

CONSUMER PRICE INDEX (CPI) FOCUS

CRE Applications & Recent Rate Trends

BuildingsOne | March 2, 2016



The year-ending 2015 **Consumer Price Index (CPI) All Urban Consumers: U.S. City Average, All Items (CPI-U)** was flat (.1% annual increase) from the previous year. This represents the 2nd lowest annual change (-.4% decrease year ending 2009) since the CPI-U “base” was established in 1982-84. An overall decrease in energy prices was the primary contributing factor to the 2015 CPI-U index’s annual result.

The Consumer Price Index (CPI) is a measure of the average change over time, in the prices paid by consumers, for a defined “*market basket*” of goods and services. The **Bureau of Labor and Statistics (BLS)** tracks and publishes CPI data on a monthly basis. The BLS website - www.bls.gov - contains significant CPI information, data and indices, available to the commercial real estate manager, in order to calculate CPI escalations encountered in commercial real estate contracts and lease agreements. www.bls.gov/cpi is the specific web site address where CPI information, data, and reports reside.

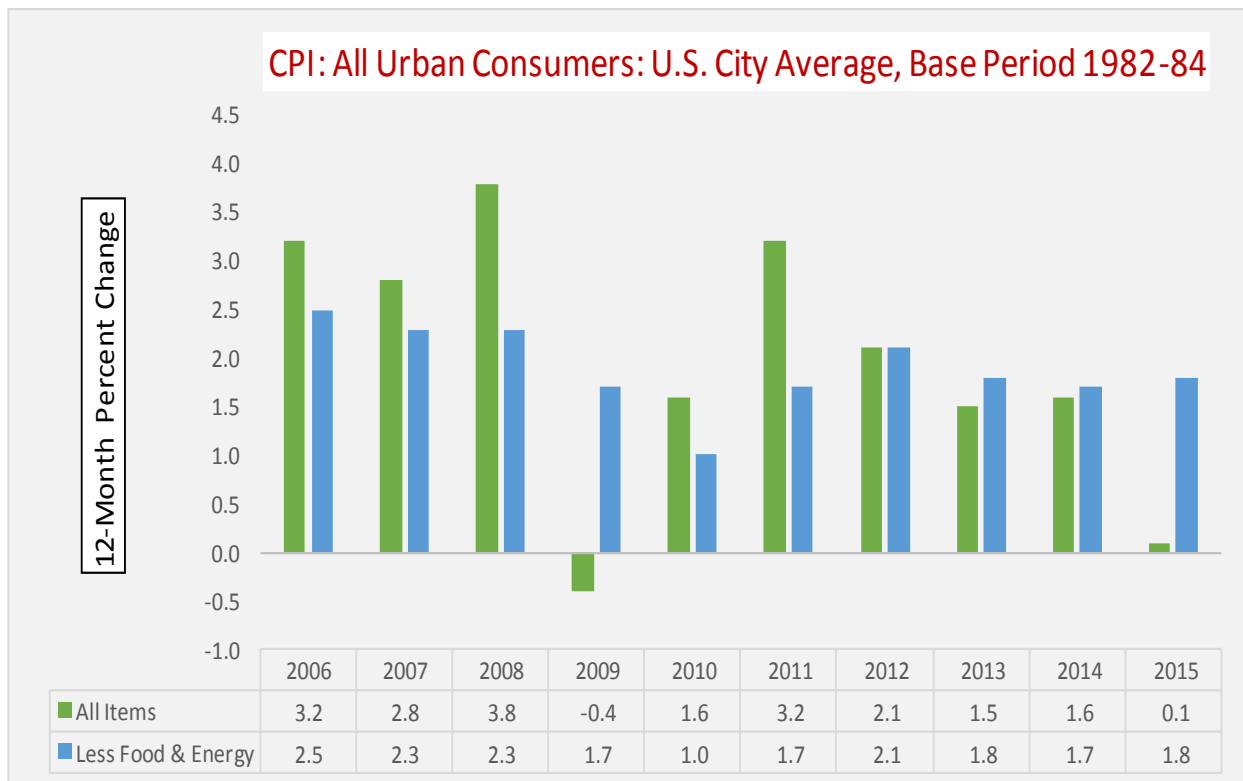
The Consumer Price Index is the most common method in determining a standard for the “*average, representative price change of goods and services*”, across a national or regional area, in order to adjust payments for changes in prices. The most commonly used CPI escalation applications, encountered in commercial real estate, are lease and rental agreements, often incorporated in General Service Administration (GSA) leases, and collective bargaining agreements (union contracts), e.g., a union labor elevator service contract.

Available in BuildingsOne library is **Consumer Price Index - Concepts & Applications** explaining various types of indices and how they are derived. This document provides fundamental reasoning & methods, in determining the most appropriate CPI index, dependent upon various factors in the landlord’s lease (or building service contract). A basic CPI calculation is also illustrated.

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CPI - U All Urban Consumers: "U.S. City Average All Items" Base Period 1982-84	
Year	12-Month Percent Change
2006	3.2
2007	2.8
2008	3.8
2009	-0.4
2010	1.6
2011	3.2
2012	2.1
2013	1.5
2014	1.6
2015	0.1

CPI - U All Urban Consumers: "U.S. City Average All Items - Less Food & Energy" Base Period 1982-84	
Year	12-Month Percent Change
2006	2.5
2007	2.3
2008	2.3
2009	1.7
2010	1.0
2011	1.7
2012	2.1
2013	1.8
2014	1.7
2015	1.8



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Common CPI Indices & CPI Structure

Two broadly referenced indices are **All Urban Consumers (CPI-U)** and **Urban Wage Earners and Clerical Workers (CPI-W)**. These two indices are based upon a defined population sector. The CPI-U index comprises 85%-90% of the total U.S. population and represents expenditures of all families residing in urban areas. The CPI-U is the broadest and most comprehensive index and is considered the “*official CPI*” reported in the media. CPI-W index is a subset of the CPI-U and represents expenditures of families residing in urban areas whom earn more than half of their income from clerical or hourly wage occupations. The CPI-W index represents approximately 29% of the total population and is commonly used in labor-based escalation agreements and contracts.

Each Consumer Price Index has a defined reference **base year** and number (level) from which all future index levels are compared. The CPI-U and CPI-W reference base is 1982-84 = 100. What this means is the index of ‘100’ is the average index level, for the “*market basket of goods and services*”, during the three year period occurring during the years 1982, 1983 and 1984. After one determines which “*Population Index*” to use (CPI-U or CPI-W), an “*Area of Coverage*” is determined based upon the specifics of the agreement or contract in place.



The Bureau of Labor Statistics (BLS) website provides free and readily accessible compilations of extensive CPI data and index statistics.



Immediately after its published release, the BLS posts (via their website) the most recent CPI data. CPI data is also available through subscriptions to BLS publications, email subscription, and via telephone through automated recordings.