Economic Update

SVN | RESEARCH

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1. COMMERCIAL PROPERTY PRICES

- According to MSCI-RCA, commercial property prices posted their strongest annual gain since late 2022 in March, rising 2.1% on the year, up from 0.6% in February.
- The Industrial sector rose 2.3% year-over-year and 0.2% month-over-month. Industrial also remains the only major sector to post a positive return since the onset of interest rate shocks in the summer of 2022.
- Apartment prices were flat on both a monthly and an annual basis, ending a stretch of annual declines that has lasted more than 3 years.
- Retail prices fell 1.2% year-over-year but rose 0.2% from February. March was the third consecutive month of annual declines for Retail, following 15 consecutive months of gains.
- Suburban office prices rose 5.1% year-over-year, while CBD office prices were up by 1.4% annually.

2. CPI INFLATION

- According to the latest data from the Bureau of Labor Statistics (BLS), the Consumer Price Index (CPI) rose 0.9% month-over-month in March, the largest single-month gain since June 2022.
- The annual inflation rate rose to 3.3%, the highest since May 2024, and up sharply from 2.4% in February.
- Energy prices drove nearly three-quarters of the monthly increase in headline inflation, with the gasoline index surging 21.2%, largely attributable to supply disruptions stemming from the Iran conflict.
- Core CPI, which excludes food and energy, held at 0.2% month over month and 2.6% year over year, suggesting the energy shock has not yet broadly filtered through underlying prices.
- The shelter index rose 0.3% for the month and 3.0% year over year — tied for its lowest annual rate since August 2021, indicating continued progress on one of the stickiest components of core inflation.

3. FED BEIGE BOOK

- According to the Federal Reserve's latest Beige Book, released on April 15th and covering the six weeks leading up to April 6th, overall economic activity grew at a slight to modest pace in eight of the twelve Federal Reserve Districts. Meanwhile, two districts reported little change, and two reported slight-to-modest declines, a softer picture than recent prior reports.

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- The dominant theme across all districts was the impact of the Iran conflict, evident in rising energy costs that are feeding through to freight, raw materials, and household budgets.
- Businesses broadly reported heightened uncertainty about the outlook. Employers were largely holding headcount steady but reluctant to commit to longer-term hiring.
- Prices rose at a moderate pace nationally, with input cost pressures intensifying, particularly for fuel and energy-linked inputs. Several contacts who had initially absorbed cost increases were beginning to pass them on to customers as pre-existing inventories were depleted and margin pressure grew.
- In commercial real estate specifically, the Beige Book noted improving conditions in office markets, particularly in New York City, where demand from finance firms and AI-related tenants drove leasing gains, while sublease availability declined.
- Industrial leasing was characterized as strong across several districts, including the New York/New Jersey corridor, partly reflecting pent-up demand after a tariff-induced pause. Retail fundamentals remained solid.
- Consumer spending edged up slightly overall, though community contacts described lower-income households as increasingly strained by rising energy, food, and insurance costs.

4. PROLOGIS LOGS RECORD LEASING ACTIVITY

- According to Prologis, Inc.'s Q1 2026 earnings report (released April 16th), the company recorded a record 64 million square feet of lease signings with tenant retention of nearly 76% during the quarter. As the world's largest industrial REIT, the firm's results can provide insight into the conditions inside institutional-grade logistics real estate.
- Same-store net operating income (NOI) grew by 8.8% on a cash basis year over year, driven by increased occupancy and positive rent change. The company's lease mark-to-market stood at 17% on a net effective basis, representing an estimated $750 million of embedded future NOI at current spot rents.
- Prologis started $1.3 billion in data center build-to-suit projects in Q1, backed by a 5.6-gigawatt power pipeline under a letter of intent, reflecting accelerating convergence between industrial real estate and digital infrastructure demand.

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- Management stated on the earnings call that Industrial vacancy appears to have peaked, and market rents posted their first positive quarter in two and a half years. The company views these signals as a broader market inflection point for Class A logistics assets.

5. HOMEBUILDER SENTIMENT

- According to the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI), builder confidence in the market for newly built single-family homes fell four points in April to 34, the lowest reading since September 2025 and the 24th consecutive month below the 50-point threshold that separates positive from negative conditions.
- All three sub-indices declined. The current sales conditions sub-index fell by 4 points to 37, while the six-month sales outlook fell by 7 points to 42. Prospective buyer traffic slipped three points to 22, well below the level needed to signal healthy foot traffic.
- 62% of builders reported that suppliers had raised material costs due to higher fuel prices tied to the Iran conflict. Meanwhile, 70% of builders reported difficulty pricing homes given uncertainty about input costs.
- Sales incentives held at 60% in April, the 13th consecutive month at or above that threshold, while 36% of builders cut prices, with an average reduction of 5%.

