

Navigating the Economic and Real Estate Market Inflexion

September 24, 2024 | Distressed Real Estate Forum | Mayer Brown & JLL

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Our relationship to the built environment is always evolving, but never so quickly as today

Image: Getty

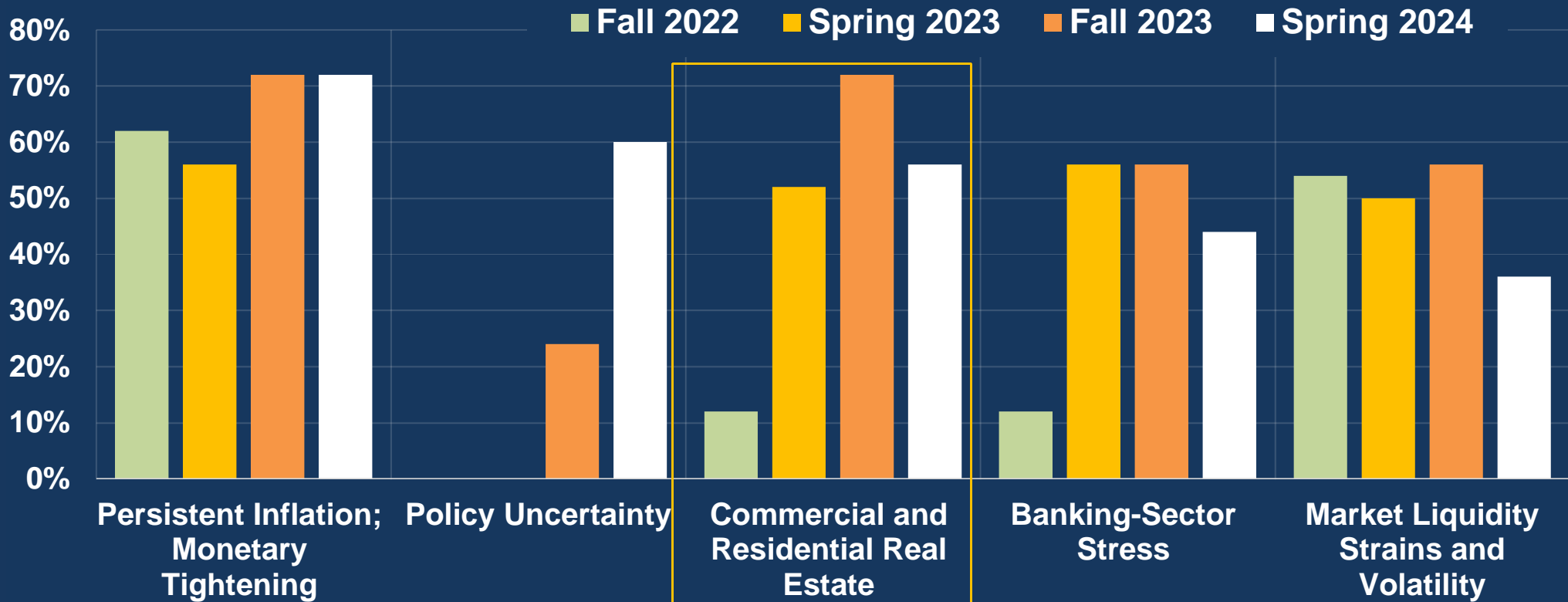


It coincides with a
historically abrupt increase
in the cost of capital, and
now an inflexion

Image: Getty

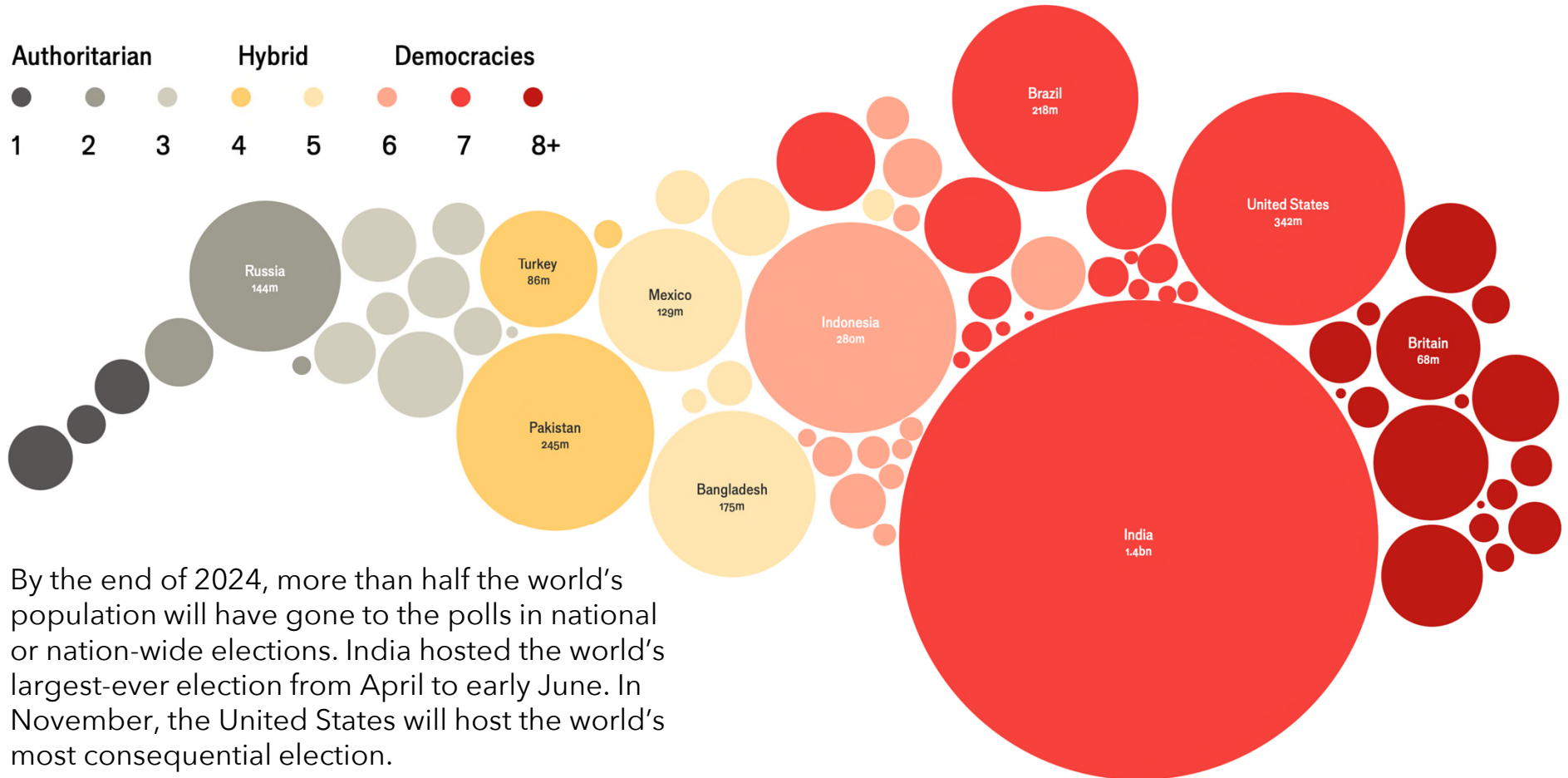
Risks to the Financial System

% of Fed Survey Respondents Indicating Category Presents a Risk to Financial Stability



Source: Federal Reserve Financial Stability Report; April 2024

The Biggest Election Year in History



By the end of 2024, more than half the world's population will have gone to the polls in national or nation-wide elections. India hosted the world's largest-ever election from April to early June. In November, the United States will host the world's most consequential election.

Source: The Economist, 2024 is the Biggest Election Year in History, November 13, 2023 (Data and Graphic)



