



2024 Macroeconomic and Residential Real Estate Outlook

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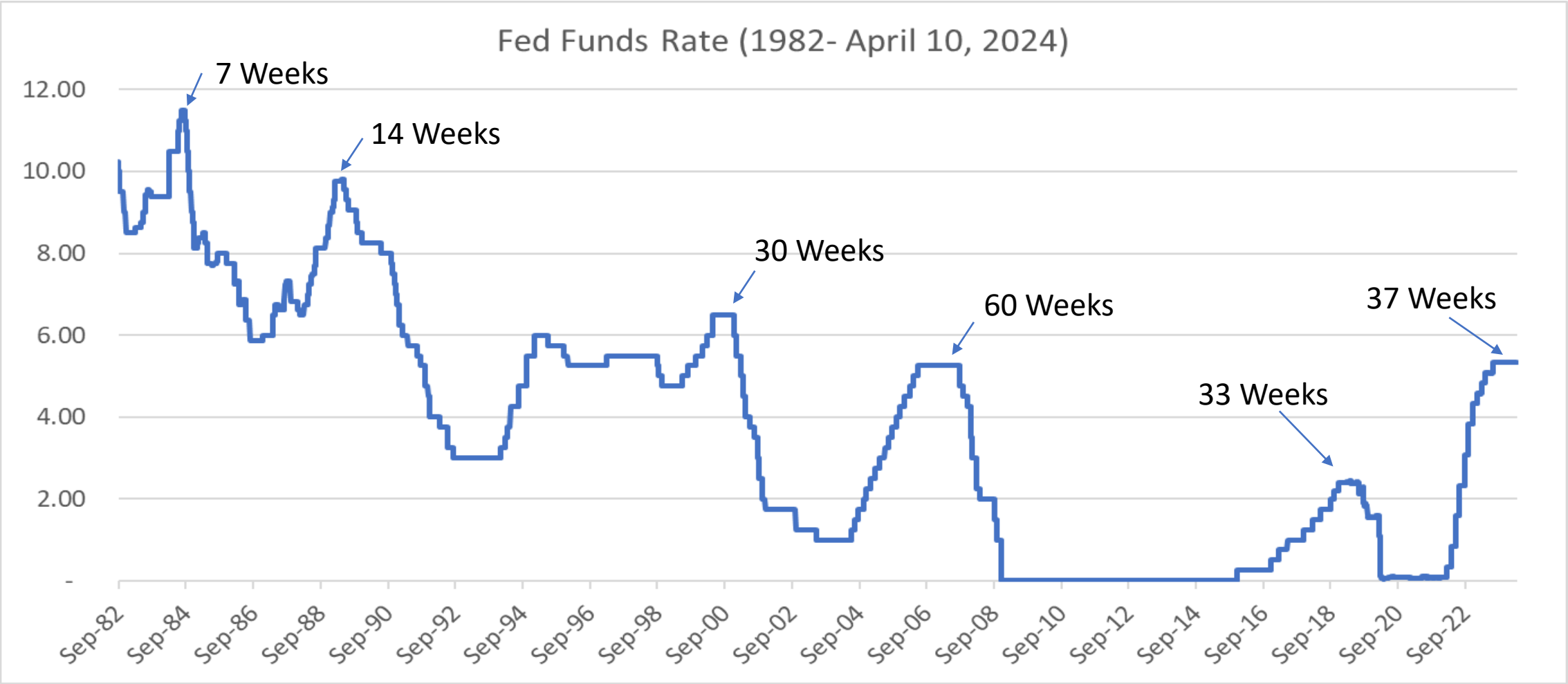
April 10, 2024

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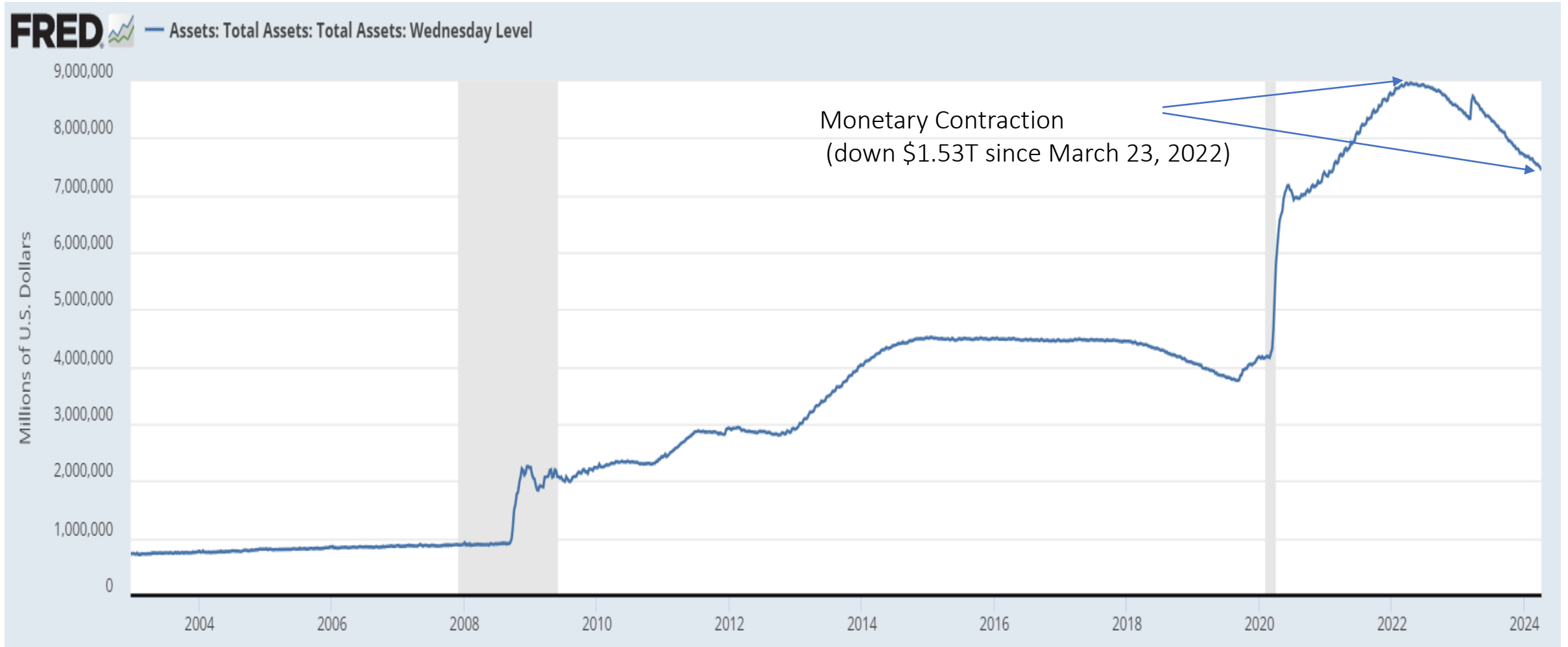
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 - A. Residential Mortgage Market
 - B. Interest Rates
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 - B. Pricing
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Macroeconomics

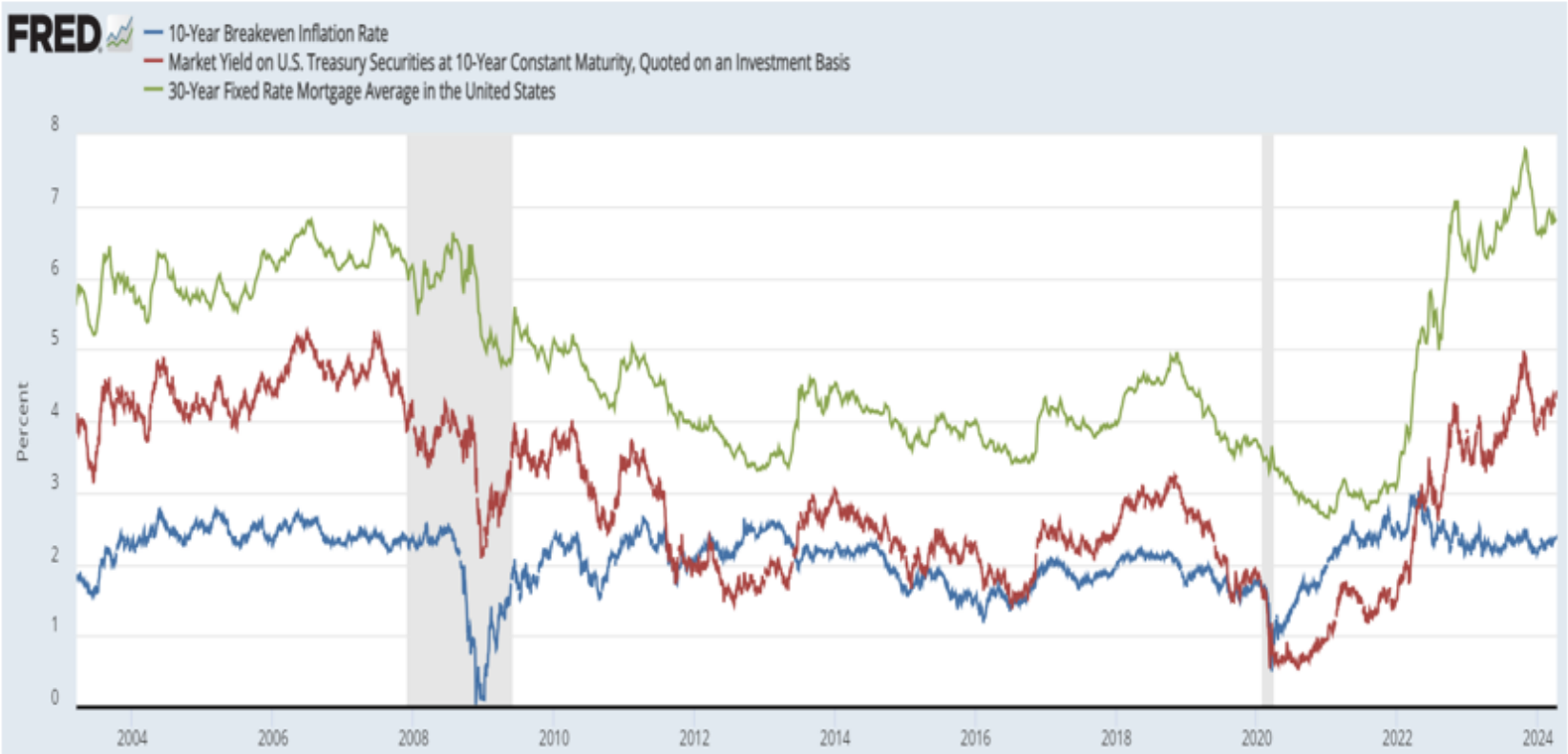
The Federal Reserve has its right foot on the brakes (keeping short-term rates high)



... and the Fed has its left foot on the brakes (keeping long-term rates high) ...



. . . . pushing mortgage interest rates and interest rate spreads dramatically higher