6. NATIONAL RENT COLLECTIONS

- On-time rental payments in apartment units operated by independent landlords increased to 84.5% in April, according to national rent collections data from Chandan Economics/Rent Redi. It is 223 basis points above the September 2025 level and marks the sixth consecutive increase in on-time payments over the past seven months.
- On an annual basis, rent collections remain 119 basis points below April 2025 levels, extending the streak of annual declines to 33 consecutive months, though the pace of deterioration continues to ease.
- The forecasted full-payment rate strengthened to 97.2% in April, the highest level since May of last year, reflecting continued improvement in overall payment resolution.

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- Late-payment pressure remains elevated, stabilizing at relatively high levels after peaking in early 2026, with spring forecasts suggesting modest, partially seasonal improvement.
- Western and Mountain states continue to lead the nation in performance, with multiple markets posting on-time payment rates above 90%.

7. FORECLOSURE ACTIVITY

- According to ATTOM's latest foreclosure activity data, foreclosure filings rose 26% annually during the first quarter, and 18% during March alone.
- The latest activity reflects a broader normalization trend following pandemic-era lows. Filings are up month over month, indicating some rise in distress, but volumes remain well below crisis levels.
- There were roughly 46,000 properties with default notices, scheduled auctions, or bank repossessions in March, or about one in every 3,131 housing units. Filings were up 28% from March 2025.
- South Carolina, Indiana, Florida, Illinois, and New Jersey had the highest foreclosure rates. South Dakota, Vermont, Montana, North Dakota, and Wisconsin saw the lowest rates during the month.

8. CONSUMER SENTIMENT

- According to the University of Michigan's Consumer Sentiment Index, sentiment fell 10.7% in the preliminary April reading to 47.6, a record low in the survey's 74-year history. The previous floor of 50.0 was reached in June 2022 at the peak of post-pandemic inflation.
- Declines were broad-based across all demographic groups, income brackets, and political affiliations, with every component of the index posting a setback.
- Year-ahead inflation expectations surged from 3.8% in March to 4.8% in April, their largest one-month increase since April 2025. Meanwhile, long-run inflation expectations rose to 3.4%, their highest since November 2025.
- One-year business condition expectations plunged by roughly 20%, falling to their lowest level since mid-2022. Assessments of personal finances declined 11%, with consumers citing high prices and weaker asset values.

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- Researchers noted that 98% of interviews were completed before the April 7th ceasefire announcement, and that economic expectations are likely to improve if consumers gain confidence that supply disruptions have ended and gasoline prices have moderated.

9. SMALL BUSINESS OPTIMISM

- According to the National Federation of Independent Business (NFIB), the Small Business Optimism Index fell 3.0 points in March to 95.8, dropping below its 52-year historical average of 98.0 for the first time since April 2025.
- None of the 10 index components increased in March, while eight declined. Two were unchanged. The frequency of positive profit trend reports fell 11 points to a net negative 25%, contributing the most to the decline.
- The Uncertainty Index jumped 4 points to 92, well above its historical average of 68, as oil price volatility and economic uncertainty tied to the Iran conflict weighed on owner confidence.
- Expected business conditions fell for the third consecutive month, declining 7 points to a net 11%, its lowest reading since October 2024. Taxes remain the top concern for 19% of owners.
- The report's researchers noted that while recent tax legislation has provided support, the dramatic spike in oil prices has spooked consumers and owners alike, creating cost-absorption challenges across the small-business sector.

10. RETAIL SALES

- According to the U.S. Census Bureau's advance estimates, Retail and food services sales grew 1.7% in March, its sixth consecutive month of growth and its largest jump in a year. Retail sales rose 4.0% year-over-year.
- Core retail sales, excluding autos, gas stations, and restaurants, rose 0.41% month over month and 7.05% year over year in March — accelerating from February's 0.27% monthly gain.
- Clothing and accessories stores posted a 0.57% monthly increase and a 10.89% year-over-year gain. Sporting goods, hobbies, music, and books rose 0.40% month over month and 10.88% year over year.

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- Total retail sales for Q1 2026 were up 6.18% year over year, with core Q1 sales up 6.14%, reflecting sustained consumer spending despite record-low sentiment and the highest annual inflation rate in two years.
- Above-average tax refunds helped offset elevated gasoline prices tied to the Iran conflict during the month, while the divergence between record-low consumer sentiment and continued spending growth reflects a well-documented gap between how consumers describe the economy and how they behave within it.

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SUMMARY OF SOURCES

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