Key Considerations the World Over

Sustainability
Resilience
Livability
Affordability

Goals Drivers

Capital
Technology
Politics
Populations

Agenda

Macroeconomy, Labor Markets, and
Monetary Policy

Real Estate Fundamentals & Investment

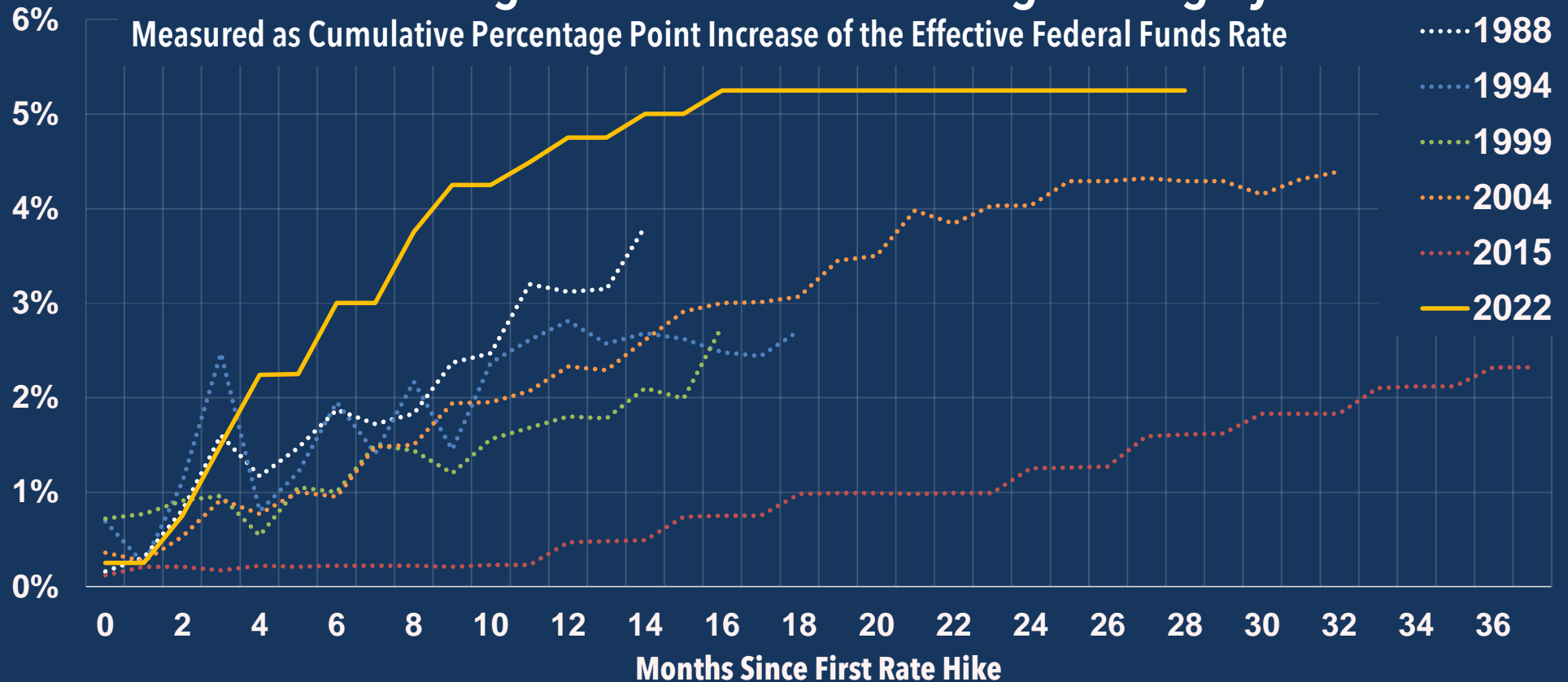
Distressed Real Estate

Inflation & Interest Rates

Record-Setting Increases in the Policy Rate

Duration and Magnitude of Recent Fed Tightening Cycles

Measured as Cumulative Percentage Point Increase of the Effective Federal Funds Rate

