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

In thousands

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

Seasonally adjusted annualized sale pace

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
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!