

Economic Update

FEBRUARY 2, 2021

CHANDAN ECONOMICS

1. GDP

- According to the Bureau of Economic Analysis' advance estimate, fourth quarter GDP grew at a seasonally and inflation-adjusted annual rate of 4.0% from the previous quarter. Despite a slowdown in improvement after the Summer's initial snapback, Q4's reading indicates that the economy continued to expand and made progress towards recovery through the holiday season, albeit at a slower rate.
- For the year, total real gross domestic product, the value of all final sale goods produced by the US economy, totaled \$18.4T (measured in 2012 dollars), falling 3.5% from 2019.
- Real personal consumption expenditures, the single largest GDP component, grew at a seasonally adjusted 2.5% in Q4. Residential investment, a sub-category of private domestic investment, continued on its tear in the fourth quarter. After growing at a seasonally adjusted annual rate of 63.0% in Q3, it remained elevated at 33.5% to close out the year in Q4.

2. APARTMENT SECTOR

- According to Real Capital Analytics, hedonic cap rates for Apartment properties sank to an all-time low in Q4 2020, edging down by 6 bps to 5.1%. Dating back to Q2 2017, Apartment cap rates have, on average, fallen for 15 consecutive quarters. Moreover, in the forty quarters that made up the past-decade, cap rates rose only twice.
- Transaction activity has seemingly returned to a normal pace in the Apartment sector. In Q4 2020, RCA tracked \$56.7B worth of Apartment transaction volume, rising by 0.1% from the quarterly volume set in Q4 2019. On a quarter-over-quarter basis, transaction volumes more than doubled, jumping by 115%. For the whole year, transaction volumes in the sector totaled \$138.7B, finishing down from 2019 levels by 28%.

3. OFFICE SECTOR

- According to Real Capital Analytics' hedonic cap rate series, Office property yields held steady in the final quarter of the year, remaining at 6.6%.
- RCA reports that Office transaction volumes totaled \$27.6B for the quarter, representing a 34% drop off from the total measured in Q4 2019. Still, Q4 2020's volume is the most since Q1, reflecting a significant degree of improvement. Compared to Q2 and Q3, Q4's transaction volume total is up by 123% and 90%, respectively.
- Measured annually, Medical Office Space outperformed all other Office sub-sectors in 2020. Cap rates for Medical Office properties fell by an average of 17 bps, and transaction volumes only dropped by 13% from 2019 levels. On the other side of the spectrum, Single-Tenant Office properties had their cap rates rise by the most, pushing north by 14 bps. Meanwhile, CBD Office properties saw the most significant dip in annual transaction volume, falling by 48%.

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4. COMMERCIAL PROPERTY PRICE INDEX

- According to Real Capital Analytics' All-Property Commercial Property Price Index (CPPI), price growth accelerated by 1.6% in December from the previous month and is up 7.3% year-over-year.
- The Apartment sector saw prices grow 0.9% month-over-month to close out the year. Despite rent collections softness and an open question of demand dependability, prices finished up 8.3% from December 2019 levels.
- The Industrial sector maintained its "darling status" through December, with prices growing 0.6% month-over-month and finishing the year up 8.8% from the end of 2019– the highest annual growth rate of all property types.
- Retail continues to underperform, with pricing falling by 0.1% in December from November. Since December 2019, prices in the Retail sector have fallen by 4.3%.
- Office prices rose in December, jumping 0.8% from November. Compared to December 2019, Office sector prices are up just 1.5%– the lowest annual increase since 2010 when property prices had yet to hit their post-Great Recession nadir.

5. NFIB SMALL BUSINESS SURVEY

- The composite Small Business Optimism Index, compiled by the National Federation of Independent Business, fell 5.5 points to 95.9 in December. The index has ebbed and flowed through COVID, falling as low as 90.9 in May and as high as 104.0 in both September and October. However, the index has failed to return to its pre-pandemic high of 104.5 reached in February last year.
- 21% of small business owners peg insufficient labor quality as the single most important problem holding their business back, tied with taxes for the highest share among respondents. One year ago, labor quality held a slightly higher share [23%] while taxes charted as the second highest [17%].
- The pandemic has caused many small business owners to have a lower appetite for expanding their physical footprints. Through 2018 and 2019, the average share of business owners who reported a recent purchase of additional land or buildings totaled 6.25% and 6.17%, respectively. In 2020, this share fell to 5.42%– a relative decline of 12.2%.

6. RETAIL SALES

- According to the Census Bureau's advanced estimates, retail sales (including food services) dropped by 0.7% month-over-month in December to \$540.9B. Despite headwinds created by the pandemic, compared to the same period one year ago, retail sales are up by 2.9%.

