



ECONOMIC OUTLOOK 2023

SUNSHINE STATE: PARTIALLY CLOUDY, BUT NO MAJOR STORMS

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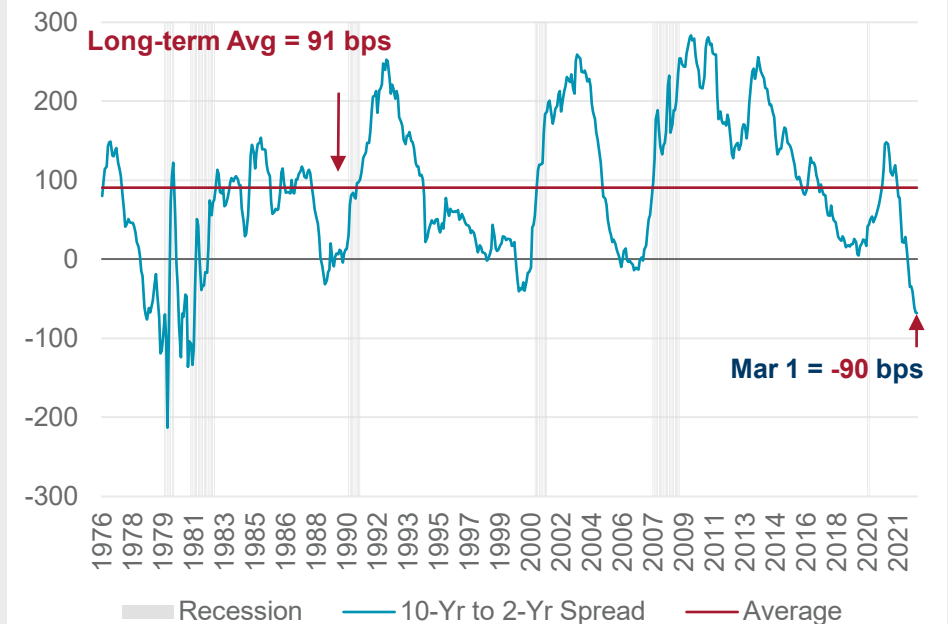
ULI Fort Lauderdale/Caribbean
March 6, 2023



Recession Dashboard

Indicator	Status	Risk Level
Yield Curve	<ul style="list-style-type: none"> The 10-yr/2-yr inverted on sustained basis in July 2022. It is more inverted than at any time since Q3 1981. The 10-yr/3-mo spread inverted in November 2022 and has steepened sharply since. 	
Unemployment Rate	<ul style="list-style-type: none"> Unemployment rate has been stable around a historically low range of 3.4% to 3.7% since March 2022. Watch for an increase of 30 bps over three months and/or an increase of 50 bps above the prior 12-month low point. 	
Initial Claims	<ul style="list-style-type: none"> Initial weekly unemployment claims as a share of the working-age population is near an all-time low. Watch for a sharp move above the breakeven of 270,000. 	
Manufacturing	<ul style="list-style-type: none"> ISM slipped in further January 2022 to 47.4, below the expansionary threshold of 50. New orders plummeted to 42.5. Historically the headline index has dropped below 45 in periods prior to recession. 	
Stock Market	<ul style="list-style-type: none"> Earnings outlooks still expected to be marked down. Cyclically-adjusted P/E ratios are high. Market* down 15% to 20% with NASDAQ (tech) down 30%. 	

