

Income Inequality and the Implications for CRE

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High levels of income inequality can lead to very elevated or even confiscatory taxation levels. In extreme cases it may even result in revolution or war. The economy has been growing unevenly for a long time, but the issue has grabbed particular attention in the wake of the pandemic.

Although stimulus payments initially supported lower-income populations, the ensuing inflation shock offset these benefits by operating as a regressive tax, disproportionately eroding purchasing power for households with the highest exposure to essential living costs.

Concurrently, the post-pandemic market environment favored households with established asset holdings, including market equities and residential real estate, mitigating adverse effects for higher-wealth cohorts. Asset prices appreciated even as consumer confidence weakened.

One segment of the populace remains resilient—consumer spending is steady, balance sheets are healthy, and confidence remains solid—while another segment continues to adjust to the effects of inflation and is operating more cautiously. When these conditions coexist, top-line economic growth can appear stable even as underlying stress persists. The economic fortunes of high-wealth households with significant market equity and home equity are increasingly tied to the success of the overall economy, as they spur most of the spending, which constitutes roughly 70% of U.S. GDP.¹

Discussion of a K-shaped economy in today's climate pertains to divergent fortunes of income groups and the resulting consumer spending patterns—the affluent are thriving and spending more, while others are seeing stagnant wages and moderating expenditures. For investment purposes, it's important to analyze what impact this is having on commercial property.

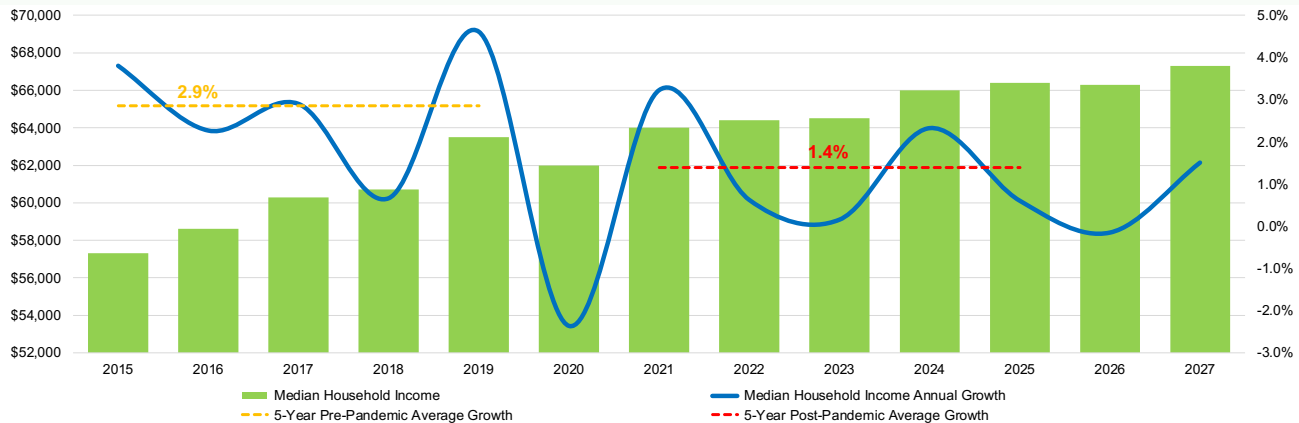
Economic Gains Are Not Harvested Evenly

The K-shaped dynamic matters because consumer spending—the primary engine of U.S. growth—is increasingly concentrated. Following a surge in median household income growth coming out of the short recession in 2020, the measure has cooled considerably in the subsequent years. In fact, real household incomes have growth at an average of 1.4% annually between 2021 and 2025, less than half the pace recorded in the five-year period preceding the pandemic. This development comes as consumer prices remain elevated, courtesy of a demand-driven surge and extensive government spending including government stimulus checks in 2020 and 2021, eroding Main Street's purchasing power.

¹ U.S. Bureau of Economic Analysis

Income Inequality and the Implications for CRE (cont.)

