CUSHMAN & WAKEFIELD

2024 U.S. MACRO OUTLOOK

Contents

KEY TAKEAWAYS

ECONOMY

OFFICE

INDUSTRIAL

MULTIFAMILY

RETAIL

NICHE SECTORS

CAPITAL MARKETS

SUMMARY TABLES

ABOUT US

Key Takeaways

INTRODUCTION

To help our clients think through and prepare for various scenarios, we've included a base case scenario which we feel is the most probable scenario (50% probability) based on our modeling and current market conditions, as well as three other scenarios for your consideration. The results for all the scenarios we modeled can be found in the summary tables at the end of the report.

KEY TAKEAWAYS

Economy: A rolling recession has begun.

Office: Further into the hybrid transition, office is becoming more nuanced than ever.

Industrial: Normalization phase to keep vacancy drifting higher—but context matters.

Multifamily: Fundamentals to strengthen on the other side of the supply wave.

Retail: Headwinds will not derail the retail sector's resilience and adaptability.

Niche Sectors: No longer so "niche" as strong tailwinds power growing importance for institutional investors.

Capital Markets: Property values to remain under pressure, but investors gearing up for the Fed pivot.

Economy

A Rolling Recession Has Begun

The U.S. economy, led by the resilient consumer, seemed to defy gravity in 2023. Only a year ago, the consensus was that risks were overwhelmingly tilted to the downside and that real GDP growth was expected to grow at a paltry rate of 0.5% in 2023 with many—20 of the 51 professional forecasters surveyed—foreseeing a recession.[1] Predictions of economic weakness for 2023 were certainly understandable given the numerous headwinds facing the U.S. economy throughout the year, including higher interest rates, elevated inflation, banking turmoil, labor strikes, tight lending conditions, and an abundance of geopolitical tension. But the most advertised recession in history never materialized—or at least it hasn't yet. With a few weeks remaining in 2023 (as of this writing), the U.S. economy is on track to grow in the 2.5% range and will likely create over 3 million net new jobs for the year.

As we look to 2024, however, top of mind for us is that it takes time for monetary policy actions to fully impact economic activity. In Fed speak, monetary policy works in "long and variable lags." Some of the lagged effects are just now beginning to show up in the economic data. For instance, we are now observing rising delinquency rates on auto loans, credit cards, and mortgage loans—yellow flags signaling that the consumer is starting to feel the pressure of higher rates. In addition, the leading economic indicators—the tried-and-true predictors—continue to point to weakness. Most notably, both the 10-year versus 3-month and the 10-year versus 2-year Treasury yield curves have been inverted for more than a year now. On average historically, yield curves have inverted 11 months before a recession starts, but there is a high degree of variance in the lead time. There have been four recessions wherein the yield curves inverted more than 12 to 16 months in advance. Not only does this signal weaker views of economic growth by bond market participants, but inversion also makes it harder to extend credit as net interest margins get compressed. Credit availability—not just the cost of credit—is key to economic growth and the contraction in credit has been tied to the depth of recessions historically. Lending and underwriting standards have tightened meaningfully in the banking sector over the last year, and such swift movement to debt conservativism has tended to lead declines in jobs by six to nine months, on average. Temp jobs, which are easy to purge when cost consciousness necessitates it, typically also lead recessions. These jobs have been on a downward trajectory since November 2022 and have retreated by 193,000 jobs

> **"It is also our view that, although certain aggregate economic measures—such as real GDP growth— appeared healthy in 2023, a "rolling recession" in which some industries contract while others evade damage has already begun.**

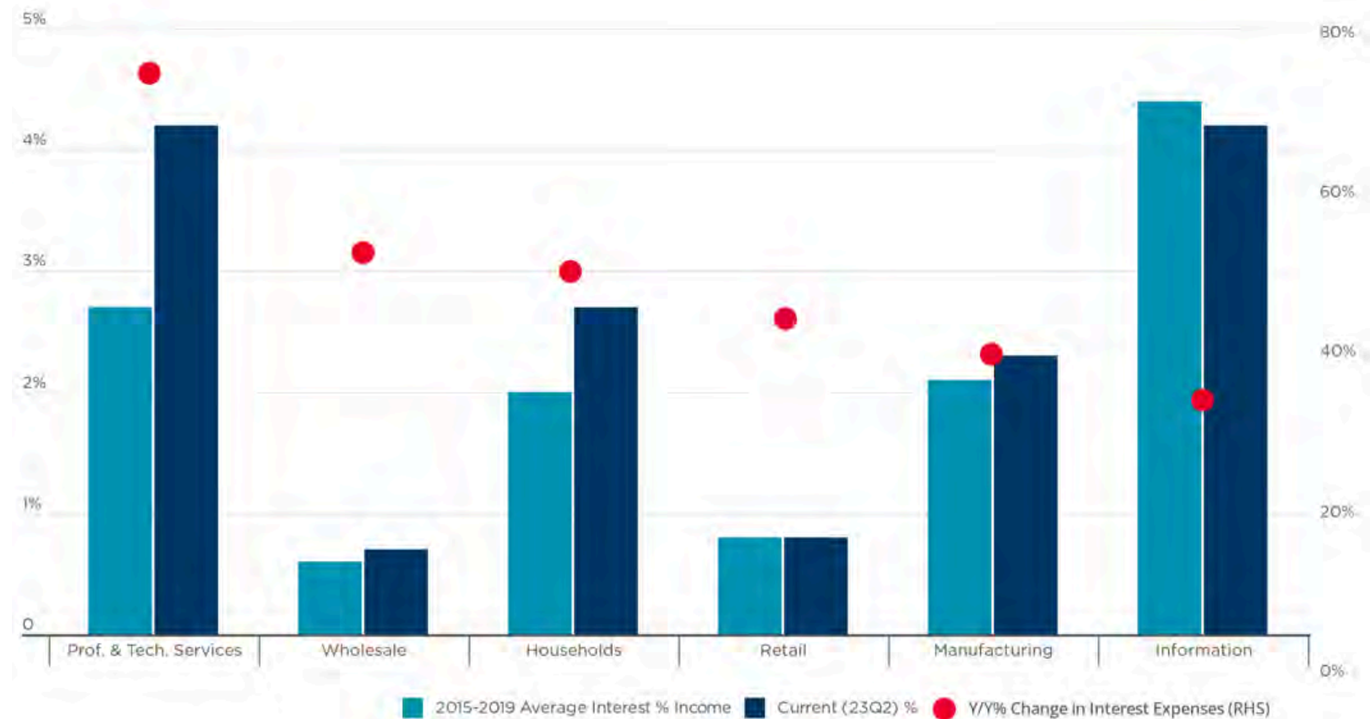
Interest-rate sensitive sectors are feeling the pinch of tighter monetary policy and higher rates while government, healthcare and educational services tend to lag and remain the chief drivers of employment growth in 2023. Although some catch up in leisure and hospitality has been occurring in 2023, these sectors are highly coincidental, meaning that they will respond in real time as consumers hunker down—not in advance. Sectors that are currently experiencing some version of a recession include manufacturing, transportation and warehousing, finance, and real estate. Whether it is leasing or investment volumes, construction starts or home sales, real estate has slowed across the board—which we will examine in greater detail throughout this report.

One sector that epitomizes "defying economic gravity" is construction, where employment continues to grow as workers are needed to finish up existing projects, but the pipeline of new projects continues to fall off a cliff. As the current

pipeline of commercial and residential projects deliver, job cuts will start to mount. The pullback in this high multiplier sector will also have a ripple effect throughout the economy, negatively impacting demand for materials, equipment, and other housing-adjacent retailer/wholesaler sectors—which again, increases the odds of recession. On the upside, weakness in the construction sector is likely to benefit the highest quality segments of the property markets and, in general, help existing buildings repopulate a bit quicker.

As we near the end of 2023, the U.S. economy is looking increasing fragile. Payroll growth is clearly slowing, and consumers are becoming more restrained this holiday season amid lower savings, higher debt burdens and less confidence in the economic outlook. The potential for a government shutdown in early 2024 is still looming; even if we avoid one, the budget deficit's widening has gotten more attention and is likely to be a key element of the upcoming election cycle. Any discipline shown through reducing government

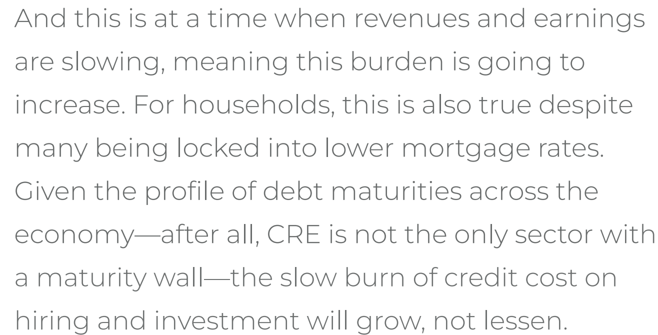
INTEREST EXPENSE RISING ACROSS ECONOMY



Source: U.S. Census Bureau (Quarterly Financial Report), U.S. Bureau of Economic Analysis
Note: Firm data presented as a share of total revenue. Household data presented as a share of disposable income

spending or raising taxes—while positive for the deficit—will slow growth. Widening geopolitical issues carry risk for supply chains with another rapid increase in oil prices being a key risk for U.S. consumers. Although oil prices have trended lower in recent weeks, given the war in Ukraine and the recent turmoil in the Middle East, it's not difficult to draw up a scenario where oil prices spike back up again. Moreover, the burden of interest payments on the economy is rising: when measured as a share of revenue across major sectors of the economy, debt costs are now above the pre-pandemic average and rising rapidly.

"And we mean rapidly—anywhere from around 30% year-over-year (YOY) in the information sector to over 70% in the professional and business services sector.

