

# Economic Update

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MARCH 26, 2026

## 1. COMMERCIAL PROPERTY PRICES

- According to the latest data from MSCI-RCA, commercial property prices rose 1.3% year-over-year in February and 0.4% month-over-month — implying a 5.3% annualized pace.
- Transaction activity remained below historical norms while performance continues to diverge sharply by sector.
- The Industrial sector led all property types with a 4.2% year-over-year gain, its fourth consecutive month of accelerating monthly growth. Industrial prices now stand 13% above their July 2022 level, while all other major property types have declined over the same period.
- Apartment prices posted their first annual gain in more than three years, rising 0.1% year-over-year and 0.4% from January. The February pace amounts to a 5.5% annualized pace, though the index remains 18% below its July 2022 peak.
- Retail declined 1.9% year over year, marking its third consecutive month of annual declines. It follows a streak of 14 consecutive months of gains for the sector.
- The Office sector remains a tale of two markets. Suburban Office rose 3.1% year-over-year, while CBD office fell 0.2%.

## 2. FED INTEREST RATE DECISION

- With just one dissent, the FOMC voted to hold the federal funds rate target range steady at 3.50%–3.75% at its March 2026 meeting, continuing to cite elevated uncertainty and above-target inflation as reasons to maintain a neutral posture.
- Governor Miran dissented in favor of a 25-basis-point cut, while the updated committee member dot plot showed a median fed funds rate projection of 3.4% at year-end 2026, implying one 25-basis-point reduction. 7 of 19 meeting participants projected no cuts in 2026.
- The FOMC revised its 2026 PCE inflation forecast to 2.7% from 2.4% in its December projections. The core PCE projection rose to 2.7% from 2.5%, while the committee left its 2026 GDP growth projection unchanged at 2.4%.
- The war with Iran has added new risks to energy prices and inflation. Still, the Fed's policy tools typically



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cannot directly respond to energy-supply-induced inflation spikes, instead focusing on downstream effects on goods and services prices.

- Elevated financing costs are likely to continue weighing on CRE transaction volume and compressing cap rates across all major property types.

## 3. POWELL ON DATA CENTERS & INFLATION

- During his post-FOMC meeting press conference, Fed Chair Jerome Powell acknowledged that the ongoing data center construction boom could push the neutral rate of interest higher, as massive AI infrastructure investment drives significant demand for capital and power.
- Powell noted it remains too early to determine whether data center capacity is being added faster or slower than demand, cautioning that the sector's broader monetary implications are still uncertain.
- Importantly, Powell indicated the AI buildout is “not something that would immediately call for lower rates,” signaling that the Fed does not view data center investment as disinflationary in the near term.
- A structurally higher neutral rate would extend the higher-for-longer rate environment, sustaining high borrowing costs for CRE operators and maintaining cap rate compression across all property types.

## 4. RECESSION PROJECTIONS

- A March 16-18 survey of 50 economists, conducted by the Wall Street Journal, places the probability of a US recession over the next 12 months at 32% – roughly a one-in-three chance.
- The responses come amid a surge in oil prices and emerging supply chain risks from the Iran war, alongside trade policy uncertainty that is weighing on the outlook.
- Most economists surveyed expect inflation to rise temporarily, complicating the Fed's path forward. The FOMC held rates steady at its March meeting, with Chair Jerome Powell noting that the economy is “expanding at a solid pace,” while cautioning that activity in several sectors warrants close monitoring.
- Key downside risks cited in the survey include the ongoing Middle East conflict, elevated tariffs, and potential disruption to the Strait of Hormuz.
- These elevated recession probabilities, if sustained, may reinforce caution among CRE investors and



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lenders heading into the spring transaction season.

## 5. CONSTRUCTION SPENDING

- US construction spending fell by 0.3% month-over-month between December and January, according to the latest data released by the US Census Bureau.
- The rate of total spending fell to a seasonally adjusted annual rate of \$2.19 trillion in January. The decline missed market expectations of a 0.1% uptick, but construction spending in January remained 1.0% above its January 2025 level.
- Private construction spending fell 0.6% in January to an annualized rate of \$1.66 trillion. The residential sector contracted by 0.8% to \$9.33 billion annualized, while the non-residential sector slipped 0.4% to \$728.2 billion annualized.
- Public construction spending declined 0.6% to an annualized \$529.2 billion during the month, driven partly by a drop in educational construction spending. Meanwhile, highway construction spending surged 3.3% month.
- A decline in computer and electronic manufacturing construction, which has dropped nearly 40% over the last 19 months, contributed to the drag on construction.

