

# Economic Update

 **SVN | Research**

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## 1. OMICRON MARKET VOLATILITY

- Markets were roiled late last week in reaction to the World Health Organization's announcement of a newly discovered COVID-19 strain in South Africa. Dubbed the "Omicron variant," public health officials signaled their concerns about its potential to spread even amongst vaccinated populations, leading to heightened uncertainty in financial markets.
- On Monday, Nov. 29th, Nasdaq, the S&P 500, and Treasury Yields all climbed following Friday's bearish activity, signaling an easing of initial fears surrounding the variant.
- Friday's (Nov. 26th) news caused investors to push back their expected date for a Fed rate hike. According to data compiled by the Chicago Mercantile Exchange, traders were pricing in just a 53.3% chance of at least one rate hike between now and June 2022, down from 82.1% on November 24th.
- In an interview over the weekend, Atlanta Fed Chair and FOMC voting member Rafeal Bostic attempted to contextualize the risk to economic growth, stating that momentum within the economy should prevent a potential new wave from knocking the economy off its axes. Bostic signaled it could still be "reasonable" for the committee to still begin tapering its asset purchases by the end of this year.

## 2. COMMERCIAL PROPERTY PRICES

- According to the Real Capital Analytics commercial property price index (CPPI), commercial property prices continue to grow at a record clip. Measured through October, asset prices are up 15.9% year-over-year, the highest annual appreciation rate on record. Moreover, commercial prices are up 1.7% month-over-month.
- After initially coming out of the gate slow into the pandemic recovery, commercial real estate assets in Major Metropolitan markets are beginning to see some significant pricing momentum. Measured year-over-year, CRE assets in Gateway markets are up 10.6%.
- Meanwhile, CRE assets located in Non-Major Metropolitan markets continue to outperform. Annual price growth in these markets totals 17.6% through October— the highest rate of appreciation for the series on record.

## 3. COMMERCIAL PROPERTY PRICES (BY PROPERTY TYPE)

- According to Real Capital Analytics Industrial assets maintained their darling of the pandemic status through October 2021, posting an annual price appreciate rate of 18.9%— a record high for the property type and the best mark of all asset types. Moreover, Industrial's month-over-month price growth rate totaled 1.8%, once again besting all other property types.
- Apartment assets followed closely behind, notching year-over-year gains of 16.7% through October.

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Apartment assets have now recorded consecutive months of new all-time highs. On a month-over-month basis, Apartment prices are up 1.4%.

- Retail assets posted the next best year-over-year growth rate of the core-four property types, gaining 14.2% over the past twelve months. Measured month-over-month, retail prices are up by 1.3% through October.
- Overall, office price growth sits at 1.0% month-over-month and 13.7% year-over-year. However, the performance difference between Central Business District (CBD) and Suburban Office assets is stark. CBD located Office assets are posting price growth rate totals of just 0.9% through October 2021— a paltry figure, but one that at least signals a stopping of the bleeding. Meanwhile, Suburban Office assets are up year-over-year by a robust 15.6%.

## 4. EXISTING HOME SALES

- Existing home sales climbed by 0.8% in October to a seasonally adjusted rate of 6.34 million units, according to the according to the latest release from the National Association of Realtors. Sales fell 5.8% from one year ago. Meanwhile, median existing-home sales prices increased by 13.0% year-over-year to \$354,000.
- The continued growth in sales is encouraging given the low inventory environment nudging up against record prices. According to NAR economist Lawrence Yun, rising apartment rents may be pushing some consumers into buying homes more quickly to hedge against inflation.
- Regionally, existing-home sales in the Midwest were the largest contributor to growth, rising by 4.2% in October from a month earlier, followed by the South which saw sales rise by 0.4%. Sales in the West held steady while sales in the Northeast fell by 2.6%.
- First-time home buyers accounted for 29% of sales in October, up from 28% the month before by down 32% from October 2020.
- Total housing inventory at the end of the month totaled 1.25 million units, down -0.8% from September and down -12.0% year-over-year.

## 5. FISCAL IMPACT MEASURE

- Data taken from Brookings's Fiscal Impact Measure, a gauge of the impact of federal, state, and local policy on economic growth, shows that fiscal policy reduced US GDP growth by an annualized -2.3% in Q3 following several quarters of policy support stemming from pandemic response measures.
- According to the report, the drag on growth in the third quarter was produced by a decline in federal government transfers as unemployment benefits and other stimulus measures were reduced over the past few months. Reduced purchases by state and local governments also contributed to the decline.

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- Researchers predict that fiscal policy will have an increased drag on GDP growth in the coming years, with negative pressures peaking at -3.23% in Q2 2022 before recovering back to a more modest friction of -1.22% by Q3 2023. The outlook considers the declining impact of stimuli, reopening efforts, as well as the recent boost in spending from the bipartisan infrastructure bill, which will only modestly offset negative effects.