30-year Mortgage Rate

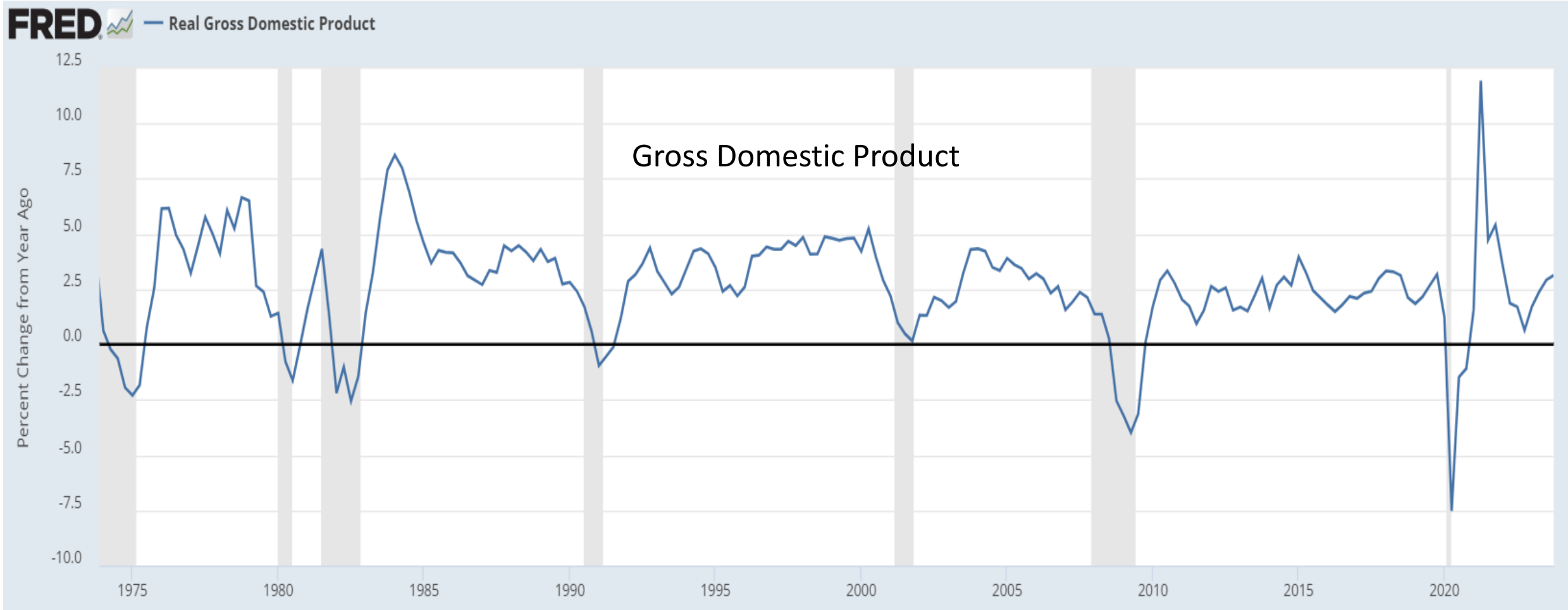
10-year US Treasury

10-year Break-even Inflation Rate

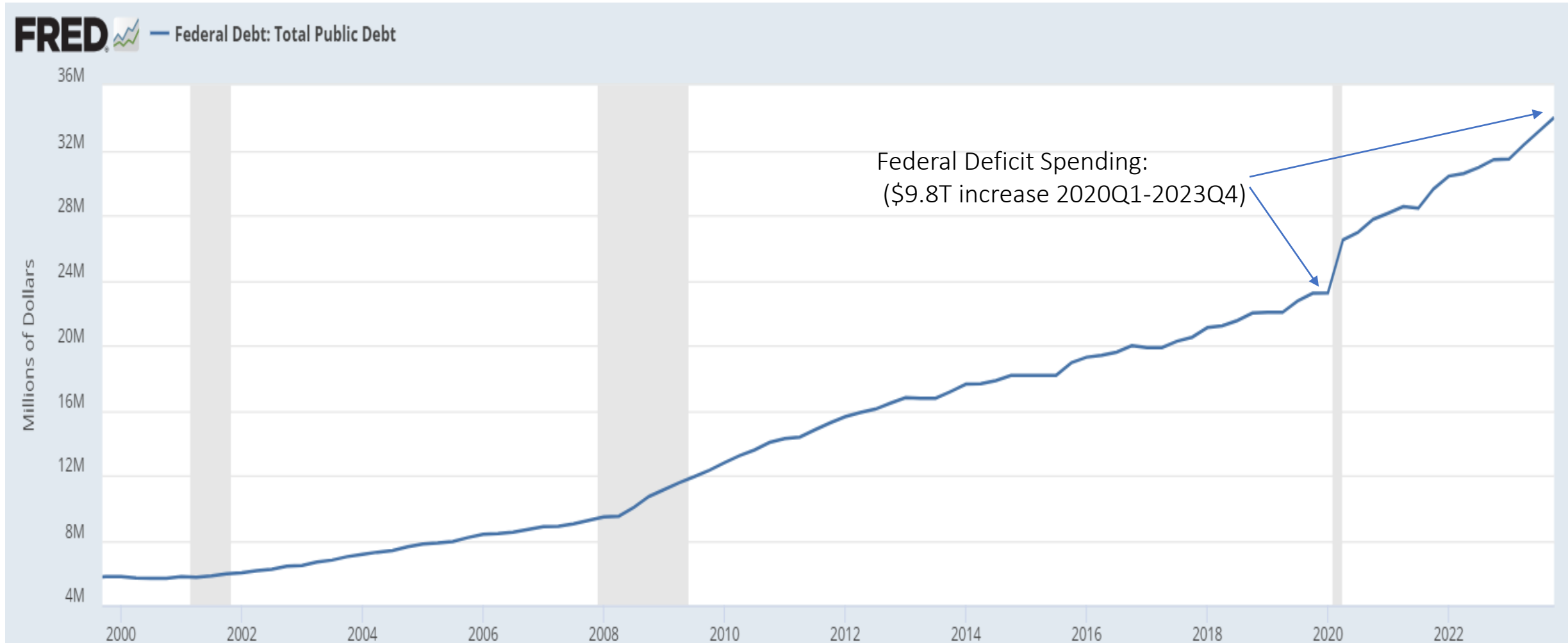
Decomposing the Mortgage Interest Rate

Data	Average 2003-		Average Spread	April 4, 2024
	2024	April 4, 2024		
10-year Breakeven Inflation Rate	2.09%	2.31%		
10-Year UST	2.97%	4.21%	0.88%	1.90%
30-year Mortgage Interest Rate	4.80%	6.82%	1.83%	2.61%

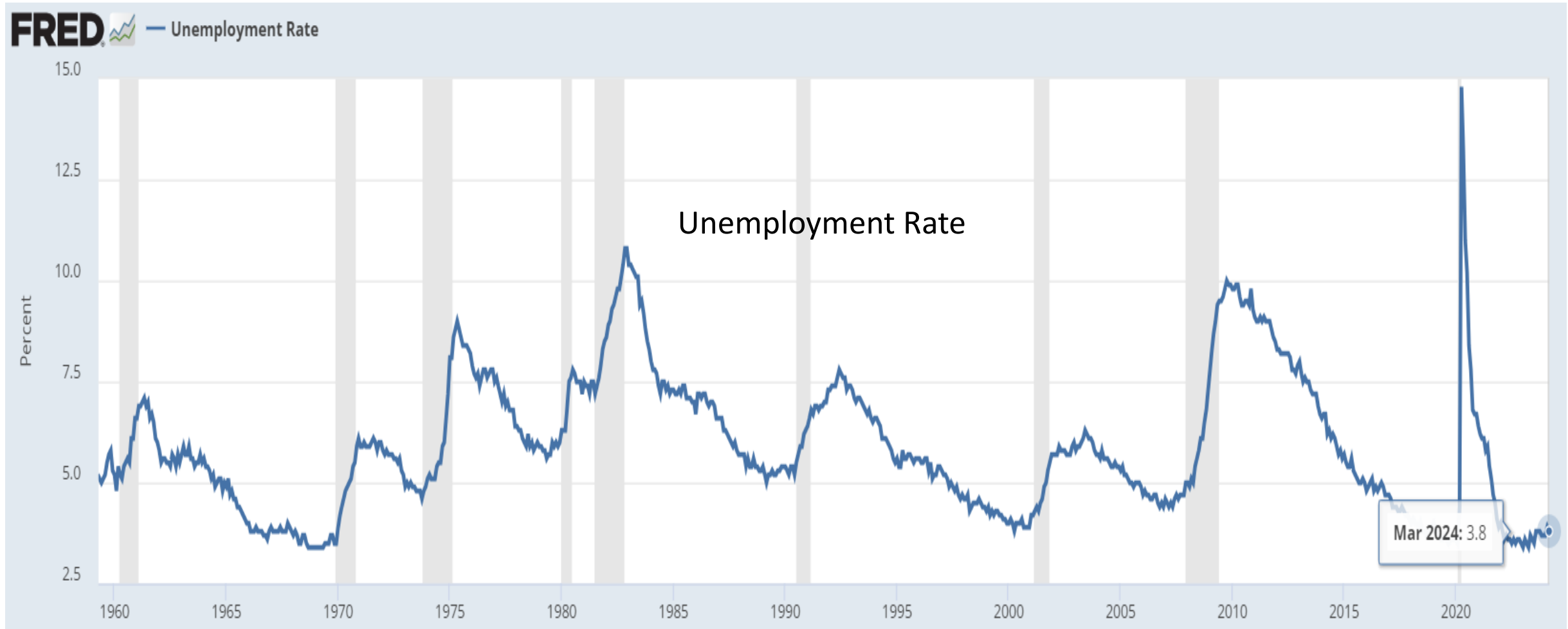
... yet U.S. GDP grew 3.1% in 2023 (50-year average = 2.7%) ...



. . . . Congress/President has both feet on the gas. . . .

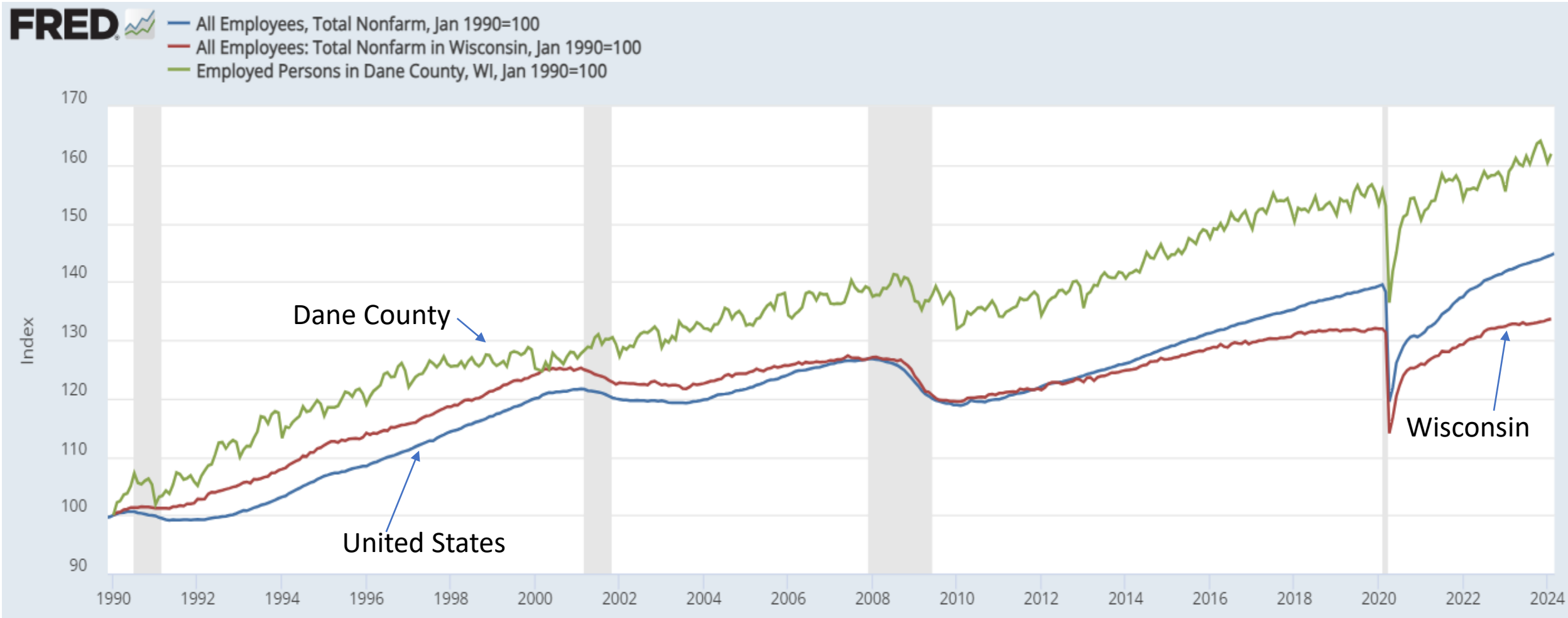


... the U.S. unemployment rate has remained under 4% for over two years ...

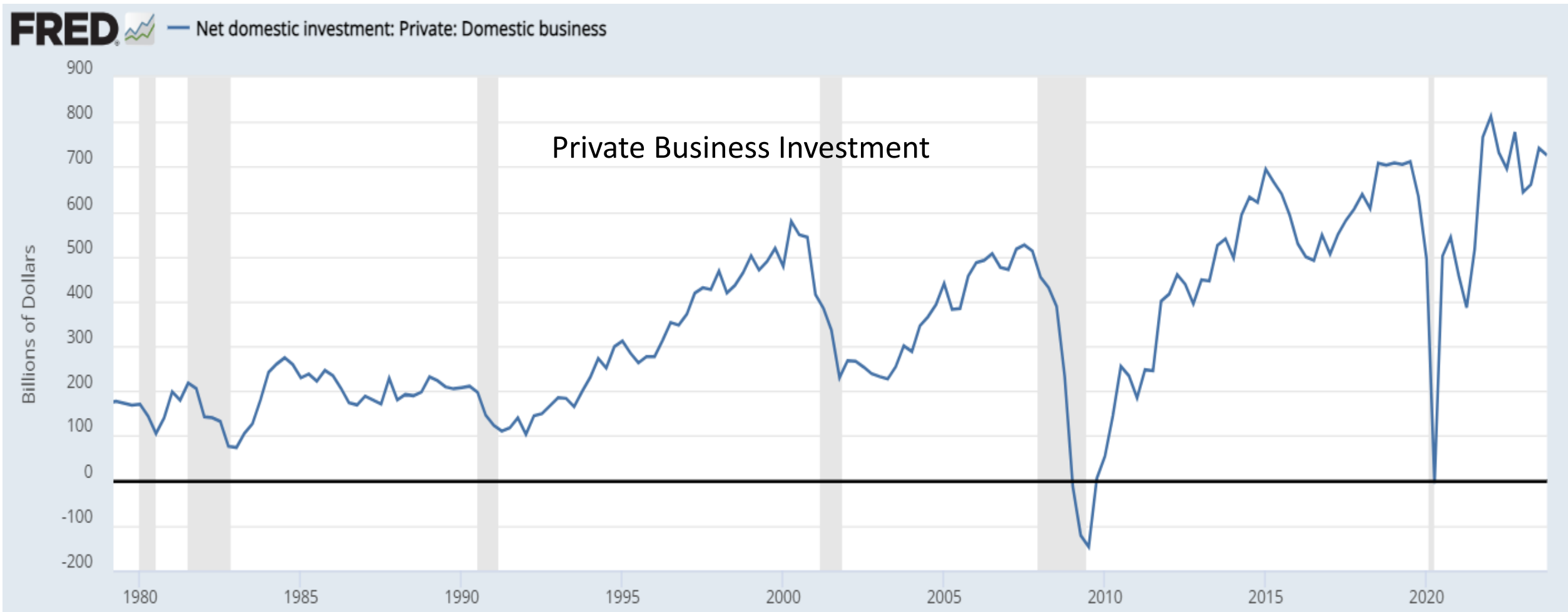


... since 1990 Dane County employment grew 36% faster than the U.S. double the rest of the State. ...