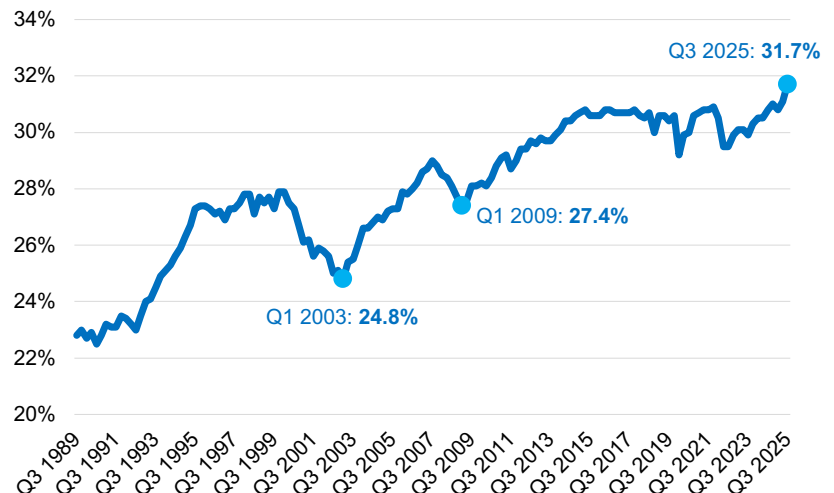
FIGURE 1
Median Household Income Growth



Source: U.S. Census Bureau

Meanwhile, on Wall Street, the stock market continues to set new records weekly, boosting the economic fortunes of the wealthiest Americans to all-time highs. The S&P 500 is up 190% and home prices, according to Zillow, are up 44% since March 2020. That has helped concentrate more of the nation's wealth in the hands of the most affluent Americans. The latest Federal Reserve data through the third quarter of 2025 reveals that the top 1% of households command 31.7% of the country's wealth. This compares to 27.4% in 2009 and 24.8% in 2003.

FIGURE 2
Percentage of U.S. Wealth Held by Top 1% of Households



Source: U.S. Board of Governors of the Federal Reserve System (US) via FRED

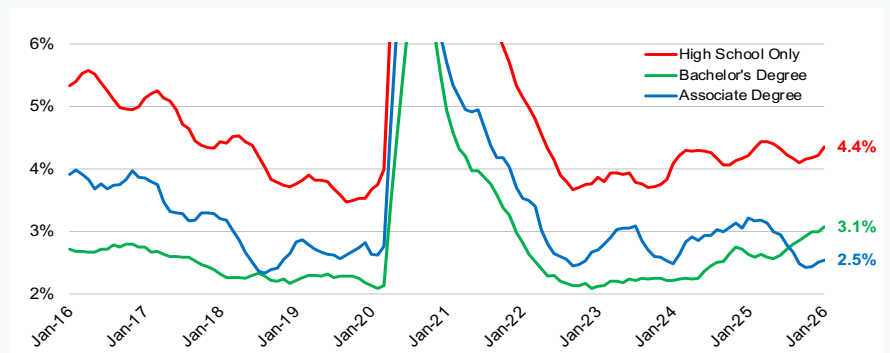
Income Inequality and the Implications for CRE (cont.)

As technology and automation reshape today's workplace, another feature of today's economic dislocation is a mismatch between candidates' skills and available job requirements. In fact, an analysis of Bureau of Labor Statistics data by the Federal Reserve Bank of St. Louis shows that the unemployment rate for bachelor's degree holders recently exceeded that of associate degree holders when measured on a trailing six month average to smooth seasonal fluctuations. If this increase in the number of college-educated unemployed people persists, it can potentially force indebted college graduates to accept lower salaries and/or in other fields and may even keep them completely out of the labor market, further exacerbating income inequality.

What's more, a heavy student debt burden is already exerting a toll on household balance sheets. Specifically, the 30-39 age cohort carries an outstanding student loan balance of \$531 billion, comprising one-third of the total.

FIGURE 3
Unemployment Rate by Education Level

(Age 25+, trailing 6-month average, through January 2026)
COVID-Era Peaks: 12.2%, 9.6%, 7.6%

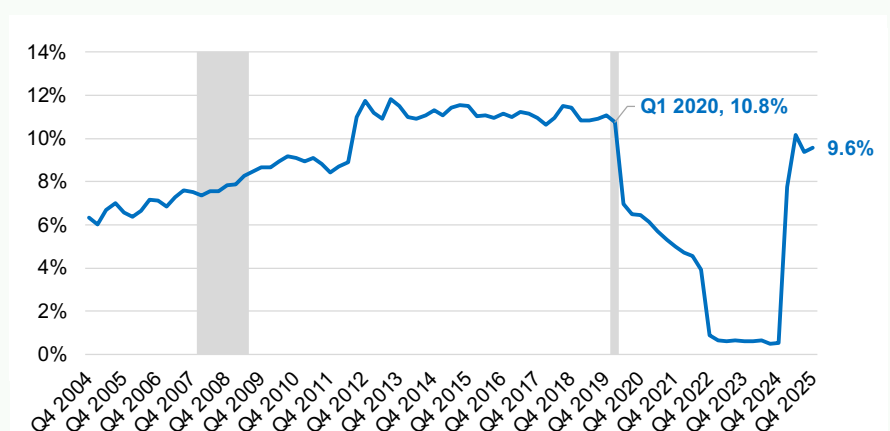


Source: "The Employment Situation, January 2026," Bureau of Labor Statistics, Federal Reserve Bank of St. Louis.