## 6. FEDERAL RESERVE NOVEMBER MEETING

- Minutes from the FOMC's November meeting show that in their discussions of policy actions, members continued to see progress in economic activity and employment but conveyed less certainty about the path of inflation.
- During the meeting, which took place on November 2nd and 3rd, members discussed broad increases in sovereign yields on securities of various lengths, reflecting the market's demand for additional inflation compensation. Market pricing also indicated that while expectations of reduced asset purchases coalesced closer to the committee's stated goals, investors had not yet revised their expectations towards tighter interest rate policy in the coming years.
- At the time of the meeting, recently released GDP figures showed a slowing of US economic output, while labor market conditions improved. This strengthened the committee's view that areas of the economy most impacted by the virus were showing signs of strength, but that the uncertainty caused by the delta variant this summer had reduced the speed of growth.
- In their review of inflation and inflation expectations, the committee noted the elevated 4.4% year-over-year PCE price inflation measured in September but held their view that mostly transitory factors were contributing to the pressures. The committee restated its intentions to allow inflation to rise modestly above their 2% long-run target for a short but unspecified time to make up for previous periods of low inflation. The committee sees this as essential in anchoring future inflation expectations around their 2% target.

## 7. SELF-STORAGE MARKET GROWTH

- The self-storage sector is expected to grow by 2.0% from 2021 to 2026 according to the newest analysis by Mordor Intelligence.
- Self-storage emerged as one of the more resilient commercial real estate sectors during the pandemic, seeing a boost from downsizing and relocation activity. Similar to pandemic impacts observed throughout other CRE sectors, self-storage saw an acceleration of growth that was already underway pre-pandemic, with construction spending in the sector climbing by 584% from January 2015 to January 2020, according to the Census Bureau.

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- Growth in e-commerce has also boosted the prospects of the sector as pick-up and delivery operations increase demand for space. Additionally, structural changes to the office and retail sectors, as well as service demand trends such as climate-controlled spaces, are expected to increase demand for self-storage in the coming years.

## 8. GDP NOW

- The Federal Reserve of Atlanta's GDPNow forecast recently revised its fourth quarter 2021 estimate up to 8.6 %, a 20 basis points rise from its last projection. The revision reflected the impact of new data from National Association of Realtors and the US Census Bureau detailing private investment activity and inventories.
- In addition to the components that had a positive impact on the revision, changes to personal consumption had a negative impact with PCE growth declining from 9.2% to 7.9%.
- Notably, the update released on November 24th did not reflect the expected impact of the Omicron coronavirus variant, which has roiled markets in recent days. The next projection is due out on December 1st, and while that may be too soon to observe the variant's impact on economic activity, it may begin to reflect its influence on market-based growth and inflation expectations.

## 9. THANKSGIVING TRAVEL

- Sunday November 28th registered the highest number of air-travelers in the US in a single day since the start of the COVID-19 pandemic, according to screening data from the TSA.
- Roughly 2.45 million passengers flew commercial airlines on the Sunday following the Thanksgiving holiday, a significant uptick from the 1.17 million that traveled on the same day in 2020. While most stay-at-home orders and domestic travel restrictions were lifted by time holiday travel began last year, the nation had not yet begun its vaccine rollout, which has helped reduce consumer uncertainty in recent months.
- While encouraging, Sunday's total is below the 2.88 million passengers screened in 2019, which represented a record-high since the agency was established more than 20 years ago.
- While travel is expected to rise further during the December holidays, renewed uncertainty surrounding the Omicron variant is expected to dampen the outlook, at least modestly.

## 10. THE GREAT RETIREMENT

- While stories of a "Great Resignation" amongst younger employees quitting their jobs in recent months has received deserved attention, an increase in retirements may be of greater consequence to future

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labor market supply.

- According to data by Pew Research, through Q3 2021 an estimated 50.3% of US adults 55 and older are retired, up from 48.1% in Q3 2019.
- According to historical data, between 2008 and 2019, the population of retired people ages 55 and older grew by roughly 1 million per year while in the past two years the total has increased by 3.5 million, representing a 75% increase in the average growth rate.
- Notably, recent recessions have been followed by declines in retirement rates unlike the COVID-downturn. From 2007 to 2010, which included the period of the Great Financial Crisis, the population of 55 and older retirees declined from 50% to 48%.
- Researchers suspect that unlike during previous recessions when the value of financial assets such as 401ks, as well as home prices, declined— pulling down household wealth along with it, the COVID-recession saw asset prices increase, allowing households to cash in on equity gains.

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## SUMMARY OF SOURCES

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- [https://www.reportlinker.com/p06184963/United-States-Self-Storage-Market-Growth-Trends-COVID-19-Impact-and-Forecasts.html?utm\\_source=GNW](https://www.reportlinker.com/p06184963/United-States-Self-Storage-Market-Growth-Trends-COVID-19-Impact-and-Forecasts.html?utm_source=GNW) (7)
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