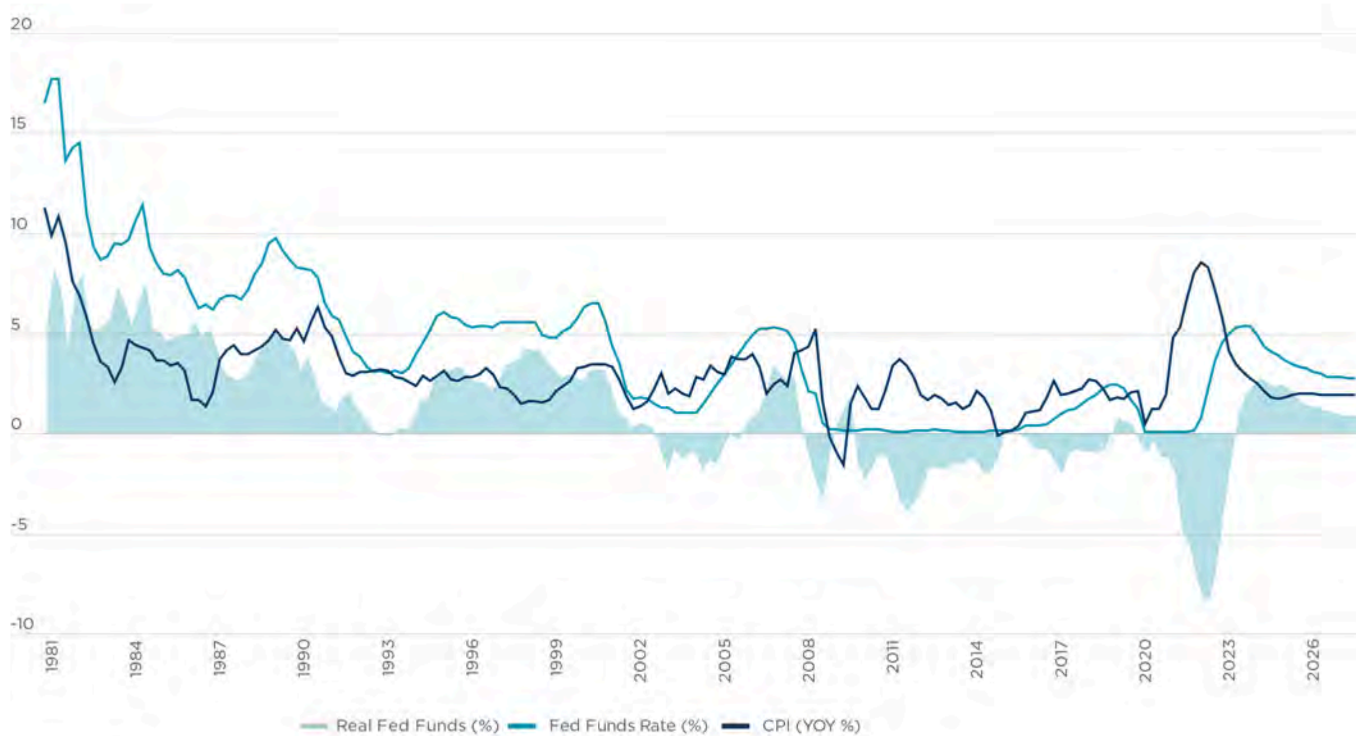


And this is at a time when revenues and earnings are slowing, meaning this burden is going to increase. For households, this is also true despite many being locked into lower mortgage rates. Given the profile of debt maturities across the economy—after all, CRE is not the only sector with a maturity wall—the slow burn of credit cost on hiring and investment will grow, not lessen.
Reference visual on page 3

It could be viewed that on the plus side, the Federal Open Market Committee (FOMC) appears to be done with its rate hikes—though it continues to posture on the hawkish side, likely in an attempt to keep financial conditions outside of their purview sufficiently restrictive. Our forecast assumes the Fed is done raising rates. However, this tells only part of the story: as inflation continues to moderate, however choppy that may be, the real federal funds rate will continue to rise and not peak until the first half of 2024, even as the benchmark rate stays where it is.[2] We expect the real fed funds rate to peak in Q1 2024 when using headline Consumer Price Index (CPI) and in Q2 2024 when using core CPI. Despite the end of rate hikes by the FOMC, the process of quantitative tightening (QT)—i.e., the Fed allowing security holdings to roll off its balance sheet—will continue well into the foreseeable future.
Reference visual on page 5

The path back to 2% inflation has been fairly quick so far. In June 2022, headline CPI inflation peaked at 8.9% YOY, and a few months later, in September 2022, core CPI inflation peaked at 6.6% YOY. Since then, headline CPI has been cut by essentially two-thirds and now is flirting with 3% while core CPI has only come in by less than half and continues to sit near 4%, nearly double the Fed's preferred rate. There are both positive and not-so-positive trends emerging in the inflation data. On the plus side, goods inflation has been sharply reduced, energy prices are down and, when shelter is removed, it seems as though inflation is essentially at the 2% target (YOY). On the not-so-positive side, services inflation—even after

FED FUNDS RATE AT PEAK, REAL FED FUNDS RATE YET TO PEAK



Source: Federal Reserve, U.S. Bureau of Labor Statistics, Cushman & Wakefield Research

excluding shelter costs—remains sticky and elevated. As services sectors have a higher share of operating expenses dedicated to labor, the Fed remains focused on tight labor market conditions and sustained wage growth. According to the Federal Reserve Bank of Atlanta, overall wage growth is still at 5.8% YOY (as of the latest data for October 2023), while the U.S. Bureau of Labor Statistics' Employment Cost Index (ECI) is at 4.6% YOY in Q3 2023 (and accelerated quarter-over-quarter in Q3 2023). This is uncomfortable for the Fed: high nominal GDP growth and high wage inflation are not friends of the 2% target.[3] The Fed's hawkishness thus, in our view, also reflects its ongoing concern that the current labor market is too tight to ensure durable 2% inflation over time. This implies an extended period of restrictive monetary policy and below-trend economic growth.

As we head into 2024, we believe the economy will start to bend under the magnificent weight of the Fed's cumulative actions and ongoing QT, ultimately resulting in a modest recession. As

mentioned before, this will roll through the economy at different speeds and with different magnitudes by sector. However, as inflation is already on a downward path and peak tightness is not even upon us, we believe that the demand destruction in H1 2024 will add further disinflationary pressures while also causing the unemployment rate to start trending towards 5.5%.

> **"As mid-year approaches, this will put the Fed in a position to start cutting rates by Q3 2024, which in turn will allow the long end of the yield curve to begin compressing again, although it should settle in around 4% over time (over long periods, it tends to revert towards nominal GDP growth).**

There are many scenarios that could play out, and we acknowledge that a soft landing is possible—although so is a harder landing. In our view, the upside from a soft landing is limited in that ultimately it is still an environment of below-trend growth, tight labor markets, and, if there is not immaculate disinflation in wages, a higher-for-longer-than-already-expected fed funds rate. The ultimate soft landing is one where wage disinflation is immaculate. Even in this more benign economic scenario, the CRE sector will remain under pressure in 2024 before turning a corner in 2025.

The backdrop for CRE in our baseline forecast is one with many shades of grey. Those sectors that are decelerating will probably surprise onlookers with their resilience—such as what we envision for industrial and multifamily demand. As for retail, limited supply puts a cap on just how high retail vacancy will go. Although office is complicated, we believe we are well into the hybrid transition, and thus demand destruction will start to taper off.

Nuance here matters and laziness in studying the sector may result in lost opportunities for both occupiers and investors. The capital markets, still finding its way as the whiplash from Treasury market volatility wears off, will start to unfreeze. Without the tailwind of structural declines in the Treasury market, the focus on income and operational alpha will only increase. At the same time, investors will need to elevate strategy and risk assessment going forward.

Office

More Nuanced Than Ever

The U.S. office sector remained the poster child of CRE woes in 2023, but the headlines reveal little about its growing complexity. While at one end of the spectrum there is resilience within the top tier of the market amidst a broad flight to quality, there is an extraordinary concentration of weakness at the other end. Dialing into the outlook for the sector requires peeling apart these layers and understanding that—even in the face of headwinds—there is underlying structural demand for office space along the quality and pricing spectrum.

The ongoing correction in the office sector reflects two distinct themes:

1) the transition to a hybrid work environment means that there is acute downward pressure on demand in the market now as companies adjust, and

2) moving forward, there will be structurally lower demand for office space (per additional office worker).

As our prior research shows, office-using sectors, and knowledge work in general, are a growing share of the workforce, which have countervailing impacts on hybrid work's structural demand erosion.[4] In other words, we are in the midst of a transition period, but a new norm will emerge. As it does, continued job growth will ultimately drive demand for office space higher. This transition period will be painful as it will result in a portion of the office stock being rendered competitively obsolete. But this portion is limited in size; we estimate that about 330 million square feet (msf), less than 6% of the 5.6 billion square feet (sf) tracked by Cushman & Wakefield, is now obsolete.

The demand destruction caused by remote work will eventually filter all the way through and come to an end. The weighted average lease term in the office sector is about eight years. For Class A, it is closer to eight and a half years; while for Classes B and C, it is closer to seven years. Average lease lengths have not changed materially post-pandemic and currently sit near their 10-year averages. This means that mathematically we are past the "post-pandemic half-way point" for lease expirations in lower quality office space and we are closing in on it for Class A. What expirations do not capture is the significant amount of downsizing that has already occurred through the sublease market, which has accounted for 40% of all negative demand since the pandemic began. Moreover, given the shift to hybrid, many large occupiers of office space have also preemptively ended unnecessary leases or downsized them well before the original lease expiration. In this way, firms are "pulling forward" behaviors that would otherwise occur when a lease ends.

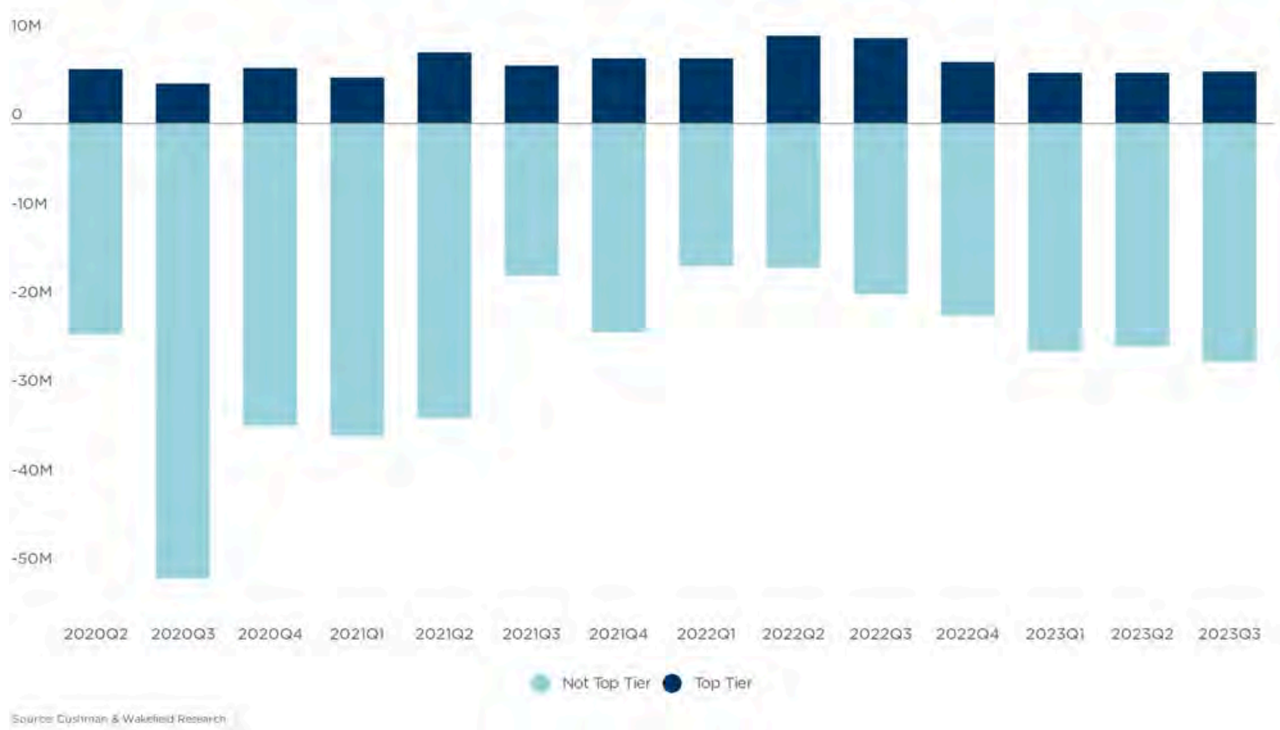
> **"Thus, even as the economic outlook points to greater economic challenges next year, we expect the magnitude of negative demand to lessen from -86 msf this year to -55 msf in 2024.**

By 2025, our modeling indicates that most firms will have completed their downsizing, allowing for the relationship between job growth and demand for office space to reestablish itself, and the office sector will begin to register positive absorption once again. From 2025 through 2033 (the end of our 10-year horizon), we expect 222 msf of net absorption to be realized.