Note: St. Louis Fed FRED tabulations of BLS CPS microdata are used to isolate employment outcomes for individuals with an associate degree from an occupational program. A 6-month moving average is applied to reduce seasonality and month-to-month volatility.

FIGURE 4
Student Loan Serious Delinquencies Rate

(Quarterly, % of Loan Balances 90+ Days Delinquent)



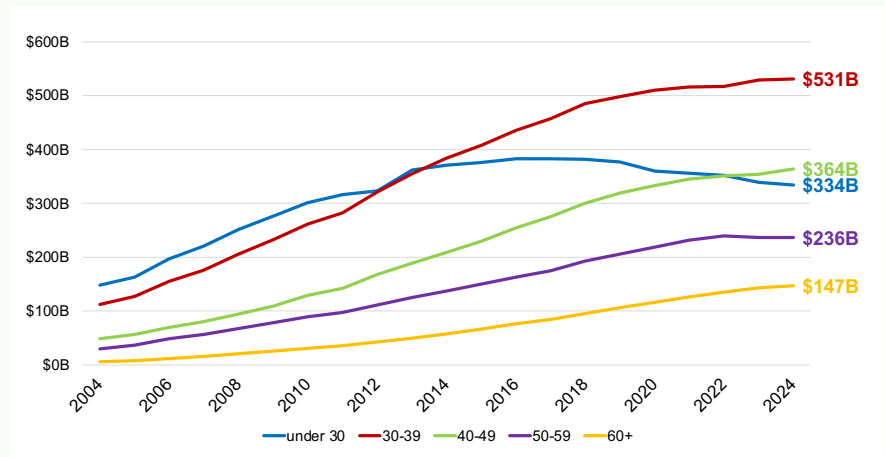
Source: New York Fed Consumer Credit Panel/Equifax, Q4 2025.

Income Inequality and the Implications for CRE (cont.)

The resumption of student loan repayments after roughly five years of suspension has triggered a sharp rise in delinquencies. In 4Q2024, the overall delinquency rate was just 0.5%, but since the U.S. Department of Education resumed collections on defaulted federal student loans, the 90+ day delinquency rate has climbed to 9.6%, while new delinquencies (30+ days) have risen to 16.3%, the highest level in the New York Fed's data history.

This dynamic is creating an additional headwind for consumer spending, as it directly lowers disposable incomes for households. High student debt without commensurate job income potential limits the ability to participate in the housing market and retail spending.

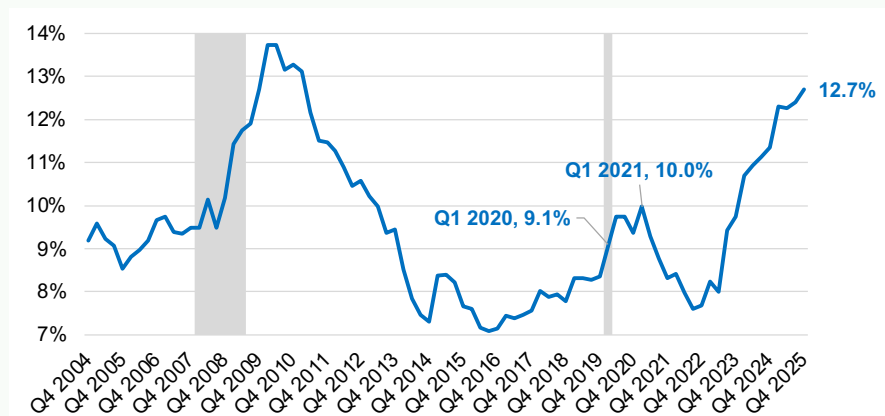
FIGURE 5
Student Loan Balances by Age Group



Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax

FIGURE 6
Credit Card Serious Delinquencies Rate

(Quarterly, % of Loan Balances 90+ Days Delinquent)



Source: New York Fed Consumer Credit Panel/Equifax, Q4 2025.

Income Inequality and the Implications for CRE (cont.)

Another reflection of stress in the weaker economic strata of the population is the elevated default rates of credit cards and auto loans. The rates for both are near the highest levels since the aftermath of the Global Financial Crisis.