Employment Growth

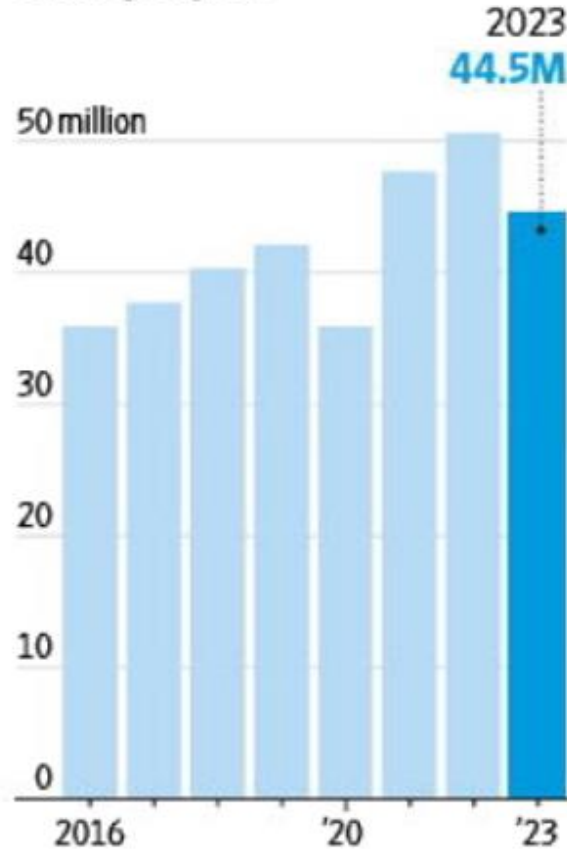


. . . . with robust business investment



. . . . however, job quit rates and job postings are in decline

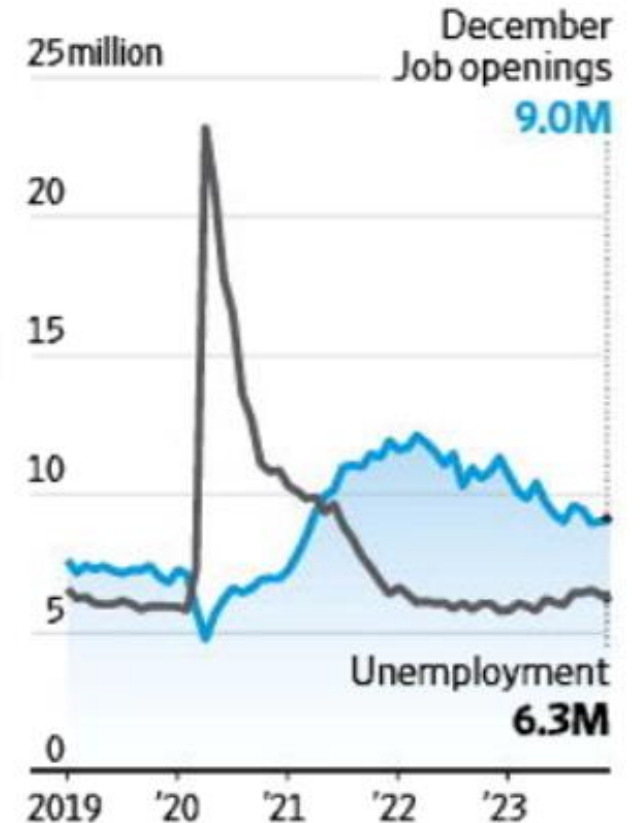
Quits per year



Quits rate*

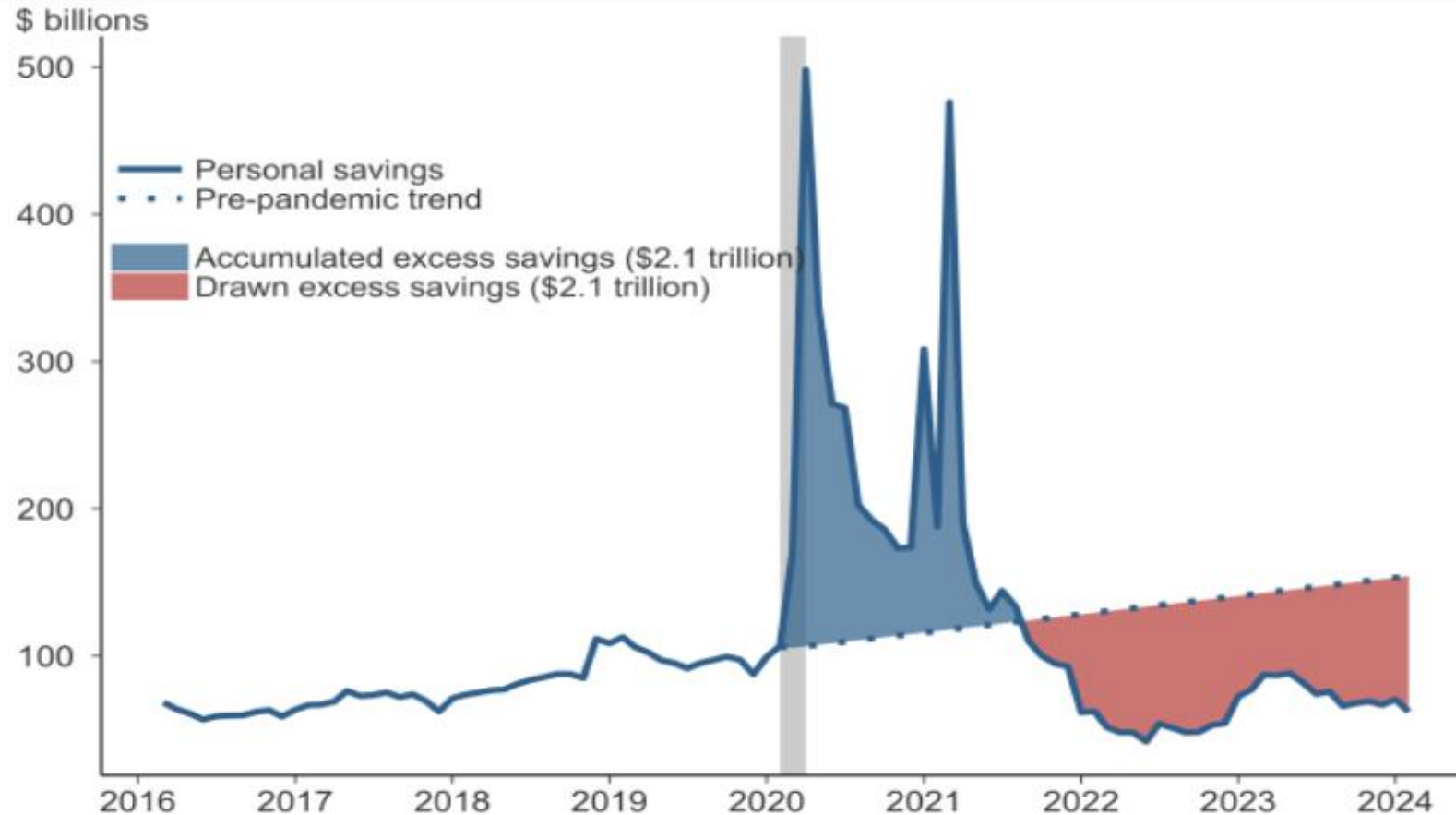


Unemployed people and job openings*



. . . . 100% of the excess Covid consumer savings is now spent

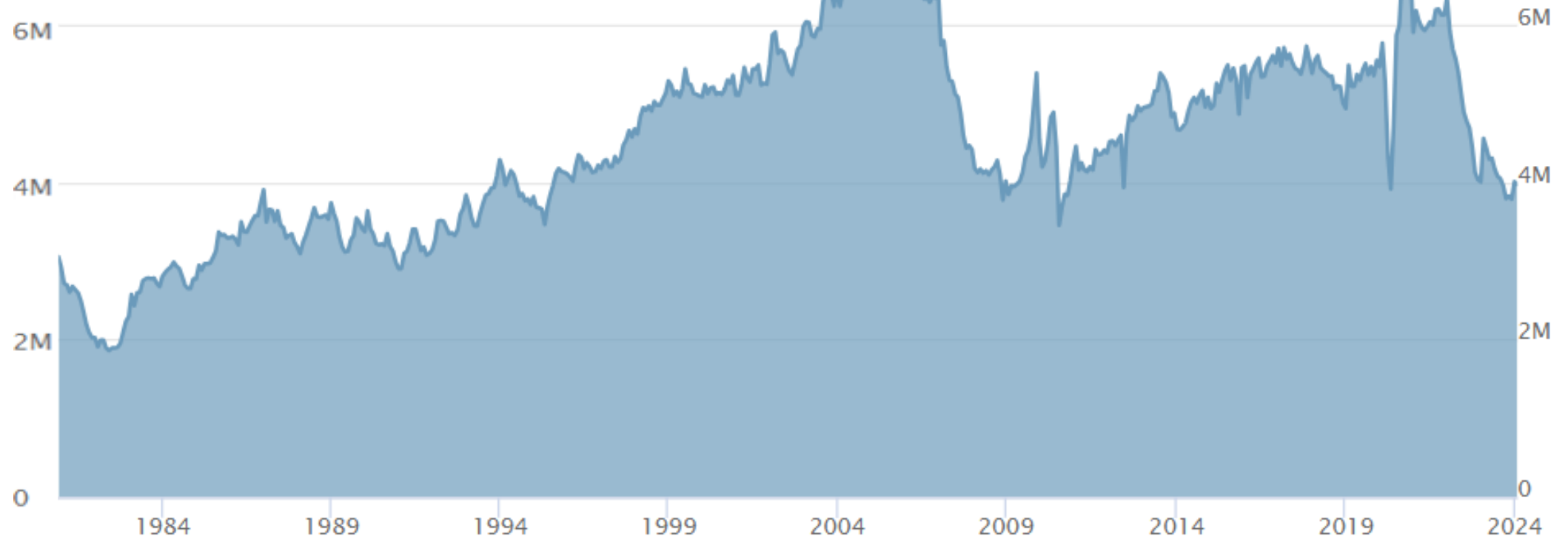
Chart 1: Aggregate personal savings compared with the pre-pandemic trend



