




Economic Update

 **SVN** | RESEARCH

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1. FED INTEREST RATE DECISION

- The Federal Reserve cut the benchmark Federal Funds rate by 25 basis points at its September meeting, with just one official dissenting in favor of a larger, 50-basis-point cut.
- The Fed's latest Summary of Economic Projections — released alongside the rate decision — lowers its forecast for next year's interest rates while raising its inflation forecast.
- Compared to projections made in June, the median forecast for the Federal Funds rate was lowered by 30 basis points for 2025 and 20 basis points for 2026. Meanwhile, the 2026 PCE inflation projection was raised from 2.4% to 2.6%, while keeping the final 2025 projection at 3.0%.
- At the same time, the 2025 growth forecast was revised up from 1.4% in June to 1.6%, and officials upgraded the 2026 forecast from an expected 1.6% to 1.8%.
- The increasingly dovish outlook for rate cuts is a welcome sign for developers and builders; however, there is an increasing dispersion in the 2026 interest-rate projections made by FOMC members. On balance, the committee is signaling that it expects to move forward with cuts despite lingering price pressures.

2. OFFICE LEASING TRENDS SHOW STRENGTH

- According to Commercial Café, the national office vacancy rate improved to 18.7% in August, down 80 basis points year-over-year as Class A and amenity-rich properties continue to drive lease demand in top urban cores.
- Of the nation's top 25 office markets, Houston had the steepest decline in office vacancy over the past year, falling 410 basis points to 20.2%.
- Meanwhile, the flight-to-quality trend has led to Manhattan registering its highest office utilization in five years in August. The vacancy rate in NYC's core has decreased by 300 basis points over the past 12 months to 13.6%.
- On the other end is San Diego, which saw its vacancy rate climb by 350 basis points to 22.6% over the past year. Washington, D.C., reeling from declining space demand driven by federal workforce reductions, experienced a 260-basis-point increase in vacancy year-over-year.
- Nationwide construction activity remains sluggish, with only 10.7 million square feet of new office projects



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started and 17.3 million square feet delivered since the beginning of the year.

3. REAL ESTATE ROUNDTABLE SENTIMENT INDEX

- The Q3 2025 Real Estate Roundtable Sentiment Index rose 13 points from Q2 to an index level of 76, signaling a stronger outlook for operating conditions, asset values, and access to capital.
- Roughly three-quarters (73%) of respondents expect market conditions to improve in the year ahead, while 10% say conditions have worsened compared to one year ago.
- Multifamily, data centers, and the Manhattan office sector were key standouts in the survey. On the other hand, the industrial sector is viewed as operating within an oversupply cycle, with vacancies dampening investor appetite.
- Real estate executives believe that asset values are bottoming, with 59% expecting an improvement in valuations over the next year. Respondents also note that debt capital availability has rebounded from recent constraints, though raising equity remains difficult.

4. HOMEBUILDER SENTIMENT

- The NAHB-Wells Fargo Housing Market Index, which measures homebuilder sentiment, was unchanged at 32 in September, reflecting persistently weak builder sentiment.
- High mortgage rates and elevated construction costs continue to weigh on the housing market. Current sales conditions for single-family homes remained static, while prospective buyer traffic declined.
- Look-ahead expectations for the next six months improved from August to their strongest reading since March. It likely reflects that builders anticipate some relief from potential easing financial conditions as the Fed begins to lower rates.
- In September, 39% of builders reported cutting prices, the highest share in the post-pandemic period, with an average discount of 5%.

5. NATIONAL APARTMENT RENT COLLECTIONS

- According to the latest Chandan Economics-RentRedi Independent Landlord Rental Performance Report, on-time rent payments jumped by 58 basis points (bps) in September, rising to 83.1%.



