

CRE Confidence Builds as Inflation Stays Contained and Fed Sustains Rate Cuts

Gradual inflation path reinforces Fed easing. Prices advanced at a measured pace in September, with Headline CPI up 0.3 percent month over month and 3.0 percent year over year. Core CPI rose 0.2 percent month over month and 3.0 percent year over year, as both goods and services prices edged higher. Recent tariffs continue to pass through to some consumer prices, yet many firms have likely absorbed input cost pressures to preserve demand and market share, tempering overall inflation. This strategy has softened near-term price pressures but could extend the timeline for cost pass-through, keeping inflation slightly elevated in the coming quarters. Even so, many forecasts indicate that inflation remains a one-time adjustment in price levels rather than an ongoing cycle of increases, with expectations centered around CPI reaching the upper-3-percent range by late 2026 before easing. Such a trajectory should support the Federal Reserve's ongoing rate-cutting stance, barring new cost shocks.

Industrial demand firming despite tariff risks. New import taxes have so far proven smaller than initially feared, with the effective U.S. rate near 15 percent as of September, down from over 20 percent on Liberation Day. A series of trade deals and exemptions helped lower barriers, while limited foreign retaliation prevented a broader escalation. At the same time, many companies mitigated exposure by front-loading shipments and rerouting supply, particularly away from China. These shifts helped soften cost pressures and may support industrial leasing, as net absorption turned positive in the third quarter following large relinquishments in early 2025. Even so, ongoing trade-war threats and an uncertain economic outlook are likely to keep tenants cautious, favoring smaller footprints and shorter lease terms.

Labor constraints sustain service-sector inflation. Service prices continued to rise in September, up 0.2 percent month over month and 3.6 percent year over year, partly reflecting persistent wage pressures. New immigration policies tightening the labor supply could drive further wage gains, potentially feeding higher downstream prices. If inflation were to hold above the Federal Reserve's 2 percent target over the long term, it would likely keep policymakers cautious about cutting rates too aggressively. At the same time, higher wages, particularly for lower-income workers, may bolster household purchasing power, supporting consumer spending and housing demand.

Shutdown pressures hotel sector. Following earlier declines, airline and hotel prices continued to climb in September, rising 2.7 percent and 1.7 percent month over month, respectively. Meanwhile, the government shutdown has added volatility as federal travel remains halted, with hotel losses estimated near \$650 million by late October. This dynamic weighs on bookings at a time when travel demand is already moderating. Higher-end hotels, however, will likely be best positioned to withstand softer demand. Full-service properties logged annual RevPAR growth of 2 percent in September, while lower-tier segments declined, reflecting sustained spending from affluent consumers.

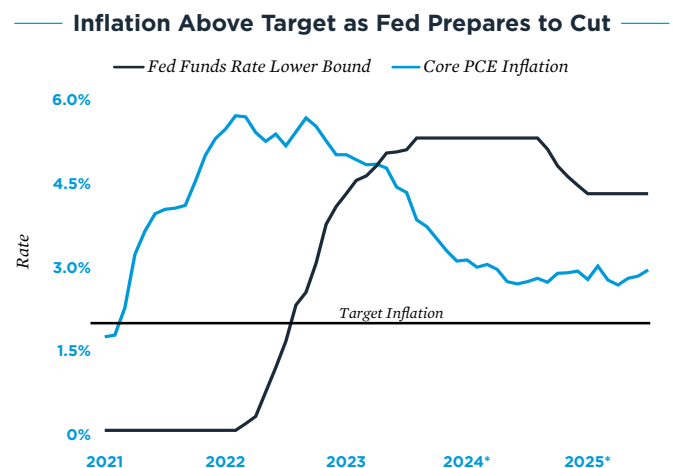
Self-storage retains investment appeal. Amid elevated costs and uncertainty, assets with pricing flexibility and stable cash flow remain favored investments. Self-storage has grown increasingly attractive, with sales activity up 71 percent quarter over quarter through September. The ability to reprice rents quickly can help owners respond to shifting conditions, while downsizing households and businesses seeking temporary storage supports demand during slowdowns. Longer term, declining construction and rising appeal among Gen Z and Millennials facing housing shortages should reinforce fundamentals.

3.0%

Increase in Headline CPI
Year Over Year

3.0%

Increase in Core CPI
Year Over Year



* Moody's Forecast

Sources: IPA Research Services; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; National Travel and Tourism Office; RealPage, Inc.



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