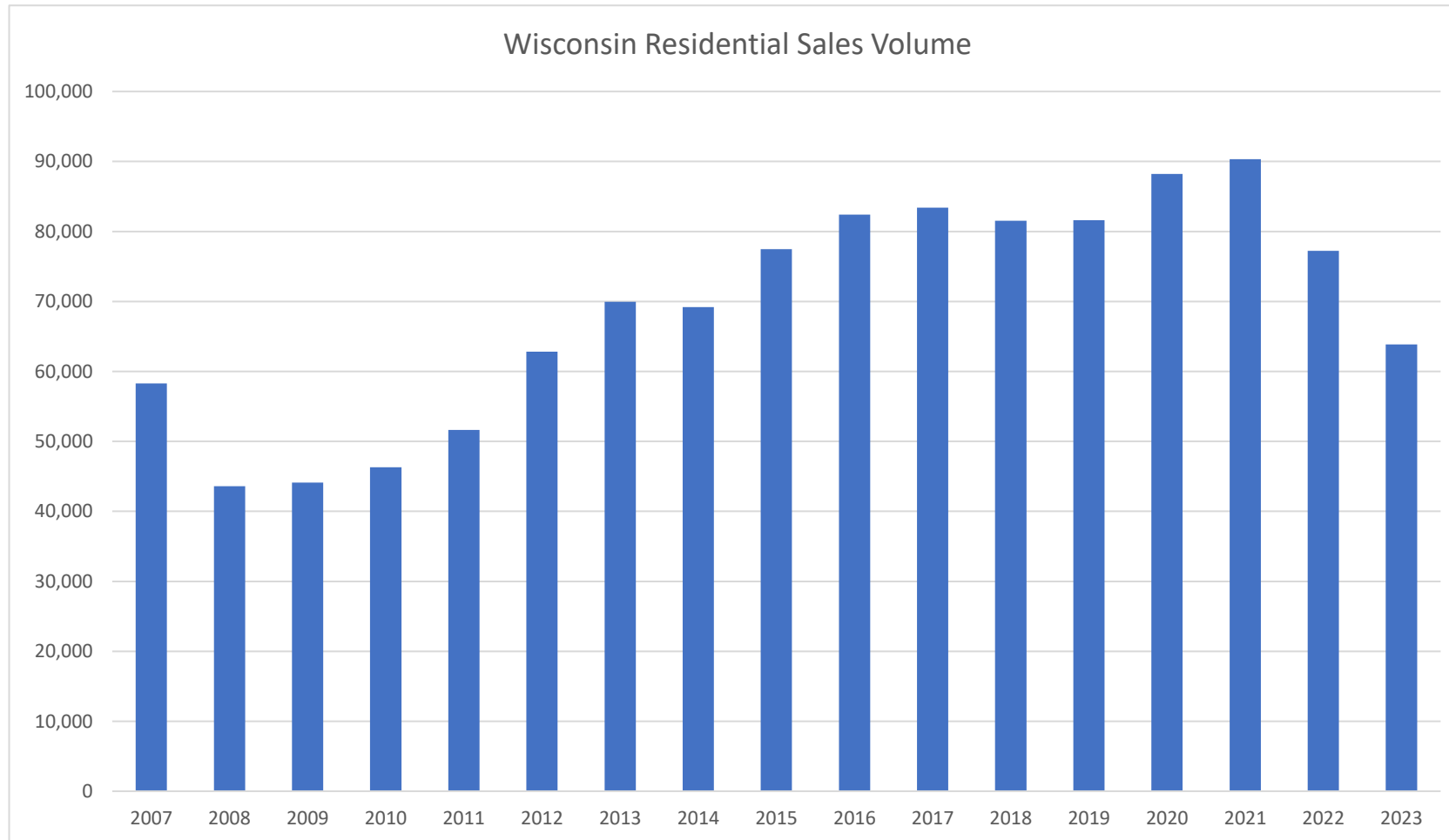
Single-family Sales Volume

REALTOR data on home sales is a difficult place to start

Existing Home Sales



. . . . Wisconsin residential sales are down 29% since 2021



. . . . limited U.S. for-sale housing supply is hurting sales volume

Months' Supply



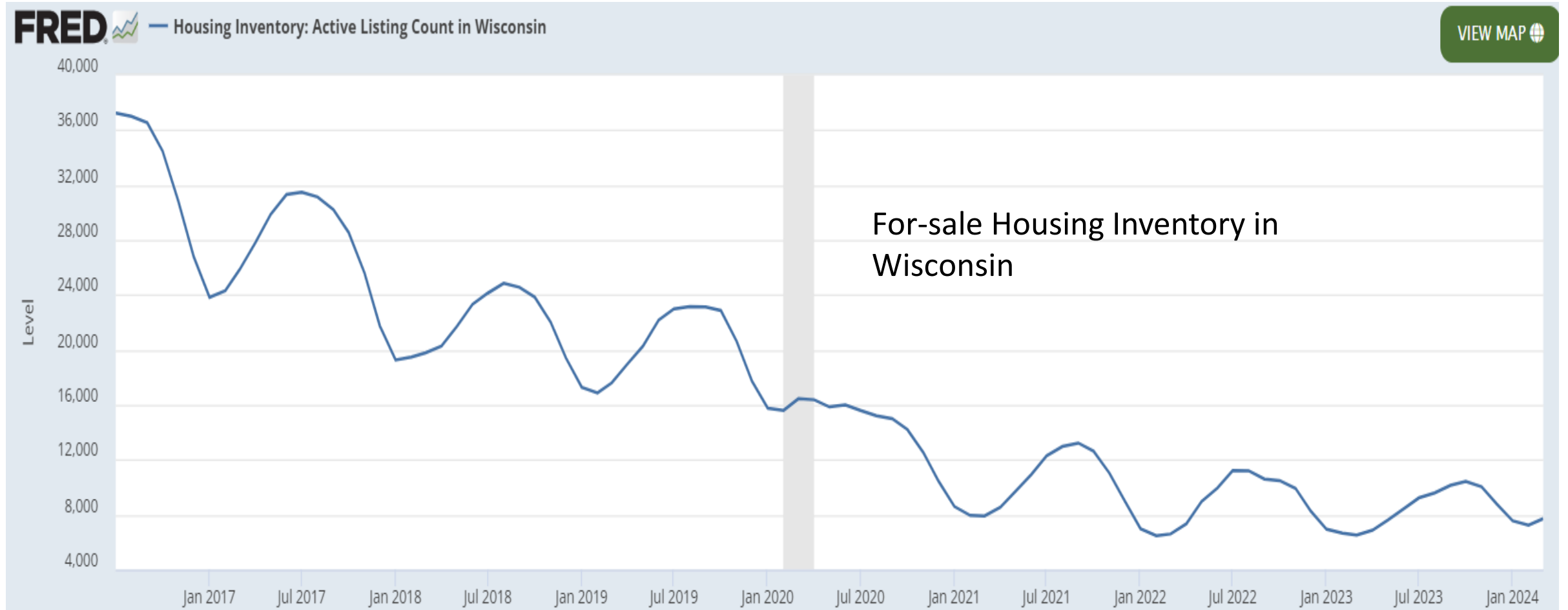
. . . . Wisconsin's supply of housing remains tight

	Months Supply
Urban-Rural	
Metropolitan Counties	2.5
Micropolitan Counties	2.8
Rural	3.4
State	2.7

Price	Months Supply
\$0 - \$124,999	2.4
\$125,000 - \$199,999	2.0
\$200,000 - \$349,000	2.1
\$350,000 - \$499,999	3.1
\$500,000+	4.8
State	2.7

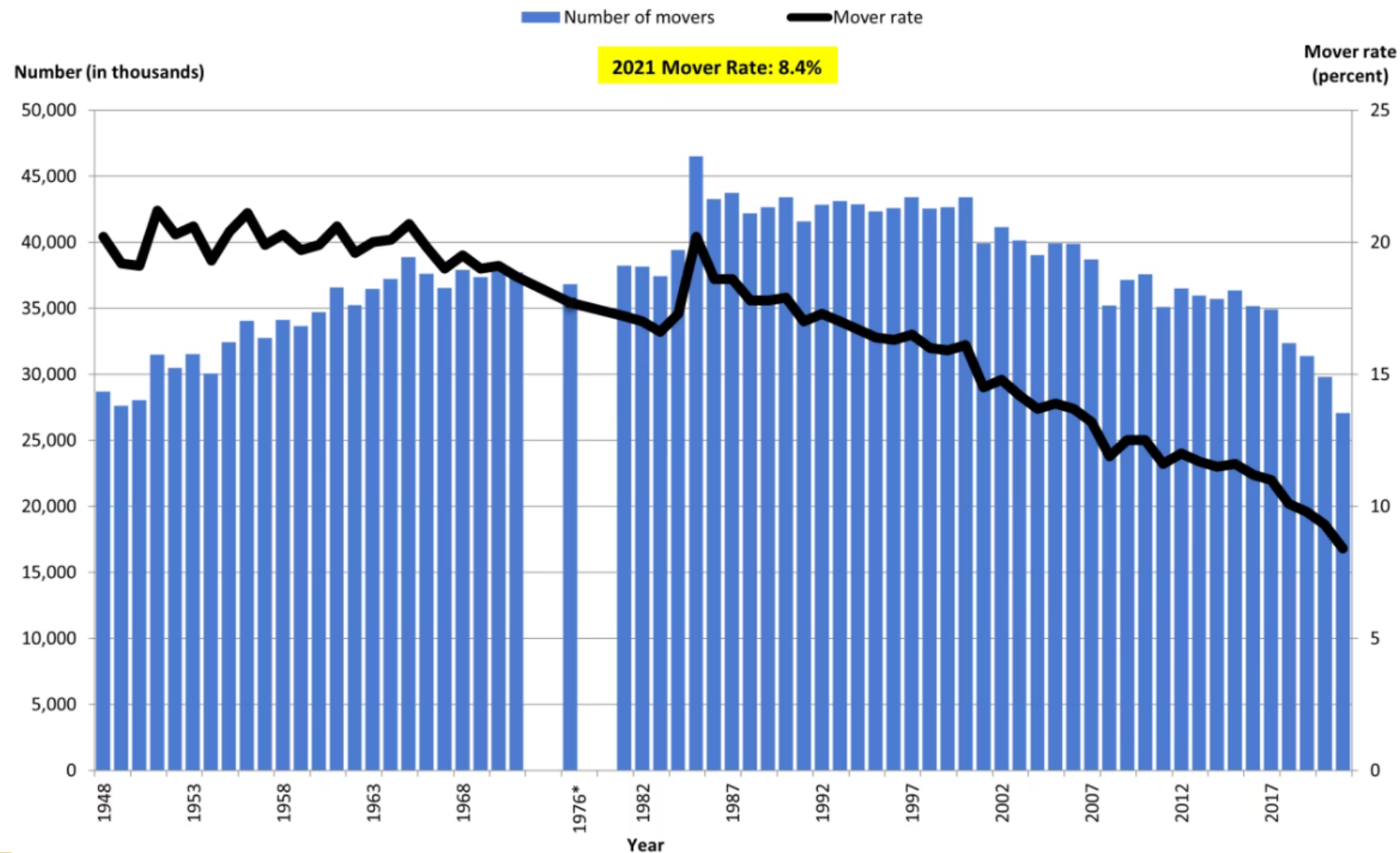
Region	Months Supply
Central	2.8
North	3.3
Northeast	2.9
South Central	2.8
Southeast	2.3
West	2.8
State	2.7

. . . .Wisconsin's listing inventory is down 79% from 2016 levels



.... U.S.
homeowner
mobility is at all-
time lows with
homeowners
staying-put for
20 years on
average

Figure A-1.1 Number of Movers and Mover Rate: 1948-2021



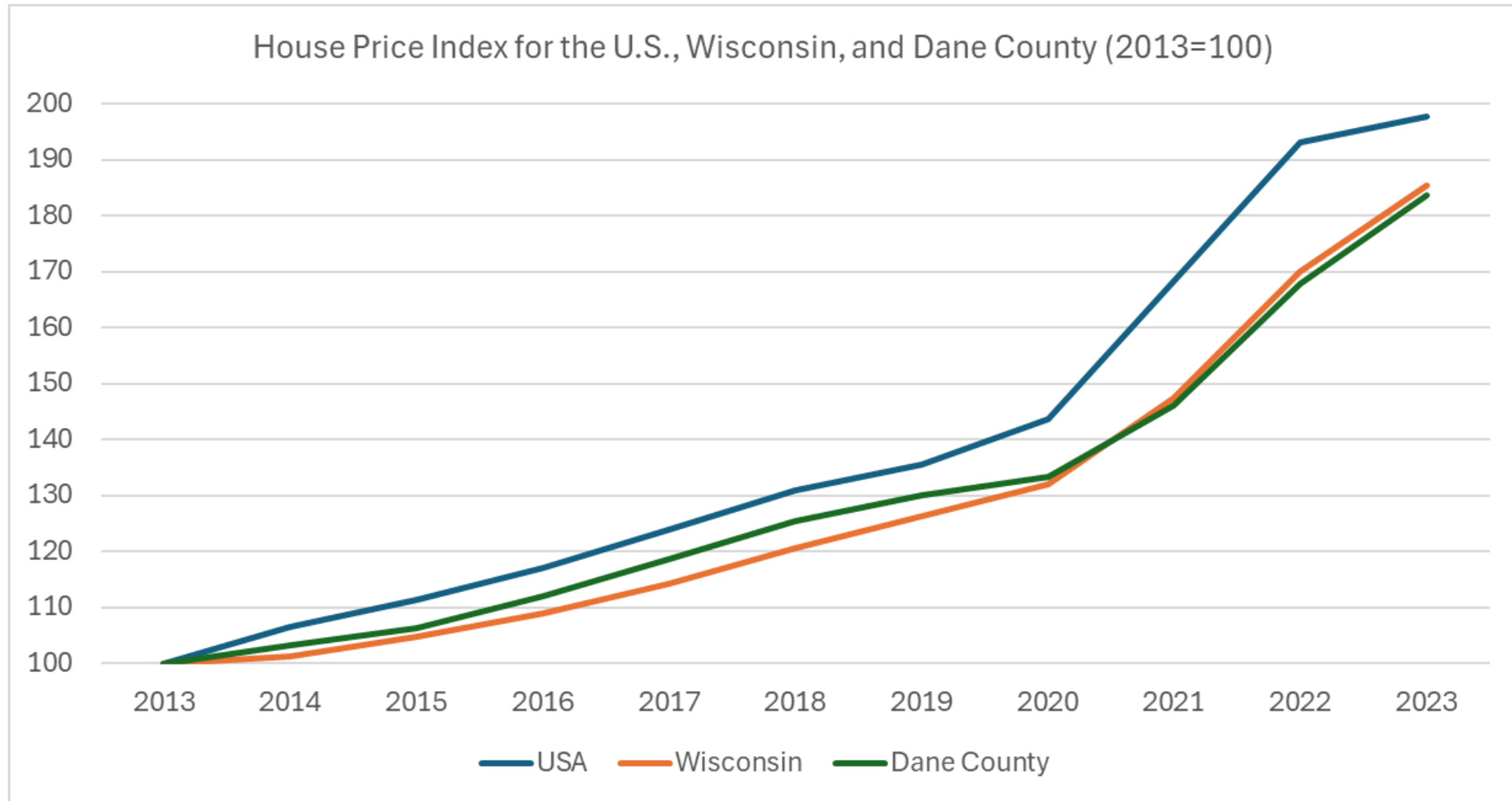
. . . .homeowners refinanced into low mortgage interest rates and won't be moving

Interest Rate at Origination (all mortgages in the U.S.)

