



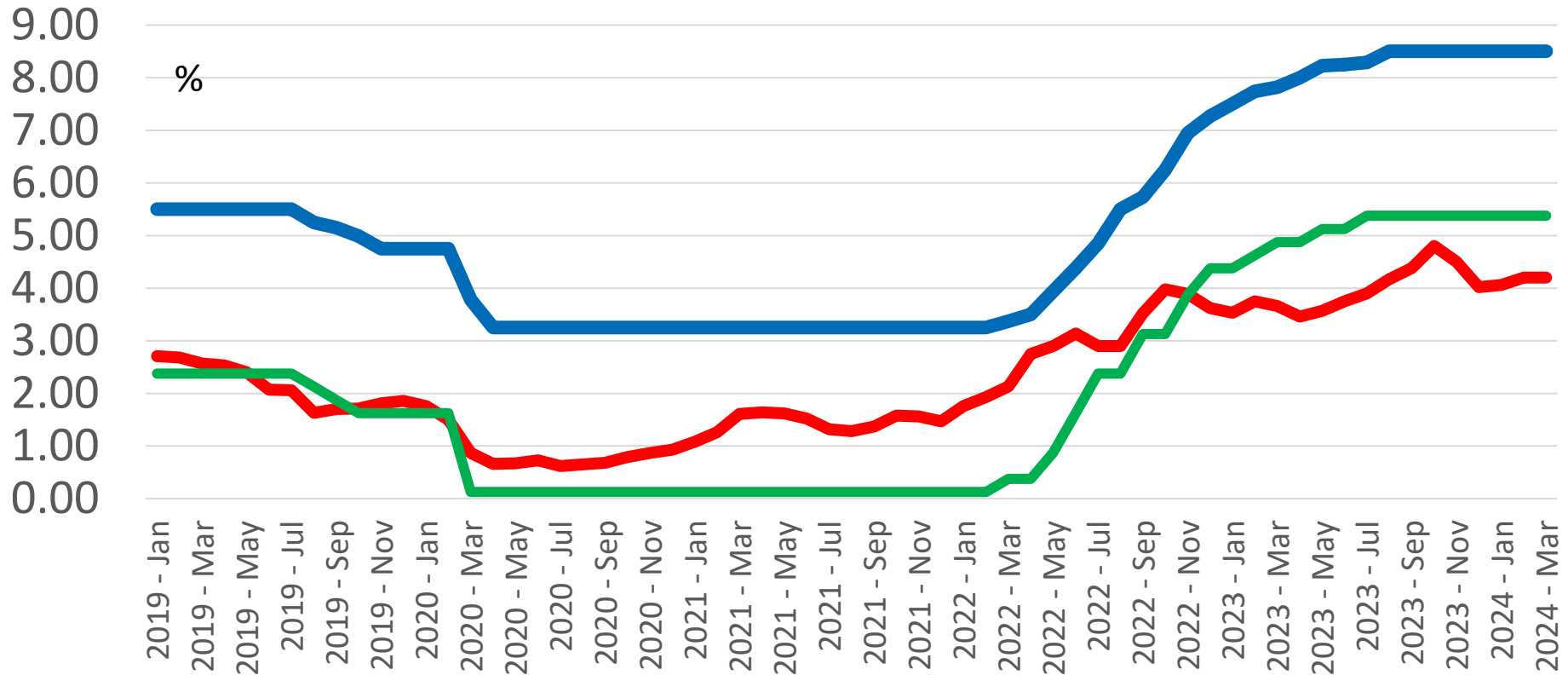
# Real Estate Market Outlook

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Ph.D.

Chief Economist  
NAR

# High Interest Rates Hindering Borrowing and Refinance

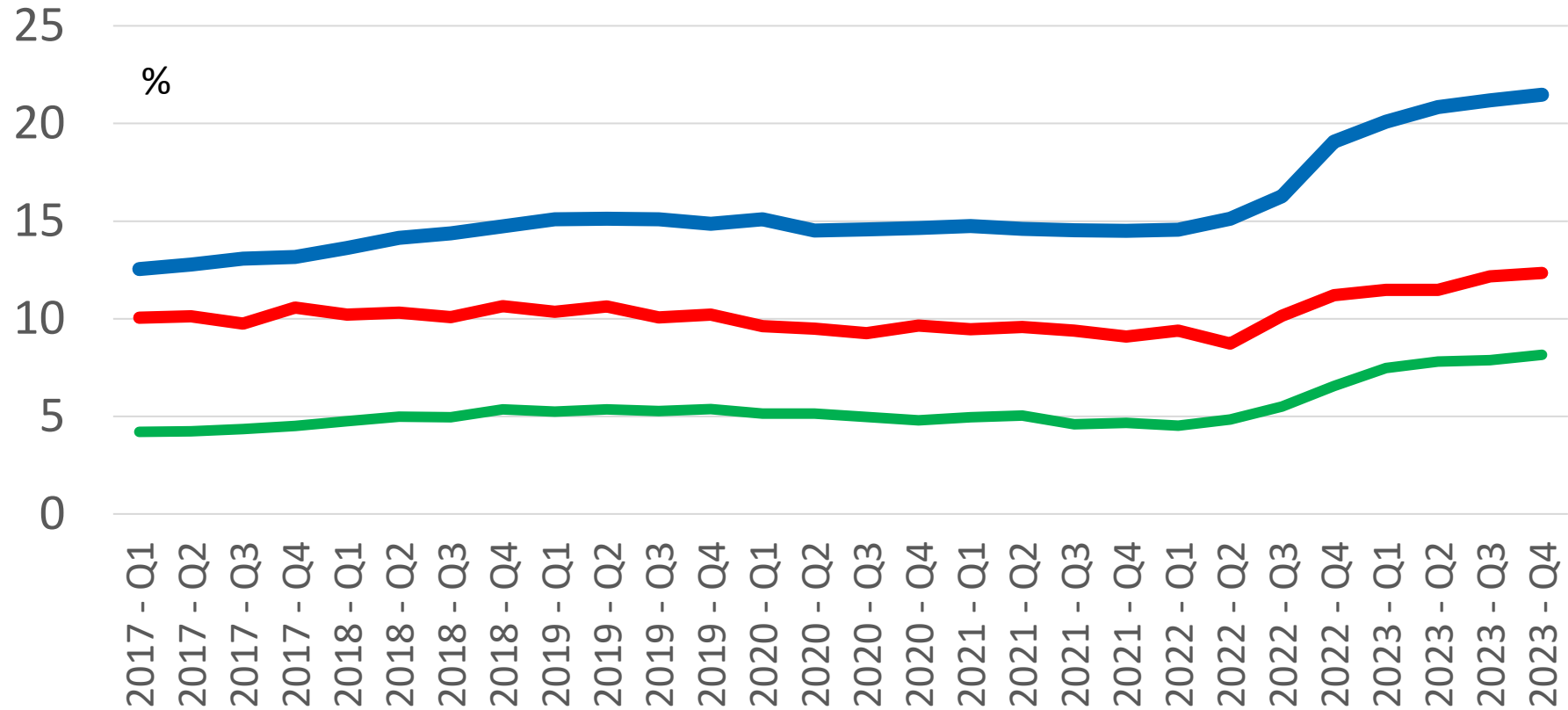
Prime Rate (blue), 10-year Treasury Yield (red), Fed Funds Rate (green)



Source: Federal Reserve and U.S. Treasury

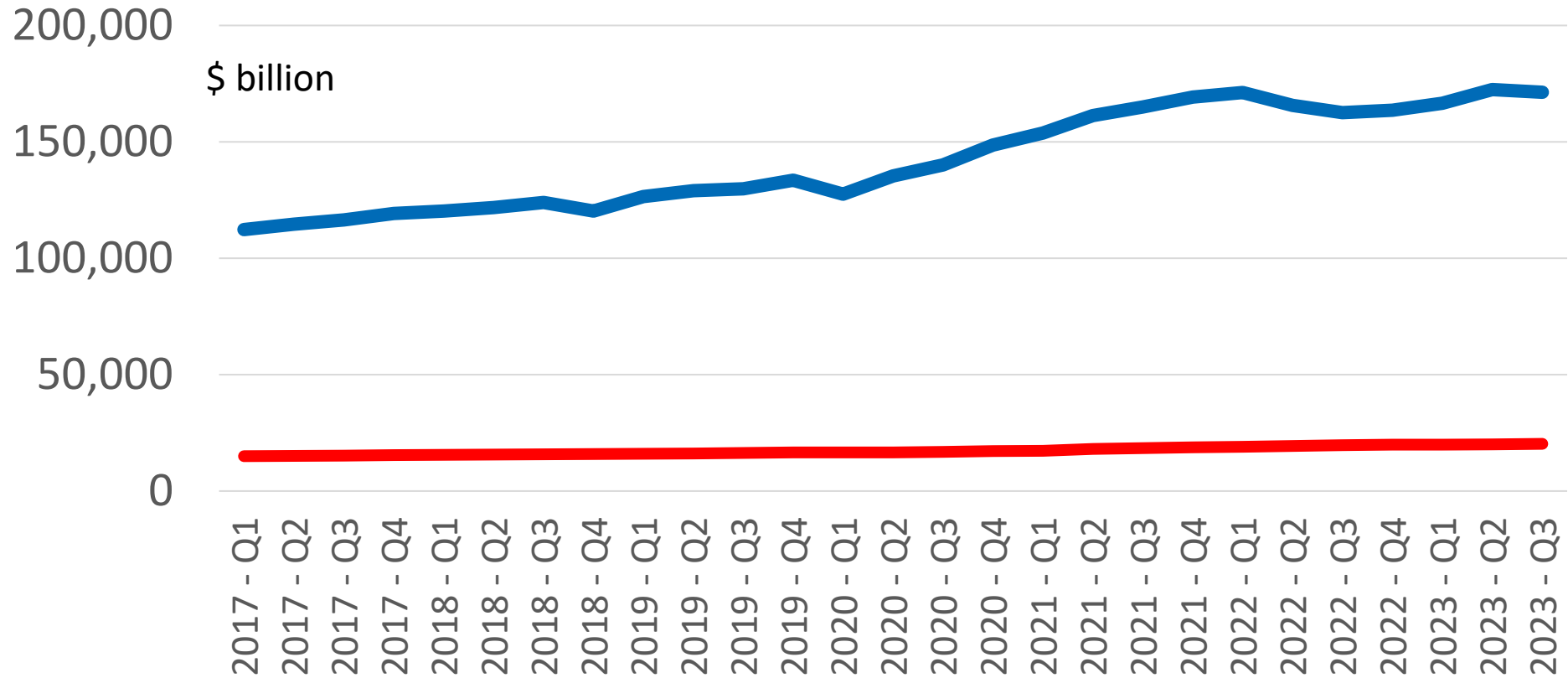
# High Consumer Interest Rates ... Limit Consumer Spending?

