Research Brief

IPA INSTITUTIONAL PROPERTY ADVISORS

INFLATION BRIEF

AUGUST 2026

Pressure on Purchasing Power Carries Implications for Commercial Real Estate

Inflation readings largely as expected. The Consumer Price Index (CPI) increased 3.4 percent year-over-year in July, while core CPI – which excludes food and energy costs – rose 2.5 percent. Both measures fell 0.1 percentage point from June. The readings matched market expectations and suggest inflationary pressures remain contained for now. Nevertheless, the impact of renewed hostilities in the Persian Gulf likely has yet to fully filter through supply chains and could put upward pressure on inflation in the near term. Even so, this report, together with July's softer labor market data, should modestly ease immediate pressure on the Federal Reserve to raise interest rates. Policymakers will receive another round of inflation and employment data before the September meeting, so rate hike prospects remain uncertain.

Muted apartment rent growth shapes core inflation. Shelter remains one of the largest contributors to core CPI. While the index primarily captures housing costs through Owners' Equivalent Rent rather than directly tracking apartment rents, real-time data often provide a useful forward indicator of broader shelter inflation. Apartment rents increased 1.3 percent year-over-year in June, down from 2.1 percent growth one year earlier, helping to contain housing-related price pressures. Still, softer rent growth alone is unlikely to support stronger consumer spending in the current economic environment. From July 2025 to July 2026, real average hourly earnings declined 0.1 percent, indicating purchasing power remains under pressure.

Consumer spending could face additional headwinds. Grocery prices increased 2.7 percent year-over-year in July, while restaurant prices rose 3.4 percent. Although this divergence may suggest consumers remain willing to spend on discretionary dining, it may also signal vulnerability if household purchasing power weakens further. Retail property fundamentals likewise present a mixed picture. While vacancy remained 60 basis points below its historical average, space demand has been volatile. Net space relinquishment occurred in three of the past six quarters, a pattern not observed nationally outside of 2020 since at least 2000.d and labor, further slowing conventional construction.

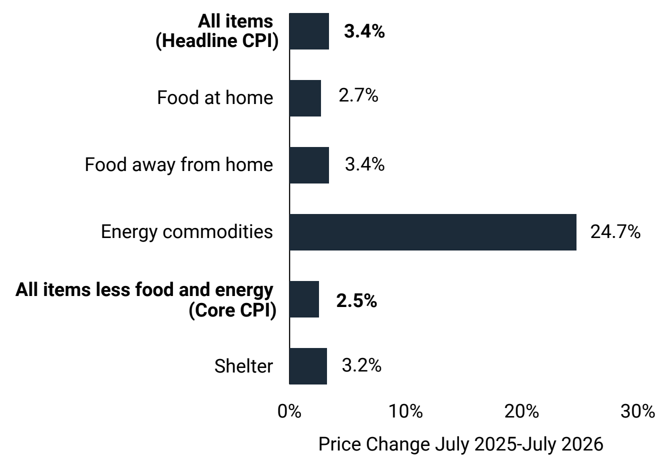
Hospitality sector might soften through year-end. Energy costs remained elevated in July, up 24.7 percent year-over-year, while airfares increased 25.5 percent. At the same time, the leisure and hospitality sector lost 40,000 jobs nationally last month, and hotel occupancy declined 20 basis points in June despite World Cup-related travel demand. With transportation costs still elevated and travel demand showing signs of moderation, hotel performance could face additional headwinds through year-end.

KEY TAKEAWAYS

- July's inflation report should ease immediate concerns about price pressures, though policymakers will receive additional data before the Fed's meeting in September.
- Slower shelter-cost growth helped restrain headline inflation, but weakening real wage gains suggest purchasing power remains under pressure.
- Consumer activity remains resilient in some discretionary categories, though demand for retail space continues to trail pre-pandemic norms.
- Elevated travel costs and softer hospitality employment trends suggest tourism-related spending could lose momentum later this year.

3.4%	2.5%
Increase in Headline CPI Year-Over-Year	Increase in Core CPI Year-Over-Year

KEY CATEGORIES BEHIND RECENT INFLATION



Sources: IPA Research Services; Bureau of Labor Statistics; Federal Reserve

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