## 6. NET LEASE ESCALATIONS

- A recent analysis by CRE Daily explores details that net lease structures are undergoing a shift, with shorter-term leases containing built-in escalation clauses increasingly replacing long-term flat-rent contracts that historically have defined the sector.
- Since the pandemic, risk has been recalibrated, accelerated by high-profile tenant exits. Investors are now underwriting with greater scrutiny around tenant quality and operational durability.
- Tenant mix is also diversifying. Medical clinics and last-mile industrial tenants are increasingly attractive counterparties as investors look beyond quick-service retail.
- Recent transactions involving tenants such as Amazon, Quest Diagnostics, and 7-Eleven, among others, illustrate how tenant quality and asset type are increasingly driving pricing in today's environment.

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## 7. CONSUMER SENTIMENT

- According to preliminary readings from the University of Michigan, US consumer sentiment fell in March to 55.5, its lowest index reading of the year so far.
- Military action in Iran and surging gas prices have weighed heavily on household confidence in recent weeks. The near-term Current Economic Conditions sub-index edged up 1.2 points during the month, but the more forward-looking Expectations index fell 2.5 points.
- Early-month responses showed improving sentiment, but readings taken after the war in Iran erased those initial gains.
- Year-ahead inflation expectations remained at 3.4% following six consecutive months of declines, while longer-run inflation expectations edged down to 3.2%

## 8. WHOLESALE INVENTORIES

- Recent wholesale trade data suggests that a pivot in industrial real estate demand away from stockpiling toward greater efficiency has begun.
- Wholesale inventories fell 0.5% month-over-month to \$909.3 billion in January, according to the latest data from the US Census Bureau, a sharp deceleration from the stock-building pace that characterized much of 2025.
- Meanwhile, wholesaler sales totaled \$727.5 billion in January 2026, up 0.5% from a revised December level and 7.5% above January 2025. This tightened the inventories-to-sales ratio to 1.25, its lowest reading in several years.
- The current lean inventory picture reflects the unwinding of tariff-driven stockpiling in 2025, when many wholesalers built buffer stock ahead of anticipated tariffs.
- With these costs now embedded, wholesalers have largely returned to moving product rather than hoarding it.
- The Supreme Court's February 20 ruling striking down IEEPA tariffs, however, could affect activity.
- Following the ruling, the Administration pivoted to a 10% global tariff under Section 122, introducing new

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policy uncertainty that could trigger further front-loading.

## 9. NEW HOME SALES

- New home sales plunged 17.6% month-over-month in January to a seasonally adjusted annual rate of 587,000, representing a significant decline in activity and falling well below expectations of 720,000. New home sales are 11.3% below the year-ago pace of 662,000.
- The median sales price of a newly built single-family home fell to \$400,500 in January, down 4.5% from December and 6.8% below January 2025's \$429,600 median.
- The months' supply of new homes on the market climbed to 9.7, up from 8.0 months in December and 9.0 months one year prior. It's the sharpest single-month deterioration in new home sales activity in recent history.
- New home sales are historically volatile month to month, and sales activity typically slows during the winter months. Nonetheless, activity is comparably weak relative to historical norms, as high mortgage rates and weak consumer confidence place pressure on the housing market.
- The pullback in sales activity signals softening near-term demand for residential developers and could weigh on new construction pipelines across single-family and build-to-rent segments.

## 10. INDEPENDENT LANDLORD RENTAL PERFORMANCE

- On-time rent payments in apartments operated by independent landlords rose one percentage point to 83.9% in March, according to the latest rent collections data from Chandan Economics/Rent Redi.
- The March uptick was a significant month-over-month improvement and marks the fifth monthly increase in the on-time payment rate in the past six months.
- The late payment rate ticked down to 12.1% March from 12.4% in February. Late payments continue to recede from a cycle high of 13.4% in September 2025.
- Nonetheless, late payment levels remain above the 10% threshold that has historically marked a more stable operating environment. As a result, cash flow timing remains a key challenge for independent landlords, even as overall rent realization holds up.
- Western and Mountain states continue to lead on-time performance: South Dakota (95.4%), New



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Hampshire (94.0%), Utah (93.1%), Colorado (92.2%), and Wyoming (92.1%) posted the strongest on-time rates. Tennessee (77.0%), Mississippi (77.9%), Vermont (79.4%), and Maryland (80.8%) recorded the weakest rates.

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## SUMMARY OF SOURCES

- (1) [https://info.msci.com/l/36252/2026-03-25/y5z36n/36252/1774468955L1tugzIq/2603\\_RCACPP1\\_US.pdf](https://info.msci.com/l/36252/2026-03-25/y5z36n/36252/1774468955L1tugzIq/2603_RCACPP1_US.pdf)
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- (5) <https://www.credaily.com/briefs/net-lease-escalations-reshape-market/>
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