Credit Card > Personal Loan > New Car Loan



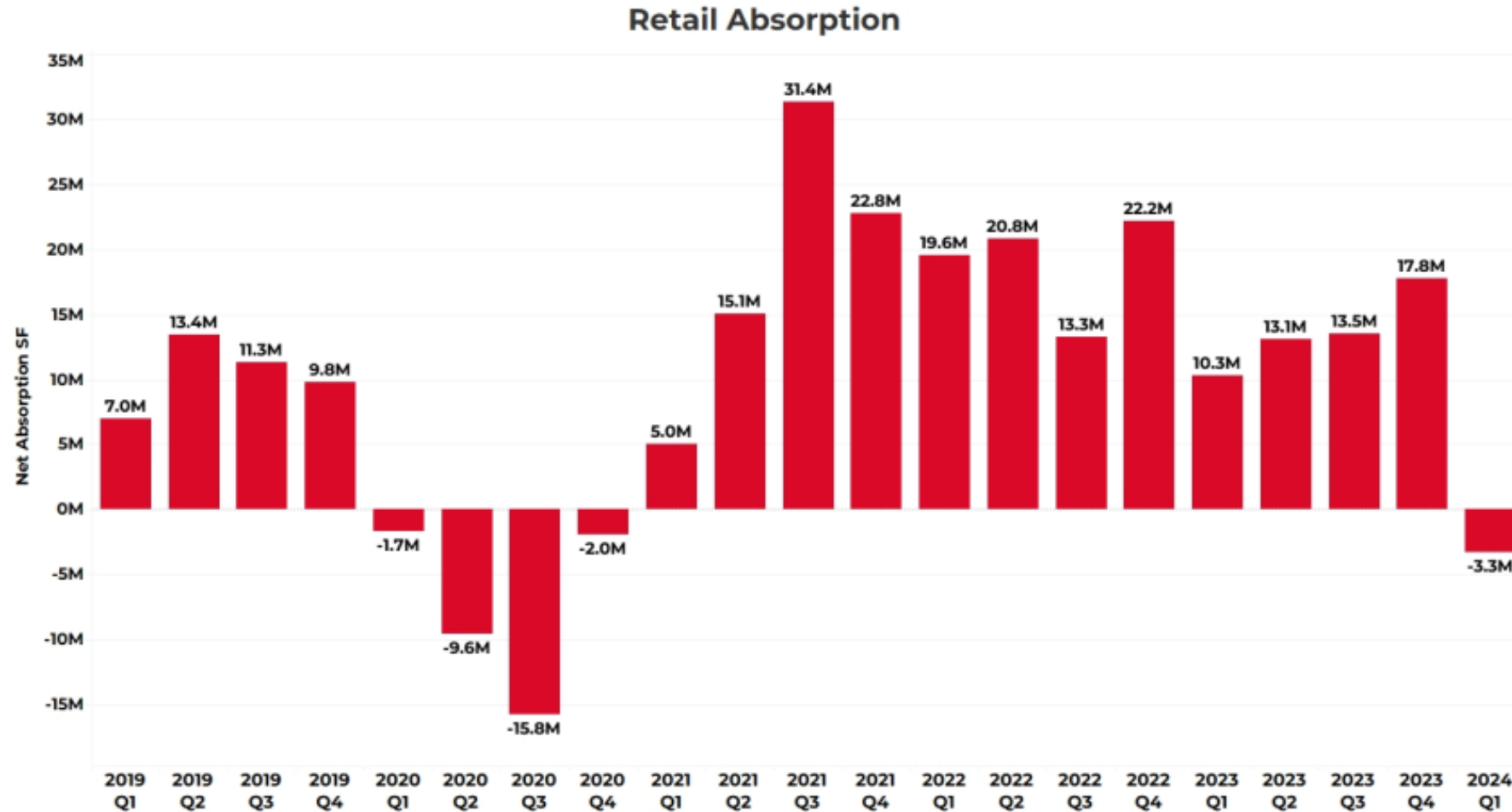
Source: Federal Reserve

# Total Asset Valuation Much Greater than Total Liability High Stock Market and High Home Prices ... Supports Consumer Spending?