	Average Interest Rate	Percent less than 3.0%	Percent 3.0-4.0%	Percent 4.0-5.0%	Percent greater than 5.0%
United States	3.6%	28%	44%	19%	10%
Wisconsin	3.7%	28%	43%	19%	11%

Home Prices

Wisconsin and Dane County house price appreciation lag National rates



. . . . Wisconsin home price growth tripled the inflation rate over the past 10 years

Wisconsin and Wisconsin Regional Median House Prices (February y-o-y)

Year	Wisconsin	Central	North	Northeast	South Central	Southeast	West
2014	\$129,900	\$97,250	\$100,000	\$112,500	\$158,000	\$132,950	\$137,000
2015	\$137,000	\$100,000	\$90,000	\$110,500	\$174,950	\$148,950	\$137,900
2016	\$145,000	\$115,000	\$117,000	\$125,000	\$172,500	\$151,250	\$143,000
2017	\$153,000	\$98,000	\$128,500	\$130,000	\$197,750	\$160,000	\$150,598
2018	\$165,000	\$126,000	\$145,000	\$147,750	\$215,000	\$168,950	\$168,000
2019	\$176,500	\$134,500	\$140,000	\$160,000	\$225,000	\$183,800	\$170,000
2020	\$189,900	\$139,000	\$148,000	\$162,000	\$235,000	\$205,000	\$177,950
2021	\$215,000	\$159,900	\$167,500	\$185,000	\$257,000	\$220,000	\$225,000
2022	\$235,000	\$195,000	\$213,500	\$200,000	\$285,000	\$235,000	\$255,000
2023	\$260,000	\$210,300	\$235,000	\$237,500	\$311,000	\$255,000	\$275,000
2024	\$275,000	\$220,000	\$249,000	\$250,000	\$330,500	\$275,000	\$270,000
One-year							
Growth Rate	5.8%	4.6%	6.0%	5.3%	6.3%	7.8%	-1.8%
10-year							
Growth Rate	7.8%	8.5%	9.6%	8.3%	7.7%	7.5%	7.0%

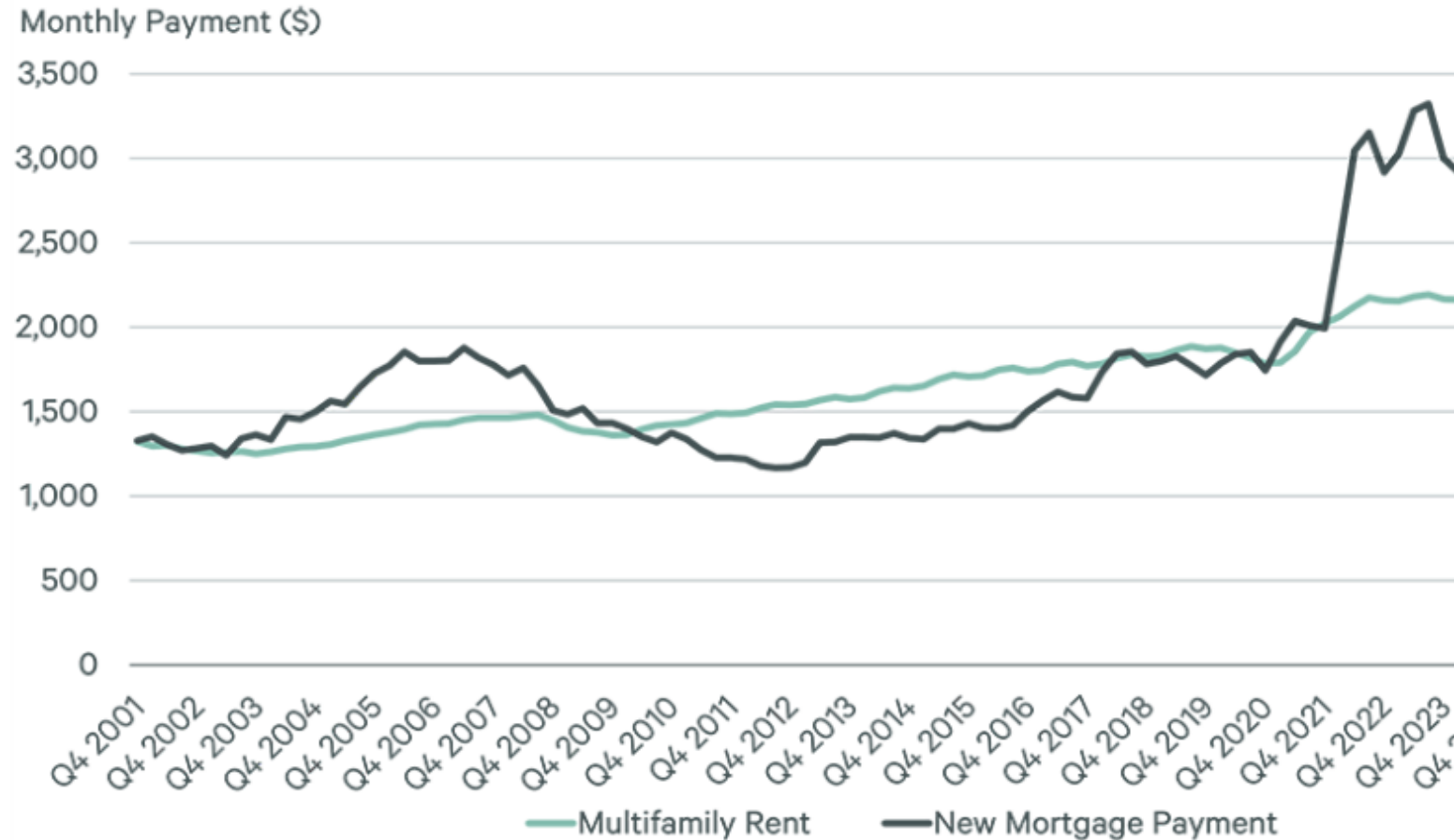
. . . . Wisconsin has lower homeownership rates than the U.S. . . .

Mortgage Statistics

	Percent of Homes with a Mortgage	Average FICO Credit Score	Average Mortgage Payment
United States	62%	739	\$1,358
Wisconsin	63%	750	\$1,058

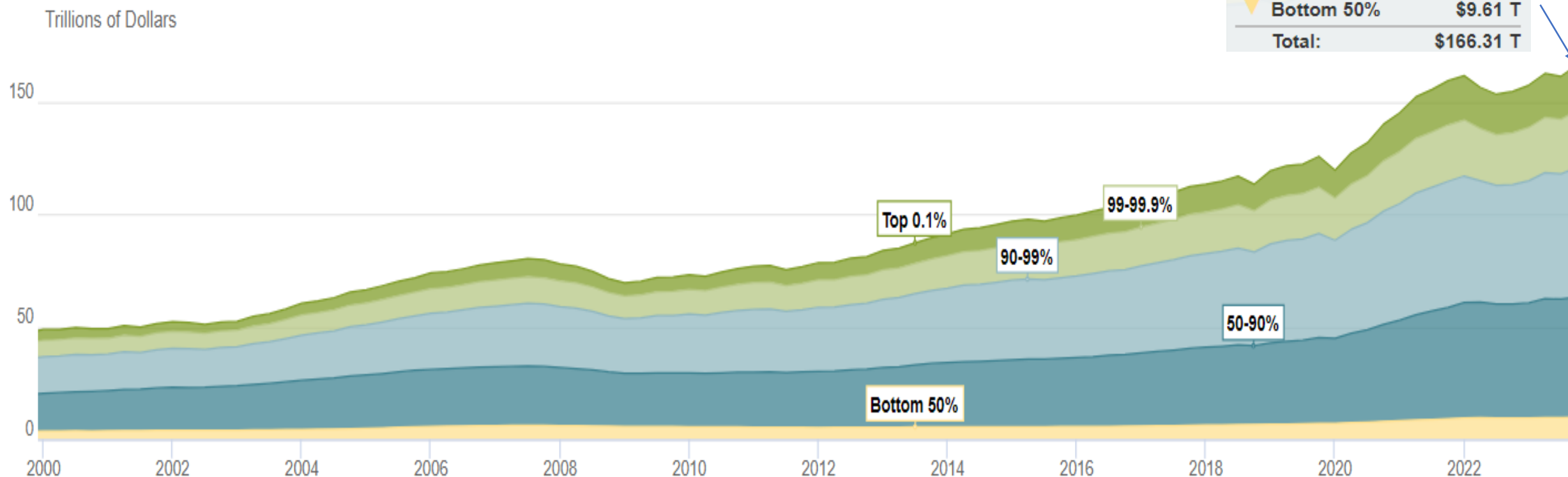
... higher house prices makes renting a desirable option. ...

Average Monthly Multifamily Rent vs. New Home Mortgage Payment

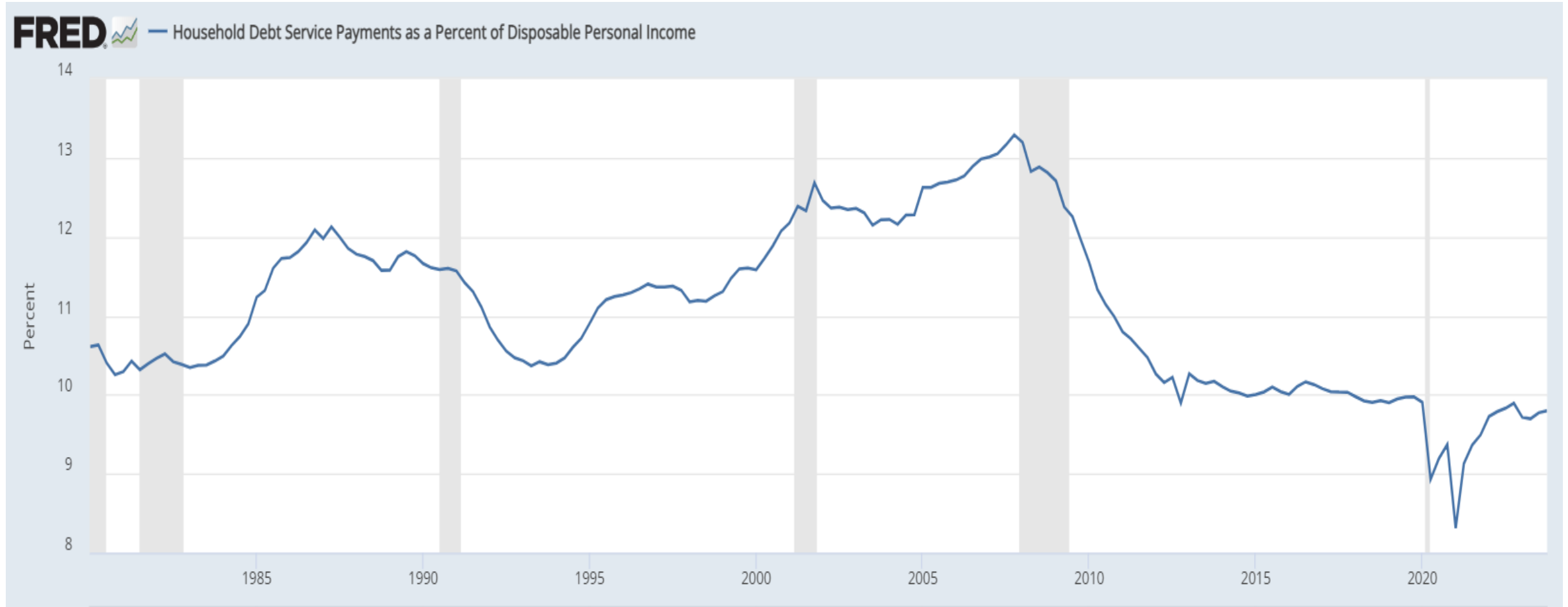


. . . . but, household wealth up \$47T since 2020Q1 (think downpayment)

Assets by wealth percentile group

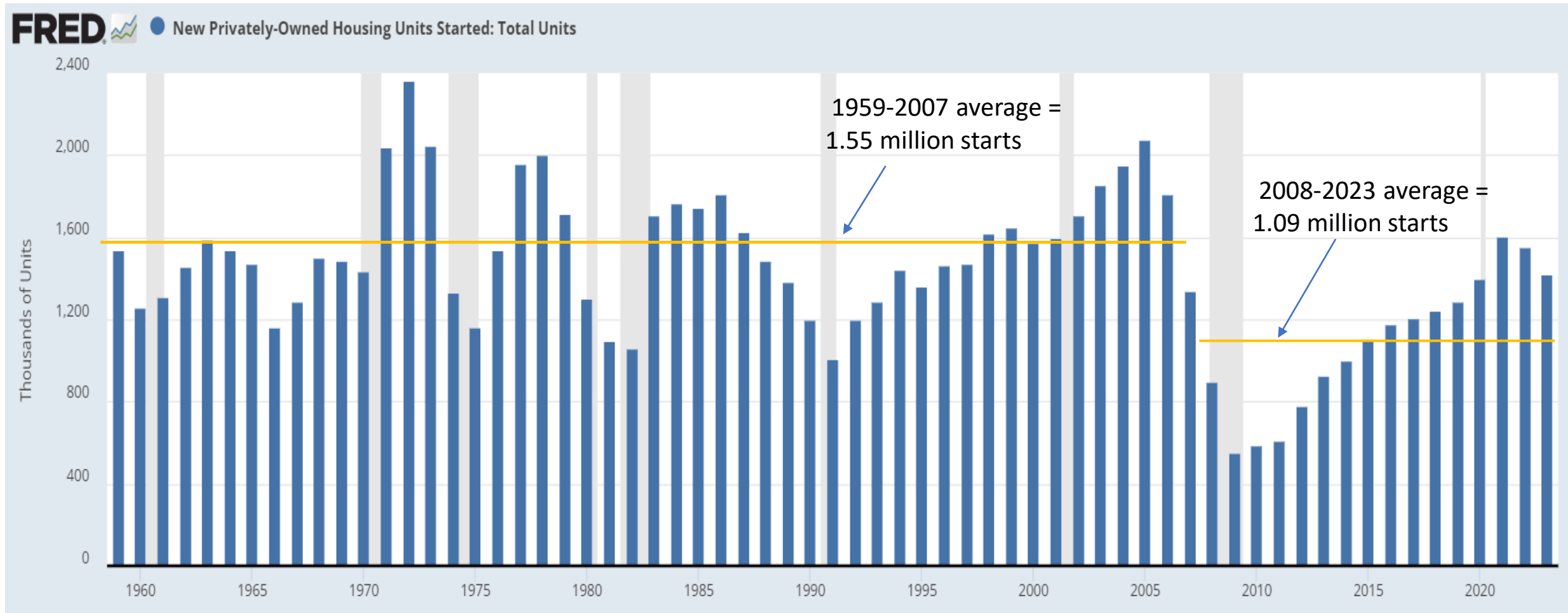


... household debt service payments are not stretching budgets (think mortgage payment).