Much like the trends observed over the last few years, the office recovery will remain highly uneven. Top tier office product—the top 10%-15% of any given market—has consistently outperformed lower quality product since 2020, registering 100 msf of positive net absorption. These assets are mostly new construction or recently renovated assets with a multitude of amenities, typically in prime locations. However, given the tight lending conditions and higher cost of borrowing due to the rapid rise in interest rates, the supply pipeline of new buildings is quickly shutting down. Thus, the highest quality product that was delivered to the market stands to benefit

and is expected to experience very strong lease up. Demand will eventually trickle down and will be joined by value-minded occupiers, fueling stronger leasing activity for lower quality Class A and Class B/C buildings. It is important to recognize that not all occupiers require or even desire "trophy office" space. Since Q2 2020, there has been 261 msf of leasing activity in non-Class A buildings, which accounts for roughly one-third of total U.S. leasing. This one-third portion is on par with the pre-pandemic norm, so despite the flight to quality mantra, there continues to be a large market for less-than-trophy product. This is not to diminish the reality that the vast majority of poorly located lower quality buildings will remain under significant pressure. It is to simply acknowledge that there is a need for a range of office space quality for a diverse occupier base.

TOP TIER ABSORBED 100 MSF SINCE PANDEMIC



In our baseline, U.S. office vacancy peaks in early 2025 at 21.5%, up another 210 basis points (bps) from today's 19.4%. Rents typically lag vacancy. First, demand stabilizes and turns up and then vacancy begins to erode. As vacancy tightens, we typically see rents inflect and turn higher—there's typically a two to three quarter lag from the time vacancy begins to decline to when that triggers rent growth. We estimate effective rents will

decline another 5.4% in 2024, bringing the total peak-to-trough decline to 23%. Effective rent growth will resume starting in the second half of 2025. As we noted earlier, there has been a notable drop-off in new construction of office buildings driven by higher costs of construction and capital, as well as tighter credit availability. After peaking in Q1 2020 at 135.2 msf, the office pipeline has receded by more than 50%, sitting now at 63.5 msf with little promise of a pickup anytime soon. From 2025-2027, we estimate new construction will average under 10 msf per year—well below the historic norm of 53.4 msf (the 1995-2019 average).

This historically low level of new development mid-decade will shift the focus to renovations of the existing stock. The amount of office buildings undergoing significant investment and renovation (not including conversions to another use) has more than doubled since the end of 2019. There is currently 11.4 msf of office stock under renovation, up from 5.6 msf in 2019. In the intervening timeframe, there have been 22.6 msf of renovation completions. Converting office stock to another use is difficult and costly, and while it may be appropriate for some buildings, the reality is that there is a growing appetite to upgrade the existing stock, which is manifesting as repositioning via renovation. This appetite will only grow as buildings' cost basis get reset over the next 18 to 24 months.

As we look at the future of office, the nuance in the market needs to be fully appreciated. Headline statistics and forecasts mask an incredible degree of variation. As mentioned, we are further along in

the hybrid work transition than is often acknowledged and still over half of all U.S. office buildings are fully leased; 90% currently have zero available sublease space. In 46% of office buildings across the country, overall vacancy has not changed since Q1 2020. In another fifth of buildings, overall vacancy has actually compressed. Headline statistics are no longer enough—understanding the complexity of the market will be critical for owners and occupiers to form successful strategies around the office sector as micro themes dictate performance over the coming years.

SHARE OF U.S. OFFICE BUILDINGS REPORTING Q/Q VACANCY CHANGES BY DIRECTION

Source: Cushman & Wakefield Research

Industrial

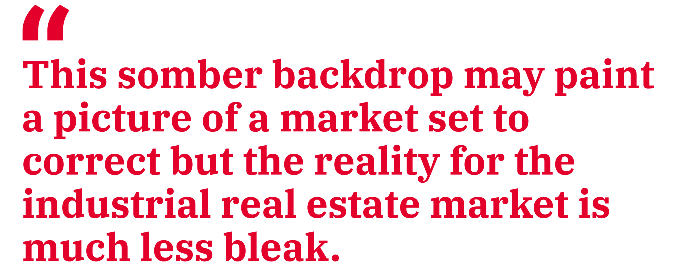
Normalizing but Context Matters

At the turn of 2022, we made an unpopular call that industrial demand would not just slow from its blistering pace of the prior two years, but that it would even dip below the 2015-2019 average run rate. That call was on target, and it was based on a trifecta of trends that were clearly going to temper occupancy gains this year and next. This “trends trifecta” includes a moderation in goods spending, dealing with the hangover from demand that had been pulled forward during the pandemic and a reversion towards pre-pandemic behaviors for many industrial users. This is now manifesting as industry recessions across some industrial sectors, such as manufacturing and freight.

Coming off frenetic back-to-back years in 2021 and 2022, industrial net absorption downshifted in 2023. For context, in 2021 and 2022 combined, the market absorbed just under 1.1 billion square feet,

which is about twice the norm—meaning that four years' worth of demand occurred in just a two-year timeframe. We estimate that roughly half of this demand came from pull-forward impacts as companies—namely those tied to online shopping—had to build out facilities networks sooner and faster than planned. The flip side of this surge is that it "borrowed" demand from the future, which is one reason why we expected demand to moderate meaningfully this year and next. Further headwinds facing goods consumption will also lessen the pace at which occupiers scale moving forward: while real incomes are now rising, consumers also face higher interest rates, a labor market in the early stages of softening and an affordability crunch across the largest household budget line items. Given these formidable headwinds which will ultimately translate into weaker demand for goods, global trade flows will slow, and freight markets will remain oversupplied in the near-term.

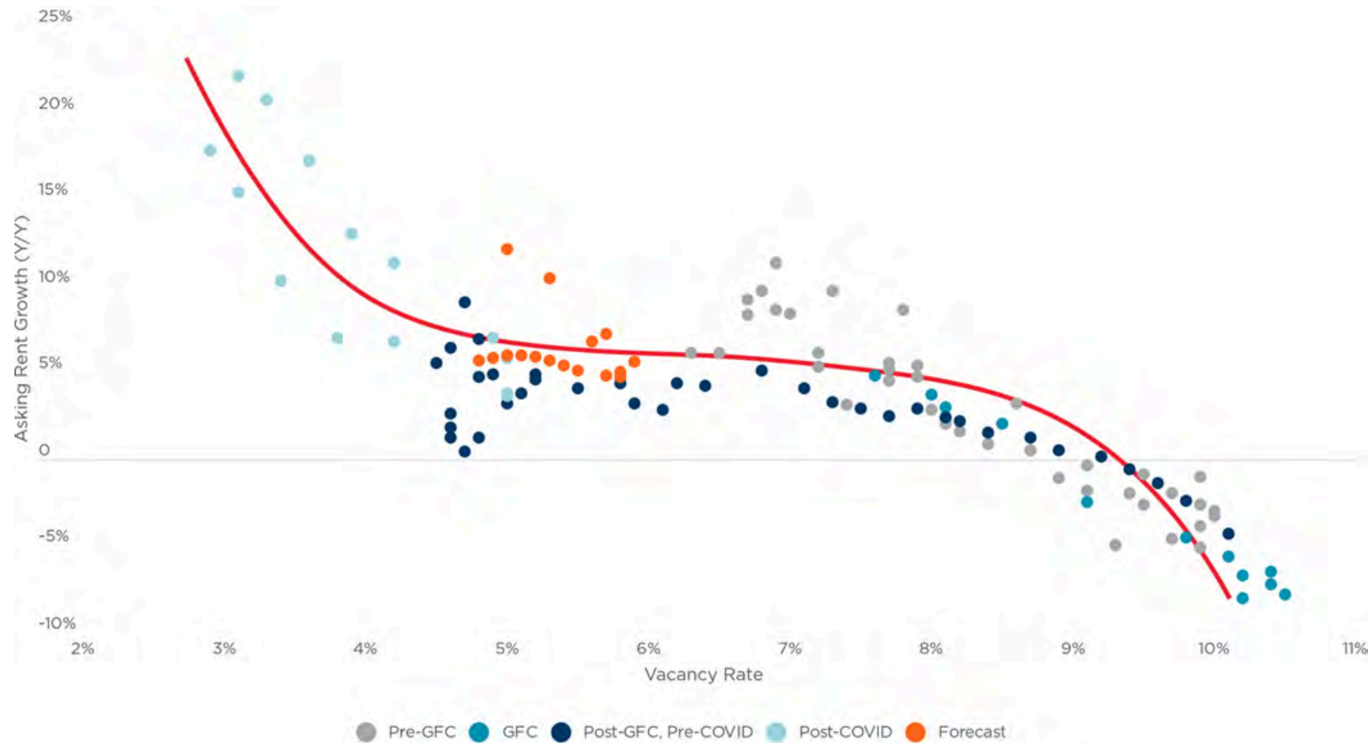
Freight markets are not the only sector with over-capacity at this time—the labor market for many industrial workers has softened in the last year. Employment in transportation and warehousing is down by 56,000 jobs over the last 12 months (Oct 2023 vs. Oct 2022), led by losses in warehousing (-78,000), final mile (-28,000), and trucking (-27,000). Despite a renaissance of reshoring, manufacturing jobs have been flat over this time (+6,000) as widespread weakness is buoyed by strong activity in the auto, battery and semi-conductor sub-sectors. Consumer spending on travel and experiences has also increased materially, leading airline employment to be the only bright spot (+54,000) for the transportation sector. It is not atypical to see weakness in the industrial labor markets as turning points in the economy near, including the onset of recessions.



Context matters. Cushman & Wakefield has been tracking industrial data going back to 1995. From 1995 to 2019, the U.S. industrial vacancy rate averaged 8%. The industrial boom that we observed over the last few years brought vacancy down to 2.8% in Q2 2022, which is more than twice as tight as the market had ever been. Since then, vacancy has been drifting higher, rising to 4.7% as of Q3 2023. Our baseline has vacancy peaking in early 2025 at 6.2%, which would still be roughly 200 bps lower than the historical average.

Some occupiers are looking for new product to lessen the pressure on the market, but a decent

HEADLINE RENT GROWTH TO COOL, BUT COST PRESSURES TO PERSIST



Source: Cushman & Wakefield Research

share of the existing pipeline is accounted for, and development will taper off quickly as construction starts (measured in square feet) are down by 60% thus far in 2023. Of the 538 msf currently underway, 112 msf is build-to-suit and another 39 msf is preleased. The 387 msf of vacant spec product, while confronting a softer demand backdrop, still places an upper bound on vacancy. There is a finite window of about 18 months in which occupiers may find a slightly easier market to navigate, but that will quickly fade in 2025 as vacancy starts to recompress. As we head to the second half of the decade, we forecast demand to return to its pre-pandemic pace (around 275 to 300 msf per year) while completions start to ramp back up. The current supply-demand imbalance will reverse, and vacancy will return to sub-5%.

The emphasis on vacancy is purposeful—it is, after all, the single most important predictor of where rent growth will head. Gearing down from just under 21% year-over-year (YOY) growth in 2022, we expect asking rents to climb by just a tad over 12%

YOY by the end of 2023, followed by 4.1% and 3.1% in 2024 and 2025. The reprieve in the pace of appreciation for renters of industrial space will be short-lived. Vacancy is projected to hover in the mid-4% range in the second half of the decade, a level of tightness that is consistent with 4-5% rent growth per annum.

