Economic Update

SVN | RESEARCH

SEPTEMBER 24, 2026

1. FED INTEREST RATE DECISION

- On September 16th, the FOMC voted unanimously to raise the benchmark Federal Funds rate target range by 25 basis points to 3.75%–4.00%, the committee's first rate increase since July 2023.
- The decision follows months of the FOMC holding rates steady while monitoring whether inflation would continue to soften, a bet that became harder to sustain after August's CPI print came in above consensus and energy costs re-accelerated on renewed Iran conflict pressure. Meanwhile, the August jobs report showed payrolls surging 162,000, well above expectations.
- The FOMC's post-meeting statement described economic activity as expanding at a solid pace, with strong productivity growth and job gains keeping pace with workforce growth.
- The Fed also characterized its move as supporting a more timely return to its 2.0% longer-run inflation goal. Fed Chair Kevin Warsh, consistent with his stated skepticism about the usefulness of individual rate projections, did not submit a dot plot, making his post-meeting press conference the primary vehicle for his forward-guidance signal rather than new projections.
- The hike removes any remaining expectation of near-term rate relief. With the 10-year Treasury closing at 5.01% on decision day, the financing cost baseline has reset materially higher across all major property types.

2. FOMC ECONOMIC PROJECTIONS

- The FOMC's September Summary of Economic Projections (SEP) revised the median year-end 2026 Federal Funds rate to 4.1%, up 30 basis points from the 3.8% projected in June, implying one additional 25-basis-point hike before year-end.
- Fourteen of 18 participants in the projections, also known as the 'dot plot', placed 2027 rates between 4.00% and 4.50%. The four outliers projected cuts. The majority of the committee does not see inflation returning to its 2.0% target until 2029.
- Inflation projections were revised higher. Headline PCE for 2026 moved to 3.7% from 3.6%, and core PCE to 3.4% from 3.3%. GDP growth for 2026 was revised up to 2.3% from 2.2%, while the unemployment rate projection for 2026 was revised down to 4.1% from 4.3%. Taken together, this combination gives the

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committee room to tighten further without fearing near-term labor market deterioration.

- For Commercial Real Estate, the updated dot plot's signal of another hike before year-end and no return to 2% inflation until 2029 makes the current higher-for-longer environment not a temporary condition but a multi-year financing reality across all major property types.

3. CPI INFLATION

- The Consumer Price Index rose 0.4% on a seasonally adjusted basis in August, up from 0.1% in July, and held steady at 3.4% year over year, according to the Bureau of Labor Statistics. The result was a surprise to the upside.
- Energy drove the headline acceleration, with conflict in Iran and related energy cost pressures sending the energy index 2.1% higher after it fell 1.5% in July. Gasoline rose 3.9% and accounted for roughly a third of the total monthly all-items increase.
- Core CPI rose 0.3% month-over-month and 2.4% year-over-year, its lowest annual core reading since March 2021. Notable declines include motor vehicle insurance, down 0.8% in August and its second consecutive monthly decline. Medical care also fell, down 0.2%. However, Shelter resumed its climb, up 0.3% in August.
- The combination of elevated headline and cooling core inflation leaves key forward implications for the Fed. Although the FOMC raised rates in September and dampened near-term rate-cut prospects, tightening further becomes more challenging if core prices continue to soften.

4. COMMERCIAL PROPERTY PRICES

- According to the latest MSCI-RCA Commercial Property Price Index (CPPI), US commercial real estate prices rose 0.1% monthly and 0.1% annually in August.
- CBD Office led all property types at 9.4% annually, with a monthly pace annualizing to 14.8%. Suburban Office rose 4.8% annually. The Industrial sector posted 0.1% annual growth, a sharp deceleration from 4.7% a year earlier, but Industrial has also now recorded positive annual growth for 36 consecutive months.
- Apartment prices fell 4.7% year over year, the 10th consecutive month of annual declines. Prices now

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sit 23% below their July 2022 peak. Retail declined 0.5% annually but rose 0.3% from July, its sixth consecutive monthly gain.

- At the start of 2026, rate cuts had been anticipated. With most policymakers now projecting at least one more hike before year-end, financing costs look set to stay elevated longer than investors had previously hoped.

5. Q2 2026 CRE FUNDAMENTALS

- According to the National Association of Realtors' (NAR) September 2026 Commercial Real Estate (CRE) Market Insights Report, CRE fundamentals remained broadly stable through Q2 2026 despite elevated borrowing costs, with conditions varying meaningfully by sector.
- Office annual absorption turned positive at 17.2 million square feet in Q2 2026, up from -0.6 million in Q1, though the recovery remains concentrated in Class A.
- The Retail vacancy rate held at 4.3%, with rent growth remaining firm, though deliveries continued to run ahead of demand. Industrial supply still outpaced demand in July, but the gap narrowed substantially from a year earlier.
- Hospitality's average daily rate (ADR) and revenue per available room (RevPAR) remained well above 2019 benchmarks despite occupancy trailing pre-pandemic levels. Remote work and softer corporate travel continued to weigh on business-focused markets.
- Hotel investment volume recovered to $27.9 billion over the trailing 12 months through August, up from $20.9 billion in 2025 but still well below the $66.5 billion peak reached in 2022.
- Across property types, NAR's headline characterization is one of gradual stabilization rather than recovery as sectors move away from their worst cyclical conditions. At the same time, elevated rates and uneven demand keep the pace of improvement measured.