Gini Ratio

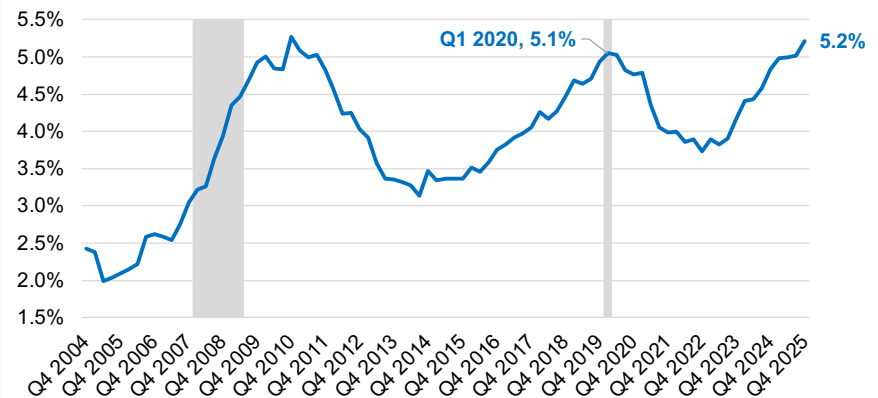
Income distribution is commonly quantified in a Gini Ratio, a statistical measure that expresses income inequality on a scale from 0 to 1, where 0 means perfect equality and 1 denotes perfect inequality. The Gini ratio has increased steadily over the last half century and is now 0.49.

The U.S. Census Bureau also publishes Gini Ratios for metropolitan statistical areas. The agency's most recent American Consumer Survey compiled in 2024 shows that the highest income concentrations are in Bridgeport/Stamford, CT, New York, and Miami. Other large metro areas with high Gini ratios include San Francisco, Los Angeles, Chicago and Philadelphia. Income is more evenly distributed in Utah (Ogden/Salt Lake City/Provo), Boise, Stockton, CA, and Virginia Beach/Norfolk.

FIGURE 7

Auto Loan Serious Delinquencies Rate

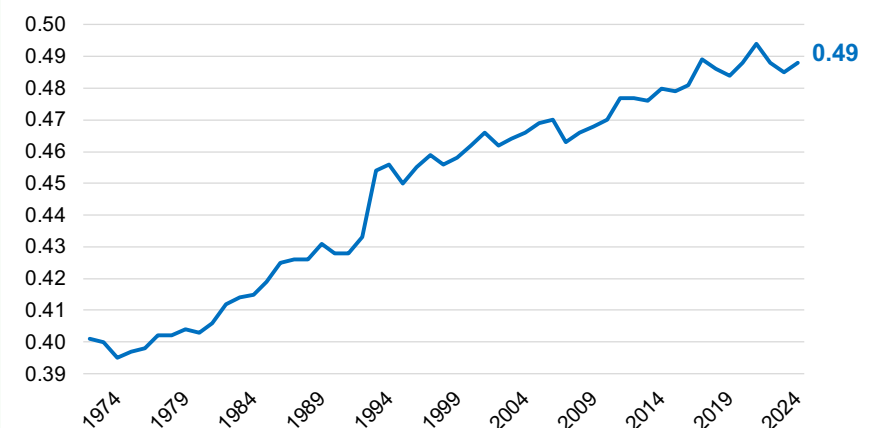
(Quarterly, % of Loan Balances 90+ Days Delinquent)



Source: New York Fed Consumer Credit Panel/Equifax, Q4 2025.

FIGURE 8

U.S. Gini Index of Income Inequality



Source: U.S. Census Bureau. Data as of 2024.

Gini Index of Income Inequality ranges from 0, indicating perfect equality (where everyone receives an equal share), to 1, perfect inequality (where only one recipient or group of recipients receives all the income)

Income Inequality and the Implications for CRE (cont.)

FIGURE 9
Gini Index by Metro Area, 2024

Rank	Metro Area	2024	Rank	Metro Area	2024	Rank	Metro Area	2024
1	Bridgeport/Stamford	0.543	27	Oklahoma City	0.469	53	Orlando	0.455
2	New York	0.515	28	Louisville	0.469	54	Kansas City	0.454
3	Miami	0.504	29	Tulsa	0.469	55	Buffalo	0.454
4	Memphis	0.500	30	Nashville	0.468	56	Raleigh	0.454
5	New Orleans	0.498	31	Birmingham, AL	0.466	57	Baltimore	0.453
6	San Francisco	0.494	32	Providence	0.466	58	Albuquerque	0.453
7	Houston	0.492	33	Hartford	0.465	59	Albany	0.453
8	Greenville	0.489	34	Milwaukee	0.465	60	Phoenix	0.453
9	Baton Rouge	0.486	35	Charleston	0.464	61	Indianapolis	0.453
10	Los Angeles	0.486	36	Columbia, SC	0.464	62	Washington, DC	0.451
11	Chicago	0.485	37	Dallas/Fort Worth	0.464	63	Grand Rapids	0.450
12	New Haven	0.483	38	Atlanta	0.463	64	Sacramento	0.449
13	Philadelphia	0.481	39	Tucson	0.463	65	Dayton	0.449
14	Detroit	0.481	40	San Antonio	0.462	66	Bakersfield	0.448
	United States	0.481	41	Richmond	0.462	67	Minneapolis	0.448
15	Boston	0.479	42	St. Louis	0.461	68	Allentown	0.446
16	Sarasota	0.479	43	Greensboro	0.460	69	Portland	0.443
17	San Jose	0.478	44	Las Vegas	0.460	70	Oxnard	0.443
18	Seattle	0.478	45	Columbus	0.460	71	Omaha	0.442
19	Charlotte	0.475	46	El Paso	0.460	72	Worcester	0.441
20	Fort Myers, FL	0.474	47	Knoxville	0.459	73	Honolulu	0.441
21	Cleveland	0.473	48	Jacksonville	0.459	74	Virginia Beach/Norfolk	0.438
22	Austin	0.472	49	Fresno	0.458	75	Riverside	0.436
23	Tampa	0.471	50	San Diego	0.456	76	Stockton, CA	0.429
24	McAllen	0.471	51	Rochester	0.455	77	Boise	0.429
25	Cincinnati	0.471	52	Denver	0.455	78	Salt Lake City	0.419
26	Pittsburgh	0.470						