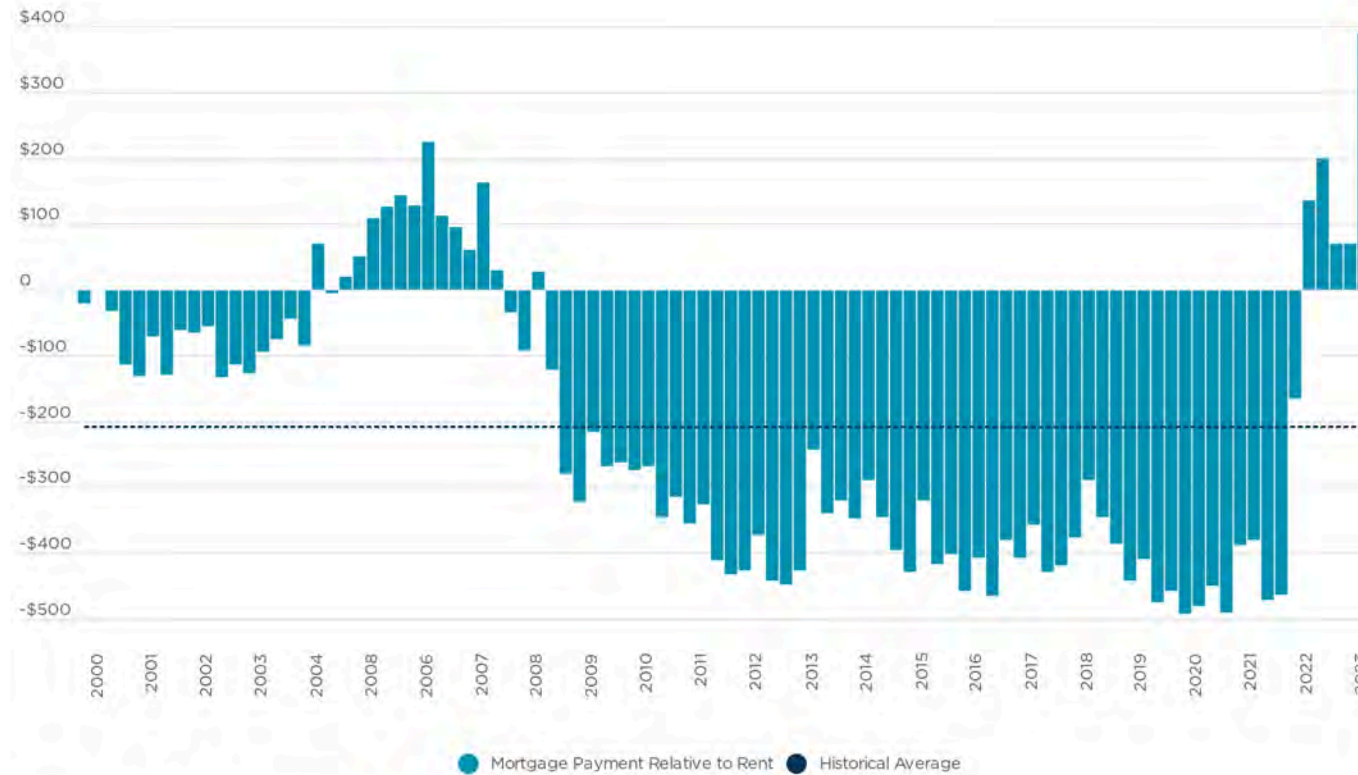
There will undoubtedly be variation across markets and within markets. Some cities are structurally supply constrained due to land scarcity or zoning, while others will benefit from demand shifts (like being a cheaper inland market near expensive coastal cities). Smaller facilities will face markedly different conditions—the smaller the building, the lower the vacancy rate and the higher the rent growth.[5] In almost all cases, vacancy will remain historically tight and demand for last mile space, in particular, will remain fiercely competitive. The bottom line: although there are some near-term headwinds, the industrial sector still has extremely strong longer-term tailwinds. The next 18 months amounts to a reset to more normalized levels, nothing more or less.

Multifamily

Strength on the Other Side of the Supply Wave

Despite an unprecedented supply wave, the multifamily market is enjoying a solid year characterized by healthy rental demand and positive rent growth. Looking at vacancy rates alone, which steadily increased from an all-time low of 5.0% in 2021 to 7.8% as of Q3 2023,[6] would be suggestive of deteriorating market conditions, but it also masks favorable demand-side trends that have reemerged this year. It's worth remembering that the multifamily sector was posting record demand when first coming out of the pandemic, so it was destined to cool. In 2021, the U.S. economy absorbed 539,000 apartment units, more than double any year on record. The reversal came in 2022 as absorption registered just 114,000 units in the weakest year since 2011. The question became: would this foreshadow more payback in 2023 or would demand normalize after a mini boom-bust cycle? So far in 2023, the latter narrative has won out.

MONTHLY PRINCIPAL & INTEREST PAYMENT – AVERAGE RENT



Source: NAR, CoStar, Cushman & Wakefield Research. Note: Assumes A 20% down payment and the average prevailing mortgage rate that quarter.

Absorption has already doubled the annual total from 2022, solidifying our outlook for a secularly strong multifamily market over the long term.

Macroeconomic and demographic factors have contributed to resurgent demand this year. Amid sharply higher mortgage rates and buoyant single-family home prices, the economics of renting versus owning have never been more favorable. The average monthly cost of a home mortgage is now $400 more expensive per month than the average rent. This figure does not include the additional costs associated with owning a home (i.e., taxes, insurance and upkeep). If all costs of homeownership were included, the monthly cost savings of renting vs. owning would be closer to $1,000 on average. The homeownership rate had been rising consistently from 2016-2022 but has since stalled out at 66% over the last year as more potential buyers are squeezed out of the market. Meanwhile, the resilient labor market combined with easing rates of inflation have allowed real disposable personal income to grow

on a year-over-year (YOY) basis in 2023, limiting the need for doubling up among roommates and family members.

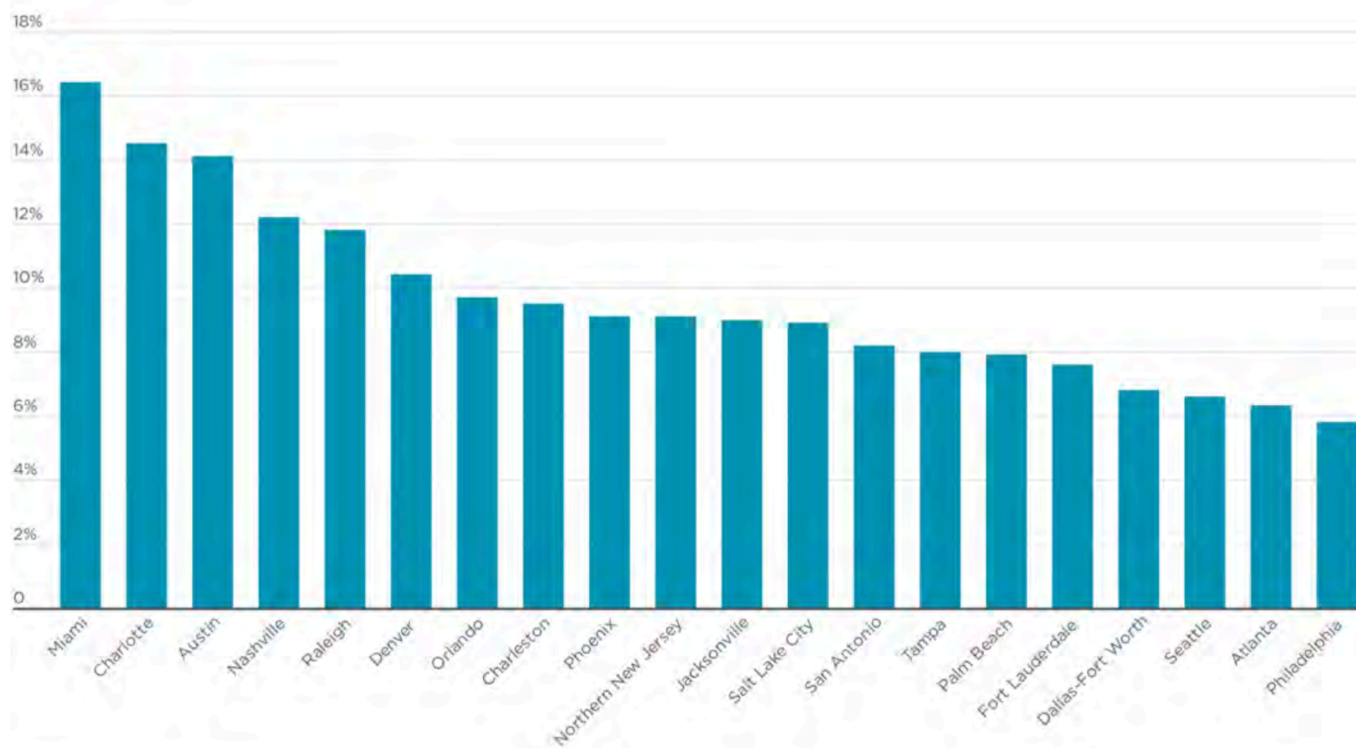
While demand drivers remain strong, it's been no match for new supply. The 350,000 units delivered last year was the highest annual total on record, and 837,000 units currently under construction[7] are expected to be completed over the next several years. Even if demand were to accelerate substantially, as outlined in our upside scenario, the vacancy rate would still likely move higher by about 50 basis points (bps) as new projects lease up.

"Under the more modest economic assumptions in our baseline forecast, the national vacancy rate increases from its current level of 7.8% to reach 9.0% at the end of 2024 as leasing momentum slows, before retreating to historical norms.

The supply wave is a near-term phenomenon, and we are currently at or very near the peak. New supply is expected to crest in early 2024 and we are forecasting 400,000 new units to come online next year in total. But after that, supply is set to slow abruptly, settling into an average of 183,000 units delivered per year from 2025-2027, nearly 25% below the 2015-2019 average. Multifamily construction starts are already down 60% from 2022, and some portion of projects that have been permitted but not yet broken ground will be abandoned due to lack of financing and other challenges. Moreover, developers are likely to be cautious about planning new developments in an environment where elevated interest rates, rising vacancy, and broader economic uncertainty remain central themes for the next several quarters. This is especially true given the geographic concentration of recently constructed buildings. Since 2020, five markets have accounted for 25% of the total multifamily units delivered across the U.S., so builders are likely to pull back in some of these "hotter" markets and submarkets naturally, notwithstanding the aforementioned economic and financial headwinds. Rising vacancy rates are a given in 2024, but there is greater uncertainty around the outlook for rental growth. If 2023 is any indication, landlords should continue to mark down asking rents and offer more concessions in efforts to preserve occupancy and incomes. National rent growth, while still increasing on a YOY basis, has decelerated markedly from 13.4% in 2021 to 4.7% in 2022 and now 1.3% in the third quarter this year. In our base case, we expect the softness to continue with multifamily rents declining by 2.3% in 2024. This would be the first year that rents declined since 2009 when they fell 3.4%. But as new construction deliveries bottom out and economic growth accelerates in 2025, rent growth will resume, climbing by 1.9% before popping another 5.1% in 2026.

This trajectory follows the narrative of a modest recessionary scenario in 2024, but deviations from that baseline could swing rents in either direction.

UNITS UNDER CONSTRUCTION AS A PERCENT OF CURRENT INVENTORY



Source: CoStar, Cushman & Wakefield Research

Additionally, performance at the local market and asset level could vary widely from these national averages given the disparity in market activity over the past several years. For example, in the third quarter, more than one-third of markets tracked by Cushman & Wakefield saw rent growth accelerate relative to the previous quarter, many of which are Midwest and Northeast markets that did not experience the supply boom that occurred elsewhere.

