Economic Update

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1. KEVIN WARSH JACKSON HOLE KEYNOTE

- In an August 28 keynote address at the annual Jackson Hole Economic Policy Symposium, Federal Reserve Chair Kevin Warsh offered his strongest signal yet on the Fed's current policy stance, stating he would be "hard pressed to describe broad financial conditions as restrictive," naming PCE as the inflation gauge he will act on, and declaring 2% a "firm, fixed target."
- Warsh also cautioned that "while this summer's inflation readings were better than expected, they do not tell me that underlying trends have meaningfully improved."
- The speech's new content was distinct from what Warsh had already put on the record at prior press conferences. Bloomberg reported that it prompted some major banks to bring forward their expected timing of rate hikes. According to CME FedWatch, the futures-market-implied probability of a 25-basis-point September hike jumped from roughly 30% before the speech to above 56% immediately after.
- For CRE, Warsh's assessment that financial conditions are not restrictive reinforces the higher-for-longer rate environment and elevated the likelihood of a hike at the September 15-16 FOMC meeting, which also includes updated economic projections.

2. AUGUST JOBS REPORT

- According to the Bureau of Labor Statistics, total nonfarm payroll employment rose by 162,000 in August, roughly three times above the consensus estimate of 55,000 and the strongest monthly gain since March.
- The unemployment rate held at 4.1%, while the labor force participation rate edged up to 61.6% after falling for most of 2026 Average hourly earnings rose 0.3% month-over-month to $37.75 and are up 3.1% year-over-year.
- The report also erased much of the alarm from the prior two months. July's initially reported 23,000 job loss was revised up by 44,000 to a net gain of 21,000 payrolls. June was revised up by 11,000 to 31,000.
- Leisure and hospitality rebounded following back-to-back monthly declines. Meanwhile, food services and drinking places led August's gains, adding 59,000 jobs, nearly five times their 12-month average of 12,000.
- Local government education added 42,000, largely reversing last month's decline and consistent with

the seasonality of education payrolls.

- The August print signals that while underlying employment trends remain atypically soft relative to economic growth, hiring remains positive and improving. The release reinforced upward pressure on Treasury yields and pushed the market-implied probability of a September rate hike to 60.4% immediately following the release.

3. FED BEIGE BOOK SUMMARY OF ECONOMIC ACTIVITY

- According to the Federal Reserve's September 2026 Beige Book, economic activity has increased modestly since early July, with ten of twelve Federal Reserve districts reporting slight to moderate growth while two reported no change.
- Consumer spending grew slightly on balance, reflecting both heightened price sensitivity and solid high-end purchases. Auto sales were subdued. Demand tied to data centers and defense supported manufacturing activity across multiple districts.
- Business contacts cited heightened uncertainty around elevated energy prices, the Iran conflict, and policy. At the same time, input price pressures intensified in several districts as oil price spikes fed through to freight and raw materials. Employment rose slightly while wage growth remained moderate.
- Commercial real estate conditions varied across districts but were broadly stable. Contacts in the Cleveland Fed district noted moderate demand growth in nonresidential construction, with data center activity remaining strong and some previously stalled projects moving forward.
- Richmond described retail as its strongest CRE segment, while Boston noted industrial leasing as mixed, with rents and vacancy flat, while office showed small improvements. St. Louis described CRE as solid but showing early signs of slowing.

4. CRE TRANSACTION VOLUME

- According to Altus Group's Q2 2026 US CRE Investment and Transactions Quarterly Report, US commercial real estate transaction dollar volume rose 11.3% quarter-over-quarter and 9.4% year-over-year.
- The trailing four-quarter volume increased 16.3% from the prior year. Meanwhile, the number of individual

transactions rose by 6.7% quarter-over-quarter but held roughly flat year-over-year.

- Fifty-seven percent of all transacted dollars came from deals exceeding $10 million, consistent with the ongoing capital concentration toward larger, higher-quality assets that has defined 2025 and 2026.
- Industrial was the standout sector in Q2, with median price per square foot up 13.2% year over year and median deal size up 18.4%.
- Broadly speaking, rising transaction dollar volume alongside a flat year-over-year property count signals that the current recovery is driven by fewer but larger deals, not a broad-based resurgence in activity.
- Further, the concentration of volume in deals exceeding $10 million suggests that institutional capital is returning to the market selectively, with mid-market and smaller-format transactions yet to recover meaningfully.

5. JOB OPENINGS AND LABOR TURNOVER

- Total job openings rose by 89,000 to 7.3 million in July, holding the openings rate at 4.4%, according to the latest Job Openings and Labor Turnover Survey (JOLTS) from the BLS.
- June's data was revised down 177,000 to 7.2 million, pulling the headline gain back to a more modest improvement from a lower-than-initially-reported base.
- Hires fell 294,000 to 5.1 million, with the hires rate dropping from 3.4% to 3.2%, its weakest level since February and the largest single-month move in the report.
- Quits held at 3.1 million (1.9% quits rate) while layoffs and discharges were little changed at 1.7 million (1.0% rate), maintaining the low-hire, low-fire equilibrium that has characterized the labor market throughout 2026.
- The divergence between rising openings and falling hires is the most consequential feature of the July report. Postings are up, but follow-through is not, a pattern consistent with employer caution in an environment of elevated uncertainty rather than a tightening of available labor supply.

