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Economic Update

APRIL 30, 2021

CHANDAN ECONOMICS

1. COVID CASES & VACCINATIONS

- The 7-day moving average of daily COVID-19 cases in the US ticked down to 67,175 on April 19th, a modest decrease that comes after two weeks of near-daily increases. While the trend has started to re-improve, the current mark remains 4% above its recent low measured two weeks ago.
- Despite concerns surrounding a recent outbreak in Michigan, daily case counts have remained at relatively stable levels. 70,355 new cases and 483 new coronavirus deaths were reported across the nation on April 19th.
- As of April 19th, more than 132M people in the US have received at least one dose of a COVID-19 vaccine, representing 40.3% of the total population. Roughly 85M Americans have been fully vaccinated, representing 26.0% of the population.
- A recent pause in administering the Johnson & Johnson single-shot vaccine has resulted in a slight decrease in daily vaccinations. Still, despite this, all Americans 16 years of age and older are now eligible to receive a vaccine. As of Friday, April 23rd, the CDC and the FDA both recommended the resumed administration of the Johnson & Johnson vaccine, citing an overweighted balance of benefits compared to potential risks.

2. APARTMENT SECTOR

- According to Real Capital Analytics, hedonic cap rates for Apartment properties continued to edge lower to begin 2021, falling to a new all-time low of 4.9% in Q1. The first quarter estimate is down 7 bps quarter-over-quarter and 33 bps year-over-year.
- Across different Apartment sub-sectors, Student Housing was the only product type to see cap rates rise in Q1, inching up by 2 bps. However, Student Housing pricing has held up, posting solid gains of 1.4% quarter-over-quarter and 6.4% year-over-year.
- Mid/High-Rise assets were the only Apartment sector subtype to post a year-over-year drop in valuations, declining 1.2%. Quarter-over-quarter, Mid/High-Rise units posted a 1.2% gain.
- Garden Apartments continue to be the best performing product type during COVID, benefiting from supply and demand imbalances for suburban housing. Garden unit valuations finished Q1 up 1.7% quarter-over-quarter and 8.7% year-over-year.
- Transaction activity totaled $35.5B in Q1, dipping 43% quarter-over-quarter, though the first quarter tends to be the least active for new trades. Measured year-over-year, deal volume remains down by 12%.

3. OFFICE SECTOR

- According to Real Capital Analytics' hedonic cap rate series, Office property yields rose by a marginal 2 bps quarter-over-quarter, holding at 6.6% to end Q1. Measured year-over-year, average cap rates are up 3 bps.

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- The only sub-product type posting declining cap rates was Medical Office assets, which fell by 1 bp quarter-over-quarter and 11 bps year-over-year.
- On average, valuations for Office have held up despite some upward pressure on cap rates. Across the sector as a whole, prices are up 2.8% quarter-over-quarter and 2.5% year-over-year. Assets located in Central Business Districts were the only sub-type to post year-over-year losses, declining by 3.3%. Meanwhile, Single Tenant Office assets have seen the most significant step up in pricing, rising 6.4% from a year earlier.
- Transaction volumes remained depressed in the first quarter of the year, declining 33% from the prior quarter and 36% year-over-year.

4. INDUSTRIAL SECTOR

- According to Real Capital Analytics' hedonic cap rate series, Industrial property yields continued their descent in the first quarter of the year, landing at a new record-low just shy of 5.9%. Cap rates are down 4 bps measured from the previous quarter. Compared to one year ago, Industrial cap rates are down a weightier 17 bps.
- Single Tenant Industrial properties saw the most cap rate compression over the past year, shaving off 26 bps through Q1 2021. Flex and Warehouse assets also notched year-over-year cap rate declines, dropping by 23 bps and 16 bps, respectively.
- Pricing for Industrial assets continues to enjoy broad success. For the entire sector, prices are up an average of 3.1% quarter-over-quarter and 5.6% year-over-year. Single Tenant asset valuations lead the way for Industrial sub-types, appreciating 10.1 % year-over-year. Warehouse assets also recorded solid gains, with prices rising 6.7% from a year ago, though Flex prices fell slightly by 1.5%.
- Deal volume dipped in the first quarter of the year, totaling $19.6B. Compared to one year ago, deal volume is down by 41%. However, compared to the Q2 2020 low point, quarterly deal volume is up 57%.