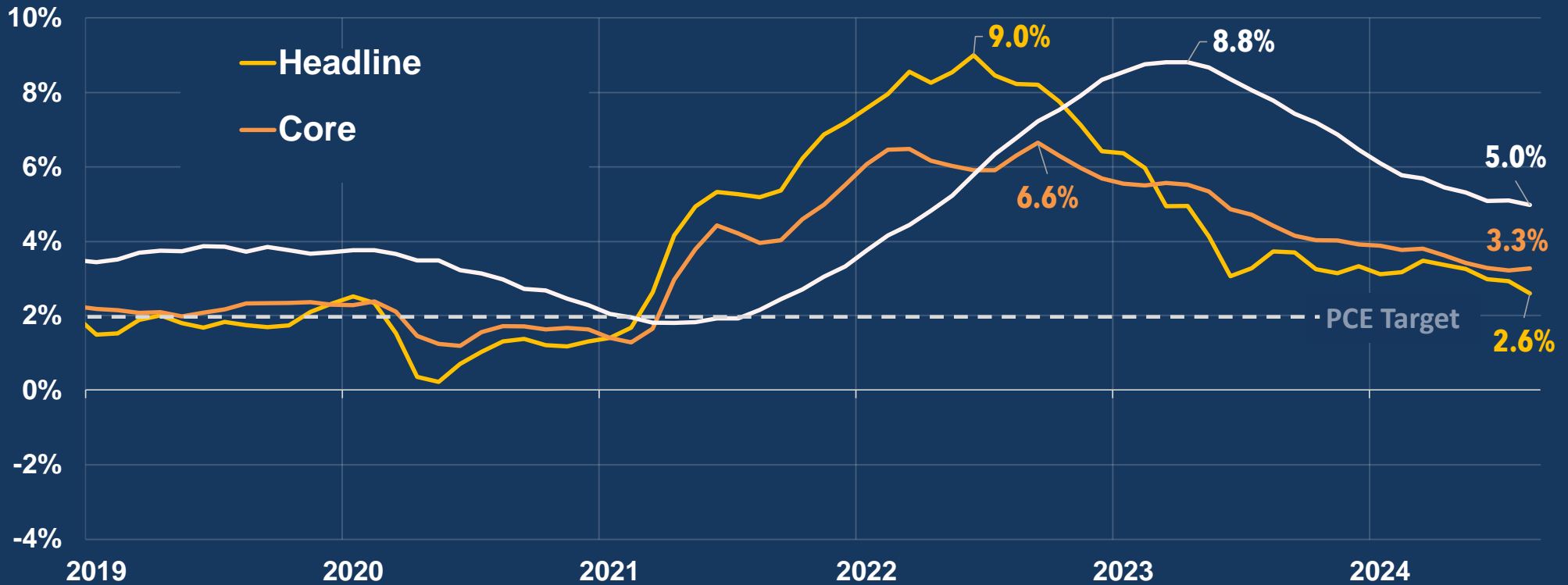


Source: Federal Reserve Board of Governors; Through May 2024

Inflation Trending Towards Target

Consumer Price Index Inflation Year/Year Change

Headline, Core, and Rent of Primary Residence

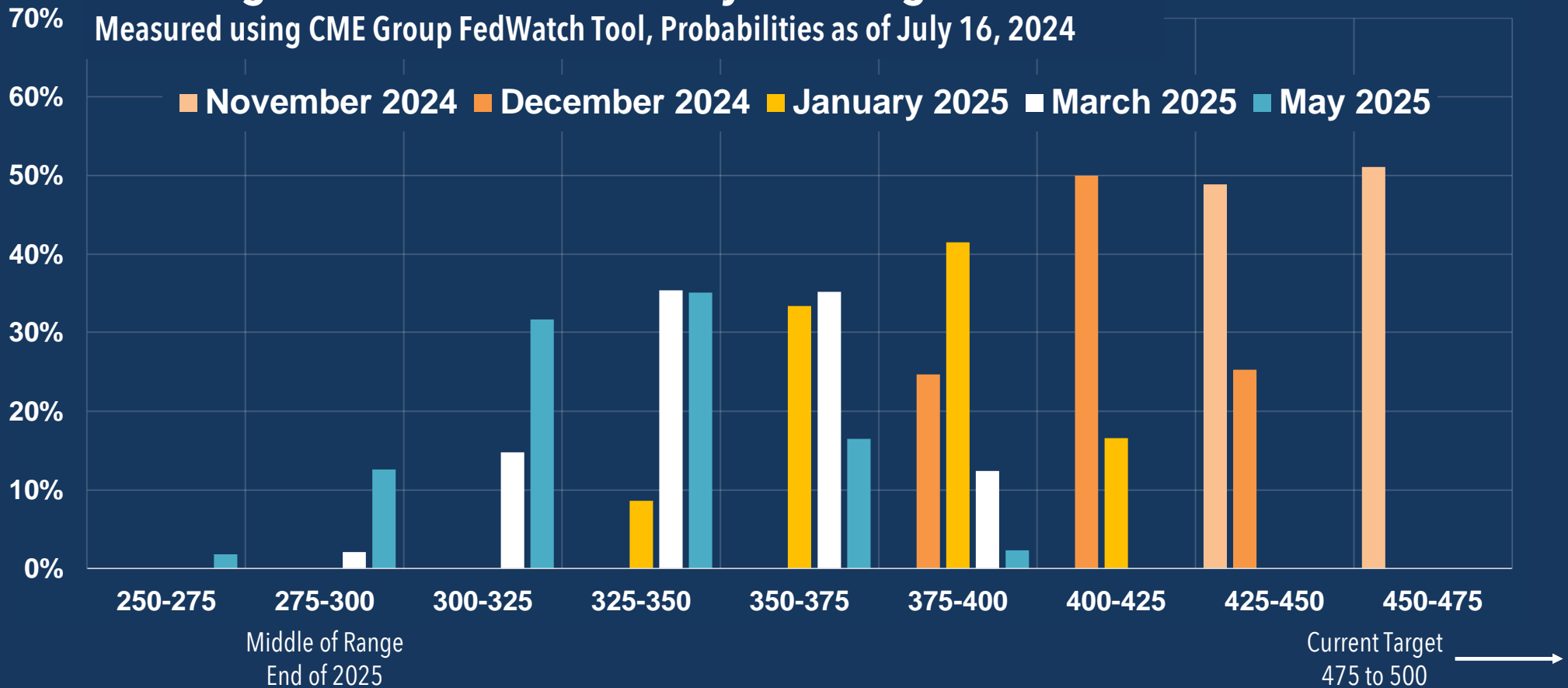


Source: Bureau of Labor Statistics; Through August 2024

Monetary Policy Outlook

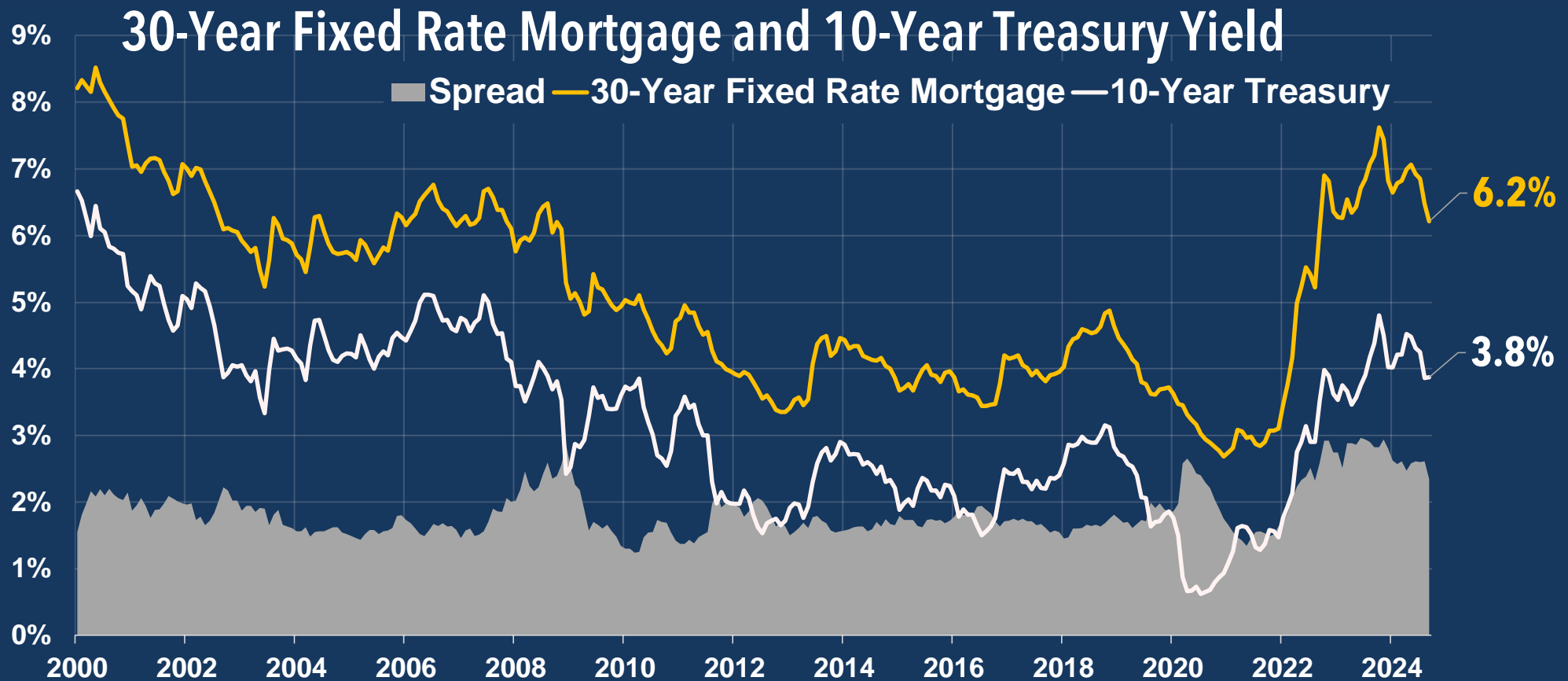
Fed Target Rate Probabilities by Meeting Date

Measured using CME Group FedWatch Tool, Probabilities as of July 16, 2024



Source: CME Group; As of September 20, 2024

Elevated Long-Term Interest Rates

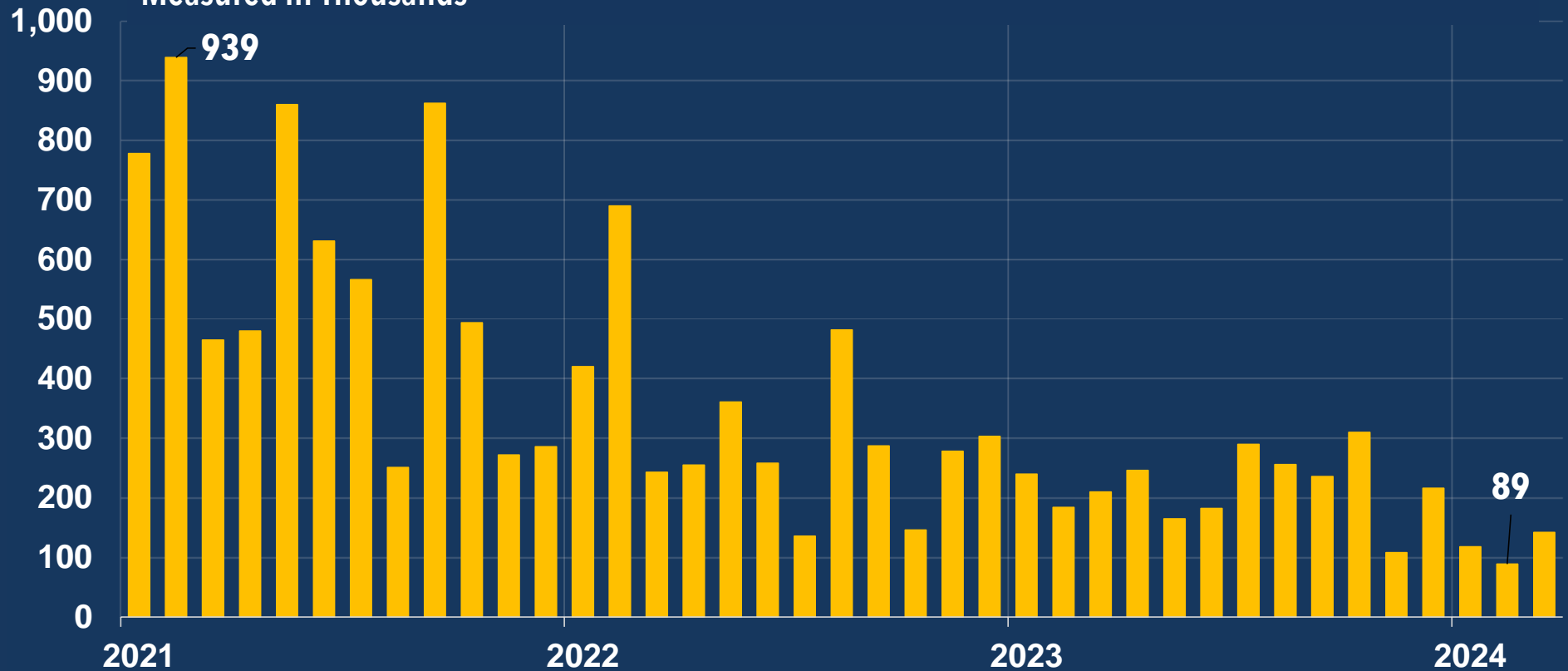


Source: Freddie Mac, Federal Reserve; Through September 2024

Labor Market Slowing

Monthly Job Creation

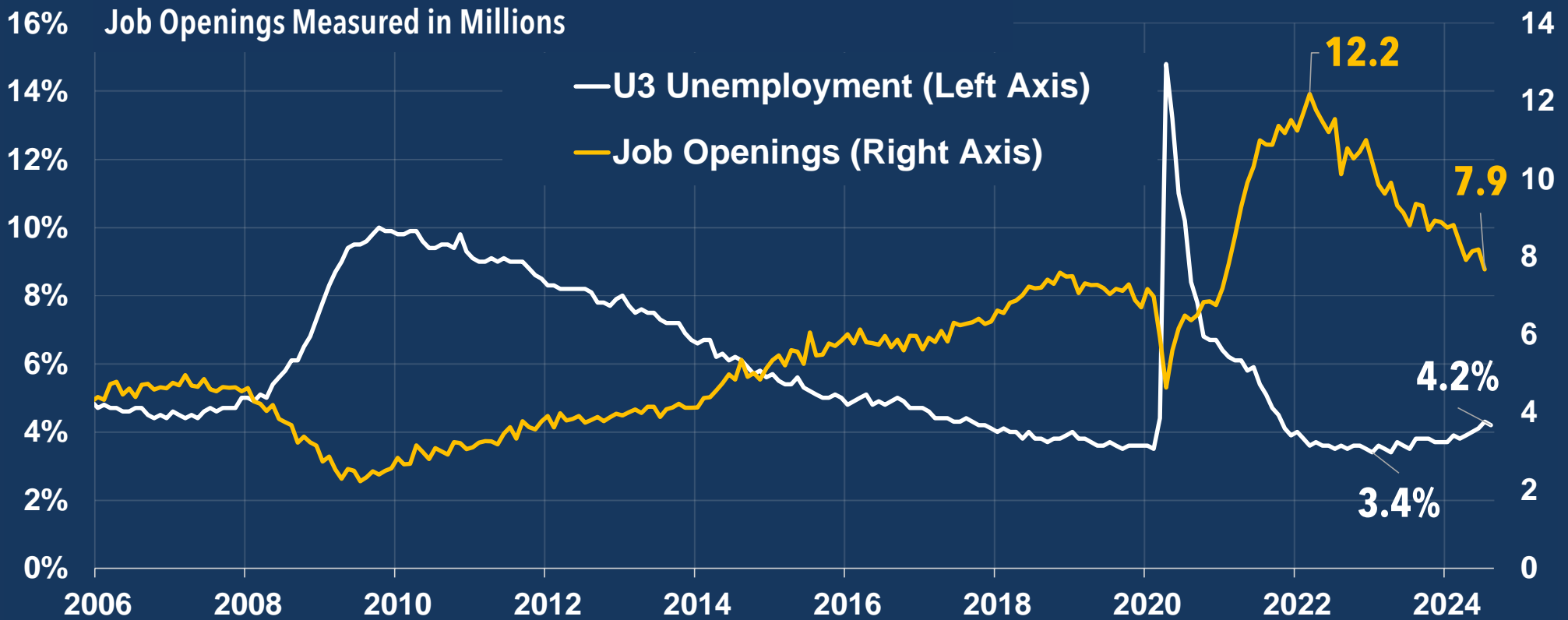
Measured in Thousands



Source: Bureau of Labor Statistics; Through August 2024

Labor Market Slowing

Unemployment Rate and Job Openings



Source: Bureau of Labor Statistics; Through July (Job Openings) & August (Unemployment) 2024

The Economist

How to build Ukraine 2.0

Is China's economy turning Japanese?