Longer term, the multifamily market is poised for balanced growth in demand and supply. Despite the current pipeline, housing is likely to remain undersupplied for years and investor interest indicates a clear proclivity for multifamily development. On the tenant side, mortgage rates are not likely going back to 4% anytime soon, and with 80% of homeowners locked into these lower rates, the single-family market could remain relatively more expensive than renting for an extended period. This will be impactful on the prime rental cohort (ages 20-34), which is projected to increase from 68 million in 2023 to 70 million by 2033, with 45% of Gen Z just entering their prime rental years (~33 million).

Retail

Remarkable Resilience in Battle-Tested Retail

Resilience of U.S. consumers has been a key ingredient supporting economic growth and the CRE retail sector this year. Through September, real personal consumption expenditures (PCE) grew 2.4% from a year earlier and the pace of spending has accelerated from the first half of the year, aided by a slower rate of inflation in recent months. Within the retail sector specifically, consumer activity is similarly trending favorably; real retail sales growth has been positive in four of the last five months. Household savings accumulated early during the pandemic have been largely depleted—particularly for lower and middle-income households—so consumers have been more reliant on incomes and credit to fund purchases.

U.S. Macro Outlook

Healthy job and wage growth have provided a solid bedrock for consumer health. The U.S. economy added more than 2.9 million jobs over the past twelve months (Oct 2023 versus Oct 2022), and wage growth continues to outpace price increases for consumer goods and services. Inflation-adjusted disposable personal income was up 3.5% in September from a year ago. That said, forward looking measures are not as bright, including consumer confidence, which fell to a 15-month trough in October. It is notable that the recent souring in consumer mood has been driven by less optimism in the labor market, with only 39% of Americans reporting jobs as plentiful in October vs over 50% reported earlier in the year. Consumer perceptions of more challenging job-search conditions syncs up with data on job openings, which are down 12% from last year.

Credit usage is also buoying consumer spending but will likely be a drag on household finances in 2024. Outstanding credit card balances surpassed $1 trillion for the first time ever this year, and rising interest rates have made it difficult for some borrowers to make timely payments. The percentage of credit accounts entering early delinquency has risen to the highest rate since 2011, and auto loan delinquencies are also trending up. With a backdrop of slowing income growth, consumers are expected to be under more pressure to meet debt obligations and will likely have to curtail discretionary retail purchases.

Several retail categories including sporting goods, home furnishings, electronics, appliances and home improvement are already experiencing negative sales and foot traffic comps versus 2022 as consumers have been squeezed by higher prices for essentials. Those with the ability to make discretionary purchases have been geared toward dining out, travel and other forms of recreation. Real consumer spending on recreation services

has increased 5.3% since last year and we expect that these service-oriented sectors will continue to outperform discretionary goods next year, driven by upper-income consumers with job security and strong finances. This stands to benefit retail centers with an outsize mix of fitness, restaurants and entertainment options catering to wealthy households. At the other end of the spectrum, centers with value-oriented retail are also likely to remain resilient to macroeconomic adversity by necessitating regular visits from shoppers buying essential items at discount prices.

RETAIL STORE OPENINGS TO DRIVE RESILIENT DEMAND

Tenant behavior has closely mirrored these consumer trends. The number of announced retail store openings year-to-date is outpacing closures by a margin of 1,000, thanks primarily to the nearly 1,800 net openings in the discount sector alone. The top three discount stores account for 30% of gross store openings this year and will add over 16 million square feet (msf) of retail space. Providers in the food services, medical, education and fitness sectors are also playing a larger role in retail demand. The share of overall retail leasing accounted for by each of these categories has increased several percentage points from pre-pandemic levels, taking share from financial services, apparel and other core retail. The implication is that a typical shopping

center is well diversified today, creating resilience against evolving consumer habits and economic cycles.

These trends bode well for the outlook even in a recessionary environment, but there will undoubtedly be pockets of weakness in some corners of the retail industry. Aggressive expansion plans are easy to justify when retail sales are booming in an ultra-low-rate environment, but those days have passed. Higher operating costs and pervasive theft are additional layers of complexity that retailers will have to navigate. Opening retail stores is a capital-intensive endeavor, and the cost of capital is skyrocketing. Interest rates on corporate loans are pegged to what happens in the Treasury market, where rates have moved significantly higher in recent months and forecast to remain elevated into 2024.

Higher debt burdens are a leading cause of bankruptcy, which is usually a precursor to widespread store closures. Through September, retail bankruptcies have already doubled from the previous year and there is a rising number of retailers with poor credit ratings who are likely to have difficulty acquiring debt should they need it. Scrutiny on the banking sector has led to more cautious lending practices, causing more than one-third of senior loan officers to report tightening lending standards on commercial and industrial loans in the fourth quarter. The scarcity of credit is sure to result in more bankruptcies, limiting retailers' ability to fund real estate investments; we expect net store closures by the end of next year.

A modest pullback in demand will not be overly impactful for market fundamentals including net absorption or rental price growth, because construction has been so limited. Since 2021, construction of retail shopping center space has totaled just 10 msf per year. That amounts to about 0.2% of inventory per year, compared with the 2011-2019 average of 0.6%. Construction has been subdued during the recent period of healthy demand, leading to historically tight vacancy rates and rental increases. Our baseline forecast projects that net absorption will decline by only 11.4 msf between 2024-2025, less than half of the pullback experienced in 2020. Meanwhile, rental growth is forecast to decelerate from 4.3% this year to 3.3% in 2024 and 1.7% in 2025. Even under downside economic scenarios, rental growth is expected to remain positive given relatively low vacancy compared to past economic downturns.

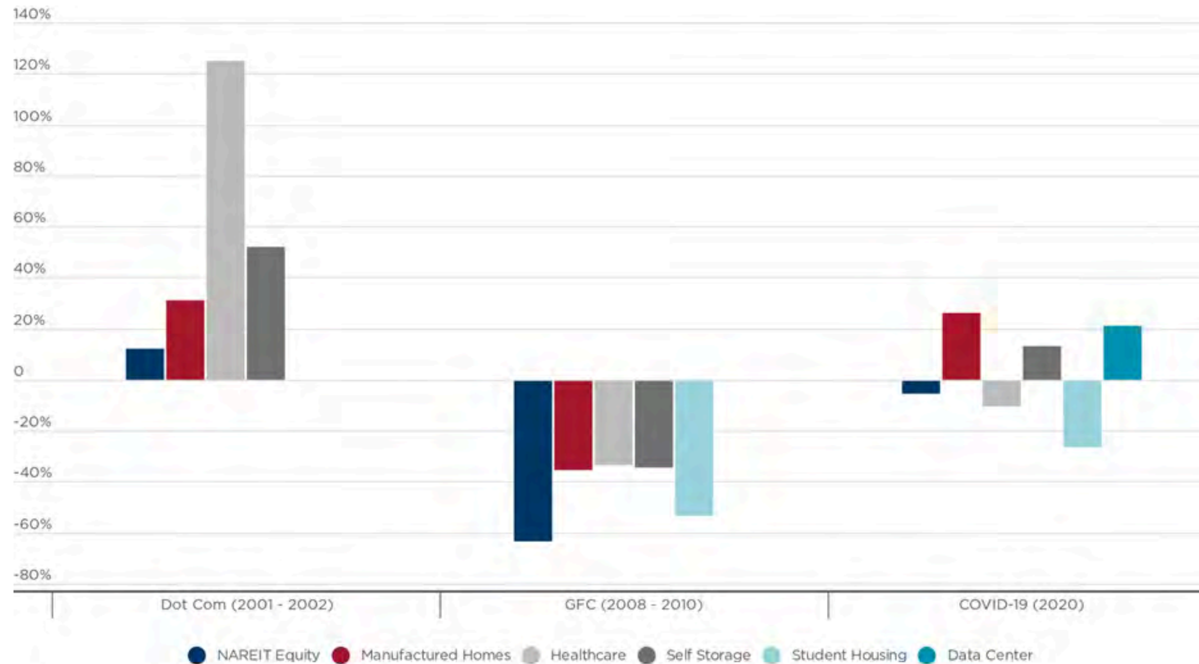
Niche Sectors

Maturing Alternatives Offer Return Enhancement

As investors seek alpha returns and hone their portfolio diversification strategies, the institutionalization of commercial real estate has increasingly extended outside of the five core property types into niche real estate alternatives. Such mounting institutionalization of CRE's niche sectors has contributed to a meaningful shift in the composition of overall CRE capital markets activity. Since 2007, niche assets have captured a continuously growing share of U.S. transaction volume: from 9% in 2007 to about 15% from 2017-2019 to approximately 20% up through Q3 2023. It's not just the share of activity that is compelling—total niche asset sales volumes have surpassed that of both hotel and retail since 2019—but with budding investor interest, these sectors have also demonstrated remarkable counter-cyclicality and stability relative to the broader CRE capital markets landscape. Through the first three

quarters of 2023, niche transaction volume has also fared well, with volume off just 4% from its 2017-2019 average, compared to a 28% decrease for all property types.

REIT PERFORMANCE ACROSS RECESSIONS



Source: NAREIT, Cushman & Wakefield Research

With their unique operational nuances, niche assets tend to be favored more by “specialized, sector-specific investors” that possess specific expertise in these highly specialized fields. Historically, there has been less competition from large institutional investors. As the return enhancement and diversification qualities of these sectors has drawn larger pools of global capital into the field, however, there is an increasingly competitive race to carve out niche investment platforms that can also offer exposure, scalability and concentration. Investors seeking to increase their niche portfolios have fueled robust price appreciation, a trend which is expected to continue. According to the most recent AFIRE investor survey, 32% of respondents expect an increase in value for alternative assets over the next 12 months compared to 12% for industrial and residential.

Attractive fundamentals for these asset types are driven by secular themes, such as those tied to demographic and technological shifts:

Single-family Rentals (SFR)/Built-for-Rent (BFR): Shifts in single-family home purchase conditions have played a sizable role, driving both SFR and BFR demand-side tailwinds. For example, delayed rates of marriage and childbirth have substantially postponed home buying for Millennials compared to prior generations. In addition, today's structural imbalances in the housing market, including higher mortgage costs as of late, will likely keep this generation renting longer, and the SFR/BFR sector should see outsized demand as a result. These properties tend to achieve lower tenant turnover rates, implying demand should be more resilient in the face of a recession. However, the sector is facing substantial new supply at around 16% of today's (small) inventory, which may moderate the pace of rental growth in the near term. The market is nevertheless likely to swiftly regain balance as strong demographics drive healthy leasing activity.

Student Housing: Enrollment in college and universities continues to rebound post-pandemic, with forecasts suggesting the total number of students will trend toward 20 million by the end of the decade. In an era of uncertainty, steady and predictable demand growth is of increasing priority, and historically, a growing student population is as predictable as it comes. Student housing rental growth has been less robust than traditional multifamily markets since the pandemic, averaging 3.7% since 2020 for student properties compared to 5.2% for traditional multifamily—all due to increased uncertainty and softened demand related to pandemic-induced remote learning. While some smaller, less prestigious colleges have struggled over the past several years, investors are likely to focus their efforts on larger institutions, particularly highly-ranked research and sports institutions that continue to see growth as class sizes retain or surpass pre-pandemic levels.

Senior Housing: An aging population continues to create significantly more demand for senior housing. The population in the 75+ age range is expected to increase by over 50% in the next twelve years, substantially more than the 32% growth since 2010. Such a dramatic rise in necessity-based demand suggests that the current senior housing capacity and pipeline will fall far short of demand. To meet this growing demand, we estimate needing an additional 35,000 units of new supply per year through 2045, ahead of the current pace of roughly 25,000 units. In the years ahead, expect renewed interest from investors across the sub-sectors (i.e., independent living, assisted living, memory care) as construction will race to keep up with growing demand.