5. RETAIL SECTOR

- According to Real Capital Analytics' hedonic cap rate series, Retail property yields have mostly held steady compared to one year ago, declining by a marginal 5 bps to stay near 6.7%. Across the 11 different sub-property types tracked by RCA in the Retail sector, results are best described as a mixed bag, with 6 posting cap rate increases, 4 notching declines, and 1 holding flat.
- Anchored Retail assets saw the most substantial widening of cap rates, rising by 29 bps year-over-year to settle at 7.9%. Urban/Store Front Retail assets were a close second, posting cap rate increases of 22 bps compared to one year ago, rising to 5.6%. Drug Store assets saw the most cap rate compression over the year ending Q1 2021, declining by 21 bps to 6.0%.

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- Average asset pricing across the Retail sector remains down by 0.7% compared to one year ago, though there are signs of recent improvement. Measured quarter-over-quarter, prices jumped by an encouraging 3.2%– the first single-period increase since Q4 2019.
- As was the case across all other property types, transaction volume similarly dropped off in Q1 2021 for the Retail sector. Deal volume for the sector totaled $7.8B in Q1 2021, declining 46% quarter-over-quarter and 42% year-over-year.

6. BEIGE BOOK

- According to the latest Beige Book Summary, an anecdotal report produced by The Federal Reserve Bank's Board of Governors, overall economic activity across the nation accelerated moderately between February and April.
- An uptick in demand for leisure activities and travel during the spring break season led to a modest increase in tourism. Moreover, domestic tourism was aided by lifting pandemic-related restrictions throughout several States during March and April.
- Despite supply constraints from microchip shortages, auto sales grew over the past several weeks. Similarly, manufacturing activity expanded, with half of all districts reporting robust growth.
- Loan volumes for banks increased modestly, while prices for single-family homes continued to climb as both rising construction costs and persistent consumer demand placed upward pressure on property prices and rents. Other Commercial Real Estate sectors had mixed results, with activity in Hotel, Office, and Retail remaining tepid.
- Most districts reported a moderate increase in employment, but the pace of job growth varied by industry. Manufacturing, Construction, and Leisure and Hospitality led the way in payroll increases.

7. NFIB SMALL BUSINESS SURVEY

- According to the Small Business Optimism Index, produced by the National Federation for Independent Businesses, small business optimism rose in March. The index rose by 2.5% from February, marking a return to its long-term historical average (last reached in November 2020).
- The Uncertainty Index, a subcomponent of the survey, increased in March as owners appeared to be undecided on whether or not the upcoming months will be a good time to expand their business and make additional capital expenditures.
- 42% of small business owners reported job openings that they are unable to fill, an all-time high. There are rising concerns amongst owners that increased unemployment benefits and a pandemic-related dip in labor

force participation have made it more difficult for them to find qualified workers willing to fill jobs.

8. INITIAL & CONTINUING JOBLESS CLAIMS

- According to the Department of Labor, seasonally adjusted initial unemployment claims decreased by 39K to 547K during the week ending on April 17th. This is the lowest weekly average since the week ending on March 14th, 2020, shortly before COVID's negative labor market effects were fully felt.
- The four-week moving average of initial claims dipped by 28k, settling at 651k per week. Similarly, this is the lowest four-week moving average for initial claims since March 14th, 2020.
- Seasonally adjusted continued unemployment claims fell by 34k to 3.7M during the week ending on April 10th, the lowest average since March 21st, 2020. The 4-week moving average dropped to 3.7k, its lowest since March 28th, 2020.

9. RESIDENTIAL PERMITS, STARTS, AND COMPLETIONS

- In March, privately-owned building permits charted a seasonally adjusted annual rate of 1.8M, a 2.7% increase from the revised February rate of 1.7M and 30.2% above the March 2020 level. The massive year-over-year uptick primarily reflects last year's economic nosedive as the pandemic instigated a domestic recession.
- Privately-owned housing starts rose by 19.4% to a seasonally adjusted annual rate of 1.7M in March and is up by 37.0% year-over-year. However, like permits, the sizeable year-over-year increase reflects the steep slowdown in economic activity during last March.
- Completions were at an annualized rate of 1.6M in March 2021, a 16.6% increase from the previous month's estimate. Completions are up by 23.4% year-over-year.

10. EXISTING HOME SALES

- Existing home sales have fallen for back-to-back months, charting a 3.7% month-over-month decrease in March, according to the latest release from the National Association of Realtors. The drop, which includes transactions of single-family homes, townhouses, condominiums, and co-ops comes alongside a record-high for home prices recorded during the month.
- Overall sales are up by 12.3% year-over-year, but the robust increase is largely due to how depressed economic activity was during March of 2020 as the pandemic began.
- Sustained declines in existing home sales reflect the supply constraints facing the housing market as the economy heats up. Consumer demand continues to be strong, as the number of days that a property is on the market remains exceptionally low. The lack of inventory has resulted in sustained home price inflation, which is, in turn, keeping many would-be buyers on the sidelines.

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SUMMARY OF SOURCES

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