

Data Clarifies Near-Term Risks, Supporting CRE Investment Decision-Making

Delayed data reinforces slowdown. After weeks of data gaps due to the federal government shutdown, the latest releases on jobs, retail sales, and the consumer price index confirmed the U.S. economy continues to cool. Payroll gains remained modest in the private sector in October and November, while government employment fell mainly due to earlier layoffs showing up as severance periods expired. Retail sales growth also moderated, signaling more cautious spending ahead of the holiday season. Inflation, however, remained contained, with core CPI at 2.6 percent year-over-year in November, giving the Federal Reserve room to ease if job growth weakens further. Even so, if inflation moves higher again amid softer hiring, household budgets may face renewed pressure. Lower borrowing costs and fiscal support could, nevertheless, help stabilize activity.

Healthcare outlook remains strong despite policy risks. Health care and social assistance remained the main source of job growth in October and November. The sector should continue to drive healthy gains amid an aging population, though headwinds could slow momentum. Enhanced ACA subsidies are set to expire in January 2026, absent congressional action, which could dampen outpatient demand, while tighter Medicaid eligibility rules pose a longer-term risk beginning in 2027. Labor availability also remains a constraint, particularly amid stricter immigration enforcement, though recent regulatory changes offer some relief. The Centers for Medicare & Medicaid Services rolled back its 2024 minimum staffing requirements for long-term care facilities, a move expected to improve operating costs for senior housing and skilled nursing operators.

Spending strain deepens multifamily divide. Retail sales were flat month-over-month in October, bringing the annual rate to 3.5 percent — the slowest pace since May 2025 and signaling a softening in consumer outlays. A key feature of this slowdown is widening bifurcation across income cohorts, with wealthier households sustaining spending while lower-income consumers face mounting pressure. This is increasingly visible in the multifamily market, where Class C concession usage climbed to near-record levels in November. Roughly 20 percent of these units now offer incentives, well above rates at higher-quality properties. This is most pronounced in markets with elevated new supply, as deliveries intensify lease-up competition.

Policy Easing Becomes Modestly More Likely, Though Uncertainty Keeps Officials Cautious

Inflation data clouded. Inflation came in cooler than expected, with CPI rising just 0.2 percent between September and November 2025 and bringing the annual rate to 2.7 percent. Shutdown-related data gaps likely understated inflation, as some CPI components, particularly shelter, were effectively treated as if inflation had stopped altogether. Entering 2026, upside risks remain if more businesses pass tariff-related costs through to consumers, while stronger demand from larger tax refunds could make that pass-through easier.

Fed remains patient. Recent data has strengthened the case for easier monetary policy, as labor demand cools and inflation remains manageable. Federal Reserve officials have suggested that recent employment data may overstate job gains, reinforcing a more dovish outlook. Still, the Fed appears reluctant to move prematurely, with January rate-cut odds remaining low. Expectations are firmer for a rate cut in March, assuming inflation remains contained. Meanwhile, with Chair Jerome H. Powell's term ending in May 2026, the policy stance could skew more accommodative in the second half of the year.

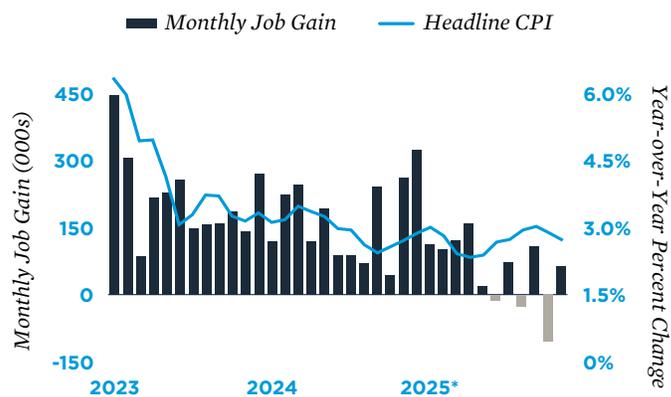
610,000

Jobs Added Year to Date Through
November

2.7%

Increase in Headline CPI
Year-Over-Year

Hiring Slows as Inflation Moderates



* Through November

Sources: IPA Research Services; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; Real Capital Analytics; RealPage, Inc.