Yield Curve: 10-yr vs. 2-yr



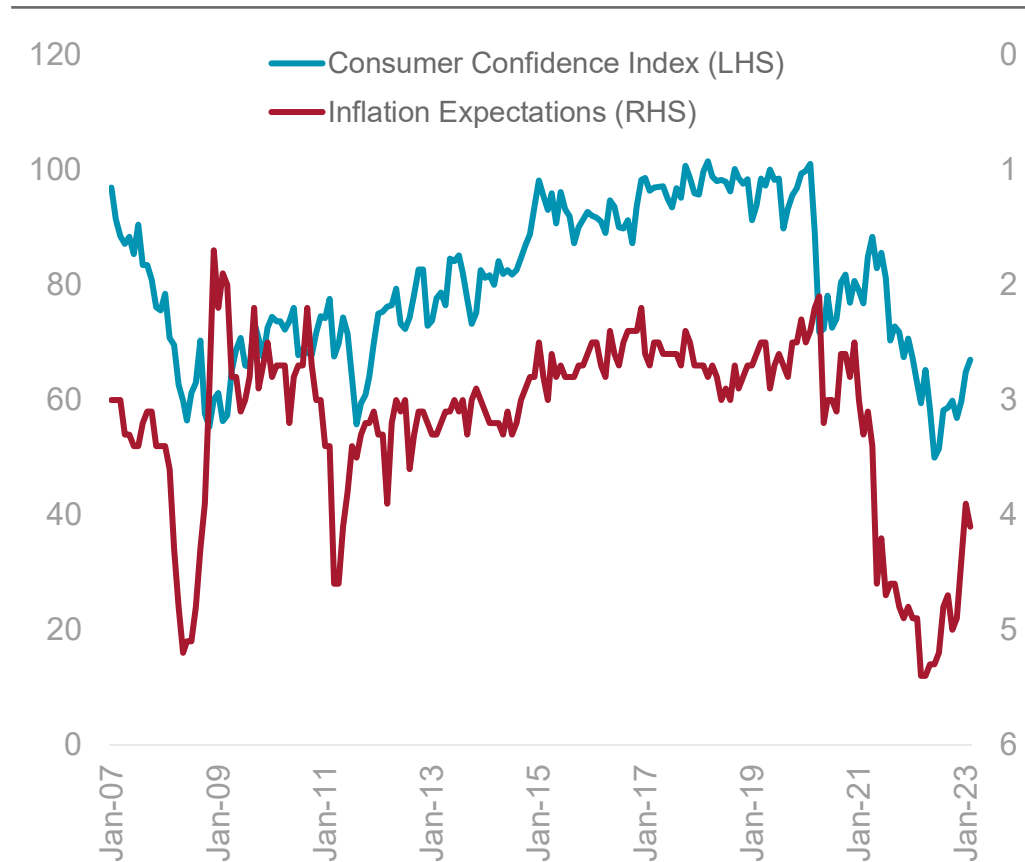
Probability of Recession in next 12 months

>50%

Everyone's Nervous About the "R" Word

Main street and the C-suites also expect a difficult year ahead

Consumer Confidence and Inflation Expectations



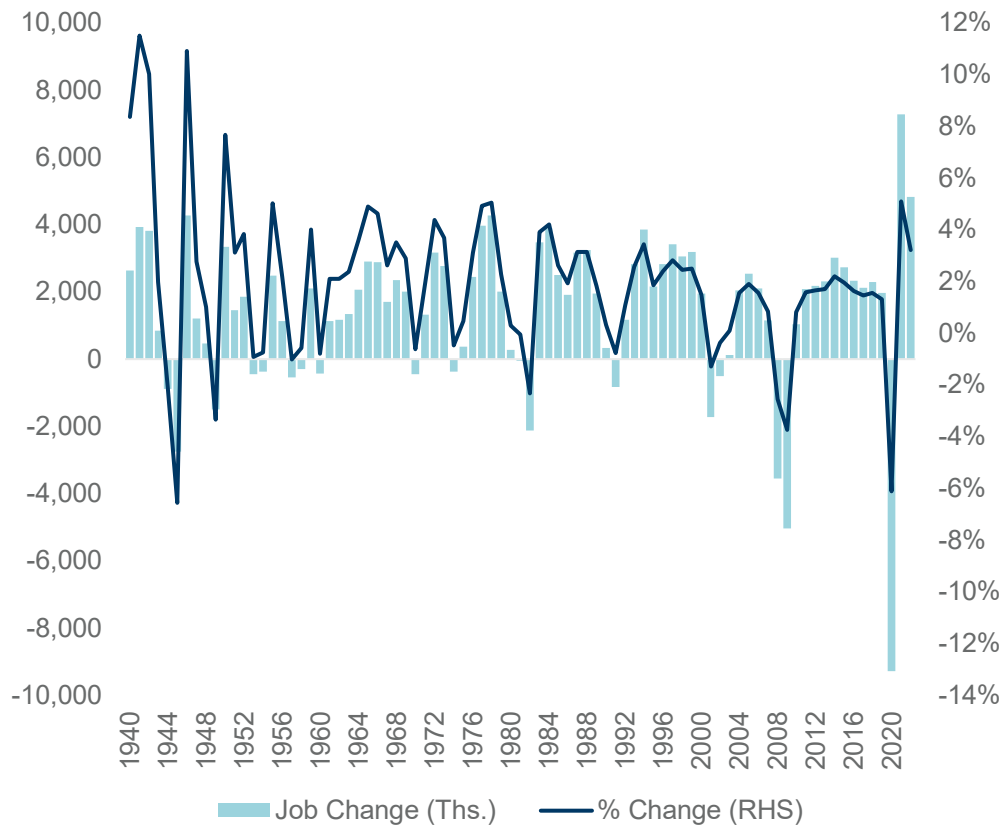
North America Business Confidence Survey (0=neutral)



