Economic Update

DECEMBER 18, 2020

1. UNEMPLOYMENT

- The Civilian Unemployment Rate (U-3) fell from 6.9% in October to 6.7% in November. The 0.2% month-over-month decline is the slowest rate of improvement since the Spring shutdown.
- While improvement is slowing, U-3 has recovered by 8.0% since April, when the rate stood at its post-Great Depression high of 14.7%.
- The U-6 Unemployment Rate, a measure that includes the headline U-3 measure in addition to marginally attached workers and laborers who are working part-time for economic reasons, declined by just 0.1% through November, settling at 12.0%.
- Marginally attached or discouraged workers, a subset of potential laborers not classified as part of the labor force though would want a job, increased by 80K persons in November, rising to 674K.

2. JOB OPENINGS LABOR TURNOVER SURVEY

- The Bureau of Labor Statistics' JOLTS, a one-month lagged survey that details labor market churn, indicates slowing progress and growing red flags through October.
- The number of US job openings stood at 6.7M through October, rising by just 158K from the month prior. In February, the number of job openings stood at 7.0M, and then fell as low as 5.0M in April. Since recovering back to 6.7M in July, the level has stagnated.
- Job separations, which includes layoffs and quits, peaked at 14.6M in March and then recovered through May, landing at 4.2M. Albeit gradually, progress has started to reverse. Separations have now risen for two consecutive months. Through October, separations grew by 263K (243K attributed to layoffs and discharges) and currently total 5.1M.

3. INITIAL & CONTINUING JOBLESS CLAIMS

- According to the Department of Labor's most recent report, initial unemployment claims increased to 853K during the week ending on December 3rd, rising by 137K from the week before.
- The four-week moving average of initial claims has risen for two consecutive weeks, following a streak of falling each week since late-April. Currently, the 4-week moving average stands at 776K, up 35K from last week's revised average.
- The number of continued unemployment claims rose by 230K to 5.75M during the week ending on November 28th. The 4-week moving average dropped to 5.94M, down from the previous week's revised average of 6.19M.

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svn.com
33 Arch Street, 17th Floor
Boston, MA 02110
T: 888-311-0605

4. SENIOR HOUSING

- According to a new report from Moody's Analytics REIS, Senior Housing operators are struggling to convince residents that their facilities are adhering to sufficient health and safety protocols, leading to record high vacancies.
- After rising by 220 bps in Q2, the vacancy rate rose further in Q3, jumping by a stratospheric 250 bps and settling at 14.8%.
- Despite falling demand and rising vacancies, there has yet to be a noticeable decline in rents. However, this is mainly because most facilities make rent adjustments in the first quarter of the year. The report notes that if the rising tide of vacancies does not reverse in short order, operators will have little choice but to reduce rates.
- Inventory grew by 0.4% in the third quarter as 5,539 units were added to the market. Q3 2020 completions lagged Q3 2019's total by roughly 2,000 units, a trend that is consistent with worsening fundamentals and growing investor caution.

5. SELF-STORAGE

- The Self-Storage sector has proven a resilient bright spot for commercial real estate in 2020, according to Moody's Analytics REIS.
- The sector's average occupancy rate has now risen for two consecutive quarters and sits at 86.1% through the third quarter. However, this is still below the rate observed at the same time last year, when the occupancy rate sat at 86.9%.
- Quarter-over-quarter, rents for non-climate controlled 10x10 units grew by 0.7%, and rents for climate-controlled units grew by 1.6%. The recent uptick still does not outweigh a secular trend of declining rents in the sector. Measured year-over-year, non-climate-controlled units are down by 2.9%, and climate-controlled units are down by 3.6%.
- According to Moody's Analytics REIS' internal forecasts, the sector-wide occupancy rate is expected to fall to 84.4% through next year before recovering through 2022.

6. CMBS

- According to figures reported by Trepp, the CMBS delinquency rate fell by 11 bps in November, settling at 8.17%. Since peaking at 10.32% in June, CMBS delinquency rates have now pushed lower for five consecutive months.
- The Trepp report notes that improving delinquency rates come with important caveats. The use of forbearance continues to mask the loans that would otherwise report as delinquent. Moreover, there has

been an uptick in authorizations for using reserve balances to cure outstanding debt service payments.

- Multifamily, Industrial, and Office properties have still yet to see any meaningful distress in CMBS. However, delinquency rates did tick up for Multifamily CMBS loans in November by 16 bps, and Office CMBS loan distress may take more time to appear due to the sector's leasing structure.
- Delinquency rates for Hotel and Retail CMBS loans remain elevated. Retail CMBS improved by 12 bps from October, settling at a still lofty 14.21%. The delinquency rate on Hotel CMBS loans ticked up in November, rising by 23 bps to 19.66%.

7. CONSUMER SENTIMENT

- The University of Michigan's Survey of Consumer Sentiment rose to 81.4 in December, 4.5 points higher than in November, according to preliminary results.
- The survey, which also tracks sentiment by political affiliation, noted a partisan shift in responses post-Election Day. Before November, expectations among Republicans were consistently higher than democrats, but the relationship has flipped in the most recent report.
- The most recent reading is the highest level that the index has reached during the pandemic, though it is still 17.9 points below its December 2019 level and remains well below the February peak of 101.0.

8. BEIGE-BOOK SUMMARY

- Economic activity throughout the twelve Federal Reserve District was modest, according to the most recent release of the Beige-Book, the US Central Bank's anecdotal summary of economic conditions.
- Four of the twelve districts reported little to no growth, while five suggested that activity remained uneven, keeping growth below pre-pandemic levels for several sectors. Four other districts (including three of the four Midwestern districts) responded that early-November increases in COVID case counts led to slower activity.
- Manufacturing, logistics and distribution, home building, and home sales have continued to show higher-than-average growth than the rest of the economy, though headwinds remain.
- Most districts reported a rise in employment, but at a slower pace than in the months prior. Firms noted a difficulty in attracting and retaining workers, which has been complicated further by a continuation of school closures over infection fears, leading to additional labor supply problems. Wages grew at a slight-to-modest pace throughout most districts.
- Firms reported modest-to-moderate increases in prices throughout most districts and noted that COVID cases led to supply-chain disruptions for many suppliers, causing upward pressure on prices.

9. REITs

- Equity REITs are down by 7.28% from the start of the year, according to the FTSE Nareit All Equity REITs Index, reported through December 10th. Still, market capitalizations have continued rebounding in the Q4, up by 5.68% from the beginning of the quarter, the highest increase since Q3 of 2019.
- Retail has suffered the steepest losses by any sector during 2020. Within this sector, Regional Malls are the most-impacted product sub-type, as values have contracted by 34.2% year-to-date.
- Data Centers, Industrial, and Self-Storage REITs continue to outperform the broader market, up 14.11%, 7.81%, and 5.73% YTD, respectively.

10. ECONOMIC GROWTH

- The New York Federal Reserve's Weekly Economic Index (WEI), a measure that serves as a snapshot in time forecast for annual Real GDP growth, sits at -2.39% during the week ending on December 5th. Despite week-to-week noise, the index has trended upward since May. Still, the latest reading was a drop from the -2.08% reading the week prior, which was the most positive reading since March 14th.
- According to the December release of the Wall Street Journals' Economic Survey, economists, on average, expect annualized Q4 GDP to come in at 4.1%. These 70+ economists forecast that GDP will slow in the first quarter of 2021 to 1.8% before rising through the remaining three quarters, ending next year at 3.7%.

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33 Arch Street, 17th Floor
Boston, MA 02110
T: 888-311-0605

SUMMARY OF SOURCES

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