Economic Update

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1. 2024 US MULTIFAMILY OUTLOOK

- According to a recent forecast by Yardi Matrix, the US multifamily sector faces a mixed outlook in 2024. While apartments have performed relatively healthily during the Fed's ongoing tightening cycle, sector valuations will face challenges from a wave of supply coming online alongside rapid growth in costs and mortgage rates that are likely to remain high in the short term.
- The report notes that economic growth is likely to slow in 2024, potentially inducing a commercial real estate market reset with higher financing costs, acquisition yields, and lower leverage and values.
- Multifamily rent growth is likely to remain positive in 2024 but diminished by recent standards as supply grows and absorption slows. Supply growth sits at decades-long highs, with more than 1.2 million units under construction and over half of a million deliveries expected in 2024.
- Expenses such as materials and maintenance continue to rise rapidly, with income growth projected to slow, shifting the focus of the industry towards increasing operating efficiency and cost-cutting.
- Transaction volume fell by 70% in 2023, according to Yardi, and activity is expected to remain weak in 2024.

2. FOMC ECONOMIC PROJECTIONS

- The FOMC's December 2023 Summary of Economic Projections updated the Central Bank's interest rate and growth forecasts for 2024, with the consensus expecting to cut rates by 75bps next year.
- Policymakers spoke of the recent dampening of economic and job growth indicators despite the better-than-expected performance of each in recent months.
- According to the FOMC's growth projections, GDP growth is expected to finish at 2.6% this year compared to their previous projection of 2.15%. Growth is expected to fall in 2024 to 1.4%— ten (10) basis points below their September projection.
- According to the FOMC's inflation projections, the PCE price index was revised lower for the end of 2023 (2.8% vs 3.3%) and 2024 (2.4% vs 2.5%).
- The Unemployment rate is expected to finish 2023 at 3.8% before rising to 4.1% in 2024.

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3. MARKET INTEREST RATE PROJECTIONS

- According to the latest data from the Chicago Mercantile Exchange's Fed Watch Tool, the FOMC is expected to leave rates unchanged at their January 2024 meeting, though projections for rate cuts have steadily increased as inflation continues to cool.
- A solid majority of the Fed futures market (85.5%) see no rate hike in January compared to 14.5% who see a 25-bps cut on the horizon. However, just one month ago, the share of futures projecting a rate cut in January was a measly 0.2%. While forecasts for a January rate cut remain in the minority, the rise in its probability reflects the continuing cooling of inflation and economic growth forecasts in recent weeks.
- Looking towards the second FOMC meeting of 2024 in March, a solid majority (71.3%) expects a 25-bps cut, compared to just 17.1% who expect rates to be held at their current level. The March forecast likely reflects suggestions from the FOMC's latest Summary of Economic Projections, which forecasts at least three rate cuts next year.

4. 2024 BUSINESS TRAVEL TRENDS FORECAST

- According to recent forecasts by Morning Consult, the travel industry is expected to continue its recent momentum into 2024 as business travel is projected to rise.
- The report notes that business travel decision-makers are 13 percentage points more likely to say that business travel will increase next year than those who say it will decrease.
- While business travelers are a smaller share of the sector compared to leisure travelers, they tend to spend more, therefore contributing a greater share of overall revenue to the sector. The slow post-pandemic recovery for corporate travel has limited the industry's rebound, but next year could be a turning point. Roughly 3 in 10 business travel decision-makers say work trips will increase in 2024.

5. 2024 RETAIL TRENDS FORECAST

- The Retail industry is expected to expand investment in AI in consumer-facing applications in 2024, but influencers will remain key to marketing strategies moving forward despite the shift, according to forecasts by Morning Consult.

