LEE & ASSOCIATES - ATLANTA'S

MARKET BRIEF

FEBRUARY 2024

FORECASTS TURN POSITIVE; *WHAT IT MEANS FOR CRE*

Economic forecasts have turned quite positive in recent weeks, painting a rosier picture for overall activity this year. The "survive until 2025" mantra which took hold in the fall of 2023 flies in the face of recent sentiment, which now generally predicts 1.0% to 2.0% U.S. GDP growth. More recently, large financial institutions predicted 2024 would be a productive year, and recent economic growth provides early support for the optimistic sentiment. In January alone, the U.S. economy added more than 350,000 jobs, while wages rose at their highest level since March of 2022.

INSTITUTIONAL ECONOMIC PREDICTIONS | 2024

Institution	Sentiment	Comments
Goldman	leaning optimistic	"… we envisage a period of global growth that is broadly around trend, and continued slow declines in inflation."
JP Morgan	moderately optimistic	"our baseline U.S. economic forecast for 2024 can be summed up by the number 2024- 2% growth, 0 recessions, 2% inflation and unemployment staying at roughly 4%."
Morgan Stanley	moderately optimistic	"We expect fundamentals in the industrial, residential, and alternative sectors to outperform, although rental growth has begun to normalize and select pockets of oversupply may create market-specific softness. "
HSBC	moderately optimistic	"HSBC issued an upbeat forecast for the S&P 500 for next year, boosted by the prospects of Federal Reserve rate cuts as inflation moderates but the U.S. economy avoids a severe slowdown"
Blackrock	leaning pessimistic	"The economy is normalizing from the pandemic and being shaped by structural drivers – shrinking workforces, geopolitical fragmentation and the low-carbon transition. The resulting disconnect between the cyclical narrative and structural reality is further stoking volatility, in our view."
Barclays	leaning optimistic	"The US economy is unlikely to generate significant growth in 2024, with real GDP forecast to slow to 1.0% during that year, down from the 2.4% anticipated this year. While hardly exciting, such performance stacks up well compared to European nations.
Citi	leaning optimistic	"While it may not seem like it just now, our analysis suggests that the global economy is healing and poised for further recovery, full of potential opportunities to build profitable and resilient portfolios. "This is a good time to be a global investor, maybe even a very good time."
Deutsche Bank	leaning pessimistic	"Global Head of Macro Research, Jim Reid and his team believe we will see global growth of 2.4 percent in 2024. This is down from 3.2% in 2023. With the US and eurozone economies expected to see mild recessions, this pace of global growth will rely heavily on the emerging market world."
Apollo Global	leaning pessimistic	"Going into 2024, we still see upside risks to inflation, downside risks to growth, and expect rates to stay higher and for longer than the rest of the market does."
Wells Fargo	moderately optimistic	Our U.S. economics colleagues now believe the U.S. will avoid recession, achieve a "soft landing," and experience continued expansion through 2025.

WHAT IT MEANS FOR COMMERCIAL REAL ESTATE

Industrial indicators are again showing signs of acceleration. Overall availability has remained at a consistent level for three straight months, an early indication the market has reached equilibrium after a year of reduced leasing activity. This is a testament to the fundamental strength of the Atlanta market, which despite the introduction of 35 MSF of new construction deliveries and the emergence of more than 7 MSF of sublease space in 2023, continues to expand in a balanced fashion. This is illustrated by Atlanta's generally moderate vacancy rate increase of 3 percentage points (300 basis points) in 2023 (to 7.0%), faring better than peer growth markets such as Dallas (+320 bps), Phoenix (+340 bps) and Inland Empire (+360 bps).

In late 2023, Lee Atlanta's 2024 Industrial Forecast predicted 7.5% vacancy by mid-year. While vacancy has certainly climbed, a lack of new construction starts and flattening availability could place downward pressure on vacancy sooner than expected. Further, if the Federal Reserve follows through on spring rate cuts, look for the development cycle to gain some steam, particularly if leasing activity surprises in Q1.

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