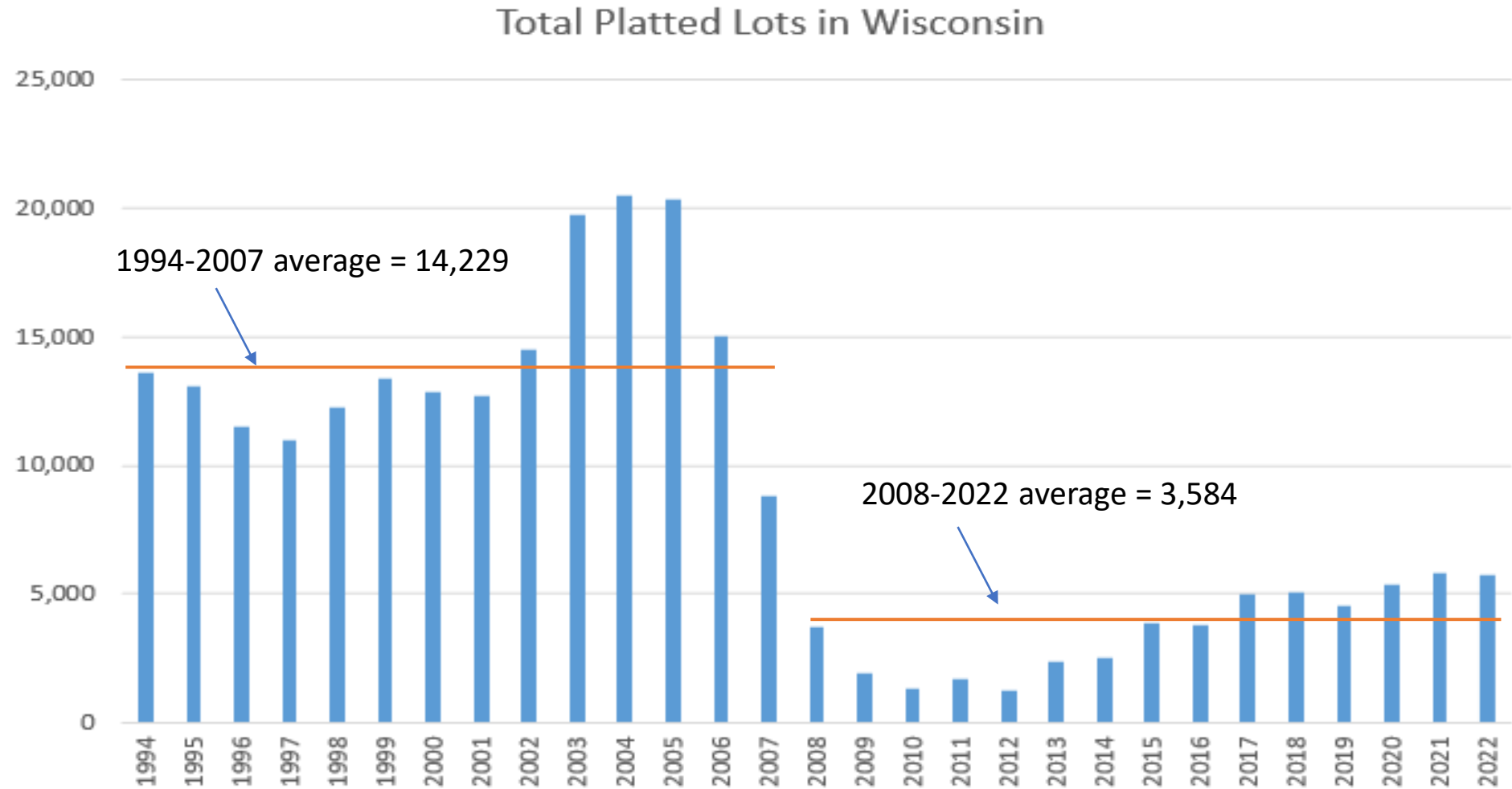


Housing Demand and Supply

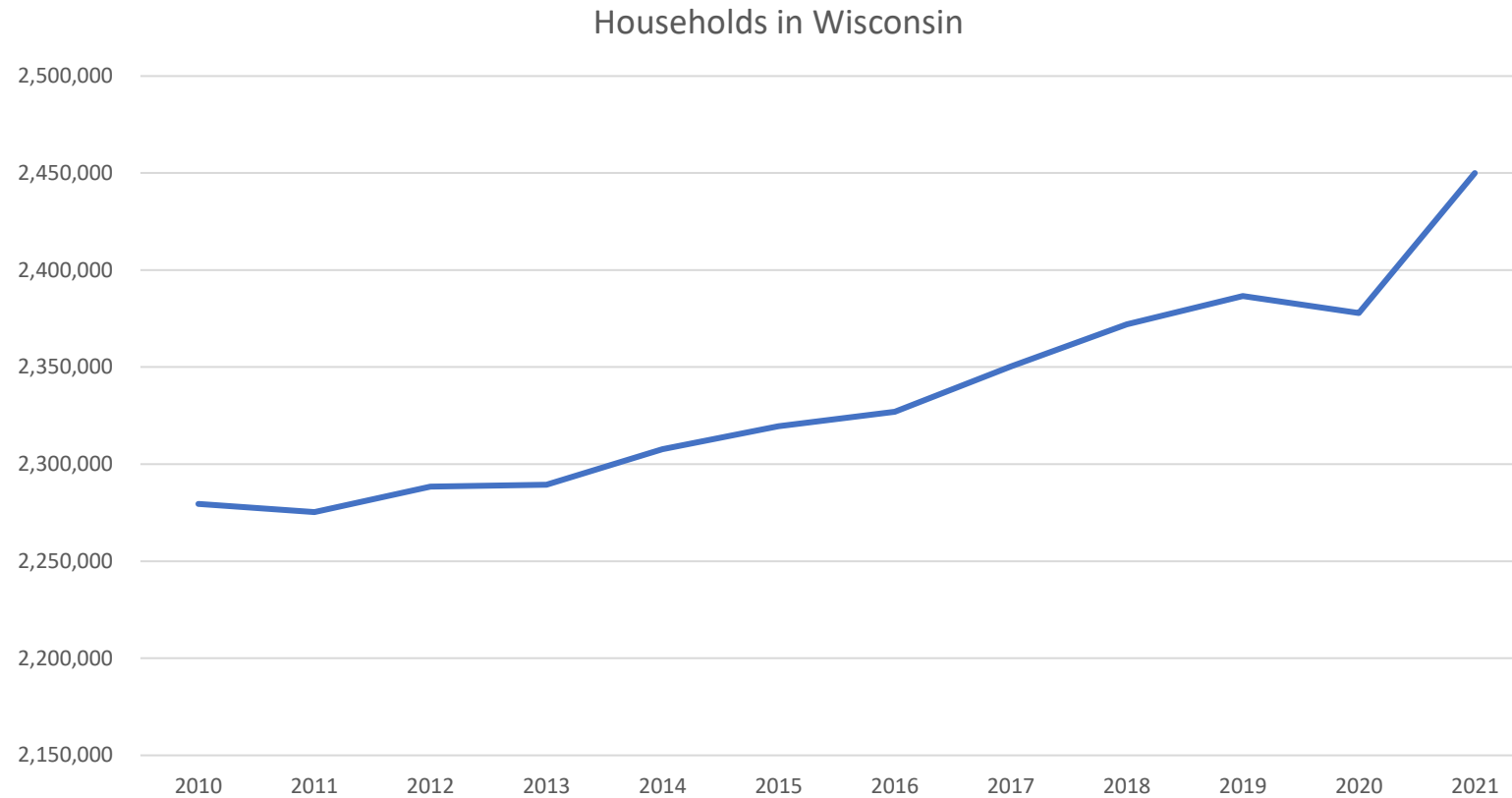
New housing supply is approaching pre-Great Recession levels



. . . . limited new platted lots in Wisconsin is hurting new home construction



. . . . new household formation (demand) in Wisconsin averages 15,494 per year for the period 2010-2021.



Demographics/Housing Demographics

SUMMARY: Demographics are destiny. Household growth has outpaced housing supplied and new households create demand for all things in the economy. The next five years look very strong for homebuilders, with much slower growth thereafter. The search for affordable housing and likely degradation of our large cities is pushing households further from urban cores.

The single-family housing market in 2024

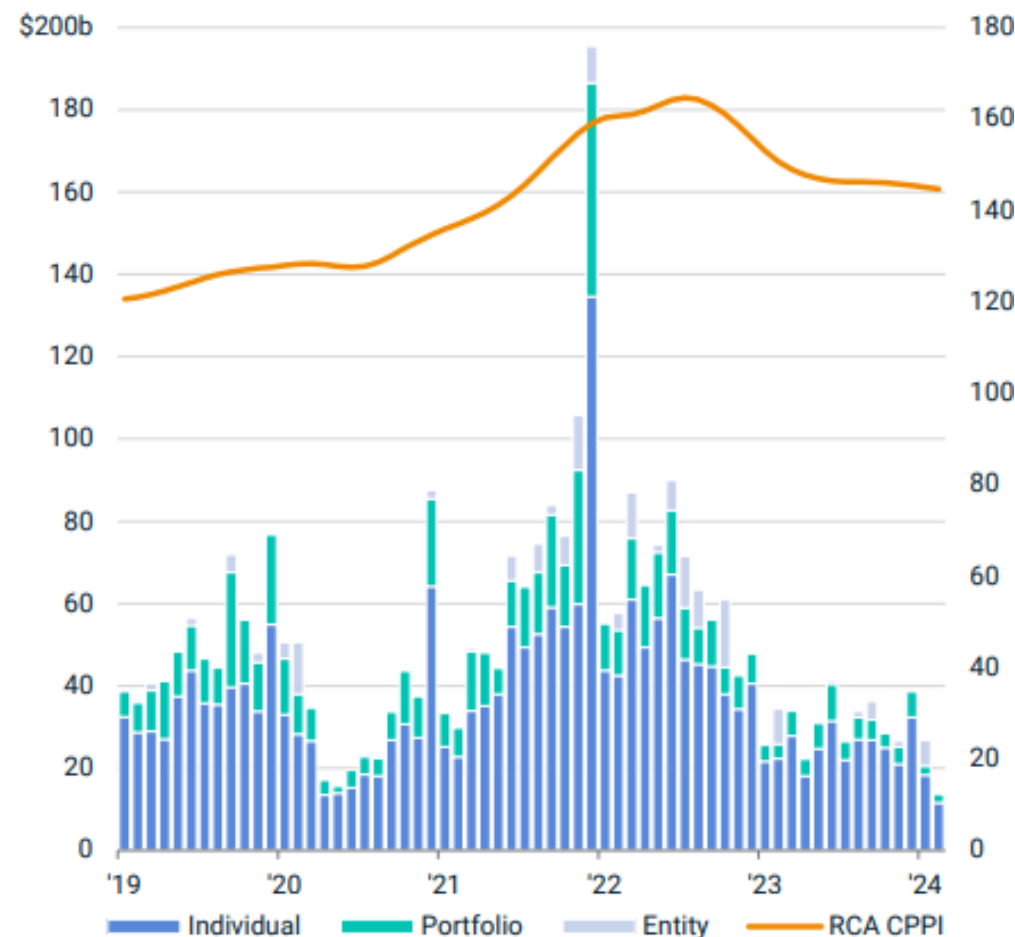
- The Fed will keep short-term interest rates high through mid-2024
- Long-term mortgage interest rates will fall to the mid-6% range late-2024 and to the upper-5% to low-6% range mid-2025
- High rates will hurt buyer demand for the next six months
- Buyer demand will return in second half of 2024 with the market acceptance of 6% mortgage rates
- Mortgage credit markets are in great shape
- Long-term housing demand remains robust
- Inventory of for-sale homes remains tight

Summary: Transaction volume will remain weak at roughly current levels, with flat home prices through mid-2024 and increase 2-3% in the second half of 2024

Commercial Real Estate Equity Transaction Volume and Returns

Real Estate transaction volume is down 60% YOY. . . .

