Economic Update

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1. CPI INFLATION

- According to the latest MSCI-RCA Commercial Property Price Index, US commercial real estate prices rose 0.2% year-over-year in July and 0.1% from June, implying an annualized pace of 1.2% and the slowest annual gain in the index since January 2025.
- CBD Office led all property types by a wide margin, rising 9.9% year-over-year and 1.6% from June. Suburban Office rose 4.0% annually and 0.4% monthly. CBD office now outpaces Suburban office by nearly 600 basis points annually, a reversal that began in February 2026 after Suburban had led for more than five years.
- Industrial fell 1.0% year-over-year, its second consecutive month of annual decline, down from a recent peak of 4.4% in August 2025. Retail fell 0.9% annually, though it has risen each month since March. Apartment prices fell 4.1% year-over-year, the ninth consecutive month of annual declines, and remain 22% below the July 2022 peak.
- Non-major metros (+0.8% YoY) continued to outperform the six major markets (-0.2%), with the latter now posting a slight annual decline as weakness in gateway-city prices persists.

2. FOMC MEETING MINUTES

- According to the minutes of the FOMC's July 28-29 policy meeting, hawkish sentiment extended well beyond the three dissenters who voted for an immediate rate increase.
- Many participants assessed that policy tightening would likely be necessary if inflation did not decline, and some questioned whether current financial conditions were sufficiently restrictive to return inflation to the Fed's 2.0% target.
- Nominal Treasury yields rose 25 to 30 basis points over the intermeeting period, driven by higher real interest rates. Fed Funds futures markets had fully priced in a 25-basis-point hike by the September meeting and another by the end of Q1 2027.
- The minutes also revealed a discussion initiated by Chairman Warsh about reducing the number of annual FOMC meetings from eight to six, to allow more information to accumulate between decisions. No conclusion was reached, and Warsh indicated the 2026 schedule would remain unchanged.

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3. THE GEOGRAPHIC CONCENTRATION OF CMBS DISTRESS

- According to CRED iQ's July 2026 CMBS Distress Report, $45.8 billion of $393.5 billion in outstanding CMBS balance across the 50 largest US markets is currently distressed, a balance-weighted rate of 11.6%. Minneapolis (55.1%), Denver (35.9%), and Oklahoma City (34.1%) lead metro rankings, each driven by a handful of very large loans. Salt Lake City sits at zero.
- Geographic concentration is notable. The Midwest's ten metros average 22.7% distress, with Chicago (26.4%), Cleveland (23.6%), Milwaukee (23.1%), and Cincinnati (21.2%) clustered alongside Minneapolis. Portland (30.6%), Austin (28.7%), and San Francisco (21.5%) represent the highest-stress non-Midwest markets. Phoenix, Boston, Las Vegas, and Orlando all sit near 3.0%.
- The property type driving distress has shifted materially since February. Office remains the largest source at 16.7%, down from 21.2%. Multifamily distress has more than doubled, rising from 6.0% to 13.0% in July, driven by apartment loan delinquencies in Houston, Las Vegas, Bethesda, and Dallas. Industrial remains the clear outperformer at 1.0%.
- The rotation of distress from Office into Multifamily reflects floating-rate debt resets and slower rent growth catching up with deals underwritten during the low-rate era.

4. CONSTRUCTION COST TRENDS

- According to the Cumming Group's 2026 Mid-Year Market Analysis, nonresidential input prices closed March up 5.4% year-over-year, the largest annual increase since January 2023, with prices climbing at a 12.6% annualized pace during January and February alone.
- Beginning in April, the steel and aluminum tariff rate of 50% began applying to the full customs value of covered products rather than just the metal content, increasing import prices for framing members, panel systems, and extrusions.
- The labor outlook improved modestly. The report projects construction labor shortages will fall from 439,000 in 2025 to 349,000 by the end of 2026, the smallest gap since 2021. However, the gap is narrowing because sector spending has slowed, not because more workers have entered the market. The gap is expected to rise again in 2027 to 456,000.

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- Cumming Group projects national construction costs to rise 4.0% to 6.0% for the remainder of the year, above their January forecast.

5. CRE LOAN MODIFICATIONS

- According to a recent analysis by CRE Daily, citing data from CRED iQ, lenders modified 82 CMBS and CRE CLO loans totaling $2.36 billion between May and July 2026, with Multifamily emerging as the largest source of workout activity for the first time in the current cycle.
- Multifamily accounted for 35 loans totaling $1.14 billion, or 48.4% of all modified balances. Hotels followed at $493.8 million and Retail at $236.7 million. Office, long the dominant source of CMBS distress, accounted for just $226.2 million, or 9.6% of modified balances.
- Maturity extensions remained the largest modification type at $802.5 million (34%), but lenders are increasingly mixing in forbearances, combination modifications, rate adjustments, and reserve requirements. Nearly 30% of balances fell into miscellaneous modification categories, reflecting growing workout complexity.
- Middle market stress is pronounced. Loans between $20 million and $50 million generated $1.22 billion in modifications. The average modified loan was $28.7 million, suggesting the current workout cycle is driven by a broad distribution of mid-sized problem assets rather than a handful of large deals.

