Economic Update

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1. LARGE FUNDS INCREASE CRE FOOTPRINT

- A recent analysis by Reuters details how large funds are increasing their CRE market share as traditional lenders such as banks pull back.
- Stricter capital rules for banks and recent regional bank failures in the US have led to a retreat from traditional lenders in the real estate space, increasing demand for alternative lenders.
- Large firms such as PGIM, LaSalle and Nuveen, and Brookfield, among others, recently expressed their plans to increase their credit exposure to property markets as they bet on an end to the recent decline in real estate prices.
- Logistics, data centers, multifamily apartments, and high-end office properties are garnering the most attention from funds looking to expand their footprint.

2. FORECLOSURES FALL

- According to the latest data tracked by ATTOM, nationwide foreclosure activity fell slightly in April after increasing in March.
- US foreclosure filings, which include default notices, scheduled auctions, or bank repossessions, are down 4.0% month-over-month and an equivalent decline from one year ago.
- Maryland, Illinois, and Nevada posted the highest foreclosure rates in April, while Cleveland, Baltimore, and Chicago posted the highest rates among major US metros.
- To further contextualize the market's direction, ATTOM's report shows that foreclosure starts fell by 7.0% during the month while foreclosure completions rose by 8.0%. If the trend holds, foreclosures may remain elevated in the short term before dropping off.

3. LOGISTICS MANAGERS' INDEX

- Cell phone activity data tracked by the University of Toronto School of Cities show that between March 2023 and March 2024, downtown US and Canadian cities saw a median increase of 9.3% in foot traffic.
- While the findings do not detail the type of places where new activity occurs, they suggest that most downtown areas continue to gradually recover from the pandemic.

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- Of the metros tracked, 50 cities have downtown areas experiencing a recovery compared to 14 that are trending downward.
- Notably, the report points out that among the metros trending downward are cities that had previously topped their rankings, suggesting that many of them recovered more quickly.
- The top five metro areas by year-over-year downtown activity growth were Minneapolis (+45.7%), Ottawa (+39.5%), Montreal (+38.6%), Chicago (+36.6%), and Louisville (+31.9%).

4. CMBS DELINQUENCIES SPIKE

- According to Trepp data, the CMBS delinquency rate spiked in April, climbing 40 basis points to 5.07%, its highest rate since September 2021.
- The uptick reversed a slight decrease registered during the previous month and was driven mainly by increases in office, lodging, and retail delinquencies, each experiencing their most significant monthly increases in almost a year.
- Further, over a dozen loans with outstanding balances exceeding $100 million became delinquent during the month.
- Industrial and Multifamily experienced a slight month-over-month decline in delinquencies during April, with each reversing increase in March.

5. RETAIL FOOT TRAFFIC REBOUND

- A recent analysis of data from Forrester suggests that lease negotiations in the Retail real estate sector are occurring at earlier points in advance of lease expirations compared to previous years, shifting the market in favor of landlords and likely a bullish signal for asset prices.
- Offline sales rose by 78.1% in 2022 as nationwide in-person activity rebounded from pandemic lows and remained robust in 2023. Foot traffic in prime trade areas is expected to return to pre-pandemic levels in the third quarter of this year and surpass them in 2025.
- The report notes that several downtown shopping districts continue to be hampered by increased crime rates and declines in office attendance, but rents for prime retail space are up 9% in US markets compared

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to 4.8% globally.

- Moreover, while online sales have become an increasingly influential part of the overall retail market, the report estimates that brands with a physical location increase their digital sales by an average of 6.9% while closing stores depress sales.

6. CPI INFLATION

- Inflation, as measured by the Consumer Price Index (CPI), experienced a slight easing in April following three consecutive months of increases or unchanged rates on a monthly basis, according to the latest data from the Bureau of Labor Statistics.
- CPI rose 3.4% over the past 12 months, roughly aligned with expectations. Meanwhile, core inflation rose 3.6% annually, its lowest reading since April 2021.
- While the relief in price pressures will be a welcome sign from Federal Reserve policymakers, inflation in April was primarily driven by rises in shelter and energy.
- Shelter costs have been a critical focus of policymakers, given their significant contribution to price pressures over the past several years. The shelter index of CPI rose by 0.4% month over month and 5.5% year over year, well above the levels needed to drive inflation back down to 2%.

7. REPUBLIC FIRST FAILURE

- According to a recent analysis from Commercial Observer, Republic First's recent bank failure will have a limited impact on CRE markets.
- The Philadelphia-based bank, which finished 2023 with $5.87 billion in total assets, was shut down by Pennsylvania regulators in April. This renewed concerns over the instability of the banking system that began one year ago following the failures of three regional banks: Silicon Valley Bank, Signature Bank, and First Republic.
- Sam Chandan, director of NYU's Chen Institute for Global Real Estate Finance, suggests that the failure will have limited impact on real estate portfolios where the bank operated. Still, Chandan notes that the market remains "particularly sensitive to signals of instability" and that recent attention toward the bank

failure may be more noteworthy than the failure itself as markets work to "discern whether or not the failure has a bearing on or is relevant to our thinking about broader bank stability."
- Republic First's assets and deposits were acquired by Fulton Financial Corp, a Lancaster, PA-based bank, in an action overseen by the FDIC.

8. INTEREST RATES

- The FOMC held interest rates unchanged at its April 30th-May 1st policy meeting, the seventh time in its last eight meetings that it decided to do so. The Federal Funds rate is currently set to 5.25% to 5.5%.
- The decision continues the committee's "wait-and-see" approach, which has seen Fed policymakers move away from actively raising interest rates and toward a more moderate stance that digests month-to-month inflation dynamics before signaling the direction of rates moving forward.
- The committee's latest decision to hold comes on the heels of higher-than-expected inflation rates in recent months, including a 3.5% year-over-year uptick in the Consumer Price Index in March.
- Further, recent Q1 GDP data suggests that consumer spending has remained elevated since the start of 2024, potentially sustaining price pressures even as interest rates sit at generational highs.
- At the beginning of this year, consensus estimates predicted three quarter-percent rate cuts in 2024 beginning in March, which have moderated in recent months as Fed officials cautioned against a premature pivot and the US economy continues to expand at an impressive pace. Through May 15th, the majority of futures markets now see just two quarter-percentage points cuts in 2024.

9. APRIL JOBS REPORT

- According to the Bureau of Labor Statistics, nonfarm payrolls rose by 175,000 in April, below consensus estimates, and a significant slowdown in hiring activity was seen at the start of the year.
- April's job numbers were the slowest pace of hiring in six months and coincided with a ten basis point increase in the unemployment rate to 3.9%. Meanwhile, wage growth eased, with average hourly earnings falling below a 4% annual pace for the first time since June 2021.
- Despite the slowdown in hiring, the US labor market appears to be on solid footing as initial unemployment

claims remain at moderate levels.

- April's slowdown may give the Federal Reserve some breathing room. Officials are monitoring leading indicators such as employment growth in hopes that inflation can return to its longer-run target of 2%.

10. CONSUMER SENTIMENT

- Consumer sentiment fell in May to its lowest level in six months, according to preliminary data from the University of Michigan.
- Both the sub-indices measuring current conditions and expectations declined during the month, with consumers expressing worries that inflation, unemployment, and interest rates may each be heading in an unfavorable direction.
- Inflation expectations for the next twelve months rose to 3.5%, up from 3.2% in April and a six-month high. The five-year inflation outlook also rose to a six-month high at 3.1%.

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SUMMARY OF SOURCES

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