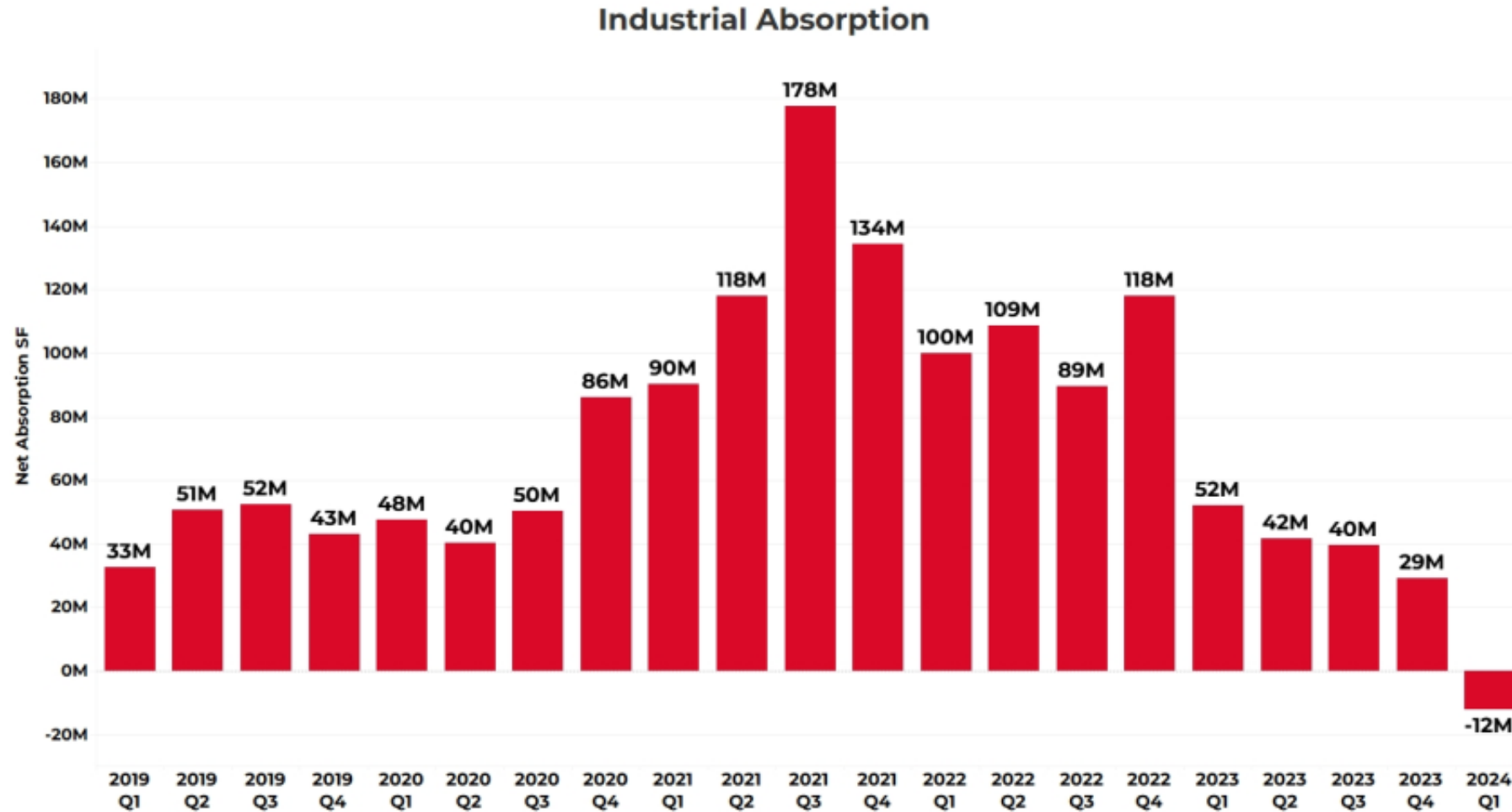
Source: Federal Reserve

# Consumer Spending Positive but Retail Net Absorption Negative



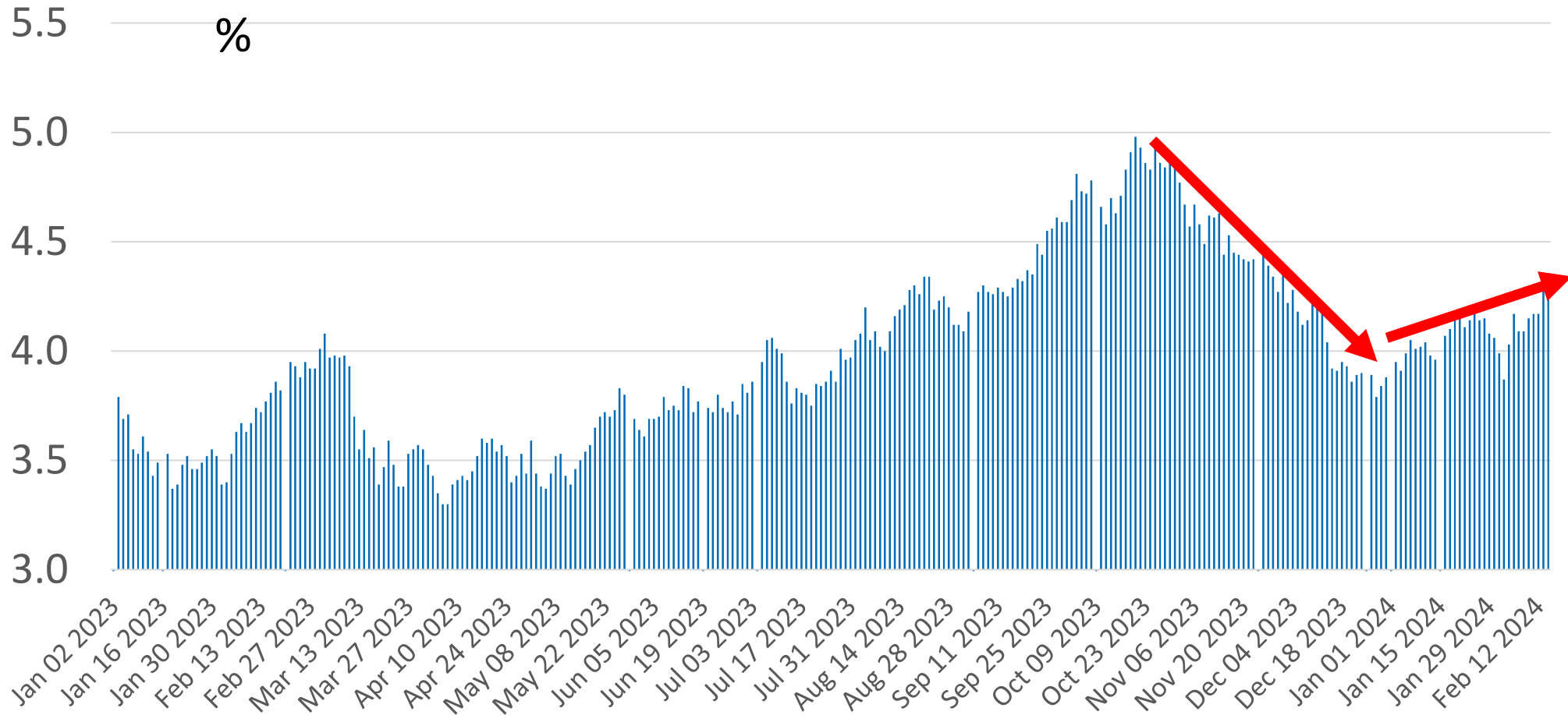
Source: NAR analysis of CoStar data

# Consumer Spending Positive but Warehouse Space Net Absorption Negative



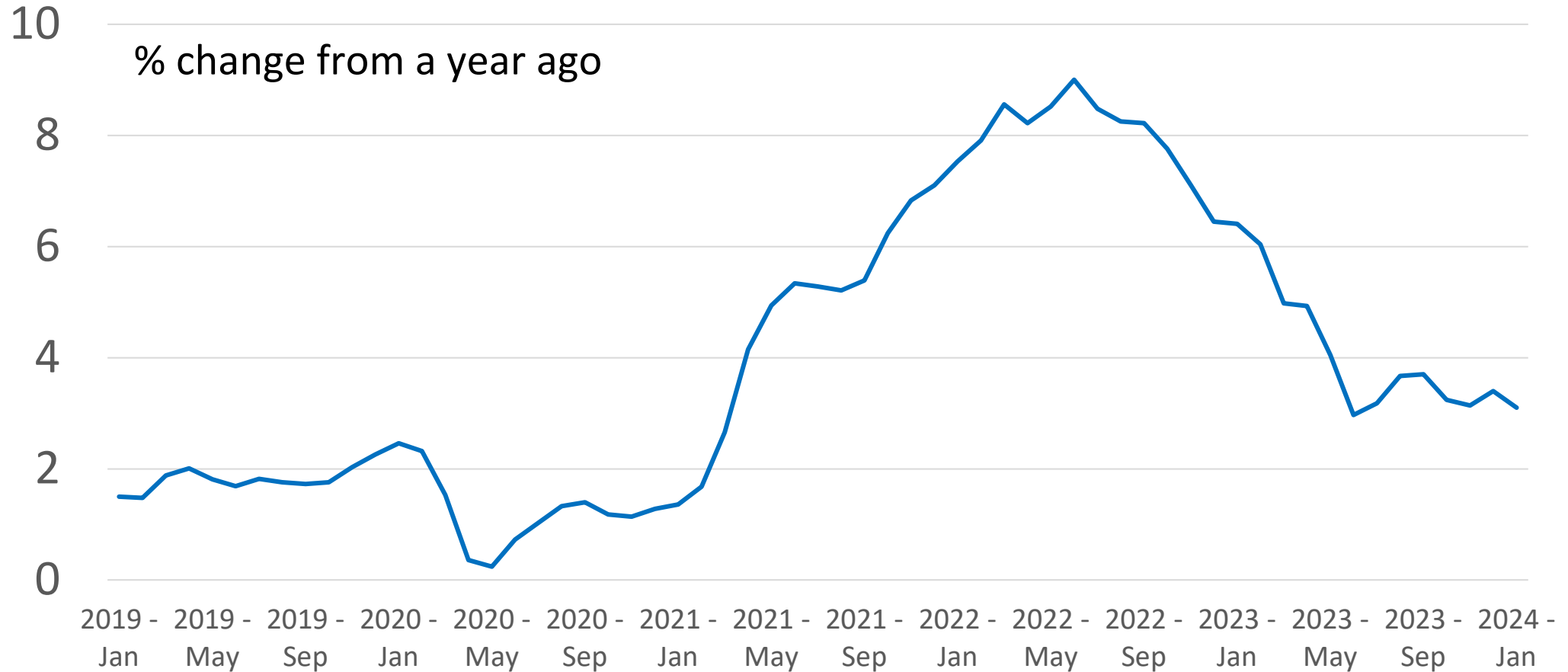
Source: NAR analysis of CoStar data

# Fed to Cut Interest Rates Later Forcing Down 10-Year Treasury Yield .. But Not Fully



Source: U.S. Treasury

# CPI ... 3.1% in January ... Not Yet 2%



Source: BLS



**Future Rent Growth should be Calmer**

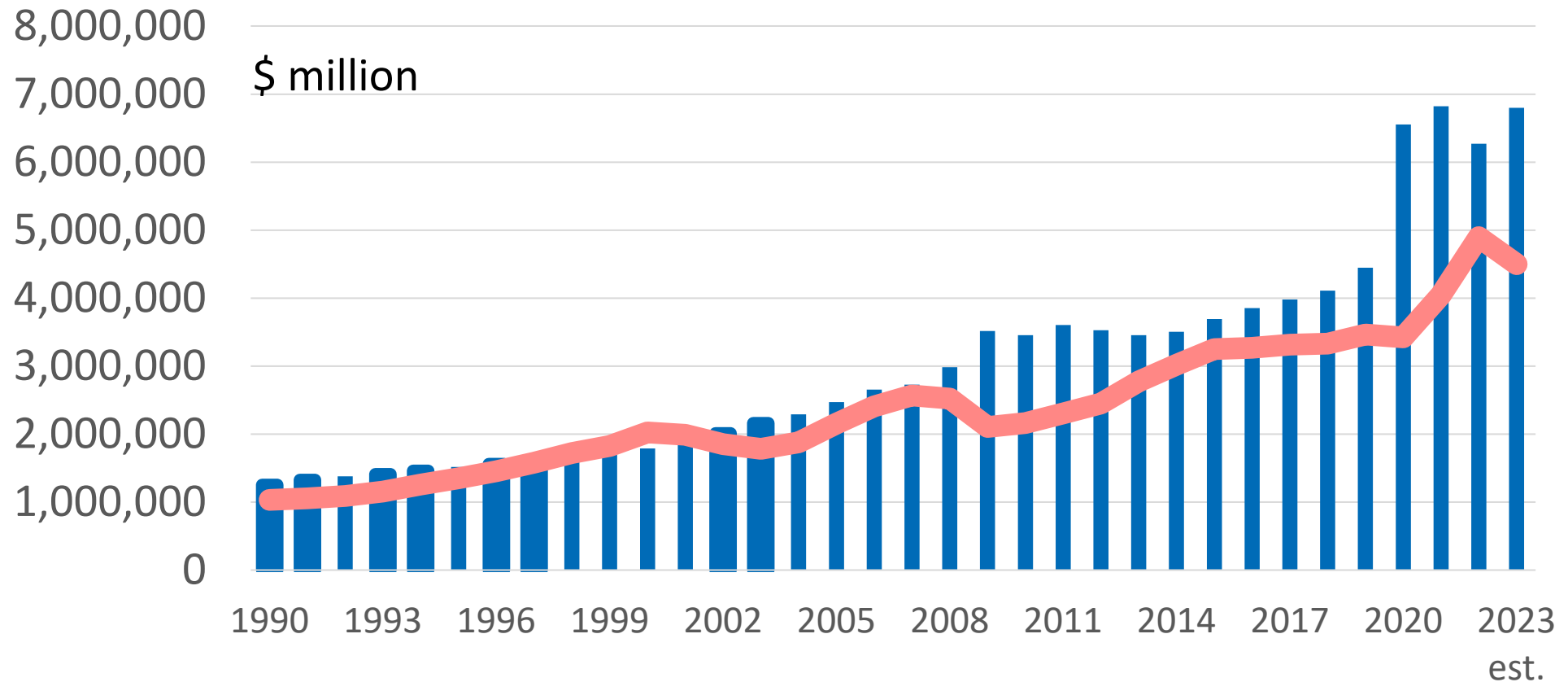
**Future CPI should be Calmer**

**The Fed can cut interest rates**

**But**

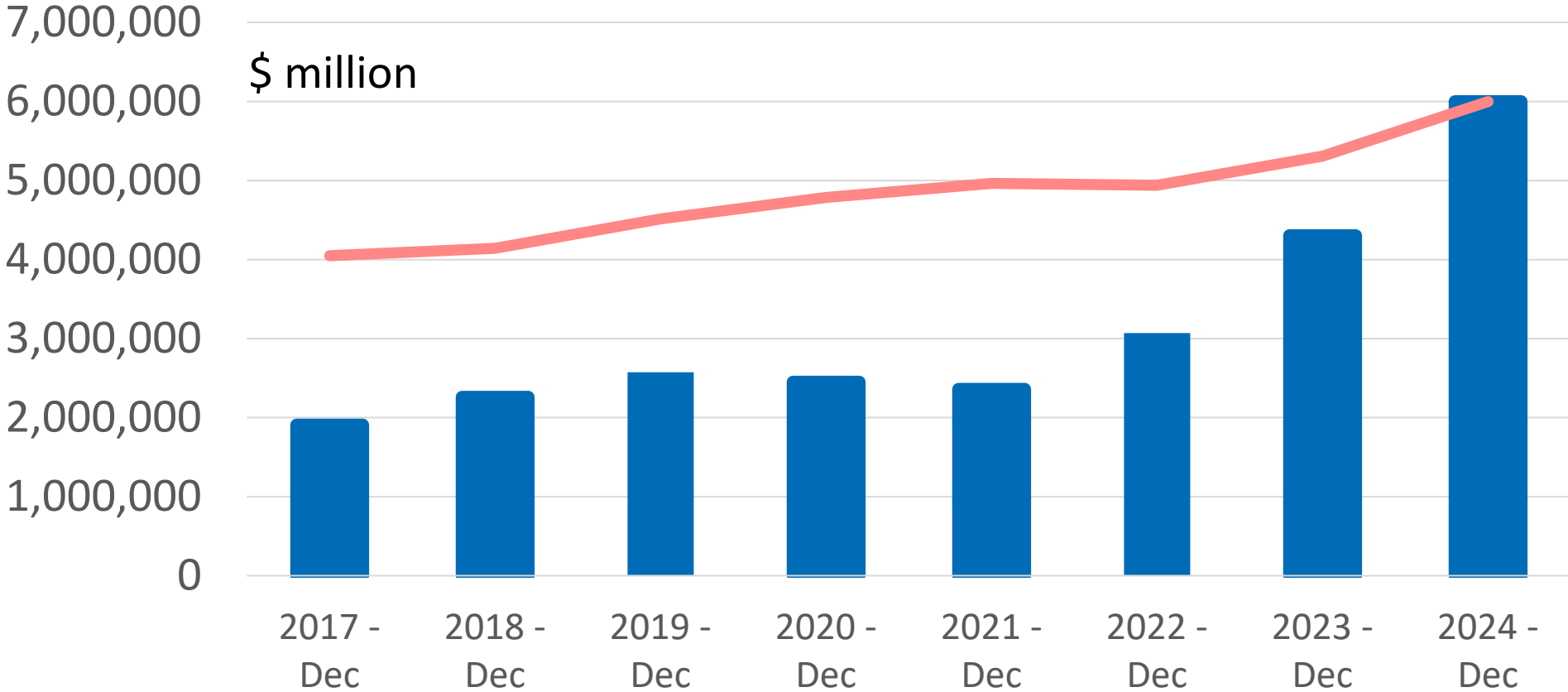
**Further Pivot could be limited by Budget Deficit**

# Government Deficit Further Pressuring Rate Rise? Government Outlay > Tax Revenue



Source: Congressional Budget Office

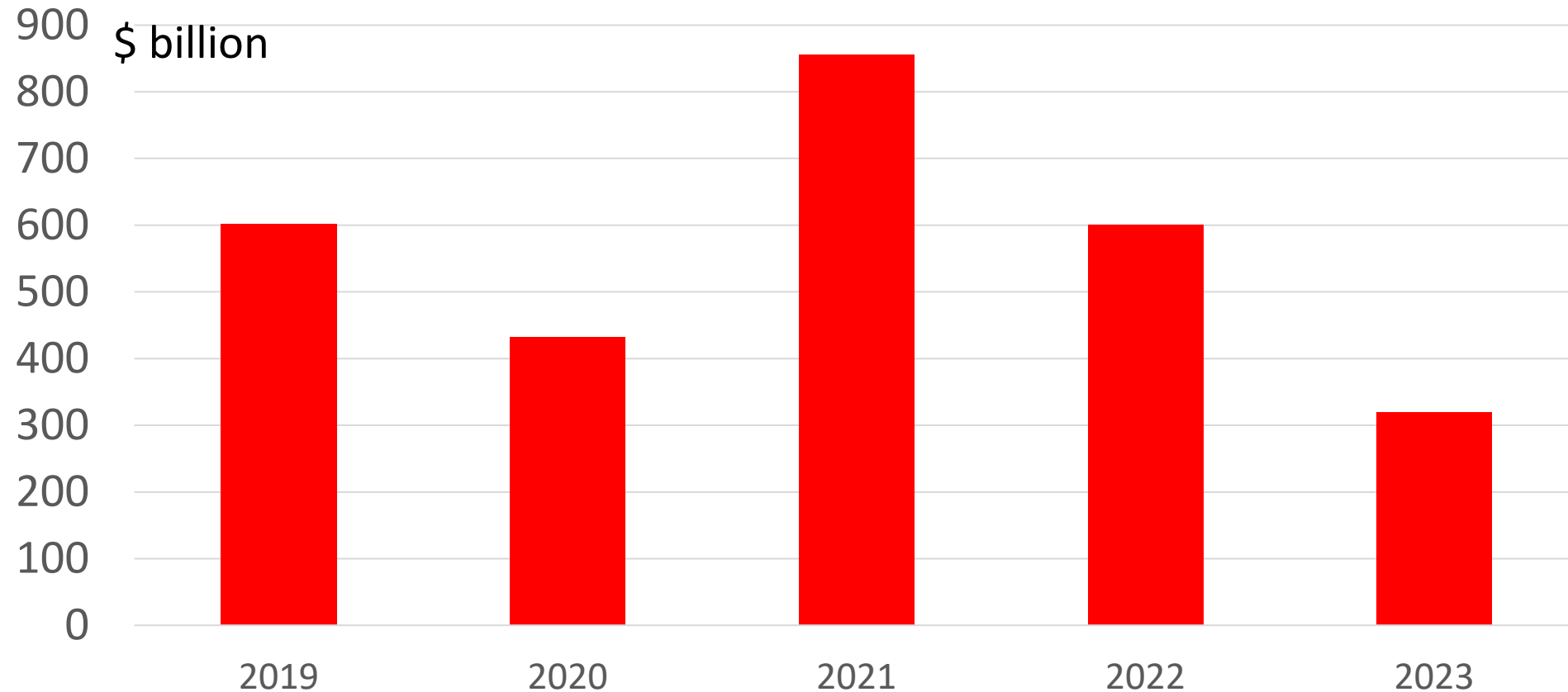
# Interest Cost of Financing National Debt Soaring and Matching National Defense Spending



