1. CPI INFLATION

- The Consumer Price Index (CPI) rose 0.2% in February and 2.8% year-over-year, cooling more than expected and potentially providing some relief to markets and policymakers on guard about price pressures.
- Core-CPI, which removes the more volatile food and energy components, mirrored the headline 0.2% month-over-month figure but arrived slightly higher on an annual basis at 3.1%. Nonetheless, Core CPI also fell short of Wall Street's consensus forecast, with economists expecting a 0.3% month-over-month increase in both the headline and core numbers.
- Shelter costs notably decelerated from January (+0.35 month-over-month) but remain responsible for roughly half the monthly increase in headline CPI. Further, since shelter makes up about one-third of the CPI weight, it managed to push core inflation above the headline metric this month even as food and energy prices were on the rise.
- Food and energy prices each rose by 0.2% in February, with eggs soaring another 10.4% in the month—taking its 12-month increase to a massive 58.8%. Beef prices also rose 2.4%
- This month's CPI release comes amid a flurry of economic policy moves by the White House that could have both short- and long-term implications on growth and inflation. Both stock market futures and treasury yields rose following the Wednesday CPI release.

2. BUSINESS OPTIMISM DECLINES

- Business optimism took a significant dive in February, according to the National Federation of Independent Businesses (NFIB). The Business Optimism Index fell 2.1 points from January, which puts it at its lowest level since October, just prior to the 2024 presidential election.
- Also notable, a supplemental indicator of the index that measures uncertainty has surged to its second-highest level on record, beaten only by the initial uncertainty surrounding COVID-19.
- Expectations for the next six months declined, as did the share of business owners who believe now is a good time to expand their business. Labor quality and inflation continue to be the main concerns of business owners.

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3. TARIFFS, UNCERTAINTY, AND REAL ESTATE

- The US Logistics Managers' Index (LMI) came in at 58.4 in November, a slight downtick from October's level but marking the 12th consecutive month of growth for the logistics industry. Logistics activity is a leading indicator of Industrial Real Estate demand.
- Inventory levels were down, in line with seasonal patterns, which saw warehouse utilization fall and capacity rise. The drop off in inventory also caused transportation capacity to expand and prices to fall.
- According to the reporting, inventory costs and warehousing prices saw the fastest growth, reflecting higher costs as more inventory is now held closer to consumers.

4. MARCH JOBS REPORT

- According to the Bureau of Labor Statistics, the US economy added 151k jobs in February, a rebound from a downwardly revised 125k additions in January but short of the 170k job additions that were expected.
- Job growth in health care, finance, as well as transportation and warehousing led job growth for the month, while federal government and retail trade drops saw some of the most notable declines.
- Average hourly earnings rose 0.3% month-over-month and rose annually by 4%.
- Treasury yields fell slightly, and fed futures forecasts consolidated around a projection of two rate cuts in 2025. However, with a flurry of economics-related developments arriving in the days since, the jobs data had little lasting impact on markets.

5. COMMERCIAL PROPERTY PRICES

- Commercial real estate prices edged into year-over-year growth in January and posted their third consecutive monthly increase, according to the latest Commercial Property Price Index (CPPI) data from MSCI-RCA.
- Overall, commercial prices are up 0.5% from December and 0.3% over the past twelve months. Moreover, monthly price growth is accelerating, implying a faster annualized growth pace if the trend continues.
- The Retail sector led all property types in price momentum during both January and over the past year,

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rising 1.5% and 3.8%, respectively.

- Prices in the Industrial sector were unchanged on a monthly basis but Industrial joined Retail as the only property type to experience an annual increase in prices through January, climbing 3.4%.
- Apartment prices in the CPPI rose 0.7% in January, and though still negative year over year, the sector is gradually beginning to show positive momentum since prices hit a floor in August 2024.
- CBD office properties fell 0.6% from December despite signs during the fourth quarter that price declines were slowing. Suburban office prices are up 0.1% month over month and down 1.5% year over year.

