

Broad Disinflation Supports a More Stable Commercial Real Estate Outlook

Core pressures ease further. Inflation continued to cool in January despite a month that often prints higher due to seasonal price resets. Headline CPI rose 0.2 percent month-over-month and 2.4 percent year-over-year, while Core CPI increased 0.3 percent month-over-month and 2.5 percent year-over-year, the lowest core change since March 2021. Disinflation across services, led by softer shelter inflation, continued to ease and kept overall price hikes contained. Core goods prices also remained soft, signaling limited tariff-related pass-through even as a weaker dollar lifts import costs. However, the year-over-year easing likely reflects some base effects from last year's elevated prints, so further disinflation may prove incremental. Nevertheless, the current mix of cooling services and muted goods pass-through still supports a soft-inflation backdrop.

Goods inflation steady as fiscal impulse looms. Core goods prices held flat over the past two months, and rose just 1.1 percent year-over-year. Even tariff exposed categories like apparel stayed soft, rising just 1.7 percent year-over-year, suggesting firms continue to absorb a meaningful share of tariff costs. Reported discussions to narrow the scope of steel and aluminum tariffs could further reduce downstream input pressure. This dynamic bodes well for consumer spending if businesses can continue to absorb these costs. Still, core producer prices increased 3.3 percent year-over-year in December, leaving room for some pass through to consumers if demand firms. Future months bear watching as larger tax refunds may provide a short lived demand boost that tests whether muted goods inflation holds.

High hospital pricing reinforces MOB appeal. Medical care services inflation held firm in January, reflecting labor intensity and reimbursement dynamics. Hospital services saw the most pressure, rising 0.9 percent month-over-month and 6.6 percent year-over-year. Physicians services inflation looked cooler, rising 0.3 percent month-over-month and 2.1 percent year-over-year, underscoring a widening gap between facility based care and office based care. This spread may reinforce payer incentives to shift appropriate procedures into lower-cost office and ambulatory settings, supporting demand for off-campus medical office and ASC space. This trend should keep medical office assets in focus for real estate investors after 2025 posted the highest transaction volume on record outside of 2022.

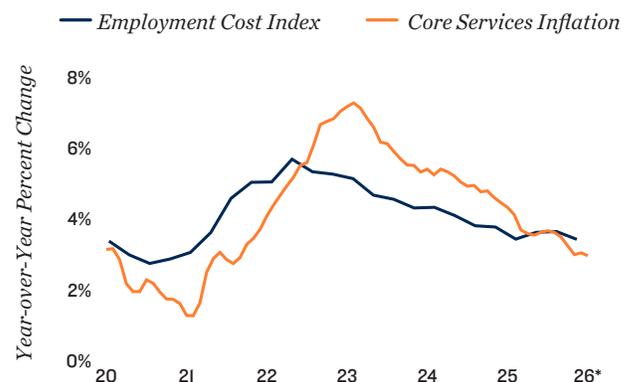
Airfares jump as foreign arrivals recover. After sharp declines in 2025, travel indicators improved into year end, and January pricing data hinted at firmer demand. Airline fares rose 6.5 percent month-over-month in January, potentially signaling improved discretionary spending. Travel conditions also stabilized, with U.S. international air passenger enplanements down only 0.1 percent year-over-year in December, after September visitor arrivals fell 11 percent. This dynamic may bode well for hotel demand, particularly in foreign visitor heavy gateway and resort markets.

Expectations stay anchored amid cooling wages. The employment cost index rose 0.7 percent in the fourth quarter of 2025, the smallest quarterly gain since mid 2021, pointing to easing wage pressures that should help limit services inflation. Consumer year ahead inflation expectations also moved lower, with the University of Michigan survey at 3.5 percent in preliminary February estimates, well below the 6.5 percent peak in spring 2025. Together, slower compensation growth and cooler expectations reduce the risk of a self reinforcing wage price spiral. For commercial real estate investors, a more modest inflation outlook could improve expense forecasting and help steady long term yields, extending investor willingness to take on duration risk and supporting cap rate stabilization.

2.4% Increase in Headline CPI Year-Over-Year

2.5% Increase in Core CPI Year-Over-Year

Services Inflation Tracks Wage Softening



* Services inflation through January 2026. Employment Cost Index through fourth quarter 2025. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; Federal Reserve; CoStar Group, Inc.; RealPage, Inc.