BEYOND THE HEADLINES

WHERE ECONOMIC TRENDS MEET REAL ESTATE

Doug Prickett, *Sr. Managing Director, Research & Investment Analytics*

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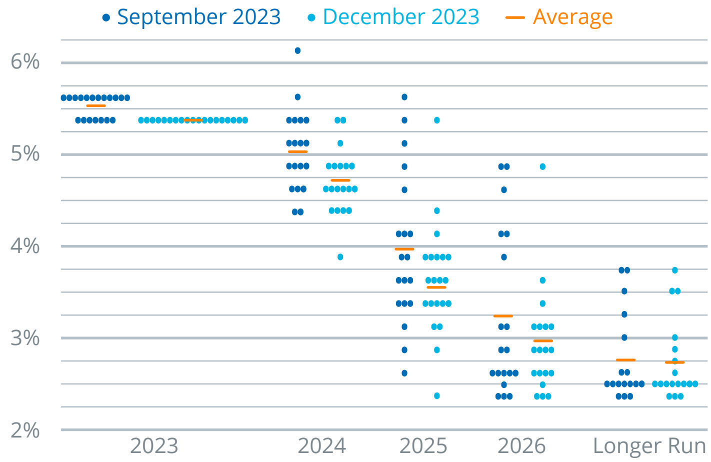
FED FORECAST SIGNALS RATE CUTS IN 2024

In December, the Fed's tone shifted from "higher for longer" to potentially more rate cuts in 2024.

While market players enjoy speculating on future moves, it is important to listen to those setting policy.

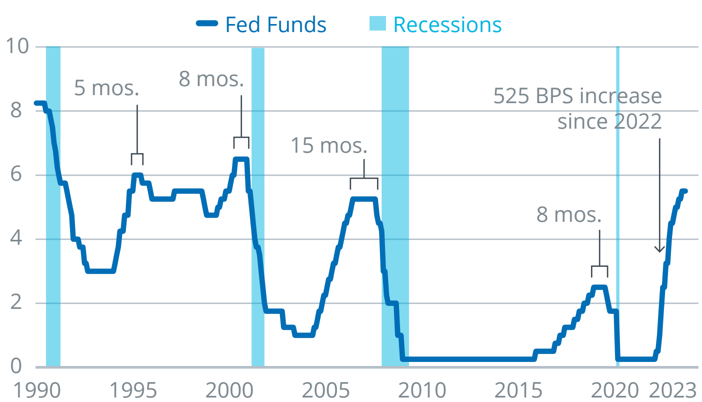
- Central bank releases interest rate projections in the form of a dot plot
- Each dot represents one Fed official (19 anonymous projections when fully staffed)
- Latest dot plot indicates growing consensus for potential of three rate cuts by end of 2025
- Data highlights significance of softening inflation and a slowing labor market

FED'S INTEREST RATE DOT PLOT



Source: Federal Open Market Committee, Yahoo Finance, Transwestern

FED FUNDS RATE: LAST HIKE TO FIRST CUT



Source: Board of Governors of the Federal Reserve System, Transwestern

Street talk has turned from will to when – and how much – the Fed will cut rates.

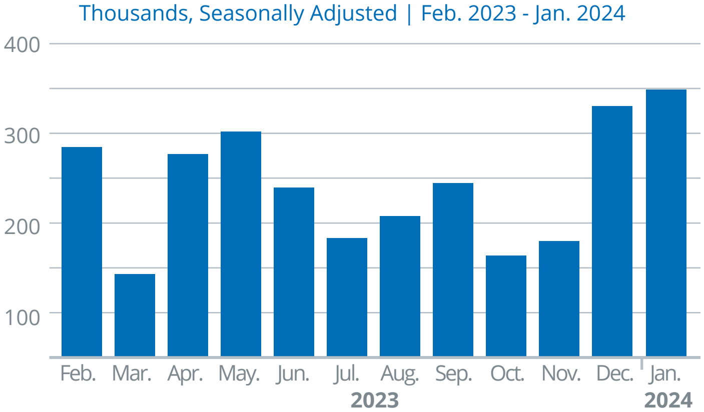
- Graph demonstrates Fed actions over last four tightening cycles, three of which navigated a recessionary period
- Closest observation of a "soft landing" was in 1994-95
- Today's economy is very different and a policy response is certain to differ as well
- Historically, average time from last rate hike to first rate cut was 8.7 months, never exceeding 14.6 months
- On average, we would expect to see first cut by mid-2024

The market has been quick to price in these cuts.

- Some analysts predict rapid and substantial downward movement in rates in 2024
- This would likely be a result of the economy slowing too rapidly, potentially causing businesses to suffer
- Barring significant shocks to the economy, the Fed is likely to stay the course in the dot plot, allowing real estate fundamentals to remain stable and pricing pressure on certain sectors to ease
- Reducing rates, albeit slowly, is important directionally to improve liquidity and shore up regional banks and other traditional sources of real estate lending – which would be good for businesses and commercial real estate

NET CHANGE IN U.S. NONFARM PAYROLLS

Thousands, Seasonally Adjusted | Feb. 2023 - Jan. 2024



Source: U.S. Bureau of Labor Statistics (BLS), Transwestern