Economy on the mend: Hopeful signs abound - by Daniel Calano

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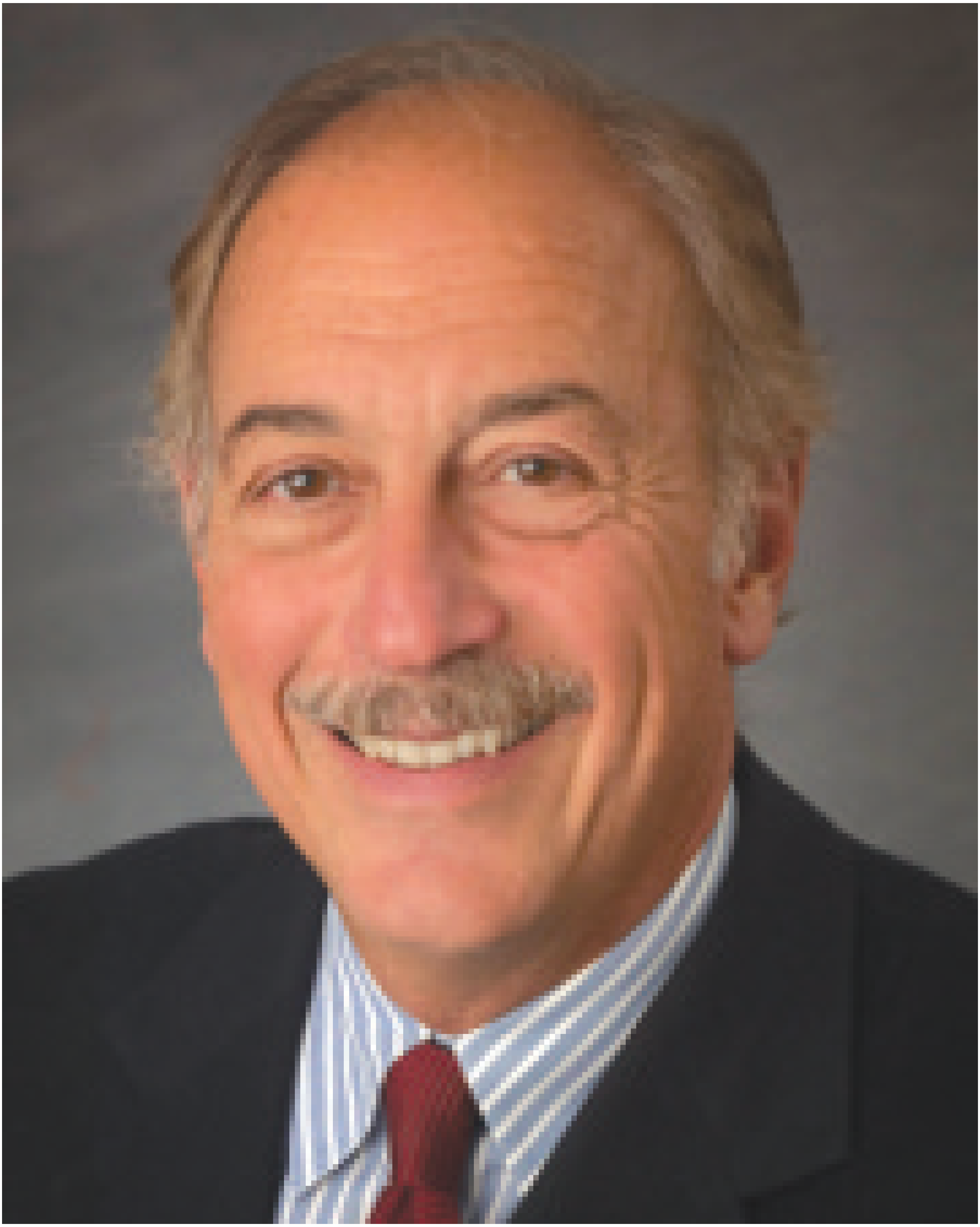

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Economy on the mend: Hopeful signs abound over the last few months of the fears of a long recession have been replaced by the hope of soft landing in the economy. The Federal Reserve Bank, which has increased interest rates dramatically over the year to curb inflation, has shown signs that there will be a pause in their actions, in order to better understand where we are: A pause to review the data of lowered inflationary pressure.

In their many speeches to the public, keeping all informed, they have most recently acknowledged a resilient economy, and lowering of inflation. The largest threat or inconsistency remains labor cost, which is a reflection of the strong economy. This point alone seems to be the most complex, and the Fed is well aware.

What is the evidence? First, this is the reporting season for many companies financial status. Every week, various different companies report various financial statistics, mostly including projected revenues and predictions of future growth. Many, if not most indicate strong quarterly growth, which is a key factor in the feds decision making. In other words, things are looking very good. We litigated real estate, borrowing is expensive, but becoming somewhat more available than a few months ago. As mentioned, labor is strong, unemployment is historically low, the overall sentiment has shown dramatic change. Six months ago, it looked like a recession was inevitable, or even existing already. This belief has changed from hard landing, to soft landing, to potentially no recession at all.

This optimism has begun to show up in real estate, with a new activity in leasing. While there is still hybrid work schedules mixing office work with work at home, there are signs of some return of workers to office buildings. Class A office buildings in New York have shown higher vacancies. Class B buildings are being improved to look more like class A. Multifamily, specifically rental apartments, are showing strong rents, if not small revenue increases. Even retail is showing more signs of resilience, consumer activity.

All in all, confidence is strong, if not growing. All good, right? Not so fast. Just this week, Fitch, a bond rating agency, has downgraded the United States from AAA to AA. Some say this has little meaning, in that the strongest country in the world is the United States. Others see it as a crack in the armor. While complicated, the rating reduction has much to do with the federal debt, increasing annual deficiencies, conflicting fiscal policies within polarized congressional control. As a result, in order to pay debt service on existing debt, which in certain cases is increased due to rate increases and new needs for debt such as infrastructure, the US is moving to raise more money through bond sales. Obviously a complicated issue, needing a whole new research and reporting. As a summary, things are good, but stay aware of potential future fiscal developments. They may have as much impact on real estate as we have seen recently with borrowing costs.

Stay tuned, and stay aware.

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