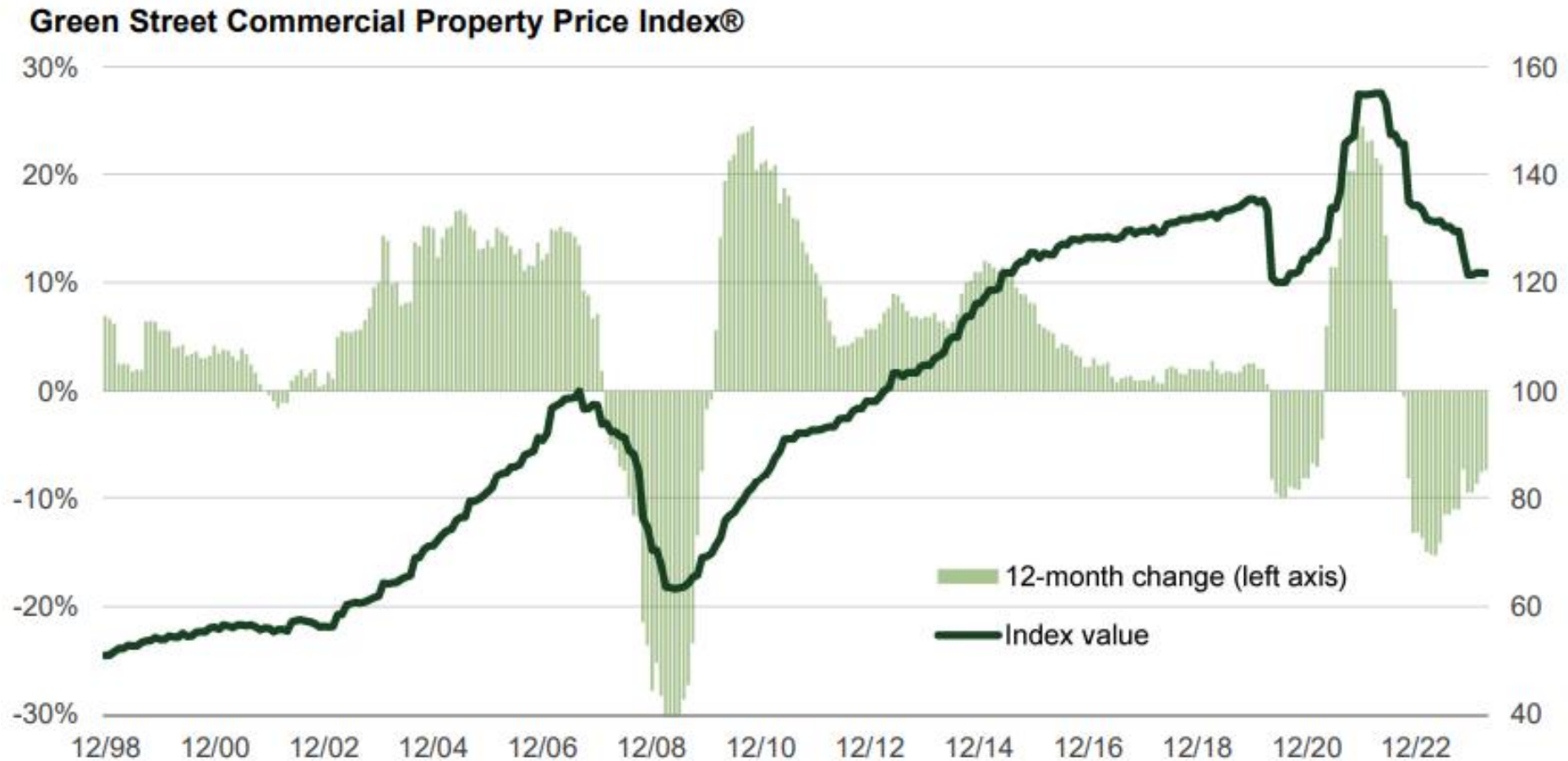
Monthly Transaction Volume and Pricing



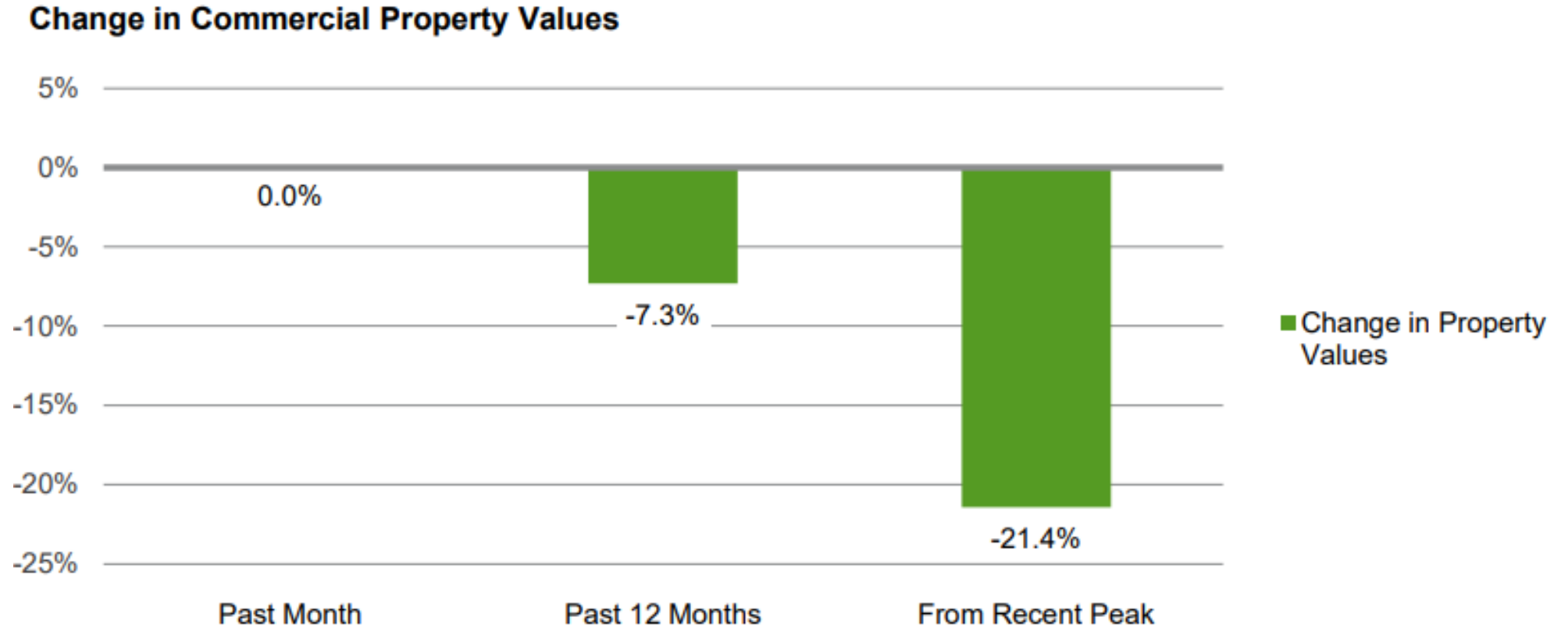
Transaction Volume Summary

	February 2024		Past 12 Months	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Office	1.4	-62%	49.9	-52%
Retail	2.5	-75%	55.4	-41%
Industrial	3.0	-60%	86.6	-42%
Hotel	0.8	-69%	24.2	-47%
Apartment	4.9	-35%	114.6	-59%
Snr Hsg & Care	0.3	-74%	9.6	-31%
Dev Site	0.9	-60%	19.1	-41%
Total	13.7	-60%	359.5	-50%

. . . . property values are at early-Covid pricing lows (2020Q2). . . .

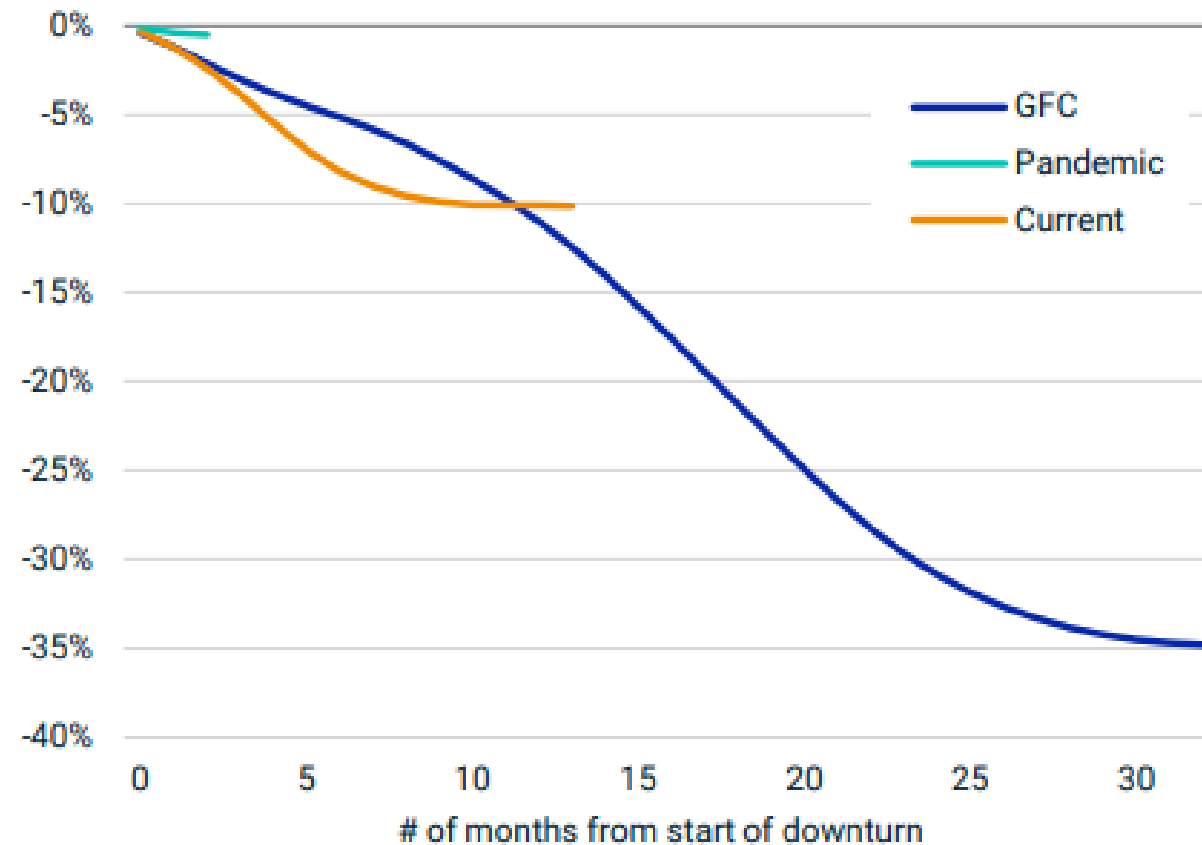


. . . . property values declined markedly over the last 18 months, but are stabilizing