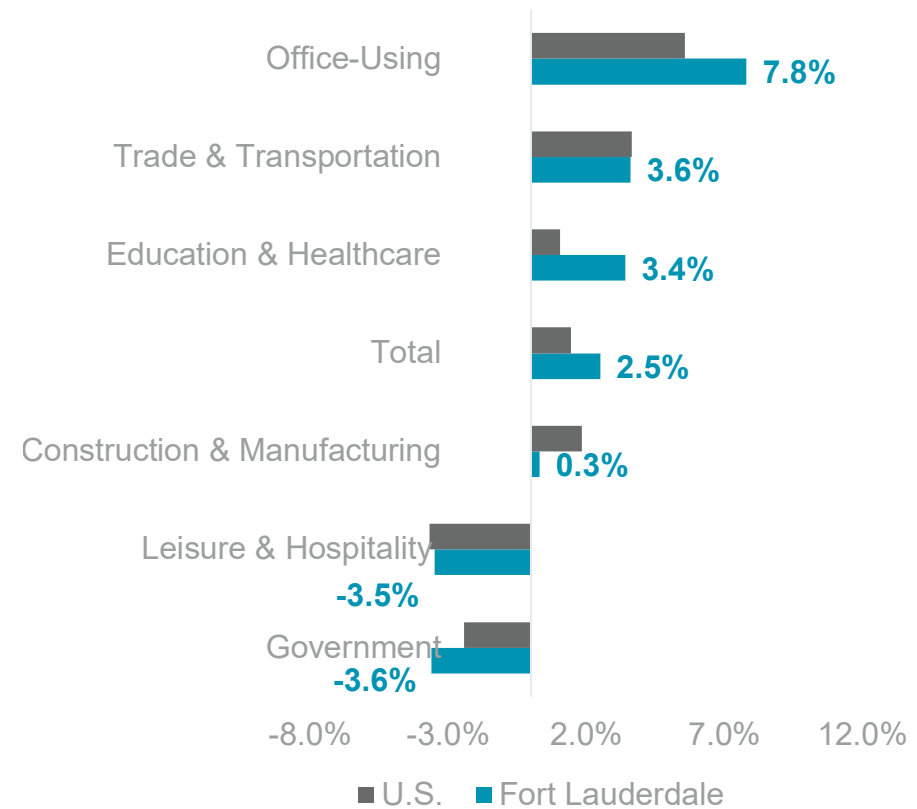
Labor Market “Too Hot,” Even Now

2022 = 2nd ever for new jobs, strongest growth rate since 1994

Total Employment

