast to reflect changes in trade policy since May 13. A previous forecast conducted using changes up to May 13 had projected a \$2.5 trillion deficit decrease, highlighting the additional revenue impact of the White House's latest measures.

10. CONSUMER CONFIDENCE

- According to data from the Conference Board, consumer confidence was little changed in August, with its index falling 1.3 points as rising worries about jobs and income offset slightly more optimistic views of current and future business conditions.
- Consumers' view of current business and labor market conditions fell over the month, driven by a worsening labor market outlook.
- Meanwhile, the expectations index, which is based on consumers' short-term outlook for income, business, and labor conditions, declined by 1.2 points from June. Expectations remained below 80, a threshold that typically signals a recession ahead.
- Notably, consumers' gauge of current job availability declined for an eighth consecutive month.

Economic Update



SUMMARY OF SOURCES

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