Source: U.S. Census Bureau. As of 2024.

Gini Index of Income Inequality ranges from 0, indicating perfect equality (where everyone receives an equal share), to 1, perfect inequality (where only one recipient or group of recipients receives all the income)

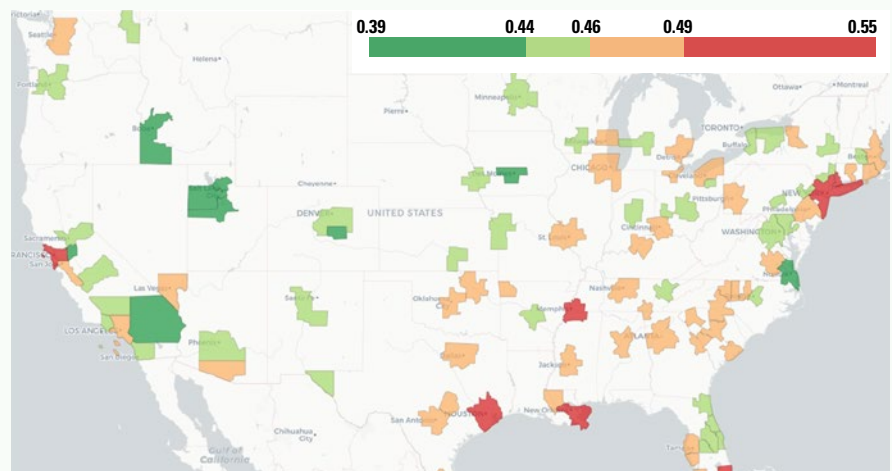
Income Inequality and the Implications for CRE (cont.)

Stagnant and even declining real household incomes, together with rapidly appreciating shelter costs, partially explain rising inequality. To wit, real median household incomes in Seattle inched up just 0.1% between 2019 and 2024 to \$90,900, while Albany's declined 1.1% to \$70,100 over the same period. That compares to growth of 3.9% nationally. Meanwhile, home values in the two metro areas rose by over 40% in the five years through 2024, according to Zillow.

Shelter costs make up more than one-third of the CPI basket and the combination of slowing income growth and accelerating housing expenses have had a profound impact on inter-state migration. Households in high tax jurisdictions have relocated south in great numbers since the onset of the pandemic, seeking better quality of life and lower tax and housing burdens.

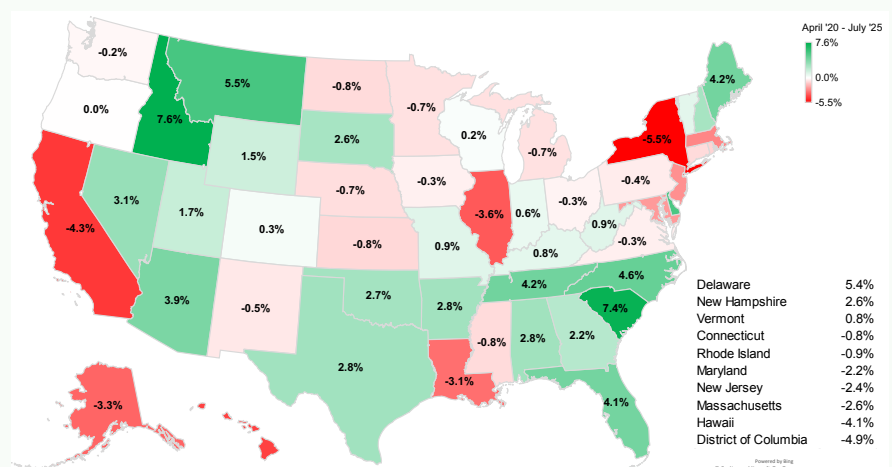
Sometimes out-migration is the result of overly ambitious budget increases which require rising taxes and cut-back of services. This in turn may cause more residents to relocate out of the state which necessitates further tax increases and service cuts – and ultimately results in a cycle of decline.