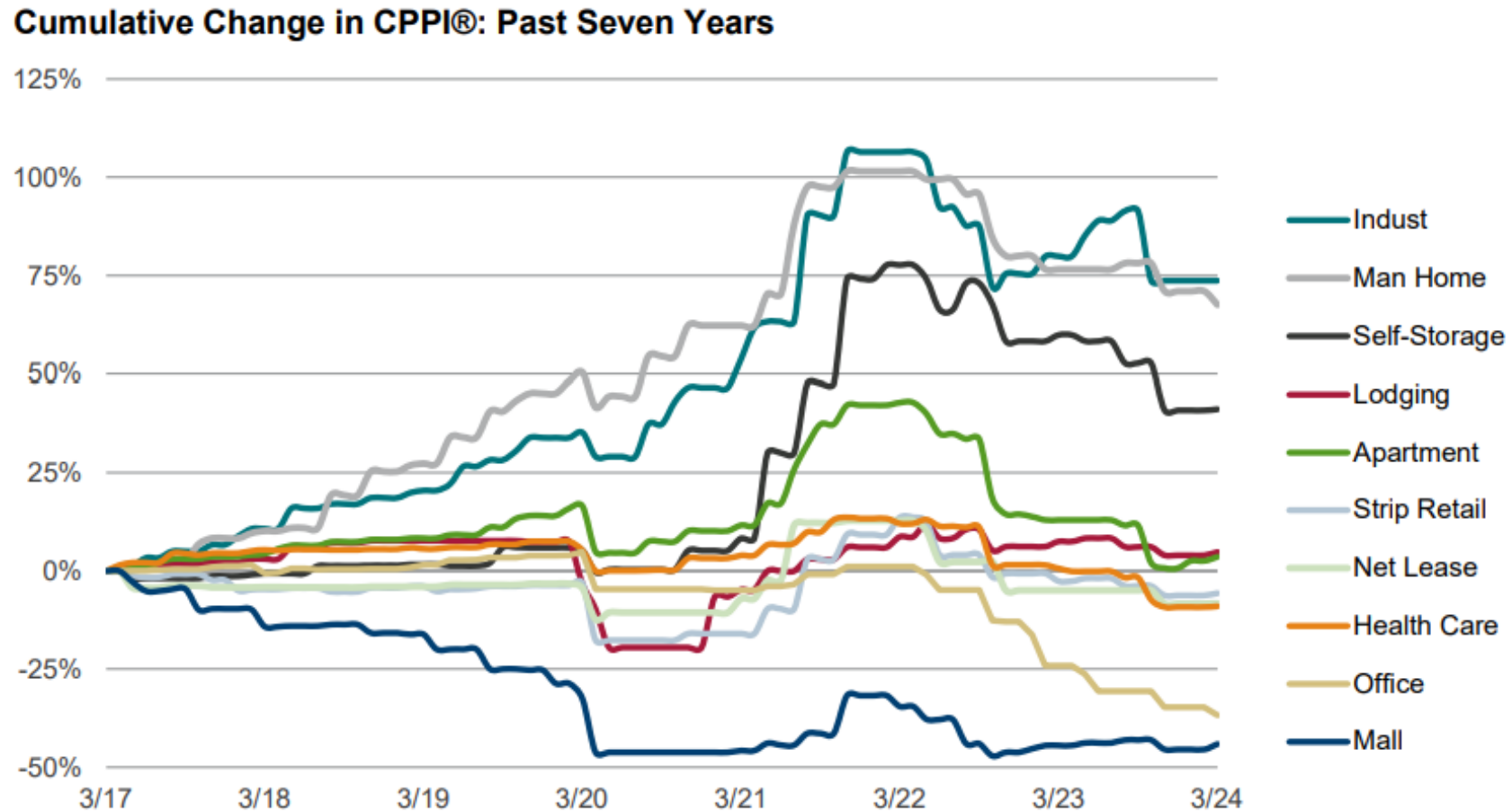


. . . . prices are stabilizing much more quickly than in the Great Recession

Peak-to-Trough Price Declines

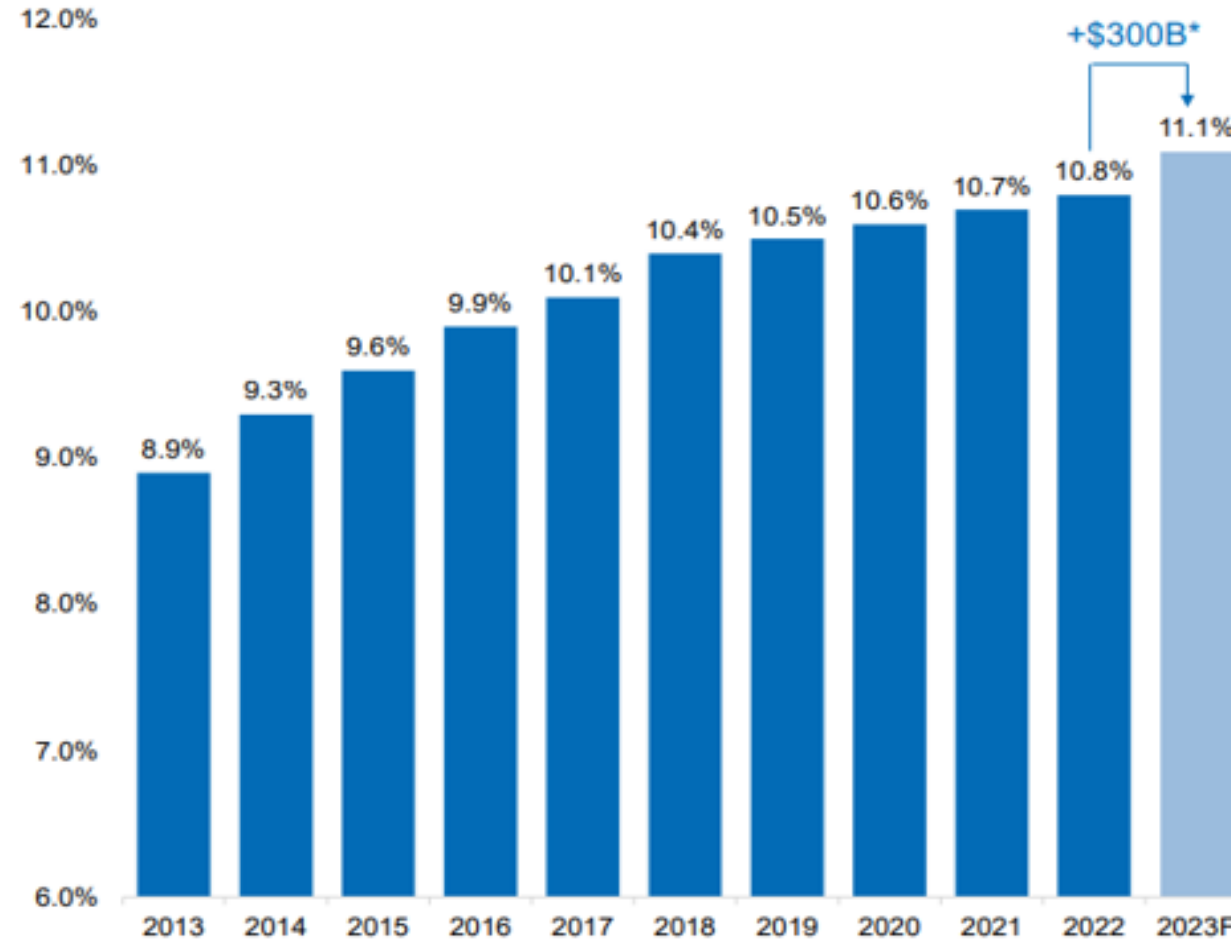


. . . . Green Street reveals the haves and have-nots



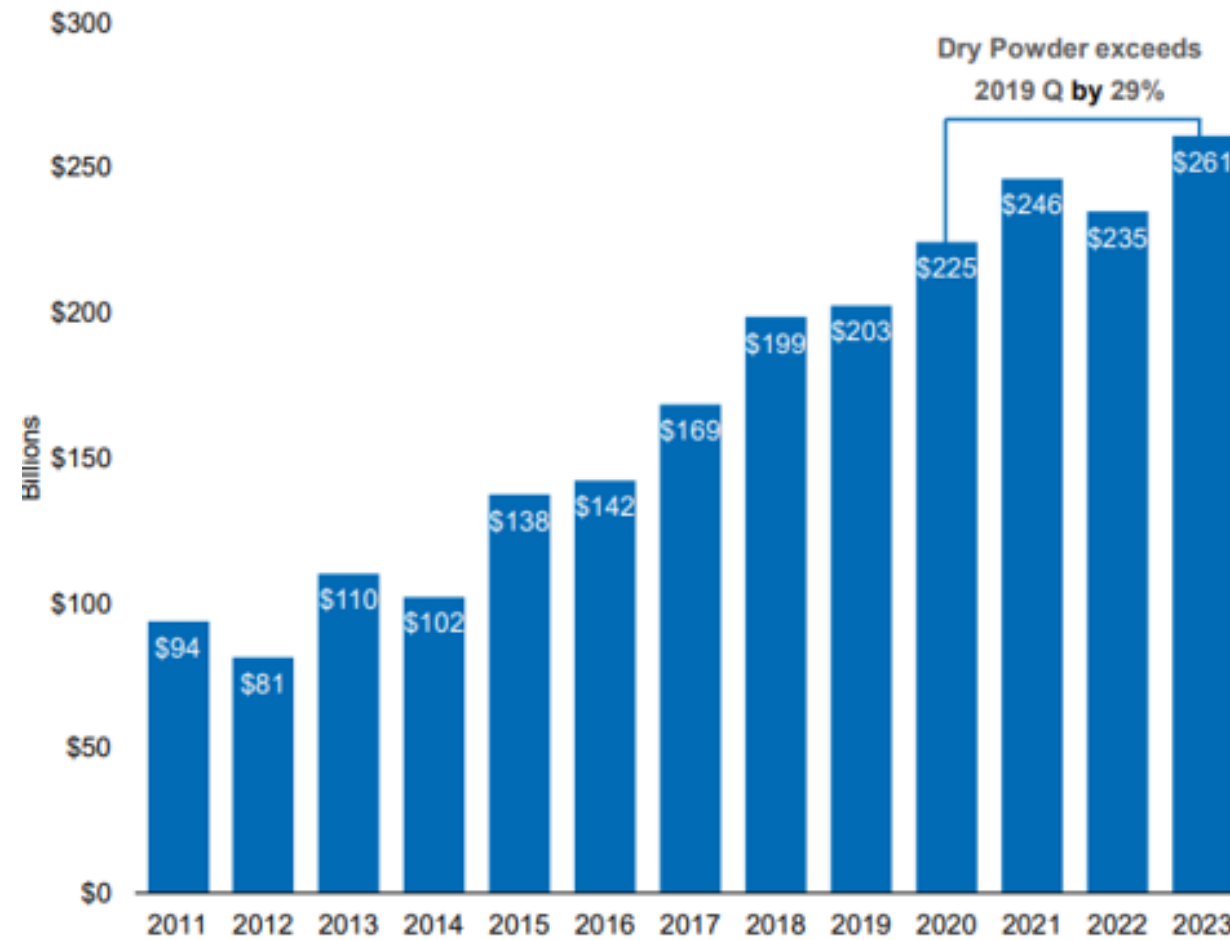
. . . . institutional allocations to real estate continue to rise

Institutional Allocations to Real Estate



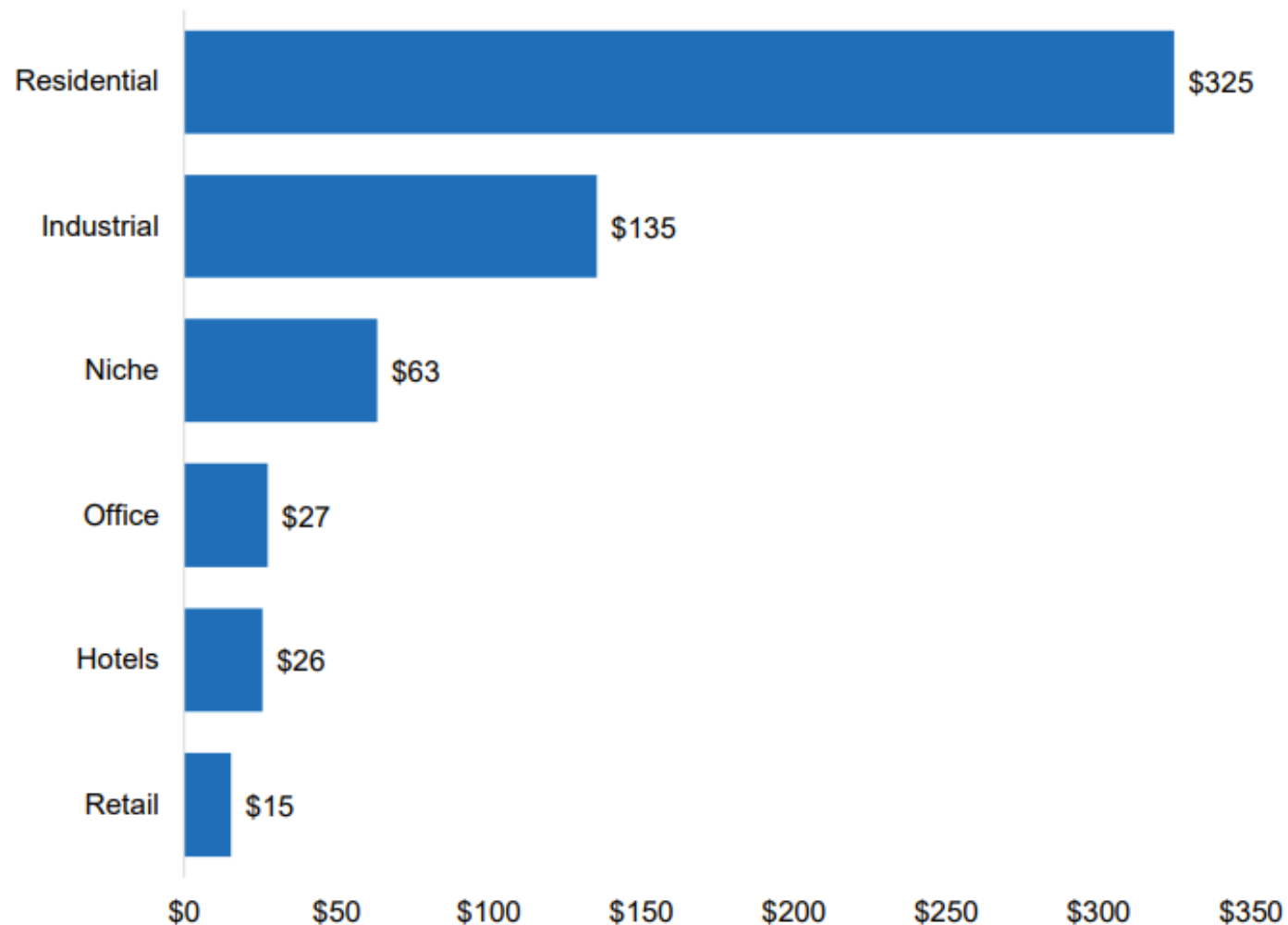
. . . . private equity dry power is plentiful, but sitting on the sidelines

Private Equity “Dry Powder”



. . . . private equity investment is narrowly focused on residential and industrial property types – 2.5% and 4.6% of transaction volume is focused on retail and office, respectively

Dry Power – Real Estate Equity Raised



Commercial Real Estate Markets

Commercial Real Estate

- Market fundamentals
 - Apartment – solid
 - Industrial – very solid, slowing to come in distribution space
 - Retail – no new supply for years
 - Office – challenged – from both a demand and operating cost perspective
 - Equity is plentiful and is ready to jump in – expect little or no cap rate expansion

Overall

- The bid/ask spread remains large and will slowly narrow with debt rates declining
- Cap rates are still in price discovery
- The office markets likely have further to fall with steep investor/lender losses



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