6. CRE RENT TRENDS

- According to the Columbia CompStak Rent Index (CCRI), a constant-quality net effective rent index tracking verified lease transactions across US Office, Retail, and Industrial markets, all three sectors

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posted positive rent growth over the trailing year through Q2 2026., but sector momentum continues to segment.

- Office posted the strongest annual rent performance of the sectors tracked, up 8.81% year over year, but month-over-month growth has slowed to 2.41%. Retail is weakening and posted the largest month-over-month decline of any sector in July, down 7.49% from June despite being up 8.21% from one year ago. Industrial rents are stabilizing, still down 1.69% from June but up 3.89% from one year ago.
- Among office markets, 22 of 39 MSAs tracked posted positive trailing-year growth, with 14 clearing CCRI's 'high-growth' threshold of +6.22% year over year. San Francisco, Denver, and Cincinnati anchor the low-growth cohort.
- In Retail, New York's +2.6% trailing-year growth, at $407.5 million in annual lease volume, is the sector's most significant data point. Eight MSAs cleared the 'high-growth' threshold, led by Boston, Miami, Nashville, and San Francisco, while nine fell below -4.88%.
- Industrial markets remain in positive territory even in the bottom tercile, reflecting deceleration from a historically strong cycle rather than outright rent decline.
- Diverging rent momentum across property types reflects uneven demand recovery in 2026, with sectors increasingly driving leasing outcomes rather than macro conditions.

7. CMBS SPECIAL SERVICING AND DELINQUENCY

- The overall CMBS delinquency rate declined 1 basis point (bp) in August to 7.85%, even as the special servicing rate rose to its highest level since February 2013, according to Trepp. In total, $3.16 billion across 32 separate loans were transferred to special servicing, almost double the July total.
- The divergence signals that lenders are actively transferring distressed loans into special servicing before they become delinquent, which could be an early indicator of future stress.
- The Mixed-Use special servicing rate climbed more than 154 basis points in August to 13.47%, buoyed by a single $1.10 billion Hollywood studio-and-office loan.
- The Office rate rose 32 bps from July, driven by large Central Business District (CBD) loans. Meanwhile, transfers of large mall and shopping center loans pushed the Retail special servicing rate up 32 bps to

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13.60%. Lodging was up 11 bps to 9.74%.

- Industrial and Multifamily were the only sectors to see special servicing improve, falling 7 bps to 1.27% and 2 bps to 8.37%, respectively.
- Notably, four out of the five major property types saw delinquency rates rise during August, with only Multifamily remaining unchanged, reflecting a compositional shift in the delinquent pool. Special servicing activity in August confirms that the sector-level delinquency data provides the stronger underlying context.

8. APARTMENT RENT COLLECTIONS

- On-time rental payments across independently operated units held at 83.2% in September, according to the latest Chandan Economics/Rent Redi Independent Landlord Rental Performance Report.
- Year-over-year, rent collections improved 91 basis points from September 2025, the strongest annual gain in more than three years and a second consecutive month of improving year-over-year performance.
- The modest deterioration seen in June and July was consistent with seasonal patterns; however, it arrived against a more difficult household backdrop as inflation continues to run ahead of earnings while savings buffers shrink. Taken together, the latest data point to improving rent collection performance, but not yet a full normalization in renter finances.
- Late payments remain elevated, standing at 12.6% in July. Meanwhile, the year-to-date average full-payment rate through July stands at 95.8%, slightly below the 2025 full-year average of 96.0% but above the 2024 average of 95.3%.
- While rising cost burdens continue to squeeze many apartment tenants, particularly lower-income renters, recent data increasingly suggests that the sector's fundamentals have stopped getting worse.

9. BUILDER CONFIDENCE

- The NAHB/Wells Fargo Housing Market Index fell three points in September to 32, below the consensus estimate of 34 and the lowest reading since September 2025, according to the National Association of Home Builders (NAHB).
- Current sales conditions fell four points to 35, sales expectations for the next six months dropped six

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points to 37, and prospective buyer traffic held at a depressed 23.

- 38% of builders cut prices in September, up from 35% in August, with the average reduction holding at 6% for a sixth consecutive month. Sixty-six percent reported using sales incentives, the highest share since December. NAHB Chairman Bill Owens cited rising mortgage rates, higher material costs, and labor shortages as the primary drags.
- For Single-Family rentals (SFR) and Build-to-Rent (BTR), builder confidence is at its lowest level in a year, which, along with 7.0% mortgage rates, points to further moderation in new home supply. Over time, this could support demand for rental alternatives.

10. RETAIL SALES

- According to the latest US Census Bureau data, Retail and food services sales rose 1.2% month-over-month in August to a seasonally adjusted $773.9 billion, a sharp rebound from the revised 0.5% decline in July. Retail sales rose 6.0% year over year.
- The August rebound reverses July's decline, which was partly distorted by Amazon's decision to move "Prime Day" forward to June instead of its typical July slot. The underlying trend in consumer spending remains more stable.
- Retail trade sales rose 1.2% for the month and 6.0% year over year. Non-store retailers led the rebound at +2.9%, followed by food services and drinking places (+1.8%), motor vehicles and parts dealers (+1.6%), and general merchandise stores (+0.7%). Gasoline stations declined 0.9%, the only major category to fall for the month.

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SUMMARY OF SOURCES

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