FIGURE 10
Gini Ratios For 100 Largest Metro Areas by Population



Source: U.S. Census Bureau. Data as of 2024

FIGURE 11
U.S. Domestic Migration: April 2020 to July 2025



Source: U.S. Census Bureau.

Income Inequality and the Implications for CRE (cont.)

Policy Response Proposals

Growing wealth and income disparity, and the accompanying affordability challenges, are leading to certain policy proposals involving higher taxes and rent control.

Among the most drastic is the threat of a California wealth tax, a ballot initiative that seeks to impose a one-time 5% tax on residents with over \$1 billion in net worth. Should the measure reach the ballot in November and win over voters, ballot backers estimate it would raise approximately \$100 billion. However, it may backfire and cause wealthy individuals to leave the state, further exacerbating the state's budgetary challenges. Rhode Island is exploring a 3% surtax on incomes above \$640,000, targeting the top 1% of earners. New York City mayor Zohran Mamdani advocates increasing the top marginal income tax in New York City to 5.9% which would result in a combined state and city tax of 16.8% - the highest in the nation. He is also in favor of increasing the corporate tax from 7.25% to 11.5%.

Rent control is another reaction to affordability challenges. Officials in the country's largest apartment markets often tout rent increase caps and other restrictions as a way of addressing ever-increasing rents. The following are two recent examples:

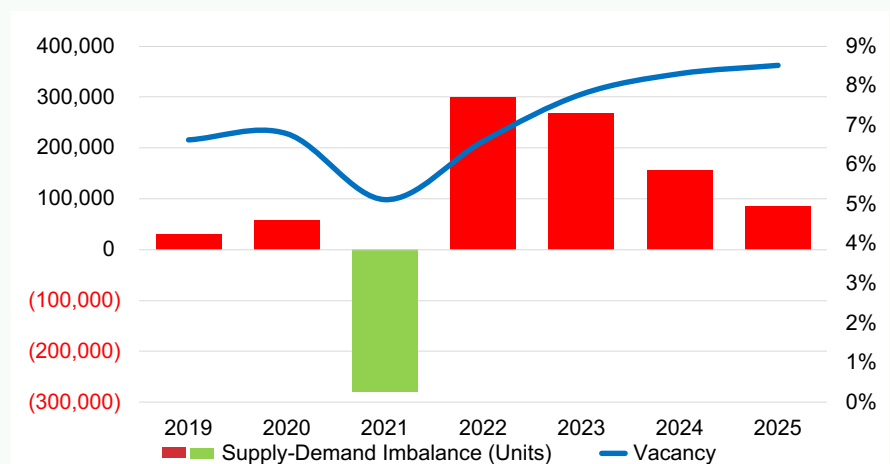
- **As of February 2026**, Los Angeles will restrict annual rent increases to between 1% and 4%, depending on the local inflation rate. That compares restrictions over the previous 40 years of 3% to 8% and impacts approximately three-fourths of the city's rental stock.
- **New York City** mayor Zohran Mamdani rode to victory in November promising to freeze rent on approximately 1 million rent-stabilized units for four years. The Rent Guidelines Board will commence meetings in the spring, announce the range of rent increases under consideration, and set a final vote in the summer. Should a rent freeze be enacted, it would apply to leases as early as October 1st.

While some politicians hope to appease voter concerns regarding stubbornly high housing costs, many economists point out that rent control stifles investment and leads to undersupply in the long run, and thus creating more pressure on rents. A recent example is St. Paul, Minnesota, where restrictive rent-control laws enacted in the past few years drove new construction to a halt.

Impact on Commercial Real Estate

Rising inequality and eroding purchasing power can have consequences for property owners, especially in the apartment, retail, logistics (warehouse distribution), and lodging sectors. The aftermath of the pandemic saw a surge in new apartment construction across the country, primarily catering to higher income renters. Class A apartment completions totaled 2.4 million units between 2020 and 2025, accounting for more than 76% of all multifamily inventory growth during this period. However, decelerating income gains and upward pressure on overall consumer prices have weighed on apartment demand just as developers flooded markets with high-end, amenity-rich projects.

FIGURE 12
Multifamily CRE Fundamentals



Source: CoStar Group, as of January 2026.

Note: Positive Supply-Demand Imbalance means net new supply is greater than renter demand for a given year.