Source: Congressional Budget Office

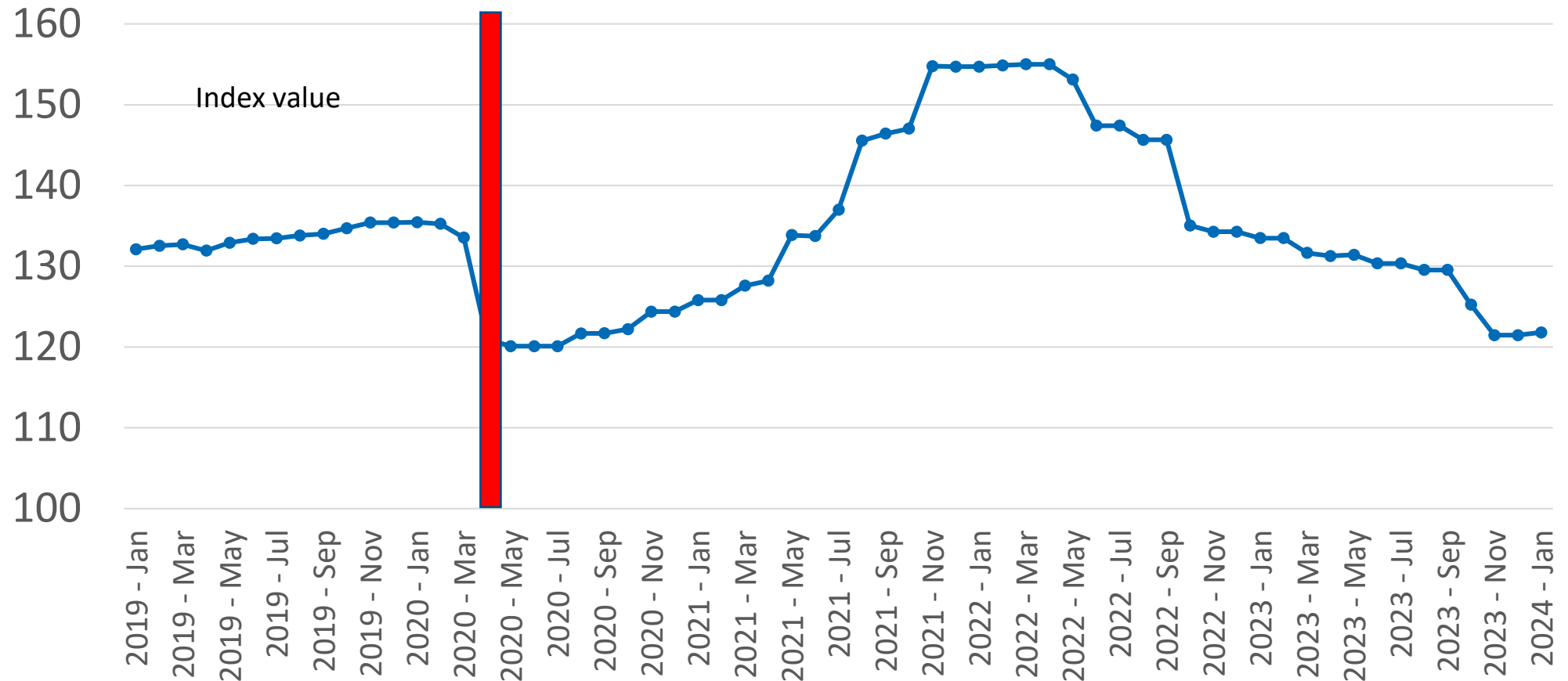
# Higher Interest Rate and Commercial Real Estate