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- August's on-time rate was revised down to 82.6%, a decrease from the previous month. The improvement in September offers hope that tenant financials are turning around, but on-time payments remain down a sizable 227 basis points year-over-year.
- Late payments have been the primary source of underperformance in the mom-and-pop sector, as full payment rates have remained relatively stable.
- Western states continue to hold the highest on-time payment rates in the country, led by South Dakota, Hawaii, and Utah.
- 2-4-unit rentals had the highest on-time payment rates by property type in September, at 83.7%. Single-family rentals were next at 83.3%, followed by multifamily at 81.7%

6. BOND YIELD SWINGS DRIVE VOLATILITY

- According to a recent report from Oxford Economics, the recent swings in bond yields are driving the most acute changes in property returns, and are most apparent in CRE markets with low cap rates.
- Treasury yields have seen increased volatility this year against the backdrop of policy uncertainty. The Oxford report suggests that a permanent shift in long-term bond yields can trigger sharper valuation swings in the property market compared to GDP contractions or inflation jumps.
- In most US markets, a 1% contraction in GDP leads to a 1.4-2% decline in capital returns, while a 1% increase in consumer prices results in a 0.3-1.8% decrease in returns, with retail assets being more affected than industrial assets.
- Meanwhile, bond yield movements hit metros and sectors with low discount rates particularly hard. The study highlights San Francisco as an example, where yield changes cause real estate yield spreads to compress, amplifying the impact of price movements where cap rates are lowest.
- Impacts vary by sector. Retail values are highly sensitive to interest rate fluctuations, while industrial assets tend to react more to direct demand contractions compared to rate changes. Residential assets show less exposure to sharp swings in bond markets.

7. TRANSACTION VOLUME REBOUNDS



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- Aggregate Commercial Real Estate transaction volume totaled \$115 billion in the second quarter of 2025, a 3.8% increase from one year before, according to Altus Group.
- The uptick was driven by rising multifamily (+39.5%) and office (+11.8%) transactions. Still, the average number of properties transacted per day increased across all property types compared to the first quarter.
- The median price per square foot for transacted single properties rose 5.0% from the first quarter and 13.9% year-over-year across all sectors.
- Notably, most coastal metros outperformed national trends on a year-over-year basis. New York and San Francisco were exceptions.
- Across the 15 subsectors tracked by Altus Group, 13 of them saw quarterly increases in average prices. The automotive sector (+25.4%) led increases in cost per square foot during the quarter, followed by limited-service hotels (+17.2%) and medical offices (+15.1%).

8. CMBS DELINQUENCIES

- According to Trepp, CMBS delinquencies rose again in August as the Office and Multifamily delinquency rate hit fresh highs.
- It was the sixth consecutive monthly increase in the delinquency rate, rising six basis points to 7.29%.
- The multifamily delinquency rate climbed 71 basis points to a nine-year high of 6.86%. Meanwhile, the office rate rose 62 basis points to an all-time high of 11.6%
- Retail delinquencies declined by 48 basis points to 6.42%, marking their lowest level in the past year.
- Industrial delinquencies remain the lowest of all major property types, but also rose, climbing eight basis points from July to 0.6%. The rate for lodging fell five basis points to 6.54%.
- The share of loans that are seriously delinquent (60+ days delinquent, in foreclosure, REO, or non-performing balloon) is up five basis points in August to 6.88%.

9. RETAIL SALES

- According to advanced estimates from the US Census Bureau, retail and food services rose 0.6% month-over-month in August and 4.8% over the past 12 months, reaching \$732 billion.



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- Retail sales performance exceeded median forecasts, bolstering the case that consumer demand remains resilient in the face of heightened uncertainty. Excluding more volatile components like autos, building materials, and fuel, core retail activity was up 0.7% from July, signaling stable demand for discretionary goods.
- Non-store retailers increased by 10.1% year-over-year, while food services and drinking places rose by 6.5%.

10. NEW HOME SALES

- The annual rate of growth for single-family home sales jumped by 20.5% between July and August and by 15.4% year-over-year, according to the latest Census Bureau data. It marks the strongest monthly gain since 2020.
- The US is now on pace for 800,000 total new home sales by the end of the year. Homebuying activity has regained steam lately despite continued affordability pressures.
- Inventory became tighter in August, with the number of homes for sale on the market dropping to 490,000 units. End-of-August inventory volume amounts to 7.4 months of supply, compared to 9.0 months' supply registered in July. It suggests that demand is outpacing construction, which could place upward pressure on home prices if sustained.
- The median price for a new single-family home sold rose to \$413,000, up 4.7% month-over-month and 1.9% annually.

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SUMMARY OF SOURCES

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