Income Inequality and the Implications for CRE (cont.)

Net new supply has outpaced renter demand for the past four years, culminating in an all-time high national vacancy rate of 8.5% as of January 2026 according to CoStar. While the run-up in home values has helped build equity and buoy spending by the higher earners, it has also shut out first-time home buyers. These households are contending not only with high home prices and mortgage rates above 6% but also a shortage of mid-price apartment options, leaving renters priced out of an increasingly expensive rental market.

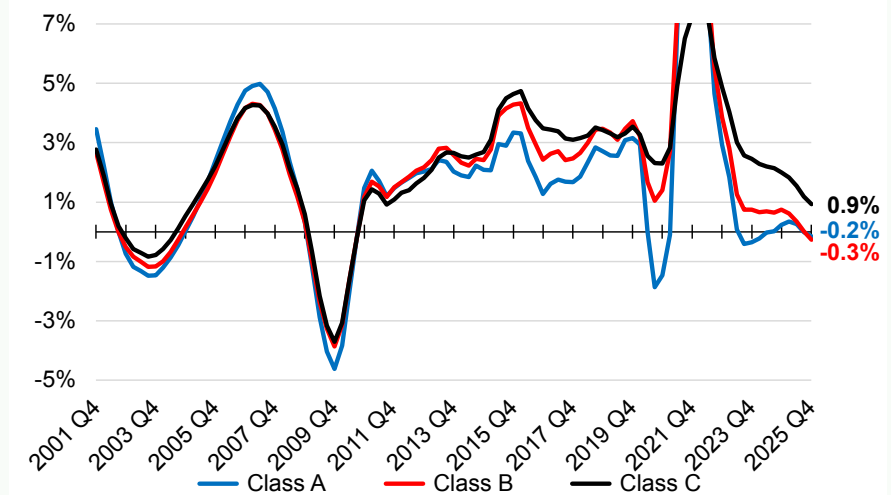
As the need for affordable housing has grown, Class C multifamily rent growth has outpaced that of Class A and B. Likewise, the vacancy rate of Class C multifamily has remained substantially lower than Class A and B.

The chronic mismatch between moderately priced apartment supply and demand leaves less disposable income for non-essential spending, which can drag on retail sales. Supported by a years-long lull in new construction, the retail market today enjoys tight vacancies, as developers remain challenged by high interest rates, elevated material costs and a labor shortage. While property fundamentals remain healthy, individual retailers may continue to see their margins pressured as they must spend more on inventory optimization, advertising and logistics. Retailers without the financial flexibility to compete risk bankruptcy, a trend that has claimed numerous high-profile companies over the past few years. The right tenant mix is crucial for shopping center owners, where a strong grocery anchor helps draw in steady foot traffic. This dynamic is also on display in the mall space, where proximity to high-earning households and a roster combining traditional and experiential tenants can help properties thrive.

FIGURE 13

U.S. Multifamily Rent Growth by Class (% YOY)

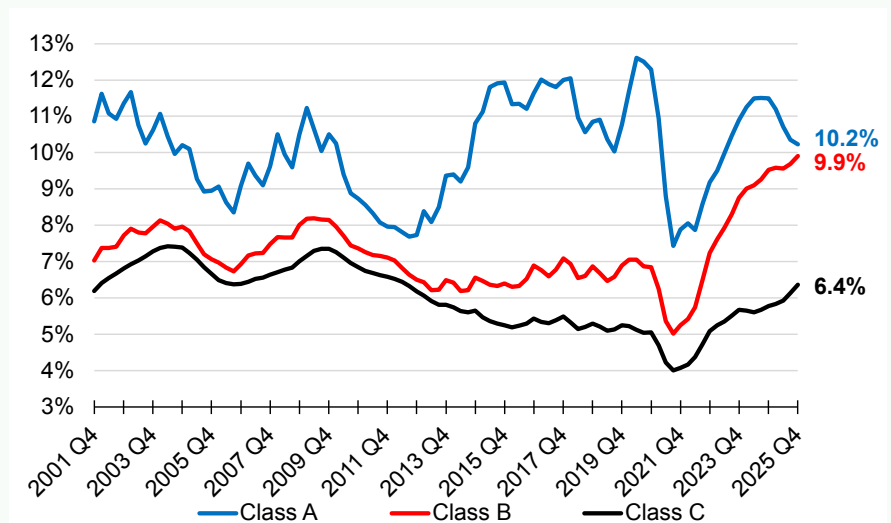
COVID-Era Peaks: 8.0%, 10.8%, 11.5%



Source: CoStar Group. As of Q4 2025. Rent is effective rent.

FIGURE 14

U.S. Multifamily Vacancy Rate by Class (%)



Source: CoStar Group. As of Q4 2025

Income Inequality and the Implications for CRE (cont.)