AI: bigger is not always better

Study-drugs don't work

JUNE 24TH-30TH 2023

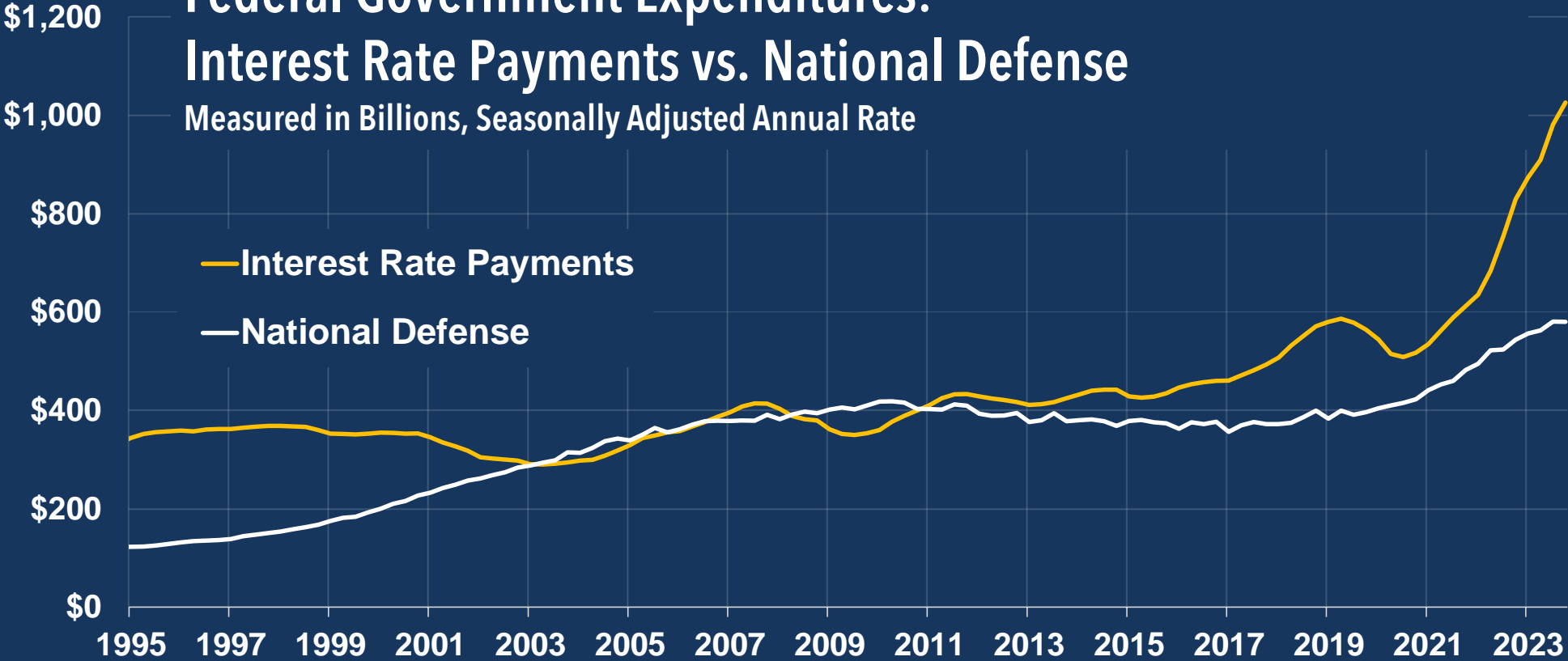


THE TROUBLE WITH STICKY INFLATION

Weight of Global Debt

Federal Government Expenditures: Interest Rate Payments vs. National Defense

Measured in Billions, Seasonally Adjusted Annual Rate



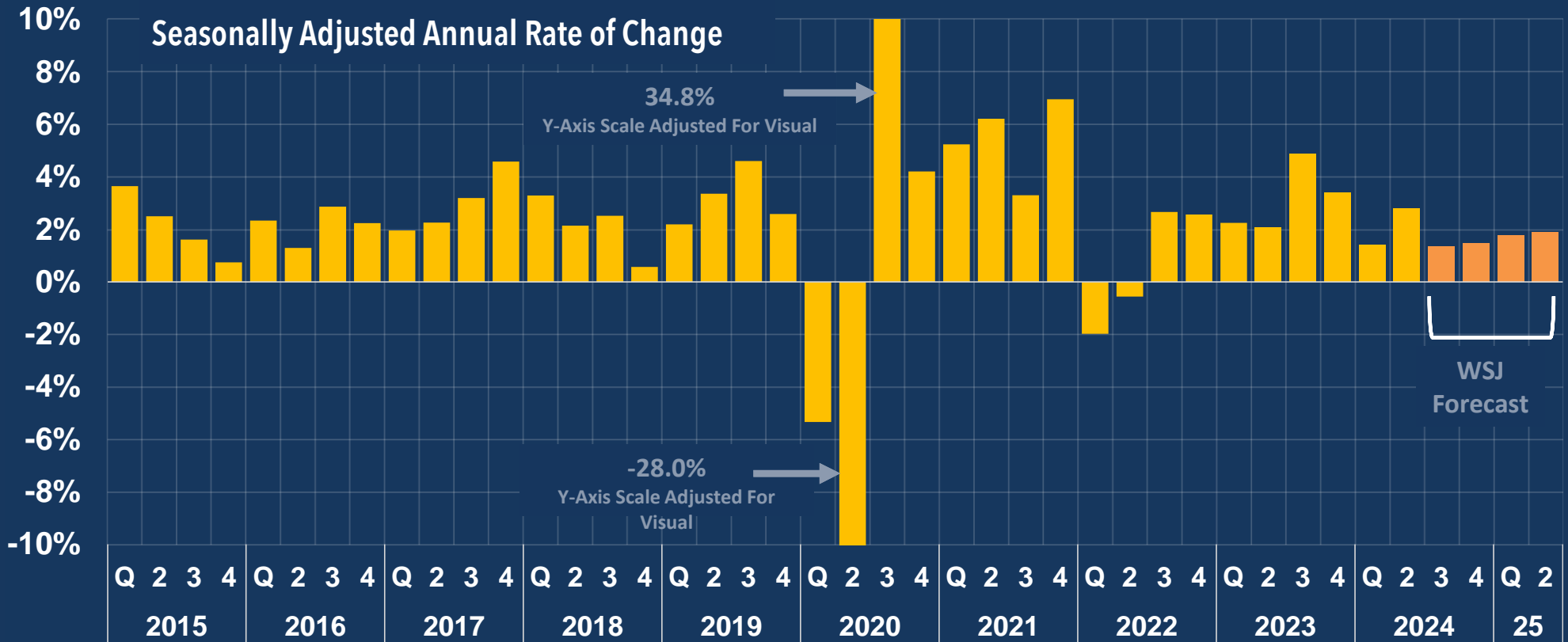
Source: International Monetary Fund, World Economic Outlook; As of July 2024

The Economy

Expectation of a Resilient Economy

Real Gross Domestic Product

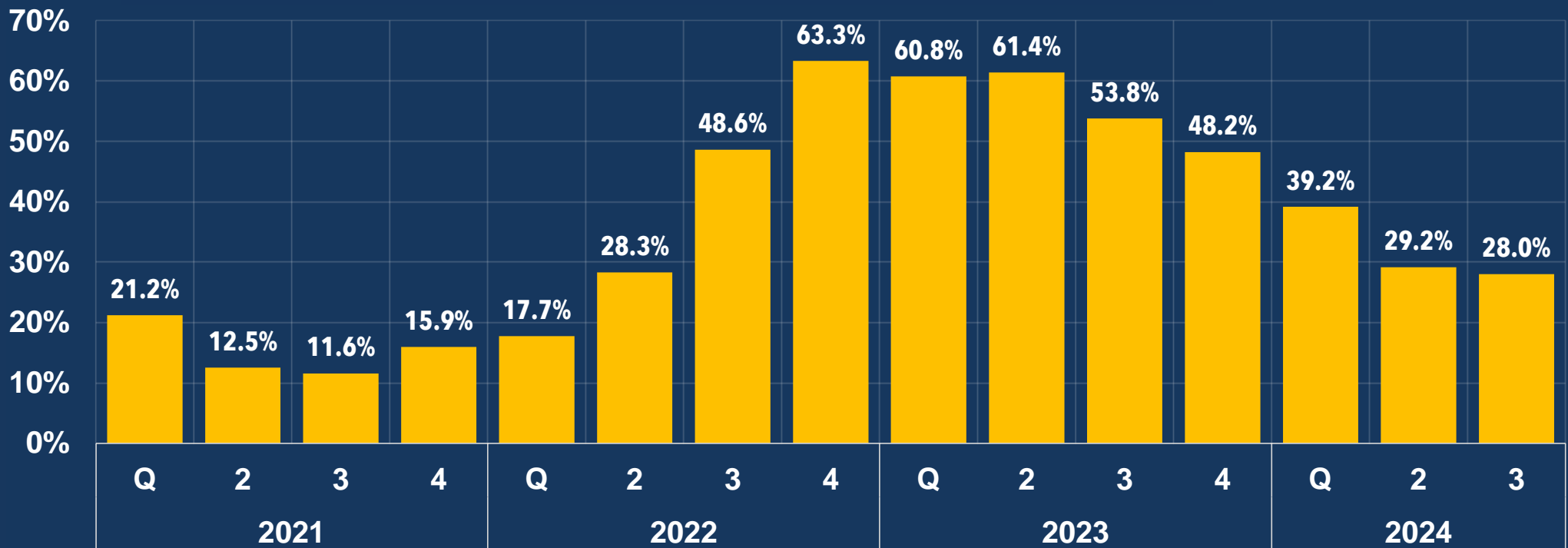
Seasonally Adjusted Annual Rate of Change



Source: Bureau of Economic Analysis; Through Q2 2024; WSJ Forecast as of July 11, 2024