# Commercial Transaction Volume Cut by 60% in Two Years ... Pre-COVID Below



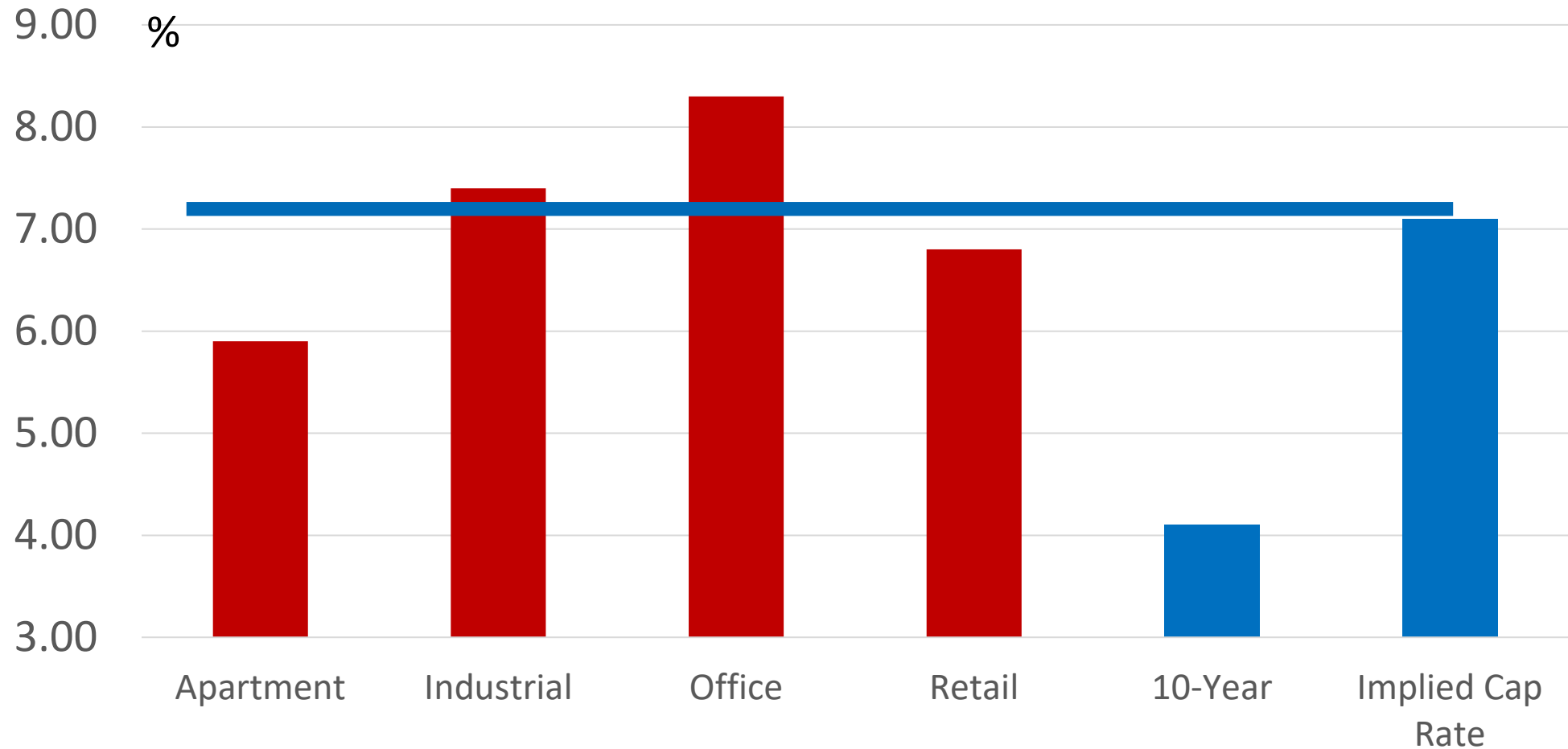
Source: MSCI, Real Capital Analytics

# Commercial Property Prices Falling .. Below Pre-COVID



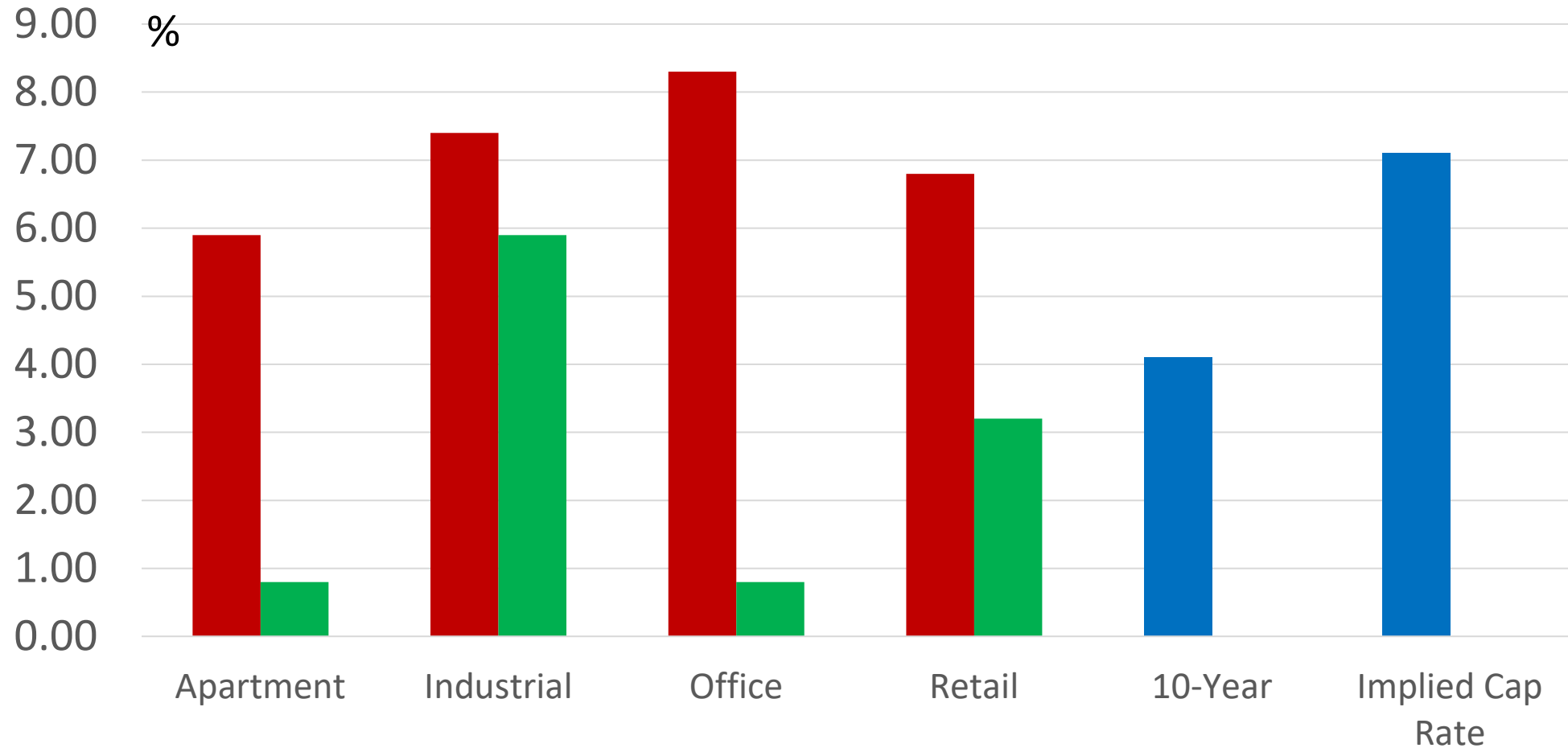
Source: Green Street

# Cap Rates Rising but Still Too Low? .. Further Price Reduction



Source: CoStar and U.S. Treasury

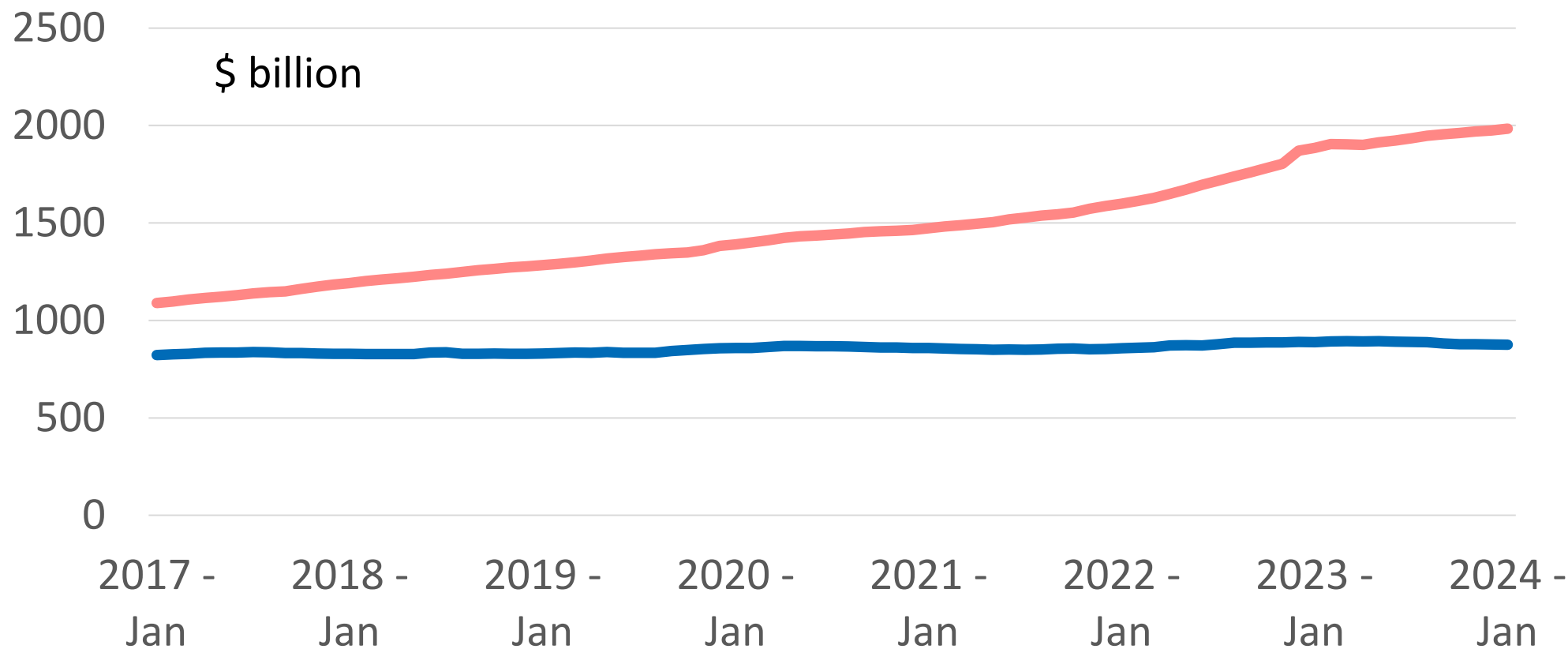
# Low Cap Rates Can be Supported if High Rent Growth



