

## Inflation Accelerated in June, but Forward Indicators Suggest Relief Ahead

**High inflation persists, but pressure may ease.** The Consumer Price Index advanced 9.1 percent year-over-year in June, its fastest pace since November 1981. Accelerated inflation was predominantly driven by higher energy and food prices. Excluding those two categories, core CPI inflation was 5.9 percent last month, a slowdown from the March high of 6.5 percent. While a widespread shortage of raw materials, finished goods and labor continue to push up prices, some relief may be ahead. Global shipping delays have eased, and the costs of various commodities are trending lower, including oil and wheat, which were heavily disrupted by the war in Ukraine. This situation could still reignite inflation and cause additional economic turbulence, but the recent positive trends imply that supply chains are adjusting.

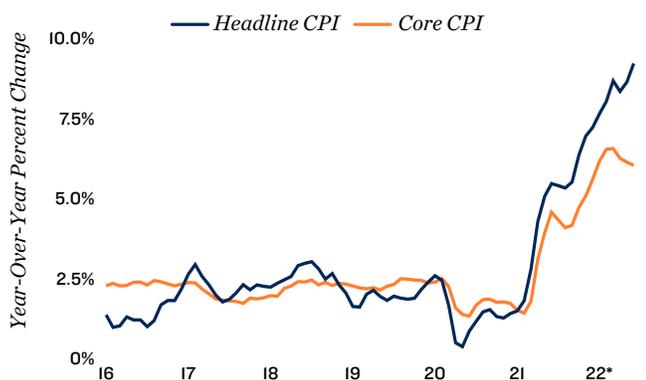
**Rising costs influencing space needs of renters and tenants.** While demand for commercial space continues to improve from pandemic troughs, households and businesses are evaluating budgets amid rising prices. This could moderate the pace of growth going forward and shift the composition of demand. Some Class A renters may look to Class B+ options or units in less costly areas. Companies with substantial office and industrial space commitments may consider relinquishing floor plans that no longer fit their needs. Consumers may allocate spending more toward necessities, which could alter the expansion plans of some retailers and hotel bookings at certain chain scales and locations.

## Investment Implications:

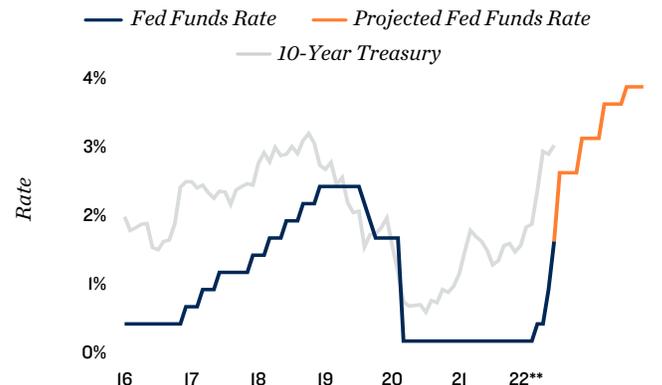
**Real estate remains a potential hedge.** Periods of elevated inflation underscore the appeal of commercial real estate, as physical assets tend to be more resistant during periods of price volatility. Reflecting positive investor sentiment, sale prices across most property types grew during the last 18 months. Moving forward, properties with shorter tenant leases may garner more buyer attention, including apartments, where the typical lease is 12 months, and self-storage, where units are rented on a monthly basis. Hotels also overcame pandemic adversity, with the average daily rate up 14 percent in May relative to the 2019 average. Additionally, office and industrial assets with an upcoming lease expiration present value-add potential in the current environment.

**CPI climb may accelerate rate hike plan.** Prior to the June inflation numbers, the Fed had signaled its intention to raise the federal funds rate by 75 basis points in late July. That figure is now considered a lower bound, with a 100-basis-point increase thought to be the more likely scenario. The continued acceleration of headline CPI inflation, paired with consistent, above-average job creation, likely reinforces the more aggressive scenario. Higher interest rates and borrowing costs complicate the transaction process for investors. Cap rates are historically tight, given favorable property fundamentals and potential upside, limiting margins. Uncertainty over the inflation and economic growth trajectories may also be prompting investors to adjust strategies.

### Core Inflation Moderating



### Fed Policy Lifting Interest Rates



\* Through June

\*\* Historical Fed Funds Rate & 10-Year through June, forecast assumes hikes of 100 bps, 50 bps, 50 bps and 25 bps.

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; RealPage, Inc.; U.S. Census Bureau



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