

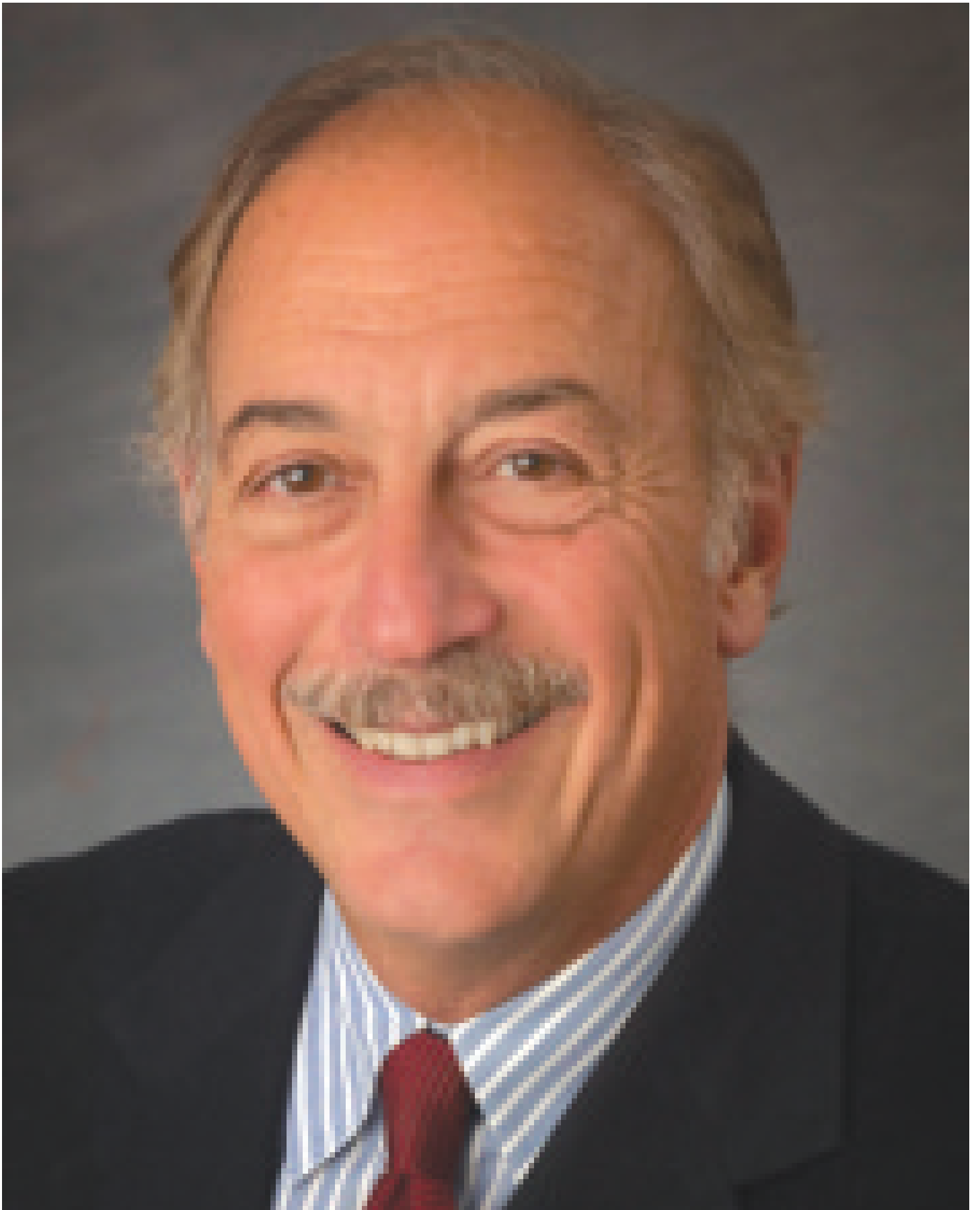


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Carefully curated fortune-telling: Taking a peek at 2024 - by Daniel Calano

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Daniel Calano

The official Counselor of Real Estate report on “10 trends to watch for in 2024” will be out shortly, written by economic experts and practitioners. In the meantime, I have my own projections, based upon research, as well as persistent reviews over many years in real estate. This, combined with the team of Google, Chat GPT, Bard, and Bing, (just kidding) indicate a “reasonably” clear view of what lies ahead in 2024. My findings on issues going forward, in some cases already underway, are as follows:

1. First, the economy in general is definitely on a good trend, and surprisingly sooner than expected. Unemployment is historically low, reflected in financial markets, improving in some aspects better than pre-pandemic conditions. Wages are high; fewer workers are collecting unemployment, some of which facts the Fed would like to see lower in order to reduce inflation. It appears that we will have a “soft landing” as opposed to a recession.

2. Second, slowly lowering from a high of around 8%, new borrowing rates are hovering at 6%. Housing which has been “unaffordable” for many reasons including owner reticence to sell, thus creating low supply, is starting to open up. Lower rates will clearly lower purchase costs in housing, commercial real estate as well as overall businesses. Funding will also be more available, at lower cost. And, this should enormously benefit the large percentage of loans coming due that were expected to be much higher price refinancings.

3. One big plus, consumer confidence has been high, stimulating strong spending, albeit with some slight signs of pulling back recently. The pull-back would be normal, after “binging” for example, on travel and purchasing of goods. Remembering that the consumer provides approximately 70% of gross domestic product (GDP), this will have an enormously positive impact on our economy going forward.

4. On the negative side, there are worrisome aspects of the economy such as the debt to GDP ratio which is worsening, rather than improving. In simple terms, our national deficit has been increasing annually by several trillions, creating a total debt level of around \$33 trillion, which easily cannot be repaid, given the recessionary times we have had in the recent past. Many would say that we will catch up with improved jobs, taxes, economic growth and so on. But, the debt to GDP ratio is getting higher, now at 123%, than in many countries around the world, an alarming fact.

5. One key source for paying down debt is to “float” US government bonds which is, in its simplest definition, borrowing money from other countries/institutions typically, with a promise to pay back later on. A troublesome sign at recently held bond auctions is a tepid response from buyers. And, as you recall, US credit has been occasionally downgraded, causing potential bond buyers to be carefully watching how we progress beyond recession.

6. Lastly, geopolitical complications, in my opinion, have the most serious growing negative impact potential. We are clearly overextended in various international conflicts: Middle East, Ukraine/Russia, China/Taiwan, South Korea, South America, even Mexico. These clearly cost us

hundreds of billions (trillions) of dollars, and potentially American bloodshed. Politicians say yes, we are over-extended, but we will not have boots on the ground, just military advisors. Does that sound familiar, (i.e. early Vietnam)?

I certainly do not want to end this on a sour note, given the earlier positive events also noted. Much of the outcomes will be debated, and the future is also influenced by people's perception of the glass half empty or half full. That reaction alone can influence many decisions about a promising future. We are definitely dodging a potential full blown recession, and it certainly does not appear that the potential downsides will coalesce into a black swan event. The real issue is uncertainty, and not being able to predict future. All that said, there will certainly be bumps in the road in 2024. As they say, be positive but stay aware.

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