Recession Likelihood Falling

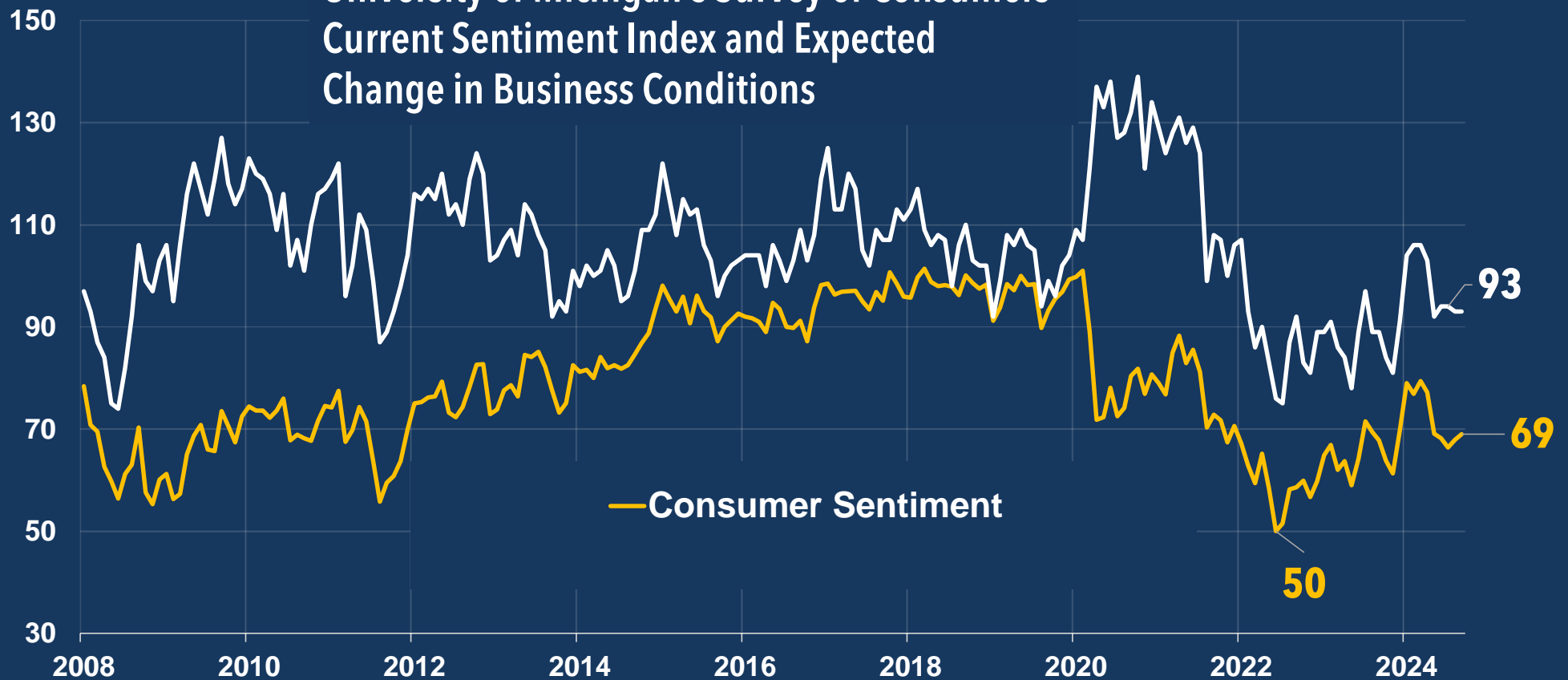
WSJ Economic Forecasting Survey: Probability of a Recession in the Next 12 Months



Source: WSJ Economic Forecasting Survey; Through Q3 2024

Modestly Improving Consumer Outlook

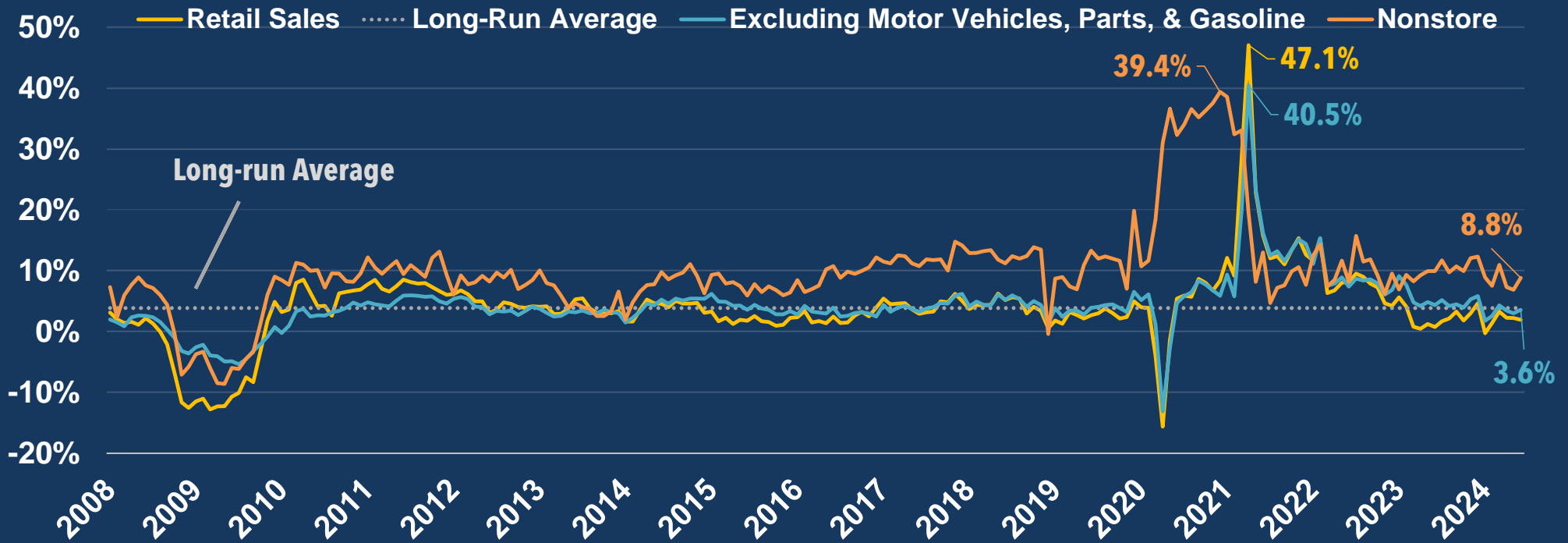
University of Michigan's Survey of Consumers
Current Sentiment Index and Expected
Change in Business Conditions



Source: University of Michigan; Through September (Preliminary Results) 2024

Modestly Improving Consumer Outlook

Advanced Retail Sales: Retail Trade
Measured in Percent Change from a Year Ago,
Monthly, Seasonally Adjusted