Source: CoStar and U.S. Treasury

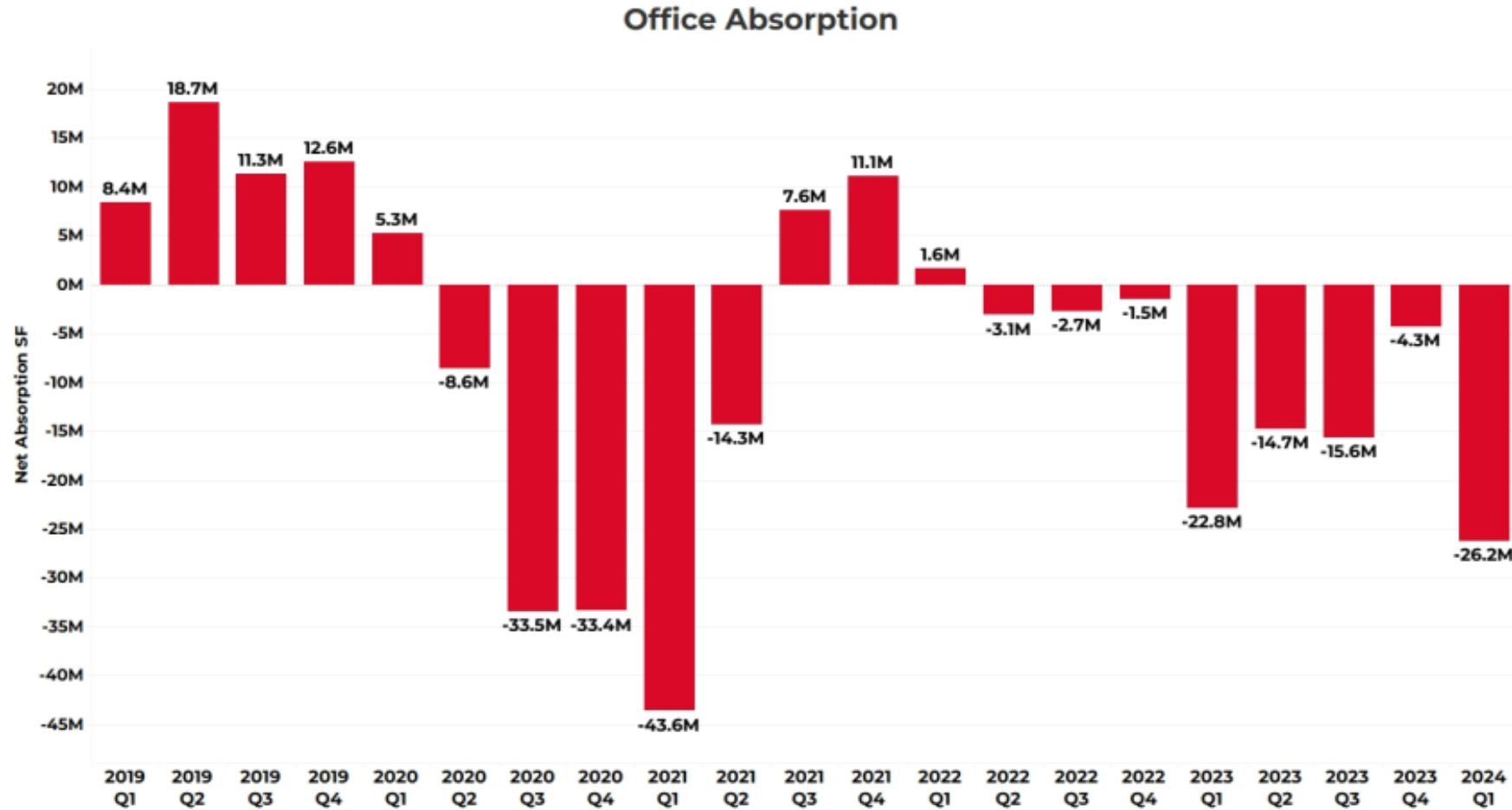


# Fed Rate Hikes Have Hurt Community Banks ... Commercial Real Estate Loans by Small Banks > Top 25 Large Banks



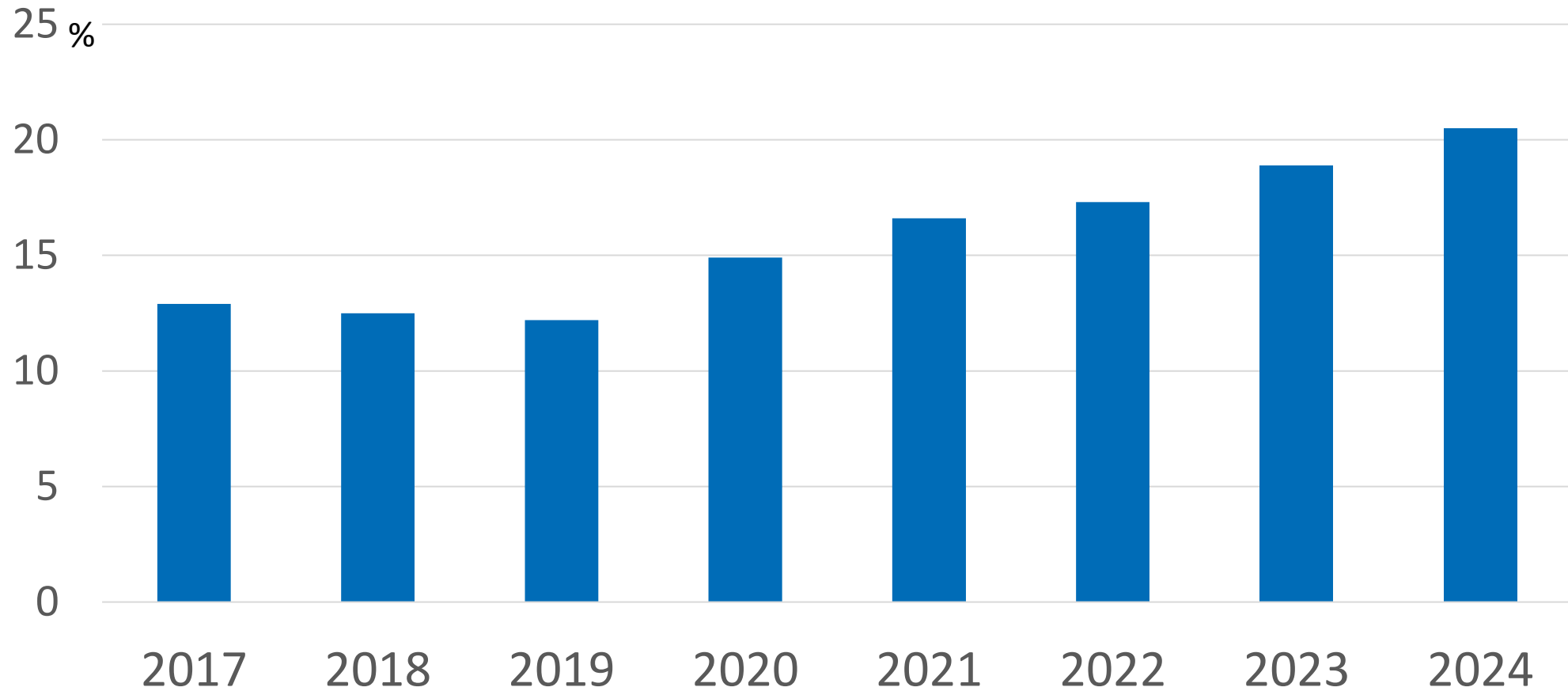
Source: Federal Reserve

# Office Net Absorption



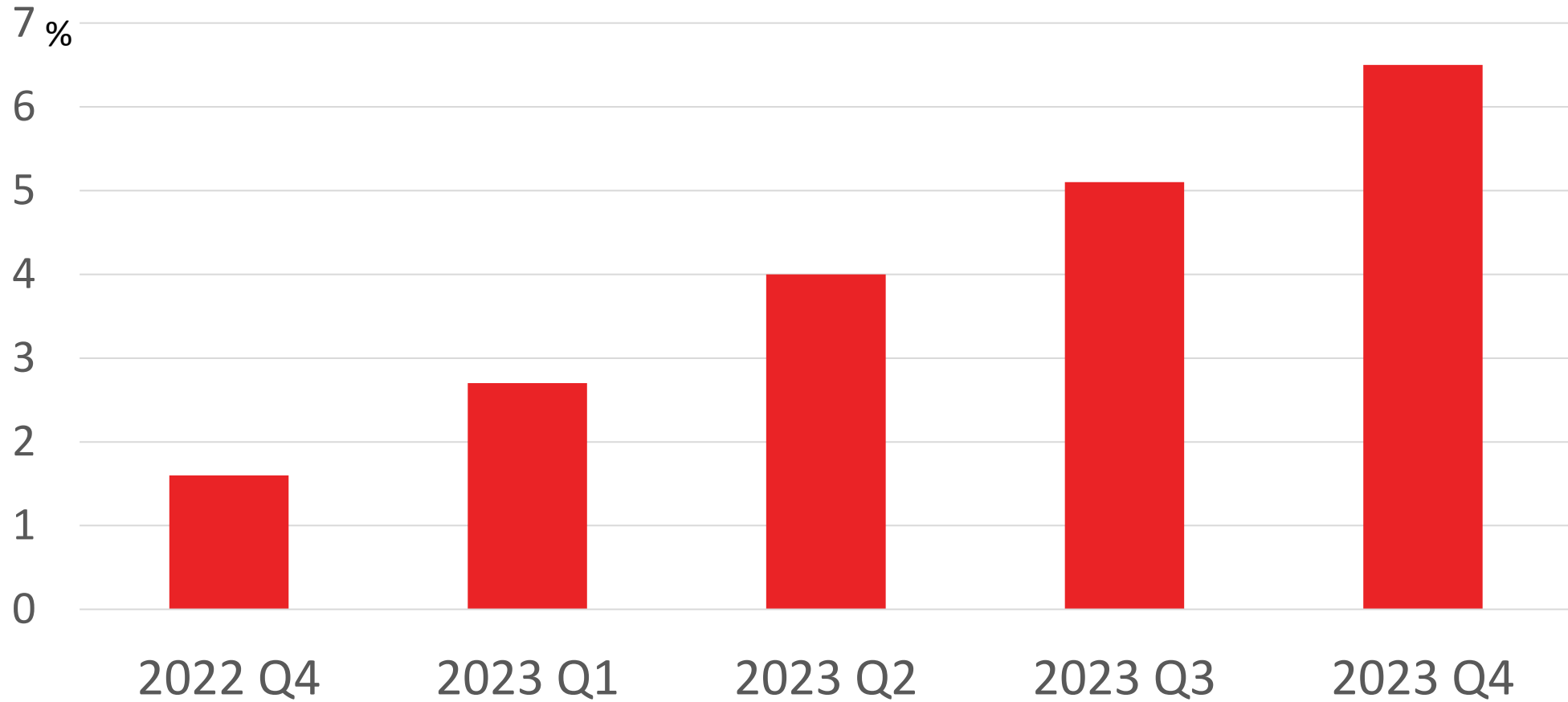
Source: NAR analysis of CoStar data

# National Office Vacancy Rate



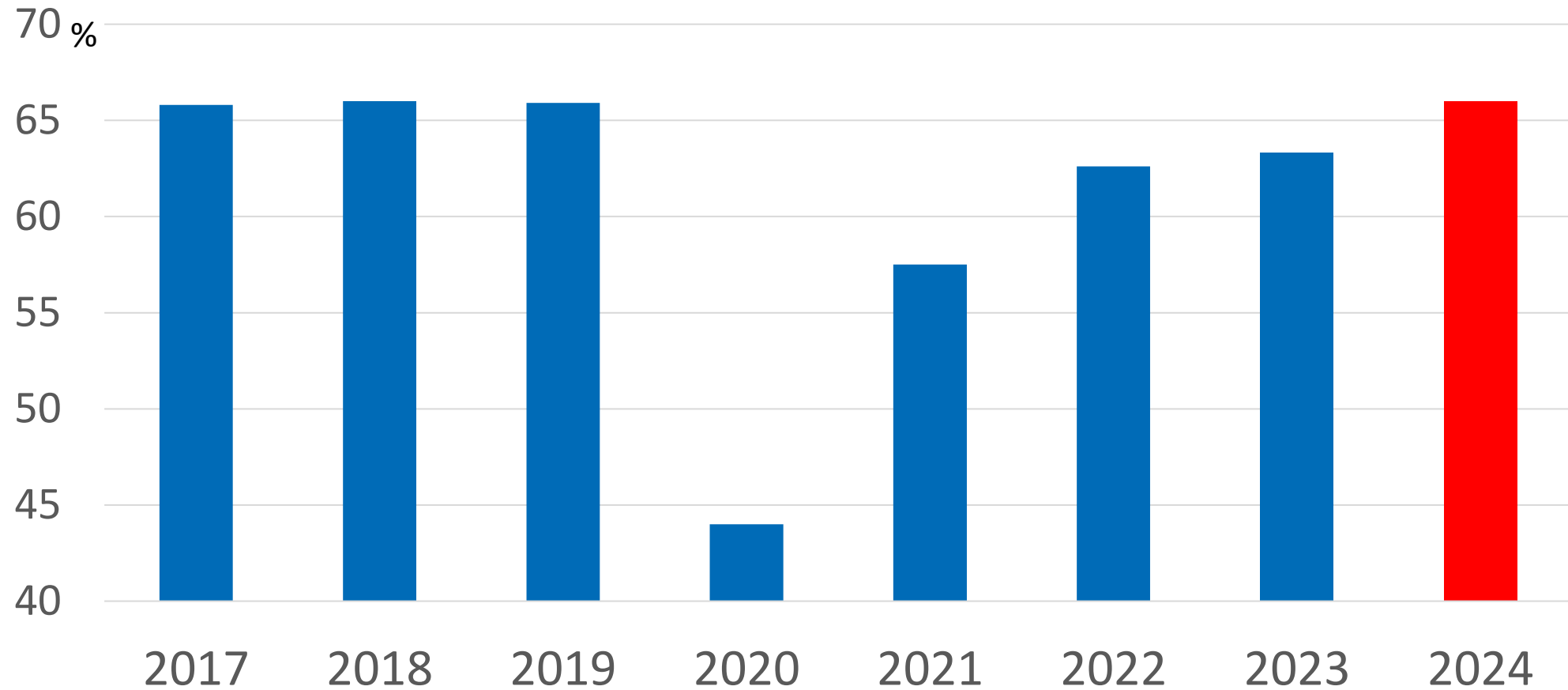
Source: CBRE/ULI and NAR Forecast

# Office Loan Delinquency Rate



Source: Mortgage Bankers Association

# National Hotel Occupancy Rate



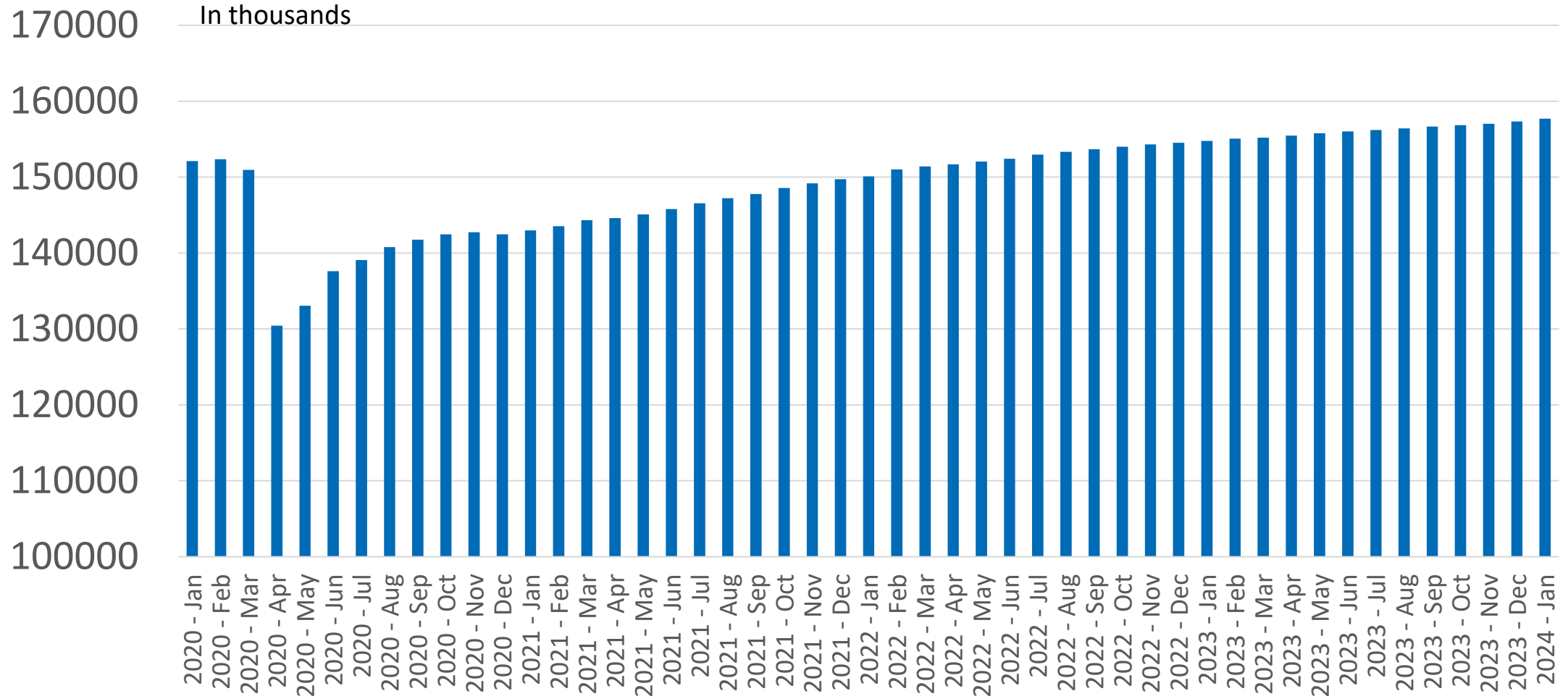
Source: CBRE/ULI and NAR Forecast

# **Long-Term Net Leasing Demand (Except Office)**

**Comes from Jobs, Jobs, Jobs**

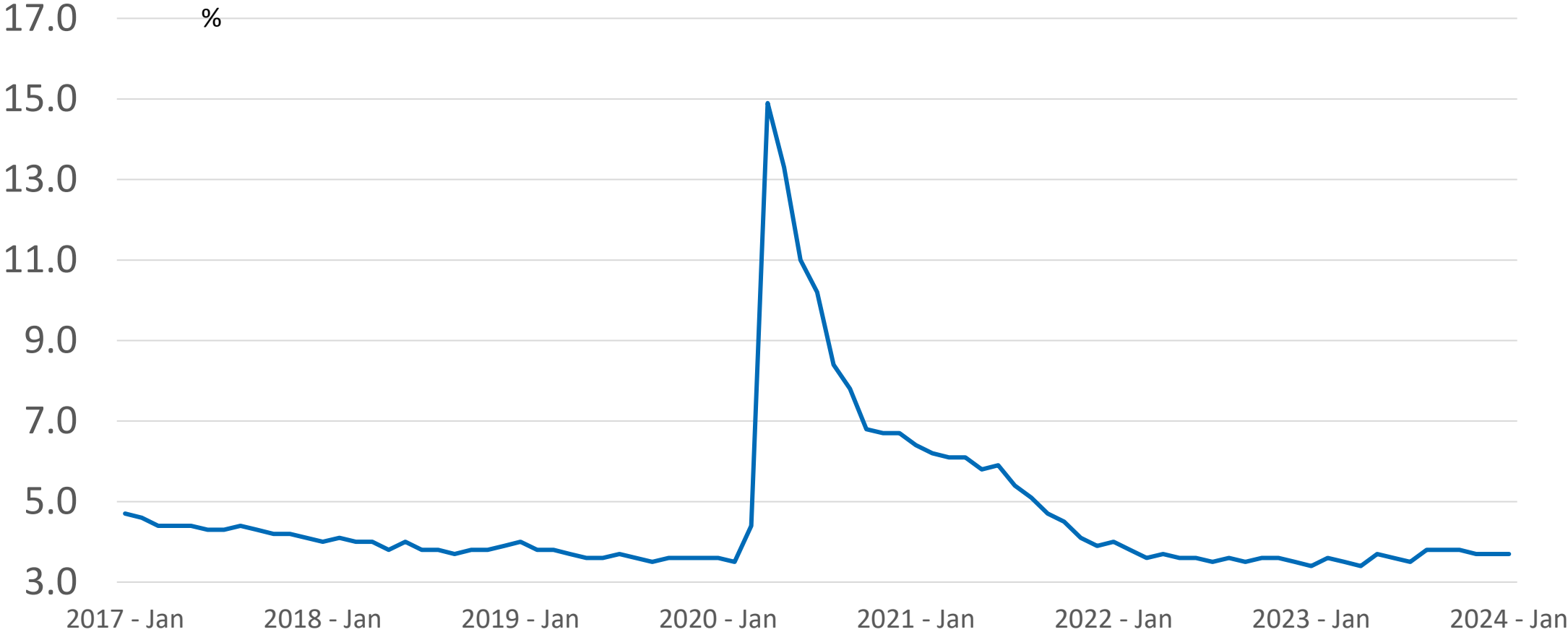