To improve occupancy metrics, mall owners have worked to streamline their portfolios by divesting underperforming properties, upgrading existing properties, and demolishing obsolete space. Malls are also leaning on middle-and lower-income consumers to boost sales, since wealthier people spend a smaller percentage of their income at malls than middle-class people.

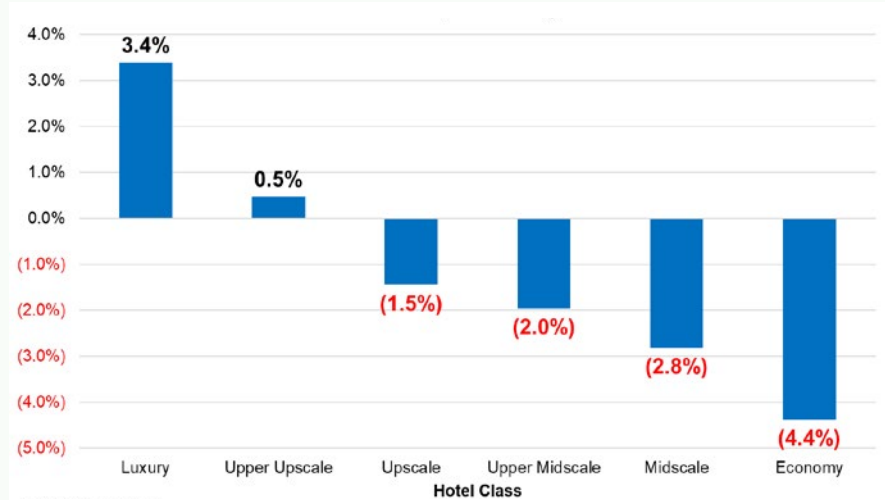
In an environment where a narrow segment of households drives an outsized share of spending and derives confidence from asset prices, market movements can feed through to economic growth more quickly than in previous cycles. In addition to essentials-based grocery anchored shopping centers, discount oriented anchored retail, and conversely, high end malls become prudent investment targets. As e-commerce has grown more prominent, corresponding logistics facilities benefit from being situated in proximity to high-income and high-sales areas.

The K-shaped economic recovery continues to shape performance trends within the U.S. hotel industry. In 2025, luxury hotels significantly outperformed other property classes, reinforcing the widening gap across segments. According to CoStar, demand from affluent consumers remained resilient, as travelers continued to prioritize premium experiences, driving a 3% increase in revenue per available room (RevPAR) for the luxury segment. Conversely, consumers with more limited discretionary income reduced both travel frequency and spending, resulting in a 4.4% decline in RevPAR for economy-class hotels, according to CoStar. This trend should continue in 2026.

FIGURE 15

Hotel Performance by Class

Revenue Per Available Room, Annual Change 2024 to 2025



Source: CoStar Group

Income Inequality and the Implications for CRE (cont.)

Conclusion

The ramifications of income inequality are three-fold. First, they may result in higher levels of taxation and rent control on the state or even the federal level. Second, the economy becomes more reliant on the resources of the affluent in the form of stock and residential equity and the negative implications of a significant decline of the same. Finally, geographic and property sector investment decisions must take income inequality into account when selecting where to deploy capital.

While the sources of increasing income inequality in the United States have been well documented, the policy prescriptions for levelling the playing field are uncertain and elusive, and often are counter-productive for states' and municipalities' growth.

The issue is bound to remain in the spotlight in 2026, as affordability is a central theme across for both political parties in a midterm election year. Some states and municipalities are pushing for tax increases and rent control proposals, though those can ultimately be self-destructive – higher taxes may increase out-migration and rent limits are likely to choke off new supply.

While it's tempting to pursue blanket rent control measures or one-time taxes on the wealthy to plug budget gaps, states must ultimately invest in their local economies to ensure jobs are plentiful and wages keep growing. No less important, it is vital that jurisdictions make it easier to add inventory and that "YIMBY" (Yes In My Backyard – which is shorthand for being pro-development) replaces "NIMBY" (Not In My Backyard – which is shorthand for being anti-development – especially on the local level) so that substantially more housing can be built. The natural law of supply and demand has never and will never be rescinded.

For investors, it is important to be cognizant of the reality of income inequality while tracking both effective and proposed efforts to assist those less fortunate. Understanding the geography of income inequality as well as the affected asset classes such as multifamily, retail, logistics, and lodging is key to avoiding investment mistakes. Opportunities exist for discerning investors especially in non-luxury multifamily developments, shopping centers in high income areas, essential needs-based retail, particularly grocery anchored, and select lodging facilities that are undervalued and have upside potential as well as more upper scale hotel projects.