6. INDEPENDENT LANDLORD RENTAL PERFORMANCE

- According to the latest rent collection data from Chandan Economics/Rent Redi, on-time rental payments in independently operated units rose to 83.2% in August, reversing the summer softness seen in June and July. July's initial reading of 83.2% was revised down to 82.8%.
- Year-over-year, on-time collections improved by 85 basis points, the strongest annual gain since May 2023, narrowing the gap that opened during 2025's prolonged deterioration, when annual declines exceeded 300 basis points.
- Multifamily drove the monthly rebound, with on-time payments rising from 81.4% to 82.5%. Single-family rentals edged up from 82.9% to 83.2%, while 2-4-family rentals held at 83.3%.

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- Late payments held at 12.1% in June, consistent with seasonal patterns but still above the sub-10% range historically associated with stable conditions.

7. RENTER COST BURDENS

- According to a recent analysis by Chandan Economics, roughly half of American renters are cost-burdened, spending 30% or more of their income on rent.
- The national cost-burdened share fell from 51.4% in 2012 to 47.9% in 2019, then reversed sharply during the pandemic, reaching 51.1% through 2024 and nearly erasing a decade of improvement.
- Twelve metros saw cost burden rates rise by 6.0 percentage points or more since 2019, led by Columbus and Virginia Beach, each up more than 9.0 percentage points. Tampa, Nashville, Jacksonville, Las Vegas, and Raleigh each rose between 7.2 and 8.8 points. All except two of the 50 largest metros still carry cumulative increases since 2019.
- The headline cost burden figure does not always capture where distress is concentrated. In St. Louis, overall cost burdens rose just 1.1 percentage points since 2019, but severe cost burdens, where households spend 50% or more of their income on rent, rose by 4.4 percentage points. Rochester, one of two metros where the headline rate improved, still saw its severe cost burden rate climb 2.5 points.
- For Multifamily Real Estate, rising severe cost burdens signal that market-rate supply additions have not reached households facing the most acute rent pressure, with implications for affordable and workforce housing demand across major metros.

8. RETAIL SALES

- Retail and food services sales fell 0.6% month-over-month in July to a seasonally adjusted $763.6 billion, according to the latest Census Bureau data.
- It was the first monthly decline since October 2025 and the sharpest since May of last year. Year-over-year, sales remain up 5.0%.
- Non-store retailers led the monthly decline, falling 2.2%, a drop widely attributed to Amazon moving Prime Day from July to June in 2026, pulling forward spending that typically boosts July figures. Motor

vehicle and parts dealers fell by 1.8%, and gasoline stations fell by 0.9%.

- Excluding autos and gasoline, sales fell 0.2%. The retail control group, which feeds directly into GDP calculations, also softened.
- The July result is likely noisier than usual given the Prime Day shift; absent that distortion, underlying consumer spending appears more stable than the headline implies.

9. CONSUMER CONFIDENCE

- The Conference Board's Consumer Confidence Index fell 0.8 points in August to 89.4, its lowest reading since January and its second consecutive monthly decline, coming in below the consensus estimate of 90.3.
- The decline was driven by forward-looking sentiment. The Expectations sub-index fell 5.8 points to 68.2, its weakest level since January, reflecting growing pessimism about business conditions and the labor market over the next six months.
- Meanwhile, the Present Situation Index rose 6.8 points to 121.2, the first improvement in that component in four months.
- Chief Economist Dana Peterson noted that consumers were more pessimistic about the labor market and business conditions looking ahead, even as their assessments of the current environment improved. Confidence fell across all age groups on a six-month moving average basis.

10. HOUSING PERMITS AND STARTS

- According to the US Census Bureau and HUD, privately owned housing starts fell 12.4% month-over-month in July to a seasonally adjusted annual rate (SAAR) of 1.23 million, the second-lowest reading of the post-pandemic period after May 2026, and 13.5% below the July 2025 pace.
- Single-family starts declined 9.9% to 808,000, their third decline in the past four months. Multifamily starts fell 15.6% to 421,000.
- Regionally, starts declined in the Midwest (-27.6%), West (-13.8%), and South (-12.6%), with only the Northeast posting a gain (+17.1%).
- Building permits moved in the opposite direction, rising 5.0% to 1.44 million SAAR, 3.1% above the pace

one year ago. Single-family permits rose 2.5% to a SAAR of 894,000 and multifamily permits rose 9.4% to 490,000 SAAR. The divergence between falling starts and rising permits suggests builders are planning while remaining cautious about breaking ground.

SUMMARY OF SOURCES

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