# Total Payroll Jobs

## 5 Million More Compared to Pre-COVID Highs



Source: BLS

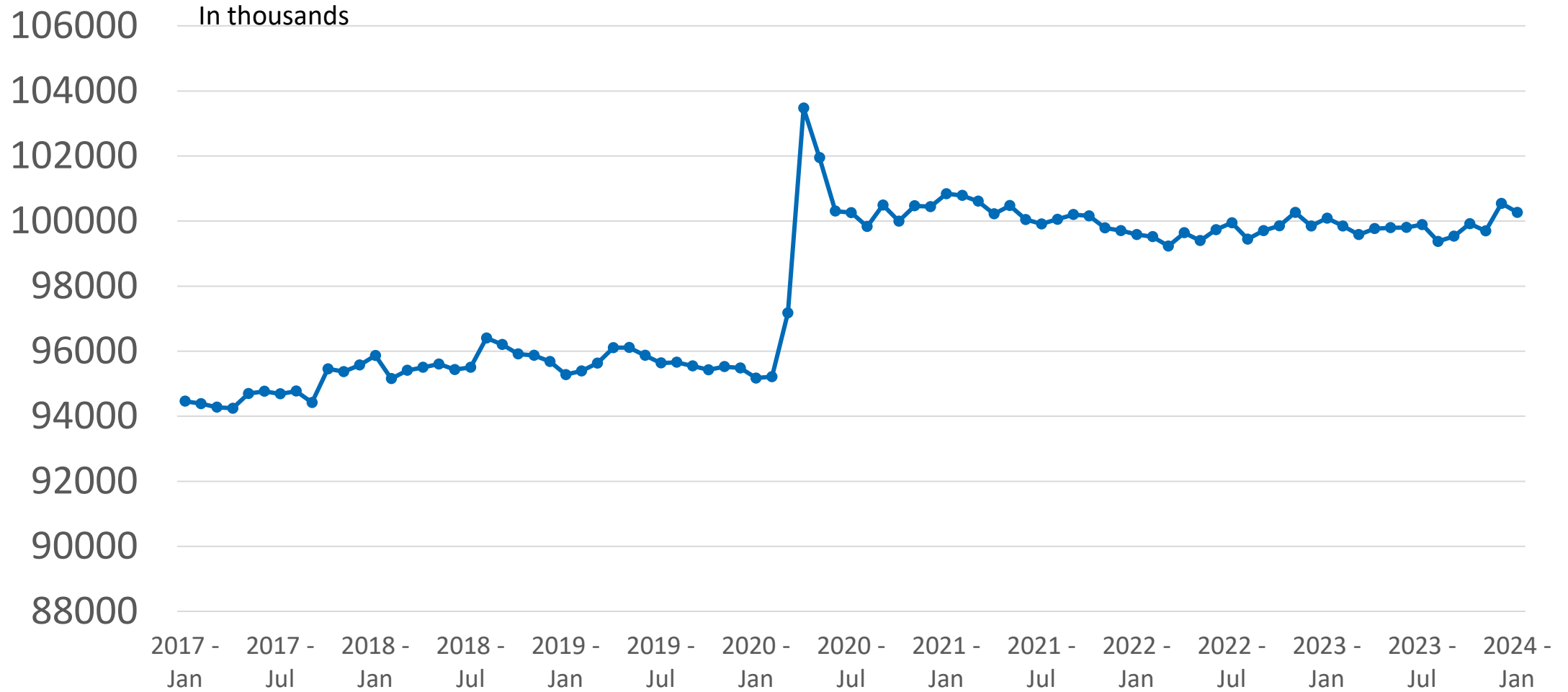
# Unemployment Rate



Source: BLS



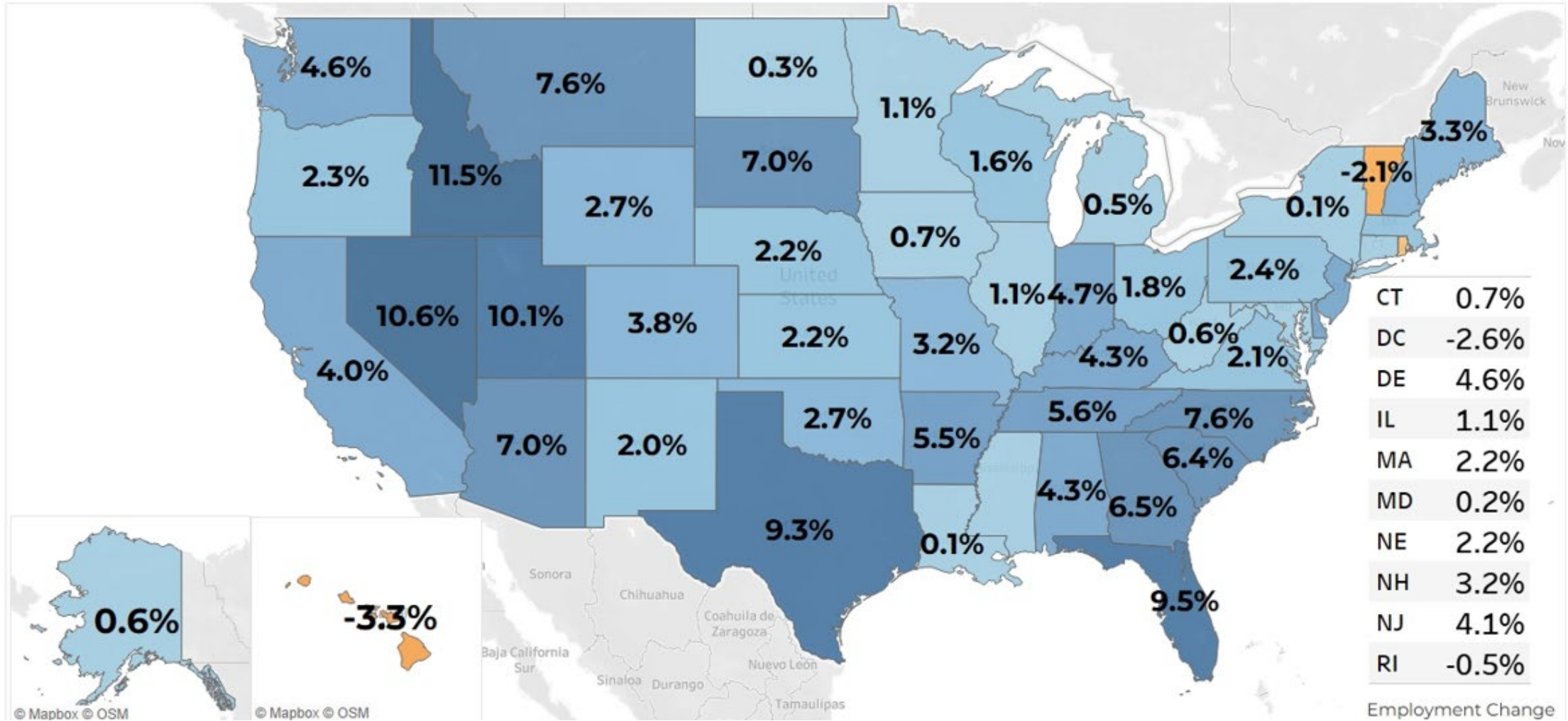
# Out-of-Labor Force (essentially retired, students, and others not looking for a job)



Source: BLS

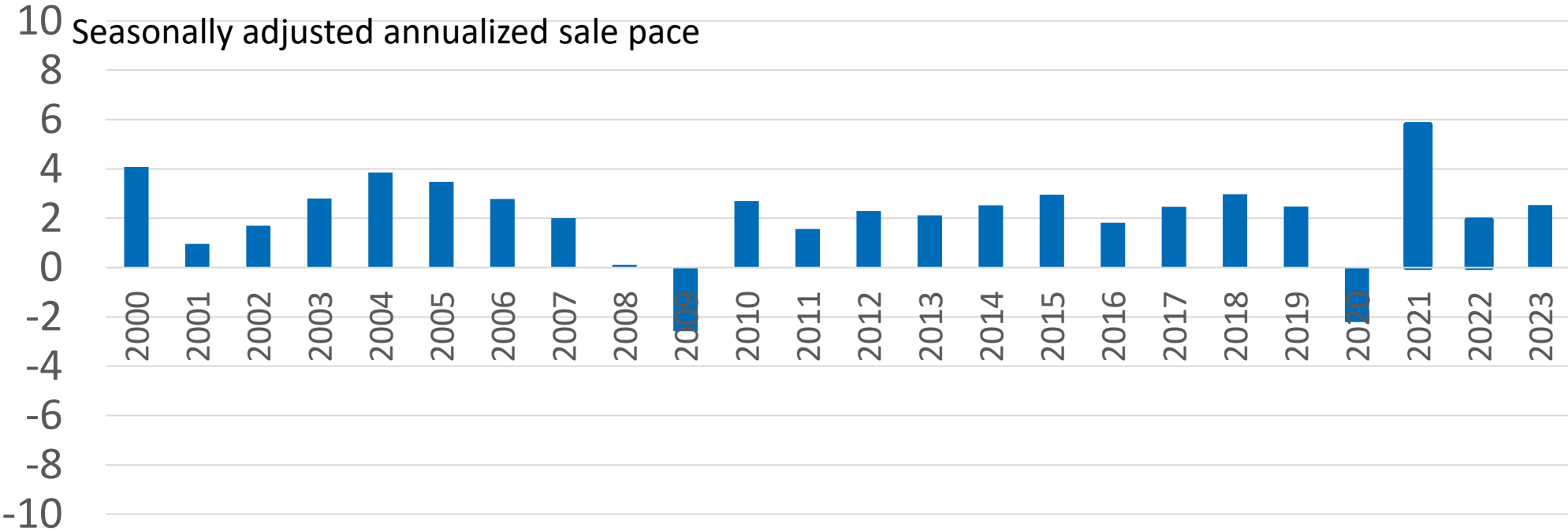
# Job Gains Since Pre-COVID Record High Payroll Employment

(% change from March 2020 to December 2023)



Source: NAR Analysis of BLS data

# Annual Economic Growth (GDP) .. Suggest More Future Jobs



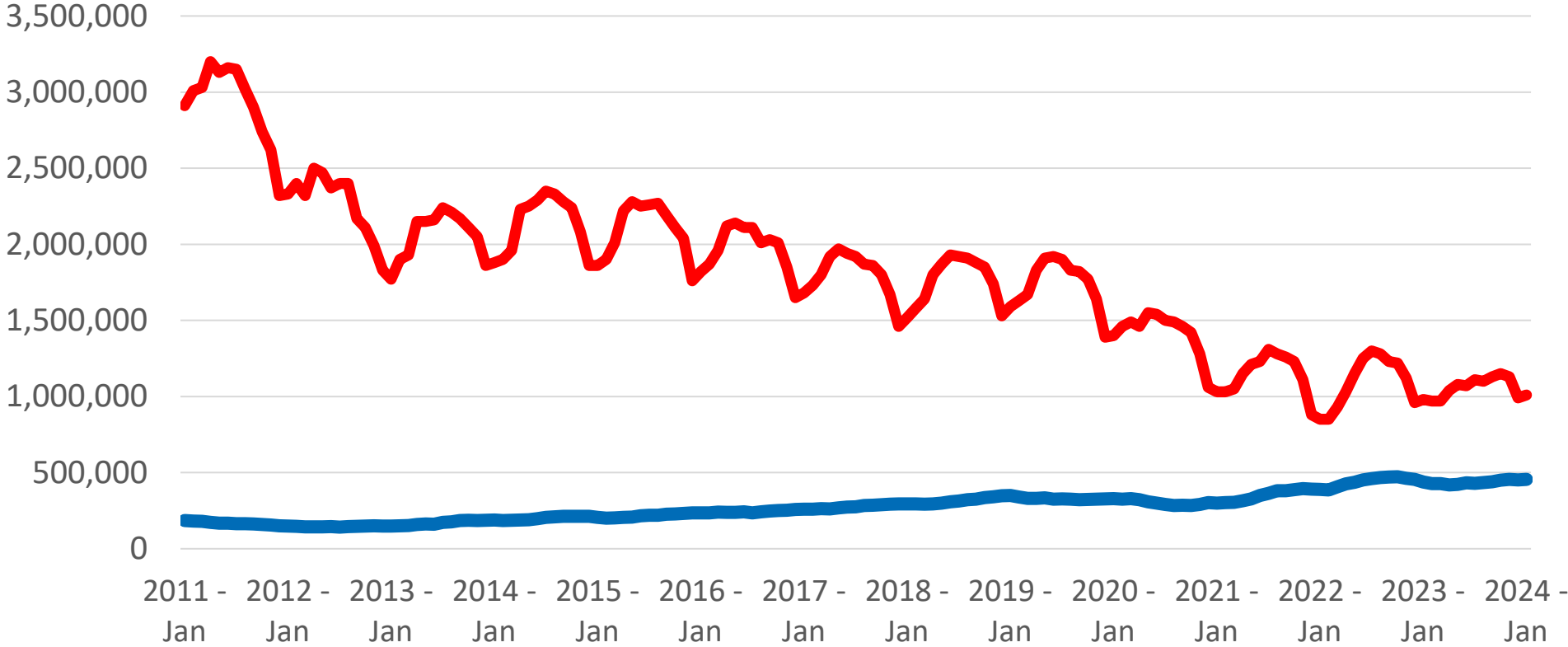
Source: BEA

# Long-term Interest Rates to Fall?

- 1. Rents will calm down further ... Holds down CPI ... and makes the Fed cut interest rates**
- 2. Community banks are suffering from high interest rates**
- 3. Spread with benchmark 10-year Treasury is abnormally high**