6. SMALL BUSINESS OPTIMISM

- According to the National Federation of Independent Business (NFIB)'s Small Business Optimism Index, optimism fell 1.1 points in August to 98.7, below the pre-survey consensus estimate of 99.3 but holding above the 52-year historical average of 98.0 for a second consecutive month.

- Six out of ten components of the small business index declined. Actual net sales fell to -9%, the lowest reading since November 2025.
- Labor quality and availability remained the most cited problem by business owners (23% of owners), with Inflation and taxes tied for second (16% of owners). However, labor quality and availability concerns eased somewhat relative to the previous month, as did labor cost concerns.
- Hiring plans fell 3 points to a net 17% of owners who plan to create jobs over the next three months. Unfilled job openings edged down 1 point to 35%, but still 11 points above the historical average.
- The Uncertainty Index fell 2 points to 89, remaining well above its historical average of 68.

7. OFFICE MARKET VACANCIES

- According to Commercial Cafe's August 2026 US Office Market Report, the national office vacancy rate continued its gradual decline through July. Western and Northeastern markets posted the highest concentration of above-average asking rents, while Southern and Midwestern markets accounted for most markets with rates below the national average.
- Boston, Manhattan, and Dallas maintained the most active construction pipelines, together accounting for nearly 31% of the national total and the only three markets with more than 2 million square feet of new space in development.
- Austin and Houston each posted vacancy rates above 20%, the highest in the South. Miami and Tampa led the South region on occupancy.
- The broader office recovery remains concentrated in Class A assets and AI-driven demand. National office absorption has been positive for three consecutive quarters, its longest stretch since mid-2022. However, Class B and C assets continue to lose occupancy in most markets.

8. DATA CENTERS DRIVE NEW WAREHOUSE DEMAND

- According to a recent analysis by Commercial Property Executive (CPE), companies serving the

SVN COMMERCIAL REAL ESTATE ADVISORS
svn.com
1309 Beacon St, Suite 300
Brookline, MA 02446

construction, maintenance, and operation of hyperscale data center campuses are generating a substantial new wave of industrial leasing demand.

- Research cited in the analysis reports that the data center ecosystem businesses accounted for 10.4% of all new industrial leasing activity between 2022 and 2025.
- Further, during the first half of 2026, 28% of manufacturer leasing in the Industrial sector at 100,000 square feet and above was for technology and data center-related components.
- Link Logistics estimates that every gigawatt of data center construction generates approximately 2 million square feet of spillover industrial demand. Applied to the roughly 100 gigawatts in the current US pipeline, this translates to an estimated 200 million square feet of additional industrial demand nationally.
- According to CPE, the ideal location for data center support users is within 5 to 10 miles of a hyperscale campus. However, market dynamics are pushing some operators to facilities serving multiple clusters from 100 to 150 miles away.
- The data center supply chain is a durable demand driver, structurally distinct from the e-commerce cycle that defined the prior decade. Moreover, proximity to power infrastructure increasingly determines a site’s competitiveness alongside traditional transportation access.

9. MULTIFAMILY SUPPLY OUTLOOK

- According to Yardi Matrix’s Q3 Multifamily Supply Forecast, multifamily completions are projected to fall from 490,362 units in 2026 to 444,343 units in 2027, before edging back up to 455,442 units in 2028.
- Units under construction and in pre-lease fell 21.1% year over year to 444,981 at the end of Q2, signaling a near-term supply pipeline contraction.
- Construction starts tell a more nuanced story. The report confirms 124,080 multifamily starts through Q2 2026, roughly 20% above the comparable period in 2025. Meanwhile, units under construction but not yet pre-leased increased 11.5% year over year. Yardi interprets this as supporting a modest supply rebound beginning in 2028 rather than a permanent contraction in development activity.
- For the Multifamily landscape, the near-term completion slowdown reduces supply pressure on rents and occupancy through 2026 and into 2027. Such a modest rebound in early-stage pipeline activity signals

that developers are positioning for improving fundamentals. However, the timeline for new deliveries to re-accelerate remains 2+ years out.

10. FORECLOSURE ACTIVITY

- According to ATTOM's August 2026 US Foreclosure Market Report, foreclosure starts increased 10% year over year in August, and completed foreclosures rose 23% year over year.
- Separately, ATTOM's Q3 2026 Vacant Property and Zombie Foreclosure Report found that 1.3% of US residential properties were vacant in the third quarter, unchanged from the prior quarter and from Q3 2025. Of the country's 104.6 million residential properties, 259,666 were in the foreclosure process in Q3.
- The zombie foreclosure rate, defined as vacant properties in the foreclosure process, fell slightly to 3.3%. Foreclosure timelines have shortened for seven consecutive quarters. Still, activity remains well below pre-crisis levels and appears to signal normalizing rather than resurgent distress.

SUMMARY OF SOURCES

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