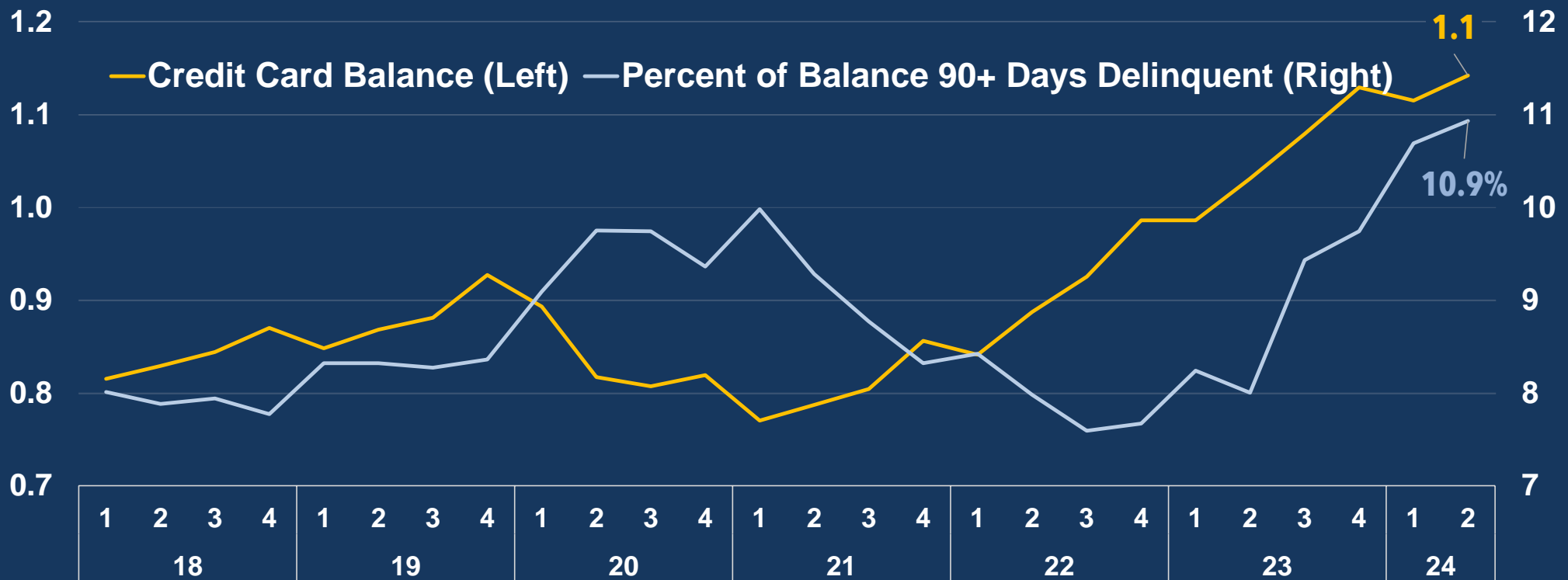


Source: Census Bureau; Through August 2024

Credit Card Delinquency is Rising

Credit Card Balance and 90+ Days Delinquency Rate

Measured in Trillions \$ (Left), Percent (Right), Quarterly

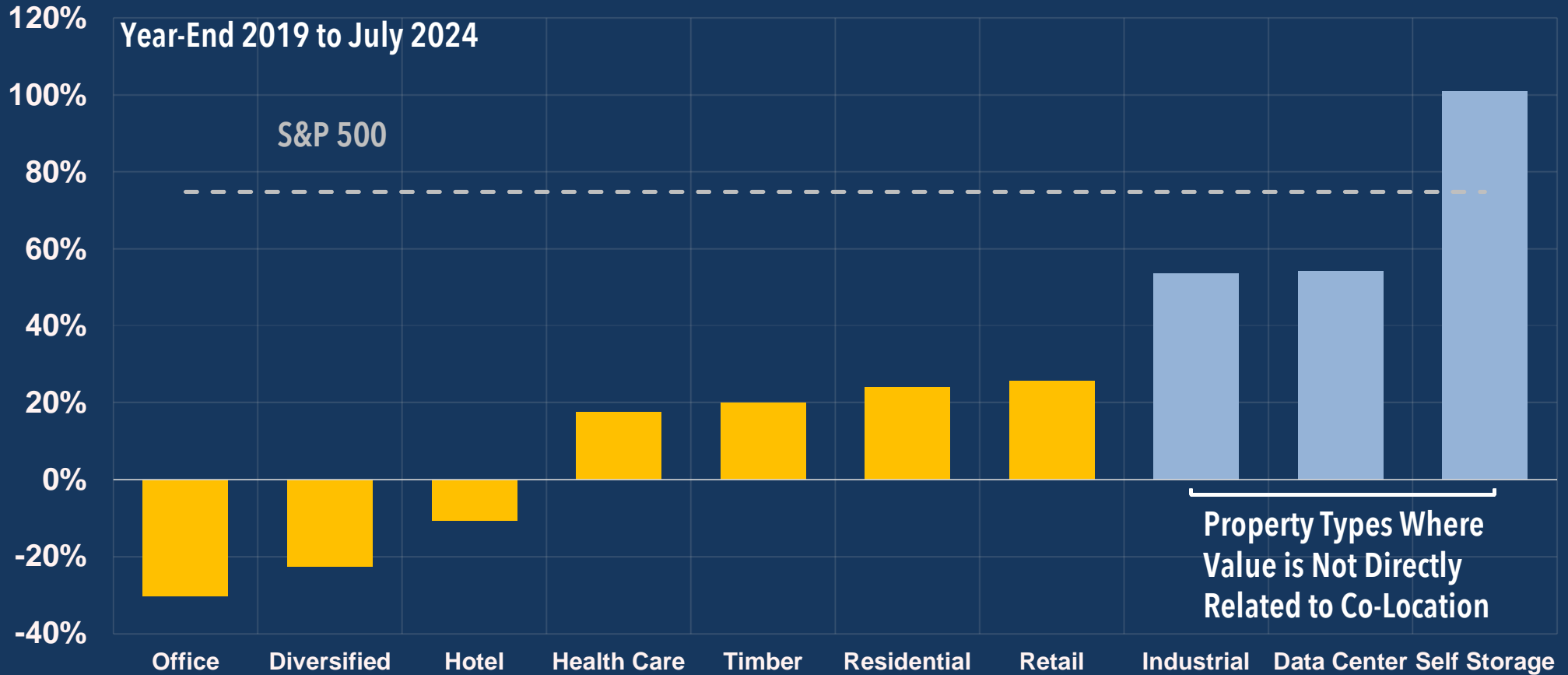


Source: New York Fed Consumer Credit Panel/Equifax

Commercial Real Estate

Dependency on Co-Location and Valuations

REIT Sector Returns

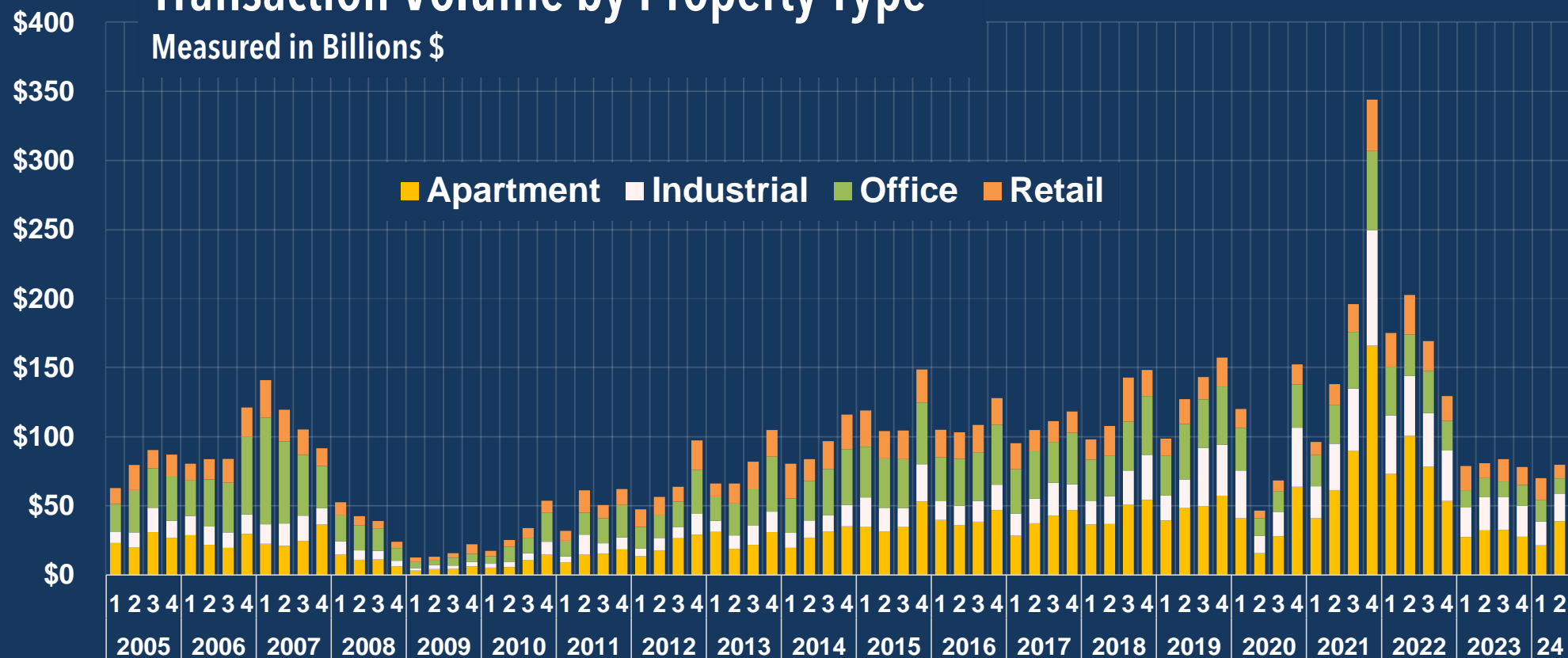


Source: NAREIT, Chandan; August 2024

Mixed Outlook for Transaction Activity

Transaction Volume by Property Type

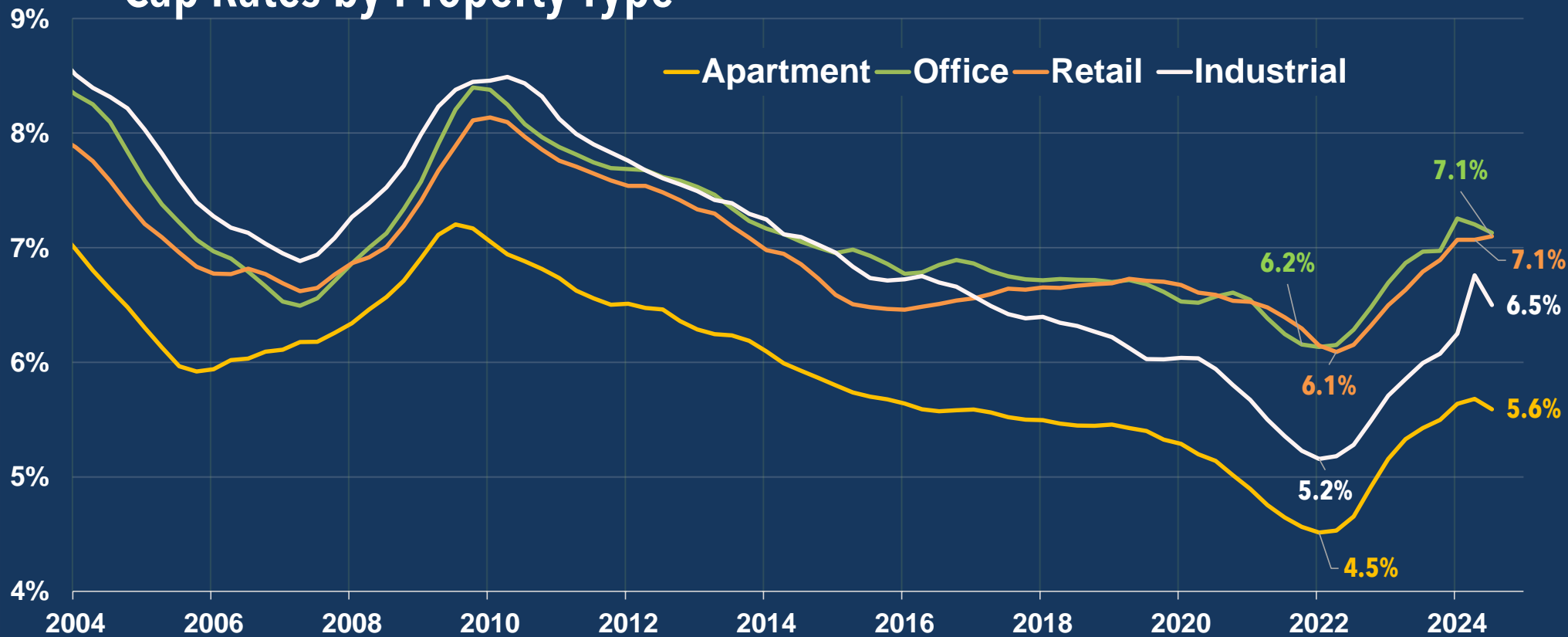
Measured in Billions \$



Source: MSCI Real Capital Analytics; Through Q2 2024

Cap Rates Rising Across All Property Types

Cap Rates by Property Type