# Home Sales and Land Acquisition/Development

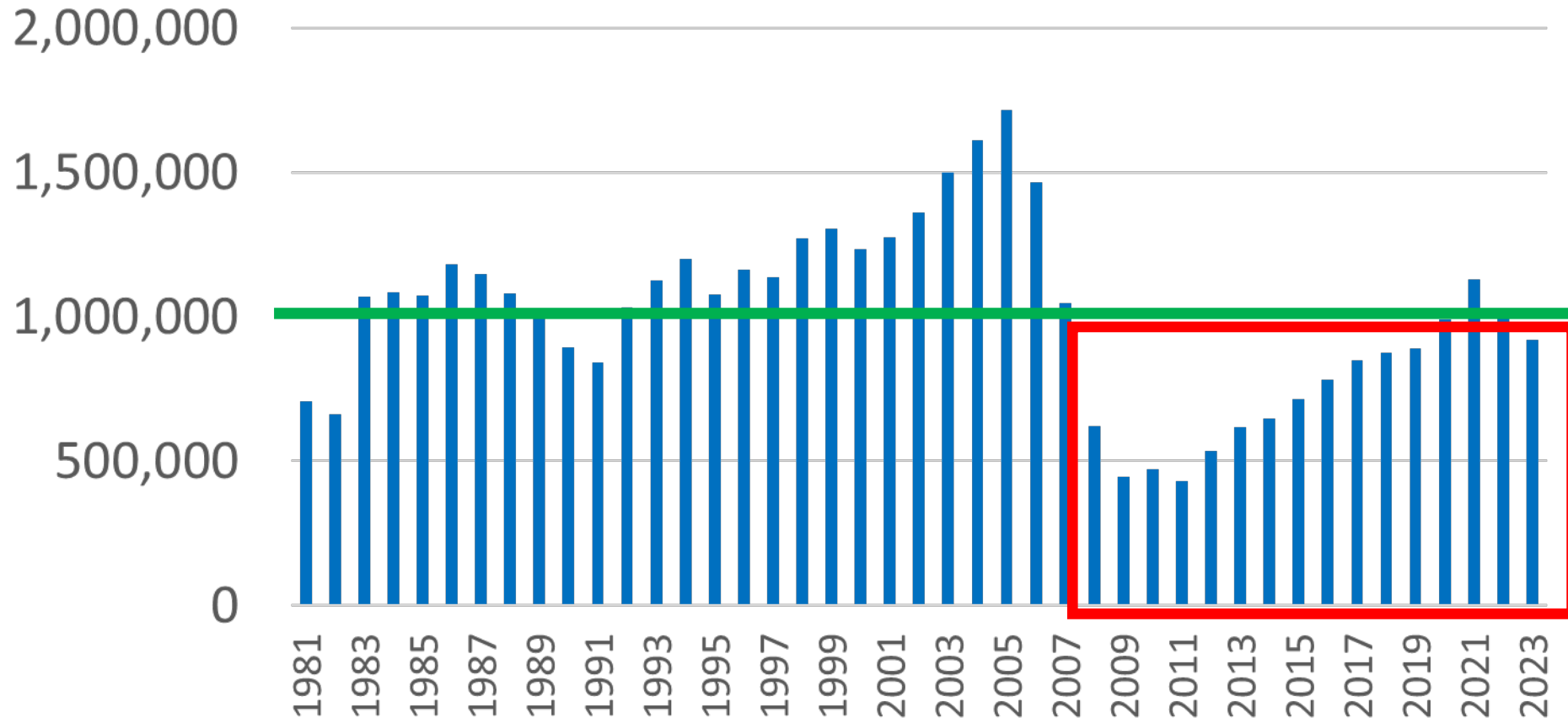
# Inventory of Existing Homes Falling Inventory of New Homes Rising



Source: NAR

# Single-Family Housing Starts

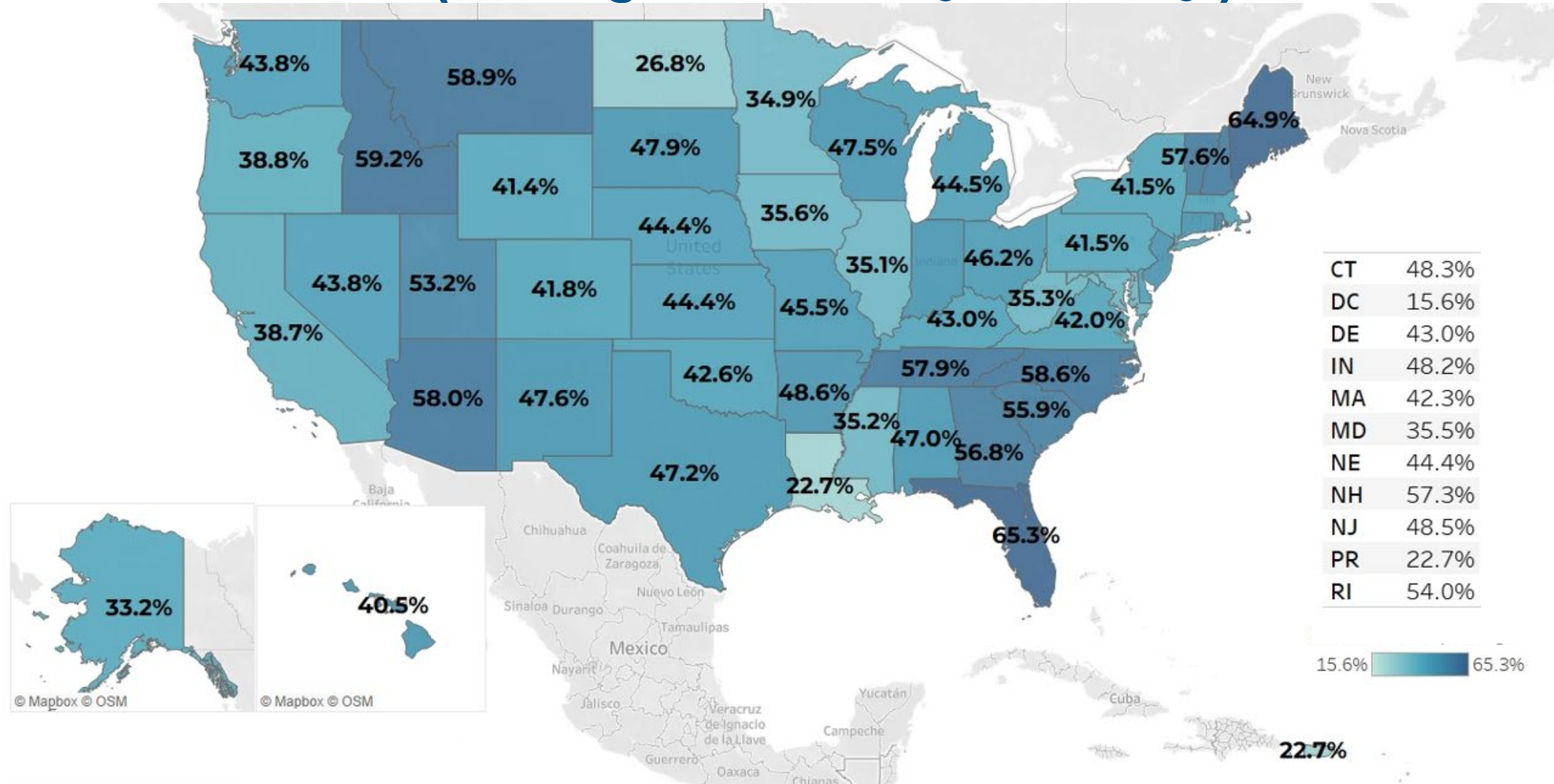
Trying to return to normal after a decade of underproduction



Source: NAR forecast and HUD

# Home Price Appreciation since COVID Arrival

## (% change from 2020 Q1 to 2023 Q3)

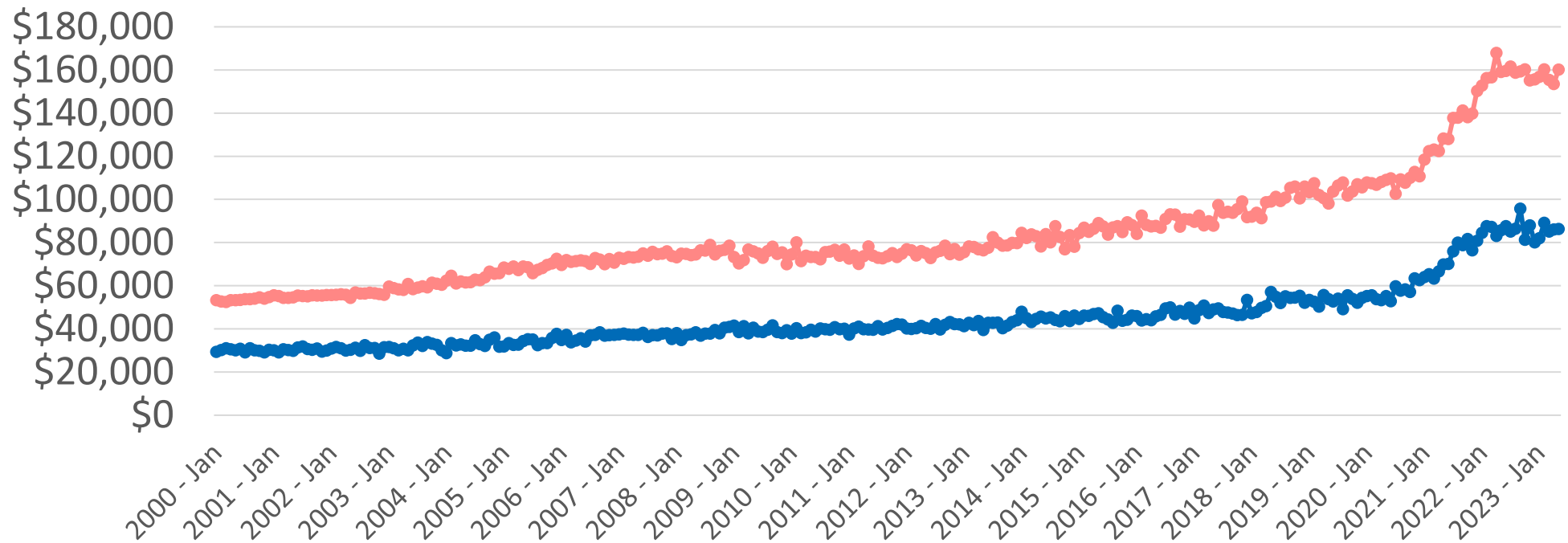


Source: NAR Analysis of FHFA Home Price Index



# Not Wealth Gain but a Testament of Housing Shortage

## Average Price of Mobile Homes: Double-sized and Single-sized Big Price Gain of 58% from pre-pandemic 2019



Source: Census

# 2024 Outlook

- **Fed to Cut Interest Rates in 2024 and 2025 ... Maybe 4-6 times**
- **10-year Treasury yield settle down at 3.5%**
- **Commercial Property Prices Stabilize and Recover (except Office)**
- **Moderate GDP growth still adds to net leasing and investment sales**
- **Land and Single-family development to do well**



# Thank You!