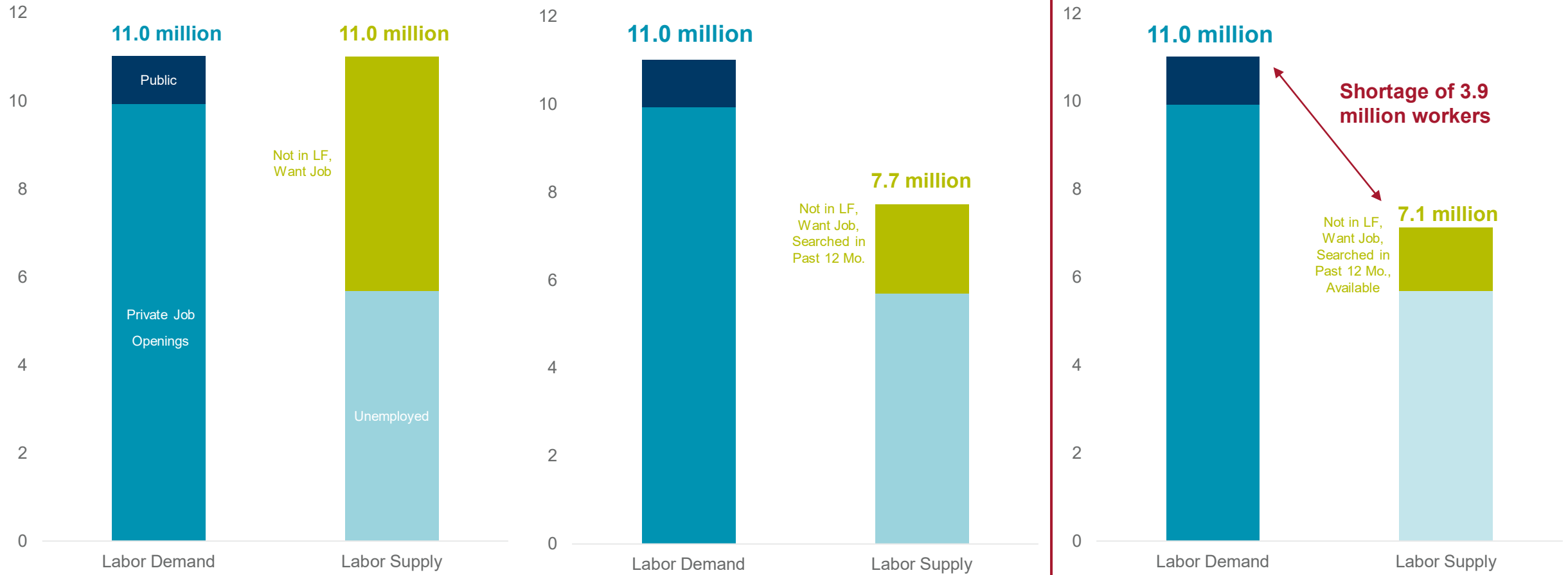


Industry Jobs vs. Pre-Pandemic Peak



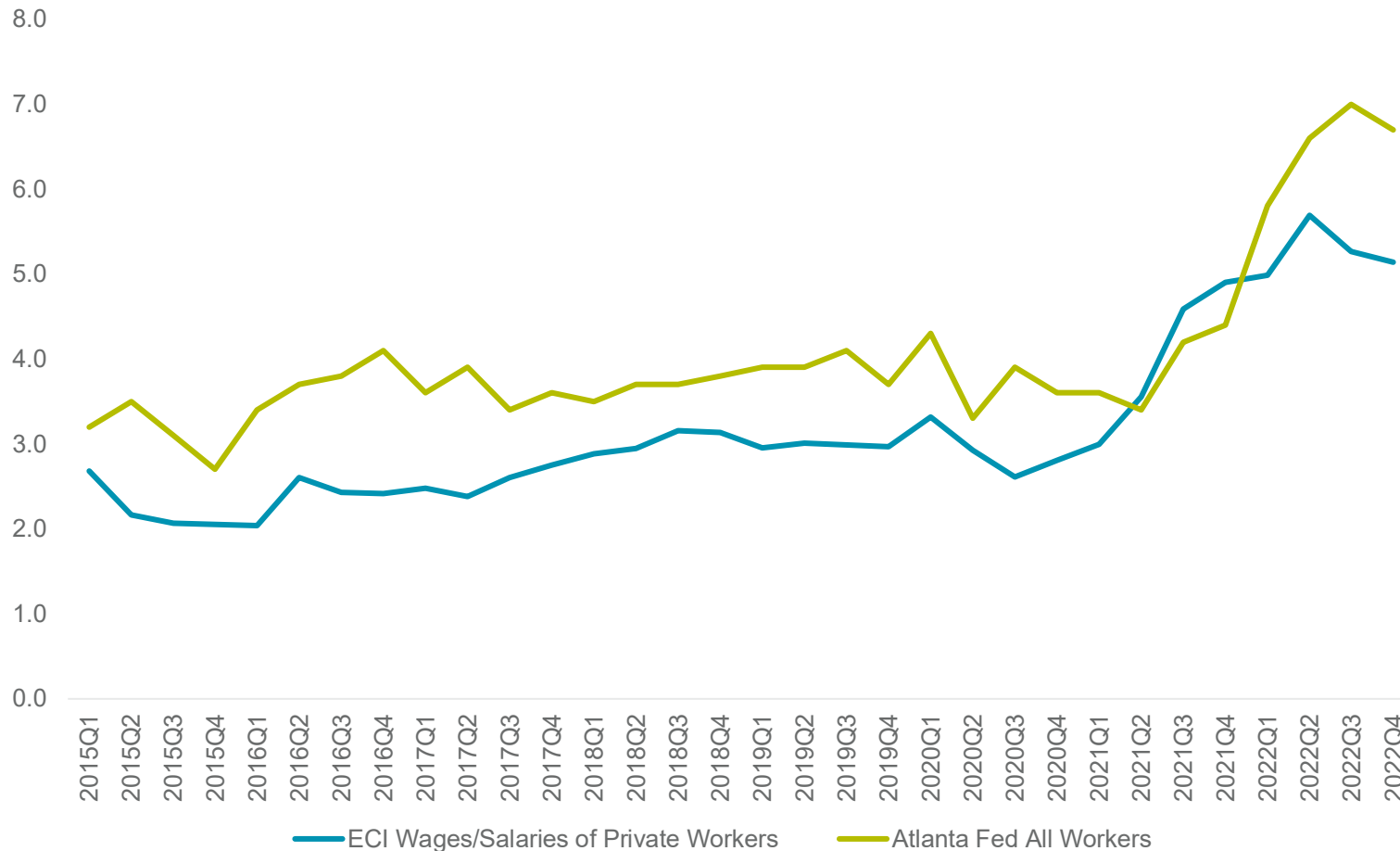
Where Did All the Workers Go?