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- Non-store retail sales, a sub-category dominated by e-commerce, are up by 19.2% year-over-year through December. Meanwhile, measured over the same period, sales from food services and drinking places are down by 21.2%.
- December's drop off in retail sales coincides with the first time the labor market has failed to add back more jobs than it lost in eight months.

7. NAHB REMODELING MARKET INDEX

- The Remodeling Market Index [RMI], a composite metric compiled by the National Association of Home Builders, which tracks remodeling vendors' sentiment, fell slightly to 79 in Q4 2020, down from 82 in Q3. Despite the drop, the metric remains well above the Q1 2020 low of 48, measured during the pandemic's early days.
- The Current Conditions Index, a subset of the RMI that focuses on vendors' most immediate outlook, remained fairly steady, falling from 86 to 85 points in Q4. The index fell as low as 58 during Q1 of 2020. Confidence was significantly higher for projects under \$20K [89 points] and \$50K [88 points] compared to project above \$50K [78]. This relationship has held steady throughout 2020.

8. STOCK MARKET VOLATILITY

- On January 27th, the VIX, the most widely cited metric of stock-market volatility, rose to 37.21, its highest level in three months. The VIX, which tracks the variance of options on the S&P 500, is a point-in-time forecast of near-term expected price fluctuations. When options prices rise, so does the VIX, and the market expects more volatility.
- Since Wednesday, the options market's volatility has moderated, but the uptick comes as an internet-driven frenzy sent a handful of small-cap stocks soaring.
- Despite the surge in volatility, the January 27th peak is only the 42nd-highest daily average for the index over the past 365 days. The VIX has averaged 29.93 over the last year, elevated by the uncertainty surrounding the pandemic. Volatility peaked on March 16th, 2020, as the VIX shot up to 82.69 on the heels of COVID's arrival on US shores. To date, this is the highest level that the index has risen to in its 20+ year history.

9. BIDEN ADMINISTRATION PRIORITIES

- The new Biden administration has signaled its goal to move on several policy items outlined in its agenda within the first 100 days of the new presidential term. Most items will require congressional approval, but the framework provides a benchmark for future policy expectations.

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- **COVID-19 Relief:** One of the administration's first proposals is a \$1.9T Covid-relief bill. The proposal includes plans to mount a national vaccination campaign, deliver \$1,400 individual payments to Americans, extend unemployment benefits, and provide additional financial relief to small businesses.
- **Vaccine Distribution:** In addition to the funding being sought in the \$1.9T Relief Bill, The President signed an executive order invoking the Defense Production Act, primarily aimed at producing components for vaccine-related inputs that would stretch resources and speed up distribution.
- **Racial Equity:** Within most of the new administration's policy goals includes an effort to address racial equity concerns. This includes a review of racial equity within federal agencies and programs, outreach and coordination with minority communities on vaccine efforts, and a goal to extend workplace discrimination protections. The White House also sent congress a new immigration bill on January 20th, which would set a pathway to citizenship for some undocumented immigrants and change the federal government's approach to border security.
- **Climate:** Shortly after being sworn in, The President signed executive orders rejoining the Paris Climate Agreement, ending the construction of the Keystone Pipeline, and revoking permits that allow for land development on a number of National Parks.

10. NEW COVID-19 RELIEF BILL

- The new White House announced its \$1.9T "American Rescue Plan" aimed at addressing the pandemic and providing additional economic relief to households, small businesses, and State & Local Governments.
- The proposal includes \$20B towards establishing a national vaccine program that would address community vaccination sites, supply shortages, and provide a framework for reopening schools. An additional \$50B would be committed to expanding testing and tracing efforts.
- The proposal also calls for \$1,400 stimulus checks to qualifying individuals to supplement the \$600 payments provided in December's package and reach a \$2,000 per-person goal recently pushed by members of both political parties.
- Included in the proposal is a provision aimed at funding "1000,000 public health workers" through a national public health jobs program. It also looks to confront health disparities noted within communities of color, including the distribution of PPE within underserved populations, expand the availability of COVID treatment, and increase vaccine outreach efforts.
- In its current form, the bill also calls for investment in treatments for the virus, establishing occupational safety standards, and extending relief to nursing homes and higher education institutions.

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SUMMARY OF SOURCES

- https://www.bea.gov/sites/default/files/2021-01/gdp4q20_adv.pdf [1]
- <https://app.rcanalytics.com/#/trends/downloads> [2]
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- <https://fred.stlouisfed.org/series/RRSFS> [6]
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