Life Sciences: Headwinds impacting the life sciences sector in 2023 included a slowdown in venture capital funding and a softening of leasing fundamentals. Companies that were affected by lower VC availability laid off workers and maintained or decreased their existing leased footprints. New lab and cGMP (Current Good Manufacturing Practice) deliveries scheduled in 2024 will put upward pressure on vacancy rates and asking rents. A recent uptick in VC funding, coupled with the creation of several life sciences-focused funds, gives the sector reason for optimism that 2024 will be a return to more normal activity levels. Underlying demographic trends, strong research and development pipelines, and recent innovations in drug discovery will continue to fuel life sciences growth and lab space demand.

Data Centers: Demand for cloud computing and storage continues to grow dramatically, driving substantial growth in the data center market. While many industries have pushed demand,

most recently the rise of artificial intelligence (AI) is set to have a significant impact on the sector, as major tech companies seek to build portfolios of specialized data centers focused on training and deploying AI/Machine Learning (ML) models. This, along with power constraints in major markets, has pushed interest into tertiary and rural markets in the Midwest and the Sunbelt. Meanwhile, demand for cloud space continues to push growth in well-established markets (such as Northern Virginia, Atlanta, Chicago, Silicon Valley, Dallas and Phoenix). Vacancies are at or near record lows across the country, with all major markets reporting sub-5% vacancy. Lease rental rates, which had historically been on a downward trend due to larger scale deals and stronger tenant leverage, have begun to rise as available space is valued at a premium. Going forward, expect power constraints to drive high competition for development opportunities, which will correspondingly lead to continued tight market fundamentals with above-normal rent growth as hyperscalers voraciously absorb available space.

Healthcare & Medical Office: Driven by many of the same demographic trends as life sciences and senior housing, healthcare assets or medical office buildings (MOBs) are growing as healthcare spending increases and constrained labor pools begin to expand. In fact, the growth in healthcare labor has exceeded the growth rate of medical office construction for the past two years. While demand has been dramatic and inelastic, healthcare systems have struggled as operating margins have evaporated due to higher labor costs, funding shortfalls and margin loss to outpatient facilities. As with other asset classes, the capital markets remain illiquid though asset performance continues to remain strong, with average national occupancy at 91.2% and rent growth ranging from 2.5% to 3.5% in many markets. Key questions for the sector will include the future extent of labor pool growth, the extent of office space consolidation by health systems and the rising interest in converting traditional office toward healthcare uses.

Lodging: The lodging sector has held up fairly well coming out of the pandemic, both in terms of fundamentals and investment metrics. Once restrictions were lifted, vacationers were eager to leave home and have offset some of the slowdown in business travel. Following substantial declines in both 2020 and 2021, average daily rates and RevPAR have both bounced back and reverted to trend growth in 2022 and 2023, but performance is moderating with inflation eroding discretionary spending, a strong dollar making international travel more desirable (for Americans) and the specter of a potential recession. Inflation and high interest rates have dampened new supply coming online as higher costs and the challenge of obtaining financing have made construction more difficult. The schism in market health between tourist destinations and business destinations is apparent, with markets such as Orlando, Las Vegas and Orange County performing well, while San Francisco, Minneapolis and Philadelphia are still trailing their 2019 RevPAR levels. A rapid drop-off in construction from already tempered levels, in combination with renewed consumer interest in experiences and travel, will limit the downside for the sector as it has already "taken its medicine." Drivable tourist destinations should continue to hold up better, while business-centric hospitality markets will face challenges from tightening corporate travel budgets. The strength of the dollar will act as a brake on international travel generally, but a bounce-back in travel from China could be an upside risk.

Capital Markets

Investors Gearing up for the Fed's Pivot

Uncertainty and volatility surrounding Fed policy and the path of interest rates remains a central theme, as markets have witnessed the 10-year Treasury fluctuate from 3.5% at the start of the year to as high as 5.0% in October—with big swings along the way. The adjustment process to higher costs of capital takes time to cascade throughout the debt and capital market space, yet it is the pronounced uncertainty, in particular, that has made it difficult for lenders and investors to price debt and underwrite deals with conviction. Meanwhile, the regional banking failures of earlier this year also caused one of CRE's primary lending sources, banks, to pull back further on lending amid liquidity constraints and heightened regulatory oversight. Collectively, these challenges have contributed to slower CRE mortgage origination in 2023.

Challenges aside, mortgage debt continues to flow, albeit with a distinct tone of caution and selectivity, at a reduced pace compared to last year. CRE loan balances—including construction, nonresidential CRE, and multifamily loans—held by domestic commercial banks have increased 6.3% from a year ago, which is comparable to the rate of growth in 2019. Risk premia for CRE loans relative to comparable risk-free Treasurys surged as high as 312 basis point (bps) this spring amid banking concerns, but have since settled into the 285 bps range in recent months, or about 50 bps higher than 2019 spreads.

Transaction volumes have fallen sharply since the record-setting second quarter of 2022, and year-to-date CRE sales this year are off 56% from a year ago. Yet, quarterly deal volume has trended remarkably consistently throughout the year, in the $90 to $95 billion range through the third quarter.

> **"Compared to average quarterly performance from 2017-2019, transactions are down only 33%, so the market is not as displaced as would be suggested by the year-over-year (YOY) comparison.**

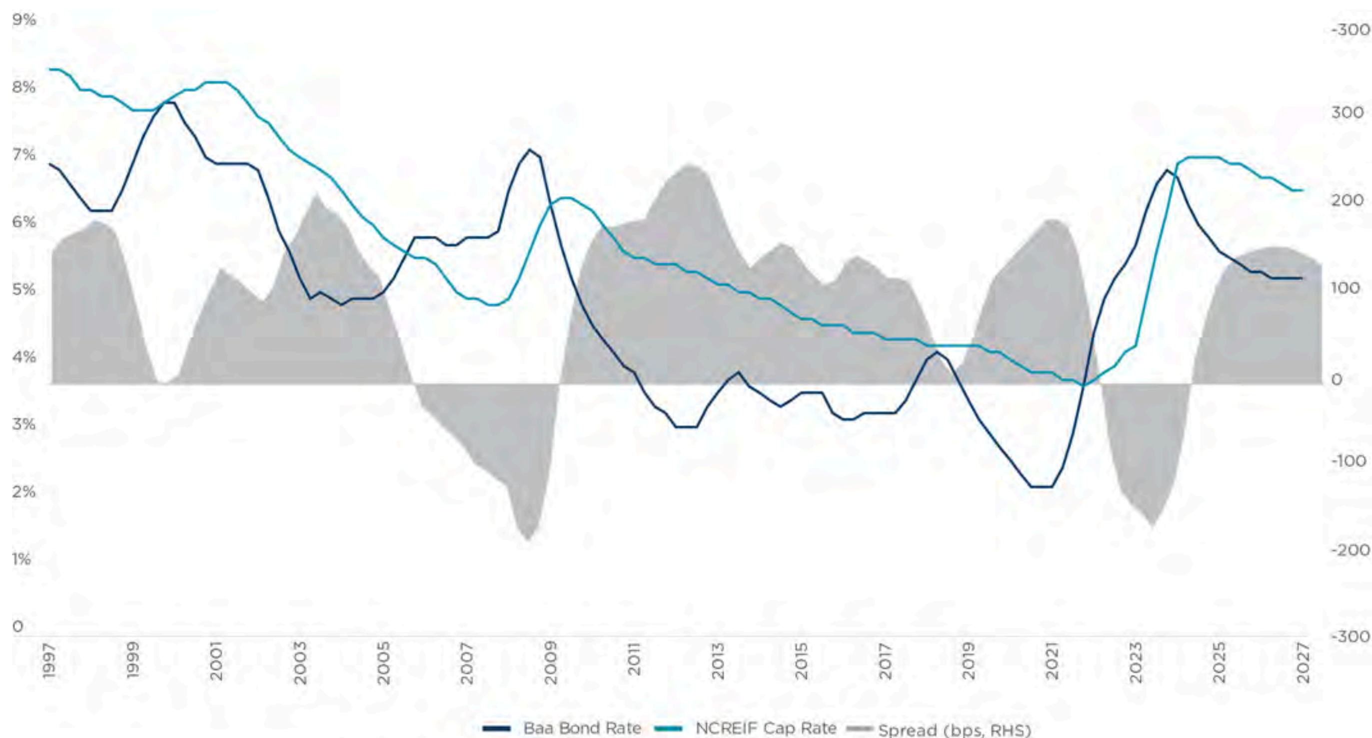
Higher borrowing costs and less debt market liquidity have necessitated an adjustment in CRE pricing. According to the MSCI CPPI, all-property prices in October were down 10.1% from the 2022 peak and 8.0% from a year earlier. However, pricing for publicly traded CRE REITs is down nearly 30%, suggesting that further price adjustment is needed in the private market. That premise becomes even more evident when comparing cap rates to alternative assets. For example, the Moody's BAA bond yield in the third quarter was trading at a 150-bps premium to CRE cap rates; this spread is usually inversed where CRE carries a premium to corporate bonds. Pricing will naturally continue to correct as needs-based sellers not willing or able to refinance at current mortgage rates find new equilibria of market-clearing prices. Although a higher number of distressed sales is expected in 2024, the broader price adjustment is likely to occur gradually over several quarters.

The period of ultra-low interest rates that boosted activity over the past few years is likely over, but that is not a precondition for healthy capital flows. After all, 10-year Treasury yields in the 4-5% range is not high by historical standards. Markets just need clarity on where rates are generally headed to make informed underwriting decisions. Fortunately, this condition is within reach after the Fed's recent pause. Thanks to continued improvement in inflation data and some help from the higher long-term Treasury rates, Fed officials are now strongly signaling that further rate increases are unlikely. Bond traders have taken this a step further, pricing in lower short-

term rates by May or June of 2024. If economic growth tracks our baseline forecast for a moderate recession to take hold, a Fed pivot is very likely. But it's important not to conflate a Fed pivot with a return to near-zero rates. Yes, the Fed will take measures to stimulate the economy but it's unlikely to make drastic rate cuts barring a full-blown financial crisis. For now, this seems to be well understood by market participants. Terminal cap rate assumptions have moved higher across major CRE asset types, signaling that investors are adjusting underwriting for higher debt costs over the long term.