Worker shortages widespread and significant



Wage Growth Elevated

Year-over-year % change



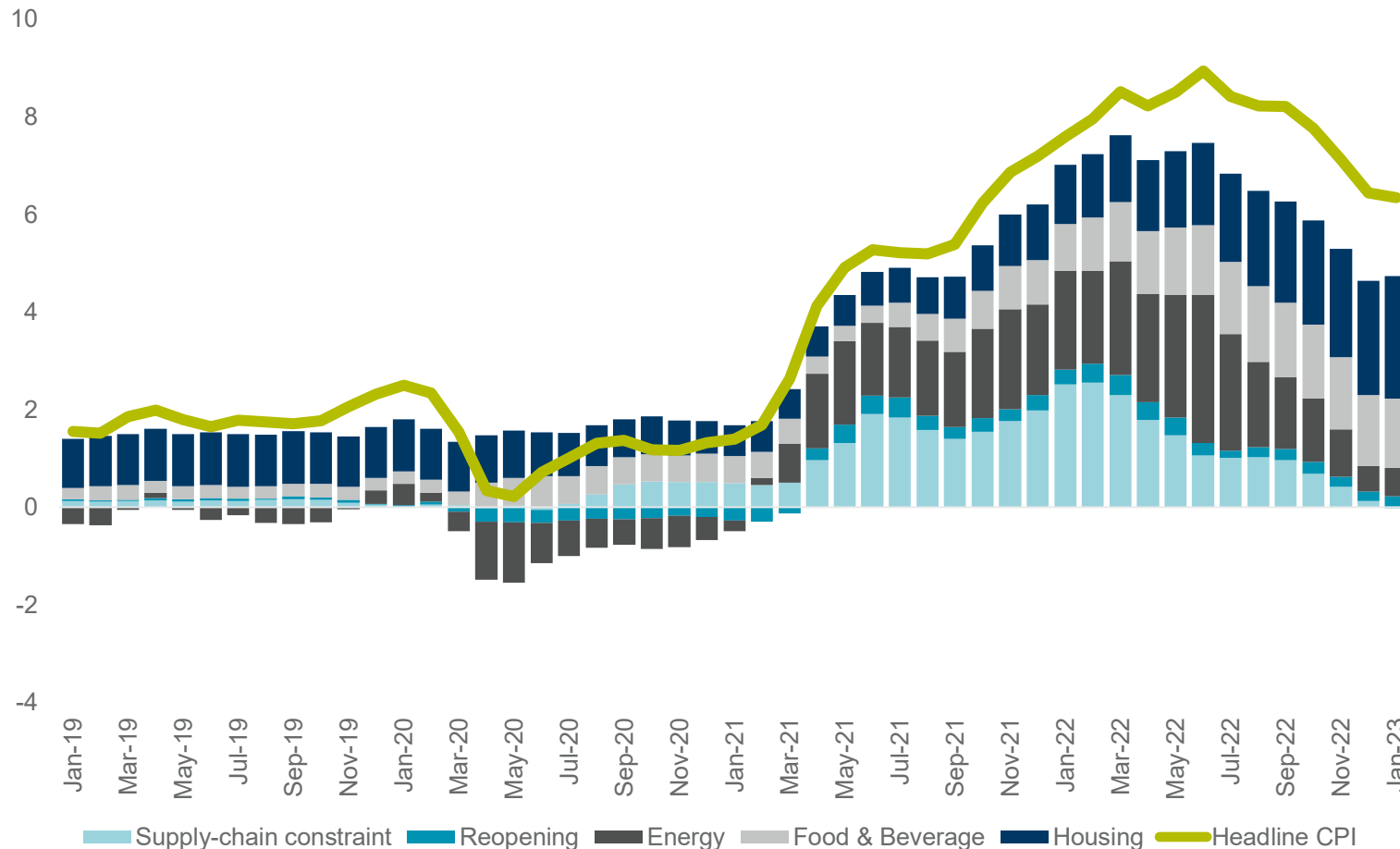
Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of Atlanta (weighted overall)