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- Despite recent attention to generative AI, consumers continue to trust recommendations from influencers more than AI tools, according to the analysis.
- Retail brands will need to adopt AI cautiously and are unlikely to divest from influencers, which has implications for both retail industry employment and real estate investments used for marketing purposes.
- Somewhat surprisingly, Gen Z consumers, who are being introduced to AI in Retail in their younger years, put more faith in influencer recommendations than any other consumer cohort, while millennials are most likely to trust AI. Still, consumer trust in influencers outweighs trust in AI across all generational cohorts.

6. 2023 POPULATION GROWTH

- States in the southeastern US once again saw the highest population growth of any region in 2023, led by South Carolina (+1.7%), Florida (1.6%), and Texas (1.6%), according to recent estimates released by the US Census Bureau.
- In 2022, South Carolina, Florida, and Texas ranked 3rd, 1st, and 4th, respectively, and in 2021, ranked 6th, 8th, and 7th, respectively. Idaho, which ranked 1st and 2nd in 2021 and 2022, respectively, dropped to 4th place in 2023.
- Other states in the Sun Belt, which saw a large increase in population throughout the pandemic years, have since fallen out of the top 10 for growth, particularly Arizona and Nevada.

7. Q3 2023 BANK CRE LOAN PERFORMANCE

- Mortgage origination volume for bank-held CRE loans fell steeply in the third quarter, led by a drop in office loan originations relative to pre-COVID levels, according to Trepp.
- Underwriting terms for new originations during Q3 also show weakness relative to those made in previous quarters. Net charge-offs, delinquency rates, and occupancy levels all reflect more stress in CRE relative to the first half of 2023.
- The delinquency rate for all Bank CRE loans rose from 1.15% to 1.50% in Q3, continuing a growth trend that began after Q3 2022 when delinquencies fell to a pandemic-era low of 0.67%.
- The non-current rate rose from 0.95% in Q2 to 1.29% in Q3, its steepest jump in the post-pandemic era.

8. COMMERCIAL REAL ESTATE PRICES

- Commercial real estate prices fell -8.0% year-over-year in November but remained flat on a monthly basis, according to the latest data from MSCI Real Capital Analytics.
- Property prices have trended downward alongside a fall in sales volume this year, which dropped 60% in November. Still, the monthly and annual price changes reflect an improvement over much of 2023. Early in 2023, CRE prices were charting declines of close to 2.0% month-over-month, while annual declines were consistently in the double-digits around mid-year.
- Industrial posted the only annual or monthly increase, increasing 1.8% year-over-year and 0.9% month-over-month.
- Office prices led annual declines charting at -14.9%, followed by Apartments (12.1%) and Retail (-6.7%).
- Monthly declines followed a similar pattern, with Office sector prices falling -1.0%, followed by Apartments (-0.7%) and Retail (-0.3%).

9. CONFIDENCE BOOSTS APARTMENT DEMAND

- According to a recent report by Real Page, a recent rise in consumer confidence is boosting apartment demand.
- After hitting a 30-year low in 2022, the University of Michigan's Consumer Sentiment Index rose steadily in 2023 as inflation eased and recession forecasts missed the mark.
- According to a Globe Street analysis of the relationship between consumer sentiment and apartment demand, during uncertain times, renters may opt to stay in a Class B property longer rather than moving into a Class A one, but as that uncertainty fades, pent-up demand begins to materialize. However, since housing isn't a discretionary expense, rebounds in consumer sentiment impact items like shopping or travel more directly than housing.

10. HOUSING STARTS

- US housing starts unexpectedly soared in November, climbing 14.8% month-over-month to an annualized 1.56 million units, the highest increase in six months. Falling mortgage rates and low inventory have helped push the rise in US construction.

- Single-family housing starts rose by 18%, the highest for the segment since April 2022. Single-family permits similarly jumped by 18%. Starts are climbing faster than completions, suggesting that units under construction should continue to climb in the months ahead.
- Housing start growth rose at its fastest pace in the Northeast (100%), followed by the South (16.3%), the West (2.1%) and the Midwest (1.4%).

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SUMMARY OF SOURCES

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