The pricing adjustment is expected to accelerate in 2024 as needs-based sellers will be incentivized to market properties at prices consistent with higher interest rates. In our baseline forecast, cap rates are forecast to expand significantly as a result. This necessary cap-rate adjustment will help to restore some semblance of comparative spreads, whether that be to risk-free Treasuries or to risk-adjacent corporate bond yields. Weighted-average cap rates

CAP RATES MOVING UP TO REFLECT CROSS-ASSET RISK SPREADS



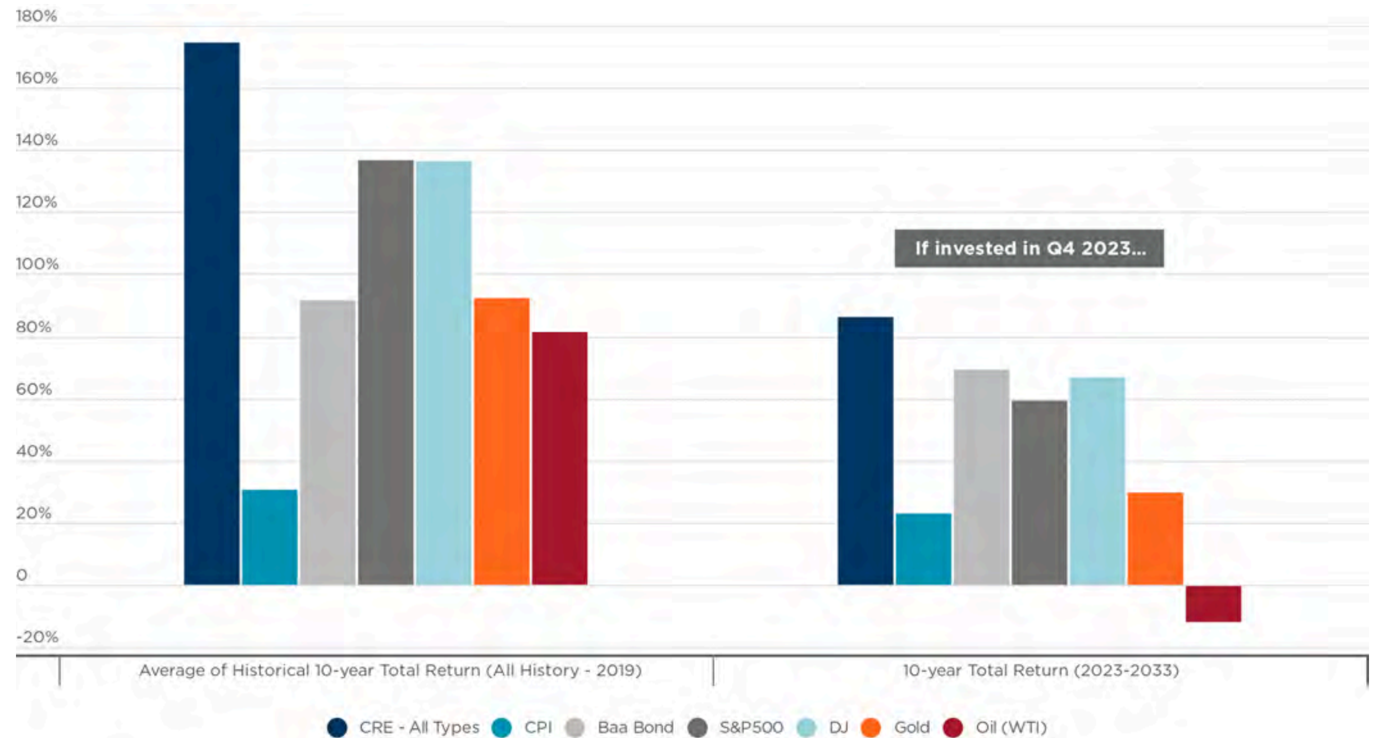
Source: Moody's Investor Service, Moody's Analytics, NCREIF, Cushman & Wakefield Research
Note: Four-quarter rolling average rates.

across the four main property types move from 4.5% in 2023 to 7.3% in 2024 although the range spans from a 190-bps expansion for retail to 310-bps for office assets. While these moves seem drastic over a short period, cap rate spreads relative to Treasuries and corporate bonds in our baseline remain below long-term averages, with the exception of office spreads. We also emphasize that all real estate is intensely local and many assets and geographies will outperform these aggregate national estimates. Moreover, many owners with cash-flow positive properties will hold through this period without having to actualize any meaningful price correction. But in the aggregate, capital value depreciation is unavoidable across property types given the favorable relative returns for alternative assets, so investors are likely to focus more acutely on income fundamentals to drive returns. In our baseline, multifamily and office properties are expected to experience declines in NOI growth over the near term, while industrial and retail properties are projected to maintain positive NOI growth in the mid-single-digits next year.

Property values are expected to turn the corner in 2025 as diminished uncertainty, lower interest rates and inflecting NOI spur increased buyer and lender conviction, which will help to launch more fluid transaction activity. Dry powder targeting CRE investments continues to accumulate, particularly across opportunistic and value-add strategies, so capital will be deployed for the right opportunities. In terms of asset allocation, industrial and multifamily properties remain the most favored product types, which will support lower cap rates than those for the office and retail sectors. Offices have broadly fallen out of favor given rising vacancies and obsolescence, but the sector's dislocation both from a fundamentals and capital markets perspective is likely to offer unique buying opportunities as distress unfolds. The story is far from one dimensional, though, as top-end product is positioned to outperform and garner a distinct premium over all the rest, emphasizing that even the most challenged of sectors offers a wide range of investment strategies to deploy in the chapters ahead.

It is critical to keep in mind that real estate returns are generated on a cumulative basis over the hold period, and total returns for a given vintage year investment can still be positive given the steady income and significant appreciation returns that have accrued over the last several years. In an illustrative example (on right), we show the cumulative forward returns of an investment made in the fourth quarter of 2023. Over a 10-year horizon, an investor with a diversified portfolio of CRE assets would benefit from post-downturn tailwinds, subsequently realizing total returns that are attractive across the cross-asset class spectrum. While the 10-year total (unlevered) return is less than the historical average—shown on the left—this is in part because the forecast includes a period of downward pressure on pricing and appreciation returns and because cap rate compression thereafter will be moderated by higher Treasury rates than in the prior cycle.

RELATIVE CUMULATIVE FORWARD TOTAL (UNLEVERED) RETURNS BY HORIZON



Source: NCREIF, Cushman & Wakefield Research. All types cap rate calculated for four main property types using weights based on capital investment share from 2018-2022

Summary Tables

CUSHMAN & WAKEFIELD BASELINE SCENARIO*, 50% PROBABILITY

	2020	2021	2022	2023	2024	2025	2026	2027
U.S. Economy								
Real GDP	-2.2%	5.8%	1.9%	2.2%	-0.3%	1.1%	2.7%	2.5%
Nonfarm Employment	-9.059	6.592	5.121	2.661	-1.796	1.446	852	589
Office-using Employment	-1.138	1.829	1.203	202	-440	371	388	350
Unemployment Rate	6.8	4.2	3.6	4.1	5.5	4.5	4.2	4.1
Retail & Food Services Sales	4.9	15.9	7.0	2.6	-1.7	4.7	4.3	4.0
CPI Inflation	1.2	6.8	7.1	3.2	1.9	2.1	2.0	2.0
Federal Funds Rate	0.1	0.1	3.6	5.3	4.1	3.3	2.8	2.7
10-Year Treasury Rate	0.9	1.5	3.8	4.5	4.1	3.9	3.9	3.9
BAA Corporate Bond	2.1	2.4	5.6	6.7	6.1	5.6	5.3	5.3
West Texas Intermediate	$42.7	$77.2	$82.6	$82.8	$73.3	$69.8	$68.5	$68.1
Office Sector								
New Supply (msf)	50.9	53.4	47.5	36.8	38.1	16.9	7.9	8.3
Net Absorption (msf)	-71.3	-70.3	-28.9	-85.7	-55.3	16.4	20.2	21.6
Vacancy	14.4%	16.5%	17.8%	19.9%	21.5%	21.4%	21.2%	20.9%
Effective Rents	-6.7%	-5.2%	-0.7%	-5.9%	-5.4%	0.7%	1.6%	1.8%
Industrial Sector								
New Supply (msf)	363.0	365.1	514.5	615.6	330.5	158.1	180.9	243.5
Net Absorption (msf)	300.9	571.6	507.6	218.9	144.6	192.8	282.8	293.4
Vacancy	4.9%	3.3%	3.1%	5.2%	6.1%	6.0%	5.4%	4.9%
Effective Rents	5.9%	12.9%	22.3%	11.2%	5.0%	2.1%	5.4%	6.6%
Retail Sector								
New Supply (msf)	13.6	10.5	9.9	9.7	9.0	12.3	14.0	21.2
Net Absorption (msf)	-23.6	35.4	38.5	17.3	-4.8	-6.6	22.5	27.3
Vacancy	7.1%	6.4%	5.6%	5.4%	5.7%	6.1%	5.9%	5.7%
Effective Rents	1.9%	4.4%	4.9%	4.5%	1.8%	0.2%	0.7%	1.6%
Multifamily Sector								
New Supply (ths. units)	353.0	323.3	350.0	433.3	399.6	201.3	146.8	203.3
Net Absorption (ths. units)	292.6	539.3	113.7	318.9	216.1	298.5	274.9	219.3
Vacancy	7.4%	5.3%	7.1%	7.8%	9.0%	8.1%	7.0%	6.8%
Effective Rents	1.3%	13.4%	4.7%	1.1%	-2.3%	1.9%	5.1%	3.3%

UPSIDE SCENARIO*, 10% PROBABILITY

	2020	2021	2022	2023	2024	2025	2026	2027
U.S. Economy								
Real GDP	-2.2%	5.8%	1.9%	2.1%	0.9%	1.8%	2.1%	2.1%
Nonfarm Employment	-9,059	6,592	5,121	2,462	30	705	143	100
Office-using Employment	-1,138	1,829	1,203	201	-27	227	232	260
Unemployment Rate	6.8	4.2	3.6	3.9	4.5	4.1	4.0	4.0
Retail & Food Services Sales	4.9	15.9	7.0	3.3	3.3	4.4	4.0	2.6
CPI Inflation	1.2	6.8	7.1	3.3	2.1	2.1	2.2	2.1
Federal Funds Rate	0.1	0.1	3.6	5.4	4.7	3.6	3.2	2.8
10-Year Treasury Rate	0.9	1.5	3.8	4.4	4.1	3.7	3.5	3.6
BAA Corporate Bond	2.1	2.4	5.6	6.4	6.1	5.4	5.1	5.1
West Texas Intermediate	$42.7	$77.2	$82.6	$82.3	$80.1	$77.6	$76.0	$73.4
Office Sector								
New Supply (msf)	50.9	53.4	47.5	36.8	38.1	17.1	11.5	13.7
Net Absorption (msf)	-71.3	-70.3	-28.9	-85.7	-21.2	19.5	13.8	20.1
Vacancy	14.4%	16.5%	17.8%	19.9%	20.9%	20.8%	20.7%	20.5%
Effective Rents	-6.7%	-5.2%	-0.7%	-5.9%	-3.4%	1.3%	0.9%	1.4%
Industrial Sector								
New Supply (msf)	363.0	365.1	514.5	620.6	362.2	169.1	185.5	254.6
Net Absorption (msf)	300.9	571.6	507.6	220.2	175.0	244.1	276.8	275.1
Vacancy	4.9%	3.3%	3.1%	5.2%	6.1%	5.8%	5.2%	4.9%
Effective Rents	5.9%	12.9%	22.3%	11.2%	5.2%	3.9%	5.4%	6.2%
Retail Sector								
New Supply (msf)	13.6	10.5	9.9	9.7	8.9	12.5	14.9	22.3
Net Absorption (msf)	-23.6	35.4	38.5	17.3	-1.6	3.9	20.3	24.9
Vacancy	7.1%	6.4%	5.6%	5.4%	5.6%	5.8%	5.7%	5.6%
Effective Rents	1.9%	4.4%	4.9%	4.5%	2.0%	1.3%	1.1%	1.7%
Multifamily Sector								
New Supply (ths. units)	353.0	323.3	350.0	433.3	399.6	204.4	172.7	235.5
Net Absorption (ths. units)	292.6	539.3	113.7	325.3	279.4	296.6	264.8	218.1
Vacancy	7.4%	5.3%	7.1%	7.7%	8.4%	7.6%	6.8%	6.1%
Effective Rents	1.3%	13.4%	4.7%	1.1%	-1.2%	2.5%	4.3%	2.7%