What to Watch

- Average hourly earnings is not a reliable indicator of wage pressure
- The ECI and Atlanta Fed wage tracker are preferred metrics
- These data are at multi-decade highs
- Wage pressure is sticky and will come down slower than overall inflation (and things like gas prices)
- Current wage growth is not consistent with the Fed's 2% inflation target
- While moderating, these are unlikely to come down a lot given the 3.4% unemployment rate

Inflation: Not Out of the Woods Yet

Cooling, but still uncomfortably high



What to Watch

- **Good news:** The impacts of supply chains and energy have receded significantly since peaking in early 2022
- **Bad news:** “Supercore” inflation, which is tied closely to wage growth, remains sticky and elevated near its highest levels
- The Fed needs core CPI to come to 2.5% or be headed in that direction in a sustainable manner
- There is little policymakers can do to impact energy and food prices; what they can do is temper demand for housing, construction, auto sales, and hiring

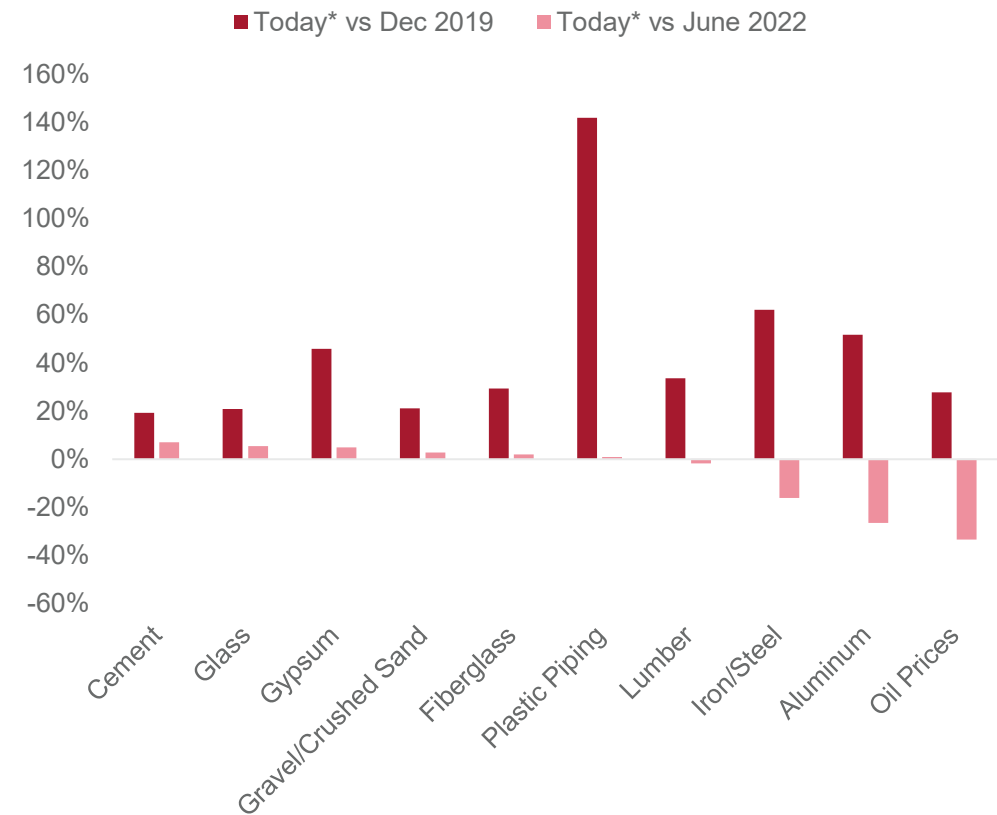
Supply Chains Easing, Cost Pressures to Follow