6. FALLING CRE DISTRESS

- According to reporting from CRED iQ, distress for both conduit and single-borrower large loan deal types dropped for the first time in five months during February.
- This comes after MSCI reported in its January US distress tracker, which combines delinquencies and special servicing rates, that levels had reached their highest in a decade.
- Distress levels dropped 70 basis points in January to 10.8%, breaking a streak of four consecutive highs.
- Office distress continues to climb, however, reaching 19.3%.
- Looking at the components of the distress metric, delinquencies, as measured by CRED iQ, fell from 8.9% to 8.0% in February. The special servicing rate dropped 20 basis points to 10.1%. For context, one year ago, the delinquency and special servicing rates were 5.4% and 7.0%, respectively.
- Among property types, self-storage saw the largest downward move, but this was caused by a $2 billion portfolio reaching maturity, drastically skewing results.
- Elsewhere, Industrial distress fell 110 basis points to a CRE-low 0.5%. Hotel distress fell 20 basis points to 10.2%, with Retail dropping by the same amount but hovering a bit higher at 10.7%. Multifamily distress rose 10 basis points to 13.0%.

7. LOGISTICS ACTIVITY

- Logistics activity rose for a second consecutive month in February and, like in January, charted its strongest growth since June 2022, according to the Logistics Mangers' Index (LMI)
- A notable uptick in inventory levels drove logistics activity growth, with both upstream and downstream

firms expanding. LMI researchers note that expanding inventories across the supply chain is similar to a dynamic observed last year, but overall, expansion levels are elevated.

- According to the report, February's inventory increases were at least partially driven by shifting trade dynamics. As a result, inventory and warehousing prices rose at their fastest pace in several years.
- Further, transportation capacity started to loosen during the latter half of the month, suggesting that much of the trade-related inventory buildup occurred at the start of the month before becoming more static as uncertainty rose among firms and consumers.

8. CONSTRUCTION PLANNING ACTIVITY FLATTENS

- According to the Dodge Construction Network's momentum index (DMI), construction activity grew 0.7% in February while planning activity moderated.
- Commercial planning rose 3.3% during the month, while institutional planning fell 4.6%, leading to a mostly flat period for overall activity.
- Data center activity is propping up growth in the overall DMI, which, according to the researchers, would have contracted by 2% in February if data center growth had been removed.
- Increased uncertainty around material prices and fiscal policies is believed to be weighing on planning decisions, but for now, existing plans are moving forward.
- On the commercial side, data center, traditional office building, and retail planning led gains, while weaker education planning placed downward pressure on industrial planning actvitiy.
- The DMI remains up 27% compared to one year ago, but this has been driven by the commercial segment, where activity is up 43% year-over-year, while the institutional segment is up by a tepid 2% over the same period.

9. HOUSEHOLD UTILITY COSTS

- According to a recent analysis by Chandan Economics, the average US renter household pays $220 per month in utilities, and the costs vary widely by property type.
- On an absolute basis, tenants living in single-family rentals (SFR) pay considerably more in average utilities—about $327 per month, 56% higher than the next closest property type.

- These higher costs are typical for homes with larger square footage, explaining the consistently higher totals for SFR, but utility costs remain higher for SFR even on a relative basis.
- Utilities account for 18.3% of gross SFR housing costs, but this figure falls to 14.8% for 2-4 family rentals, 10.5% for small multifamily units, and 7.9% for large multifamily units.
- Because larger property types have more unit density, average utility costs fall in absolute and relative terms due to synergies gained from shared walls and centralized energy systems, which allow for more energy efficiency.
- While technological advances have helped level the playing field across residential property types, density remains a powerful driver of efficiency and cost savings.

10. GEOGRAPHIC DIFFERENCES IN CREDIT ACCESS

- A recent study by the New York Federal Reserve finds that residents in urban areas, specifically West Coast metros, have better access to credit on average than residents of other regions of the country.
- The study reports that between 2018 and 2023, rural areas had consistently worse credit health than urban areas. Further, 85% of the top 25 cities for credit access were on the West Coast or in the region near Minneapolis.
- Outside of these regions, credit security was highest in and around Chicago, Indianapolis, Washington D.C., and Raleigh.
- Cities with the least credit access were more geographically distributed, but many were around former industrial towns, such as Detroit and Syracuse, or college towns, including Gainesville (FL), Tuscaloosa (AL), and College Station (TX). In the latter cases, a larger share of the population is made up of students who are less likely to have a credit history, explaining some of the pattern.

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