DOWNUPSIDE SCENARIO*, 25% PROBABILITY

	2020	2021	2022	2023	2024	2025	2026	2027
U.S. Economy								
Real GDP	-2.2%	5.8%	1.9%	1.9%	-1.6%	1.1%	3.1%	3.0%
Nonfarm Employment	-9,059	6,592	5,121	-1,207	-3,783	2,946	2,600	1,398
Office-using Employment	-1,138	1,829	1,203	-700	-852	668	793	533
Unemployment Rate	6.8	4.2	3.6	5.6	7.7	6.6	5.6	4.8
Retail & Food Services Sales	4.9	15.9	7.0	-0.9	-2.8	6.3	6.6	5.0
CPI Inflation	1.2	6.8	7.1	3.2	1.2	1.8	2.1	2.3
Federal Funds Rate	0.1	0.1	3.6	5.3	3.0	1.4	2.1	2.4
10-Year Treasury Rate	0.9	1.5	3.8	3.1	2.3	3.2	3.8	3.9
BAA Corporate Bond	2.1	2.4	5.6	5.6	4.6	4.8	5.0	5.1
West Texas Intermediate	$42.7	$77.2	$82.6	$77.8	$55.2	$62.7	$66.1	$66.4
Office Sector								
Net Absorption (msf)	50.9	53.4	47.5	36.8	38.1	16.7	4.2	2.1
New Supply (msf)	-71.3	-70.3	-28.9	-85.7	-84.3	3.1	40.8	29.4
Vacancy	14.4%	16.5%	17.8%	19.9%	22.0%	22.2%	21.5%	21.0%
Effective Rents	-6.7%	-5.2%	-0.7%	-7.0%	-8.2%	0.4%	3.3%	2.8%
Industrial Sector								
New Supply (msf)	363.0	365.1	514.5	605.3	289.1	130.5	174.6	248.6
Net Absorption (msf)	300.9	571.6	507.6	213.0	77.7	165.2	292.9	323.3
Vacancy	4.9%	3.3%	3.1%	5.1%	6.3%	6.1%	5.4%	4.8%
Effective Rents	5.9%	12.9%	22.3%	11.2%	3.7%	1.6%	5.1%	7.3%
Retail Sector								
New Supply (msf)	13.6	10.5	9.9	9.7	8.9	11.8	12.5	20.2
Net Absorption (msf)	-23.6	35.4	38.5	16.1	-15.7	-3.5	18.8	22.0
Vacancy	7.1%	6.4%	5.6%	5.4%	6.0%	6.3%	6.1%	6.1%
Effective Rents	1.9%	4.4%	4.9%	4.5%	1.1%	0.2%	0.6%	1.5%
Multifamily Sector								
New Supply (ths. units)	353.0	323.3	350.0	433.3	399.6	188.2	98.7	154.9
Net Absorption (ths. units)	292.6	539.3	113.7	280.3	183.8	304.2	266.5	211.3
Vacancy	7.4%	5.3%	7.1%	8.1%	9.1%	8.5%	7.2%	6.6%
Effective Rents	1.3%	13.4%	4.7%	1.0%	-2.7%	1.2%	5.9%	4.6%

STAGFLATION SCENARIO*, 5% PROBABILITY

	2020	2021	2022	2023	2024	2025	2026	2027
U.S. Economy								
Real GDP	-2.2%	5.8%	1.9%	2.1%	-0.8%	-1.4%	3.3%	4.1%
Nonfarm Employment	-9,059	6,592	5,121	1,640	-6,170	-1,791	2,774	2,952
Office-using Employment	-1,138	1,829	1,203	-16	-1,367	-291	679	852
Unemployment Rate	6.8	4.2	3.6	4.4	7.9	8.4	6.5	4.9
Retail & Food Services Sales	4.9	15.9	7.0	2.8	-4.3	2.5	8.8	7.1
CPI Inflation	1.2	6.8	7.1	3.8	4.3	1.7	2.0	2.2
Federal Funds Rate	0.1	0.1	3.6	5.8	8.7	5.2	3.2	2.7
10-Year Treasury Rate	0.9	1.5	3.8	4.6	4.5	3.5	3.7	4.0
BAA Corporate Bond	2.1	2.4	5.6	6.7	7.6	5.5	5.0	5.1
West Texas Intermediate	$42.7	$77.2	$82.6	$96.9	$87.3	$67.8	$65.2	$67.3
Office Sector								
New Supply (msf)	50.9	53.4	47.5	36.8	38.1	16.7	0.1	-8.6
Net Absorption (msf)	-71.3	-70.3	-28.9	-85.7	-131.1	-28.3	22.2	36.6
Vacancy	14.4%	16.5%	17.8%	19.9%	22.8%	23.6%	23.2%	22.4%
Effective Rents	-6.7%	-5.2%	-0.7%	-6.2%	-9.4%	-5.1%	1.45%	3.5%
Industrial Sector								
New Supply (msf)	363.0	365.1	514.5	616.9	315.5	109.6	140.8	214.9
Net Absorption (msf)	300.9	571.6	507.6	218.2	128.7	75.0	248.9	373.7
Vacancy	4.9%	3.3%	3.1%	5.2%	6.2%	6.4%	5.8%	4.7%
Effective Rents	5.9%	12.9%	22.3%	11.2%	5.0%	-0.22%	3.2%	7.8%
Retail Sector								
New Supply (msf)	13.6	10.5	9.9	9.7	9.0	12.1	12.9	19.6
Net Absorption (msf)	-23.6	35.4	38.5	16.1	-10.5	-19.2	15.5	30.0
Vacancy	7.1%	6.4%	5.6%	5.4%	5.9%	6.6%	6.5%	6.2%
Effective Rents	1.9%	4.4%	4.9%	4.5%	1.6%	-1.0%	-0.4%	1.5%
Multifamily Sector								
New Supply (ths. units)	353.0	323.3	350.0	433.3	399.6	200.8	125.5	145.6
Net Absorption (ths. units)	292.6	539.3	113.7	320.8	198.1	209.4	257.9	216.1
Vacancy	7.4%	5.3%	7.1%	7.8%	9.6%	8.9%	7.8%	7.2%
Effective Rents	1.3%	13.4%	4.7%	1.1%	-4.6%	-2.1%	4.2%	5.4%

Sources

Sources

[1] According to the National Association of Business Economics December Outlook Survey. The Wall Street Journal October 2022 Survey of 74 private sector economists mirrored those results.

[2] The real federal funds rate is defined as the nominal (or benchmark rate) less an inflation measure such as CPI or PCE. The real rate is viewed as a better indicator for the impact monetary policy has on the economy.

[3] Wage growth of around 3.5% is viewed as consistent with 2% inflation—this implies real wage growth of 1.5%, or wage growth equal to the productivity growth rate of the U.S. labor force. The current pickup in productivity is promising but likely reflects workers finally getting ramped up after a period of unusually high churn in quitting/hiring. We do not believe it yet signifies any structural impacts from AI which will take time to be realized.

[4] At present, despite a strike in the motion picture industry that has affected recent payroll reports, office-using jobs are 1.9 million (6%) above February 2020 levels, a stronger recovery rate than in any other major sector. The office-using sector's share of nonfarm jobs has increased from 21.8% to 22.4% in that timeframe.

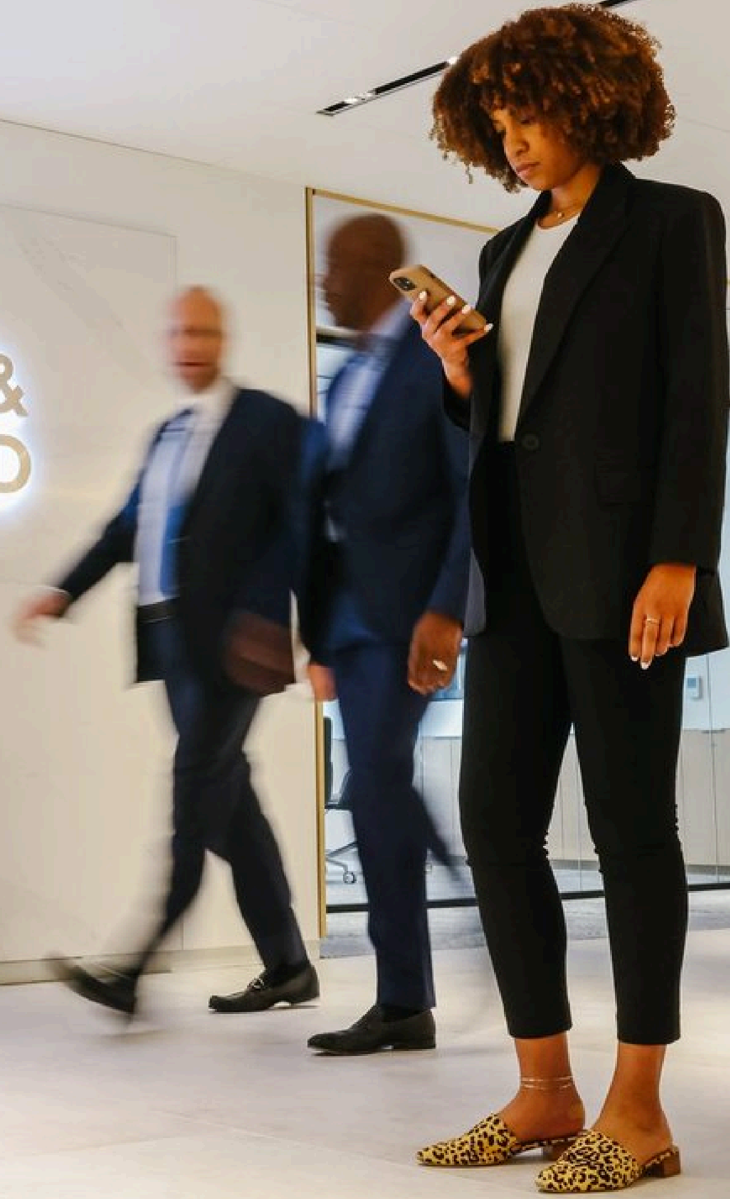
[5] This is true for a few reasons, including that new construction has typically been for larger floorplates, leading supply impacts on vacancy to be concentrated in larger building segments. Additionally, buildings closer to urban cores and population centers tend to be smaller and reflect the higher value of land associated with proximity.

[6] Cushman & Wakefield analysis of CoStar data. Includes buildings with 50+ units in the top 90 U.S. markets

[7] If including all segments, including those with under 50 units, this figure is larger.

©2023 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy. Nothing in this report should be construed as an indicator of the future performance of CWK's securities. You should not purchase or sell securities—of CWK or any other company—based on the views herein. CWK disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CWK as well as against CWK's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

About us



Authors

Rebecca Rockey
Deputy Chief Economist
rebecca.rockey@cushwake.com

James Bohnaker
Senior Economist
james.bohnaker@cushwake.com

Rob Miller
Sr. Research Manager
rob.miller@cushwake.com

Kevin Thorpe
Global Chief Economist
kevin.thorpe@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 52,000 employees in over 400 offices and approximately 60 countries. In 2022, the firm had revenue of $10.1 billion across core services of Property, facilities and project management, Leasing, Capital markets, and Valuation and other services.

Click below to learn more:

VISIT OUR WEBSITE

FOLLOW US ON TWITTER

CUSHMAN & WAKEFIELD

Disclaimer

Statements herein represent Cushman & Wakefield predictions only. Actual results could vary based on unforeseen circumstances.