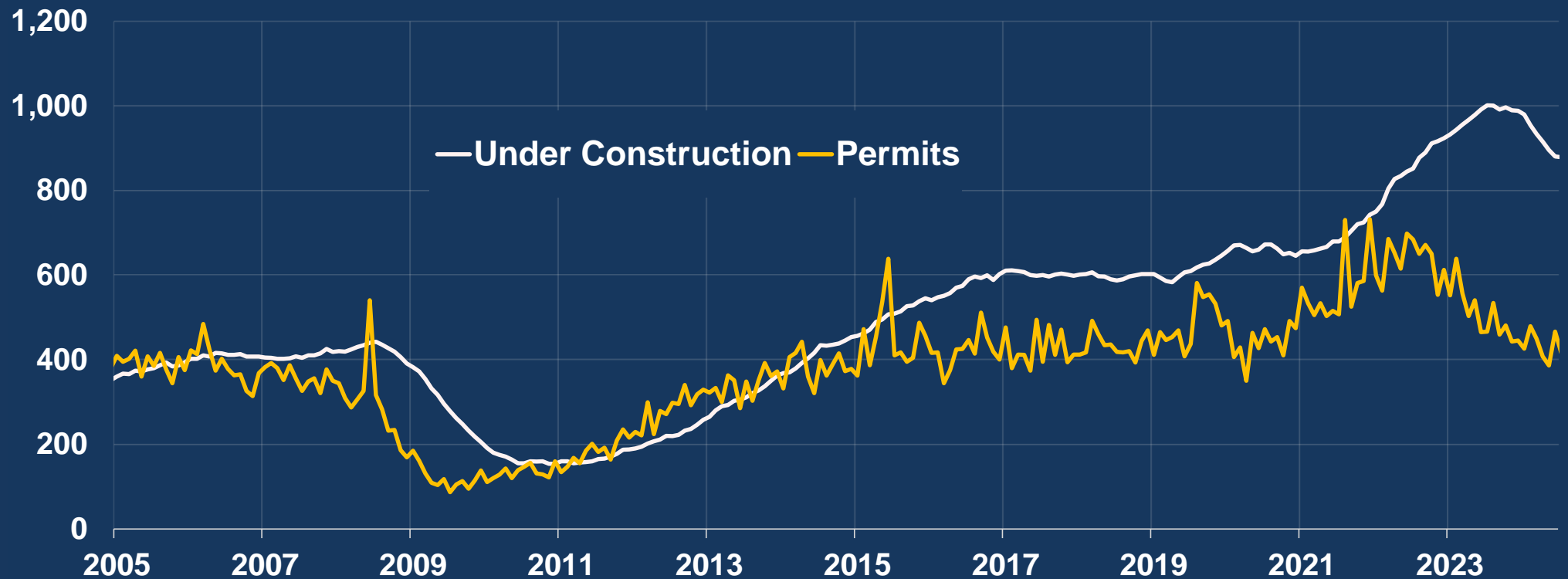


Source: MSCI Real Capital Analytics; Through July 2024

Private Construction and Permits Declining

New Private Housing Units Under Construction and Permit Placing

Thousands of Units, Monthly, Seasonally Adjusted

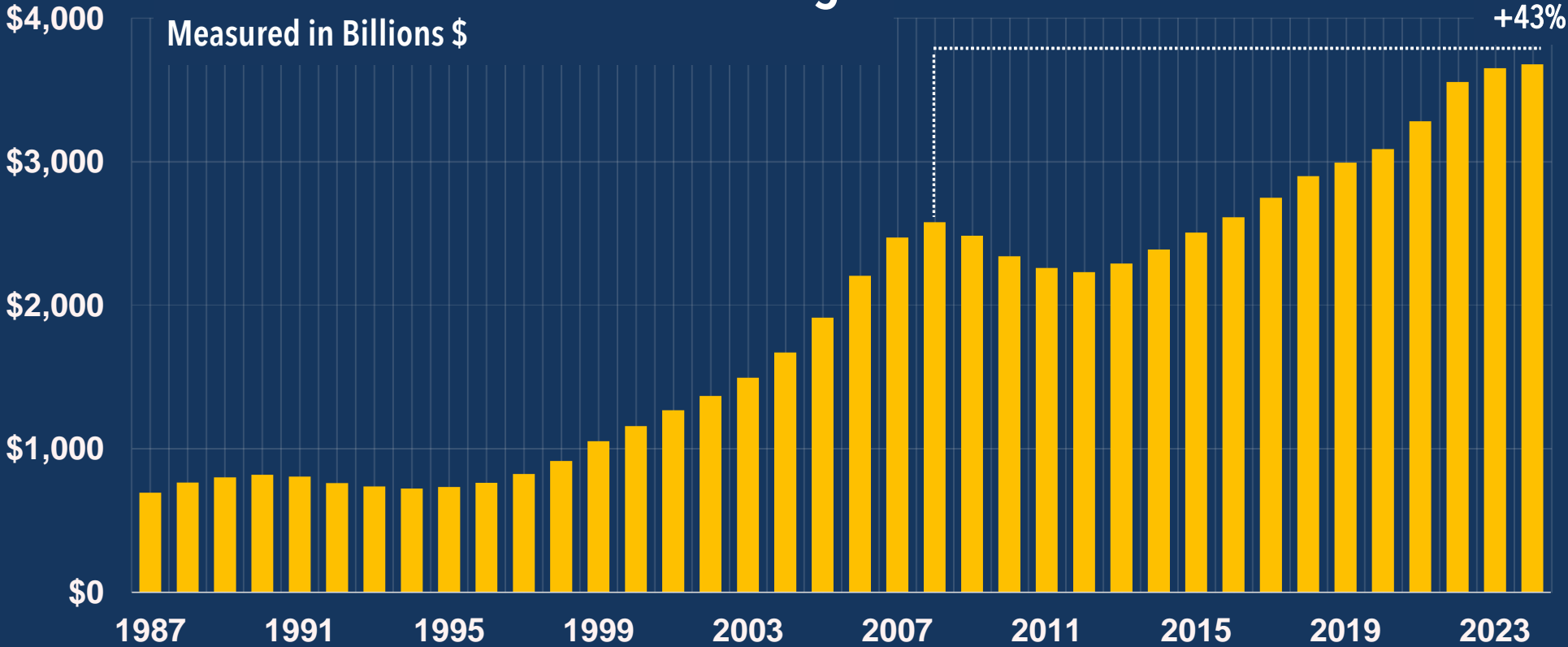


Source: OMB; St. Louis Fed; Through August 2024

Commercial Real Estate Exposure

Commercial Loans Outstanding

Measured in Billions \$

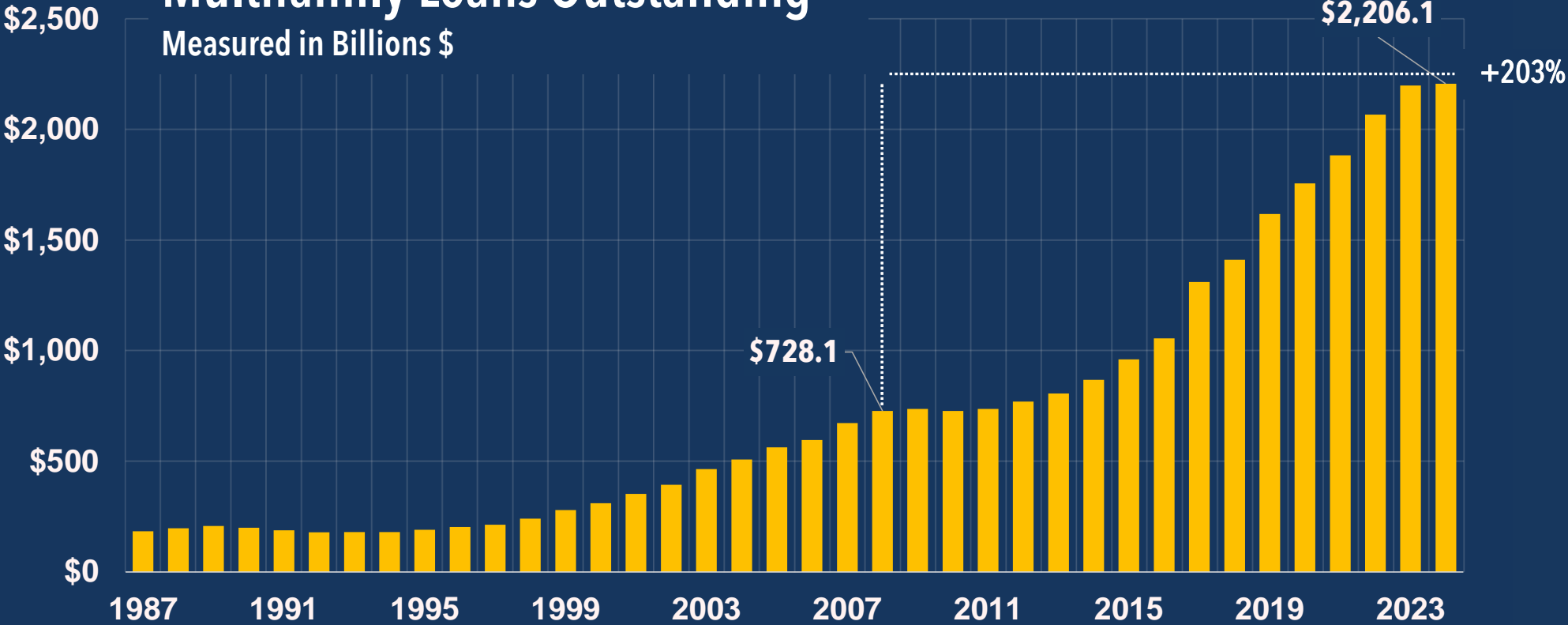


Source: Federal Reserve; Through Q2 2024

Commercial Real Estate Exposure

Multifamily Loans Outstanding

Measured in Billions \$

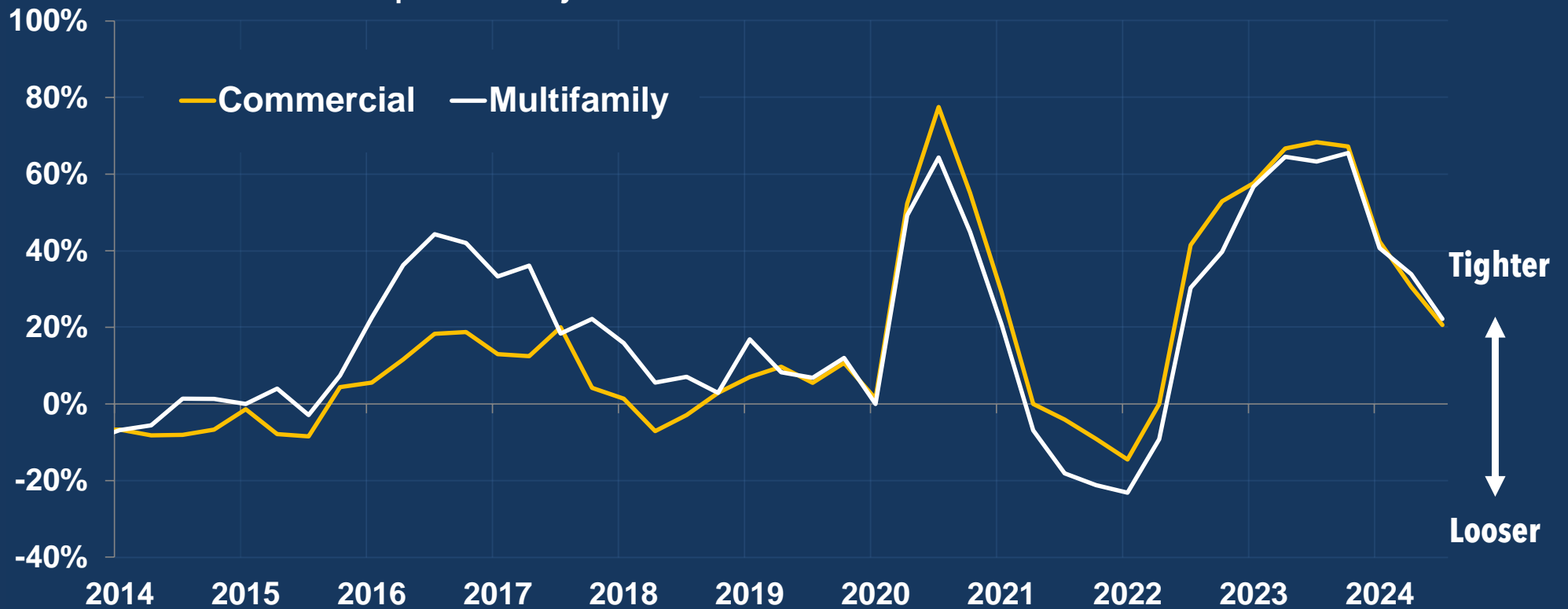


Source: Federal Reserve; Through Q2 2024

Slow Normalization of Bank Lending Standards

Net Share of Banks Tightening Lending Standards

Senior Loan Officer Opinion Survey



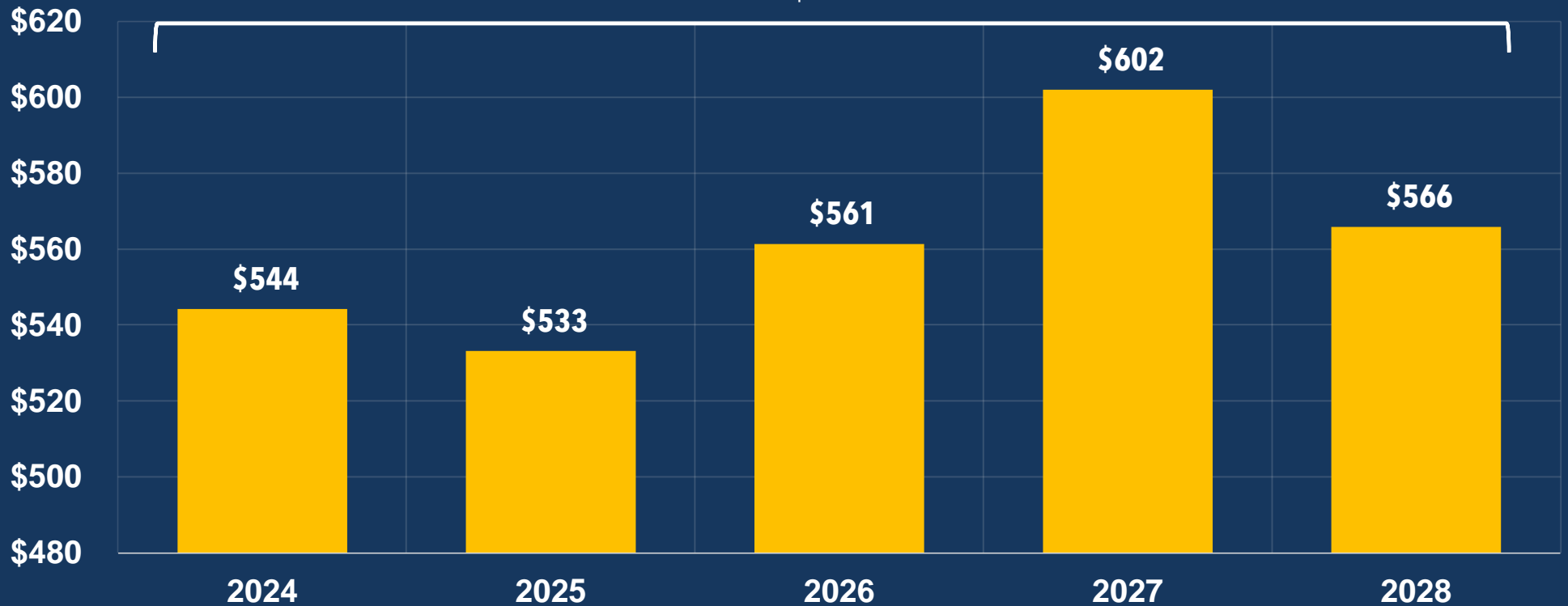
Source: SLOOS, Federal Reserve; Through Q3 2024

Maturity Outlook

Commercial Real Estate Debt Maturity Volume by Year

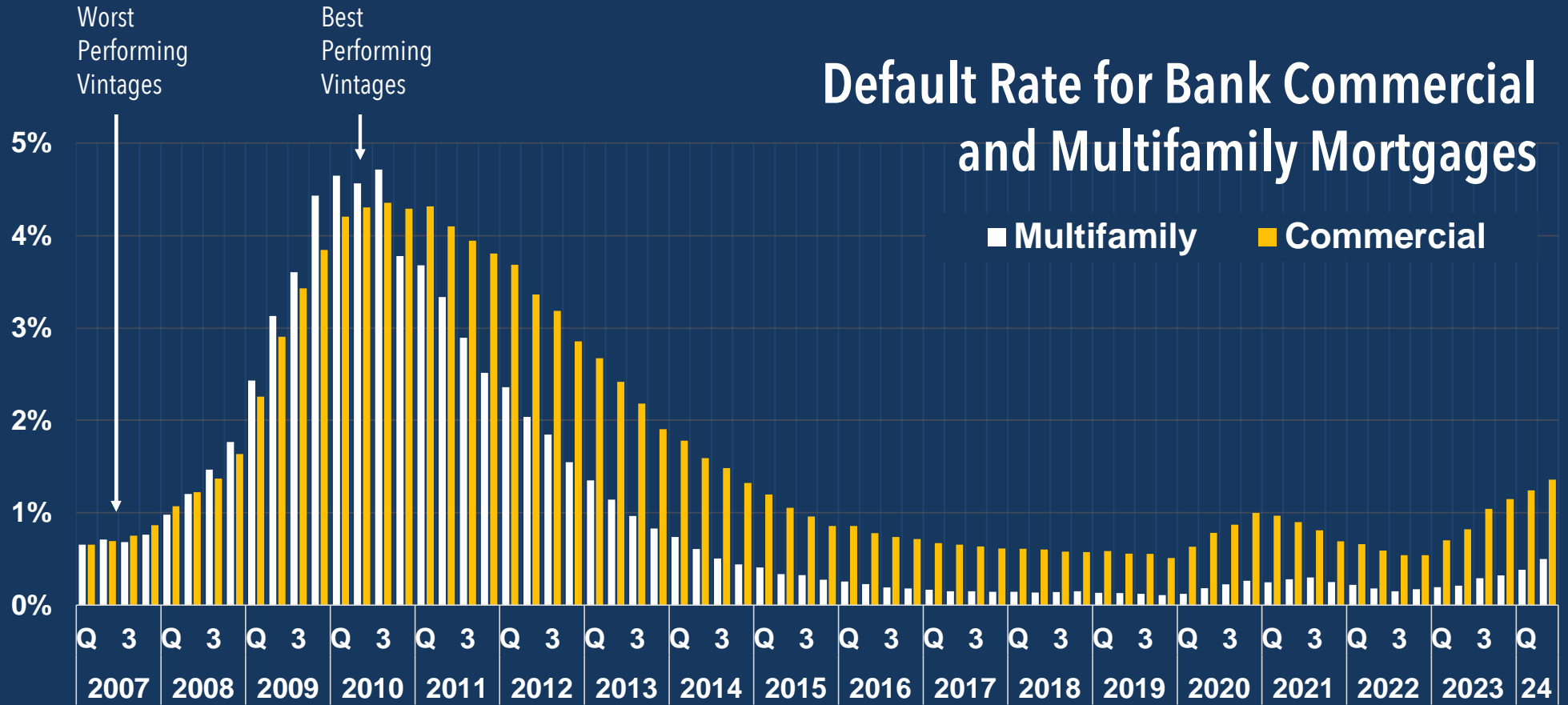
Measured in Billions \$

Total: \$2.8 Trillion



Source: Trepp; Analysis as of December 2023

Mortgage Performance Strains



Source: FDIC; Through Q2 2024

Mortgage Performance Strains

Delinquency Rate for CMBS Mortgages

December, Except August 2024



Source: CREFC; Through August 2024

Outlook for Distress

Cost of Financing

Availability of Financing, Senior and Gap

Asset Positioning and Repositioning

Underassessed

Urban Resilience

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