Already seeing price moderation for certain building materials

Supply Chain Stress Index



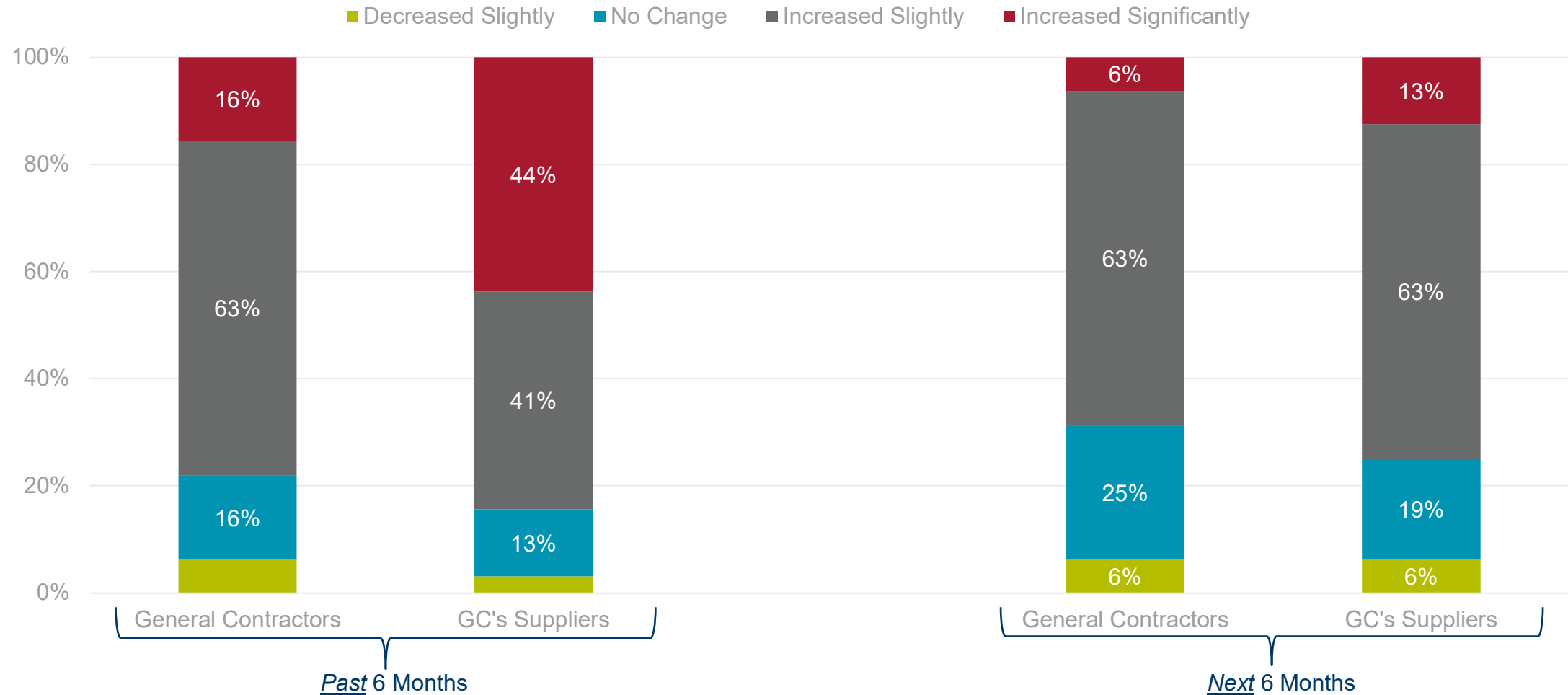
Construction Materials Prices



Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, Moody's Analytics *Q3 2022

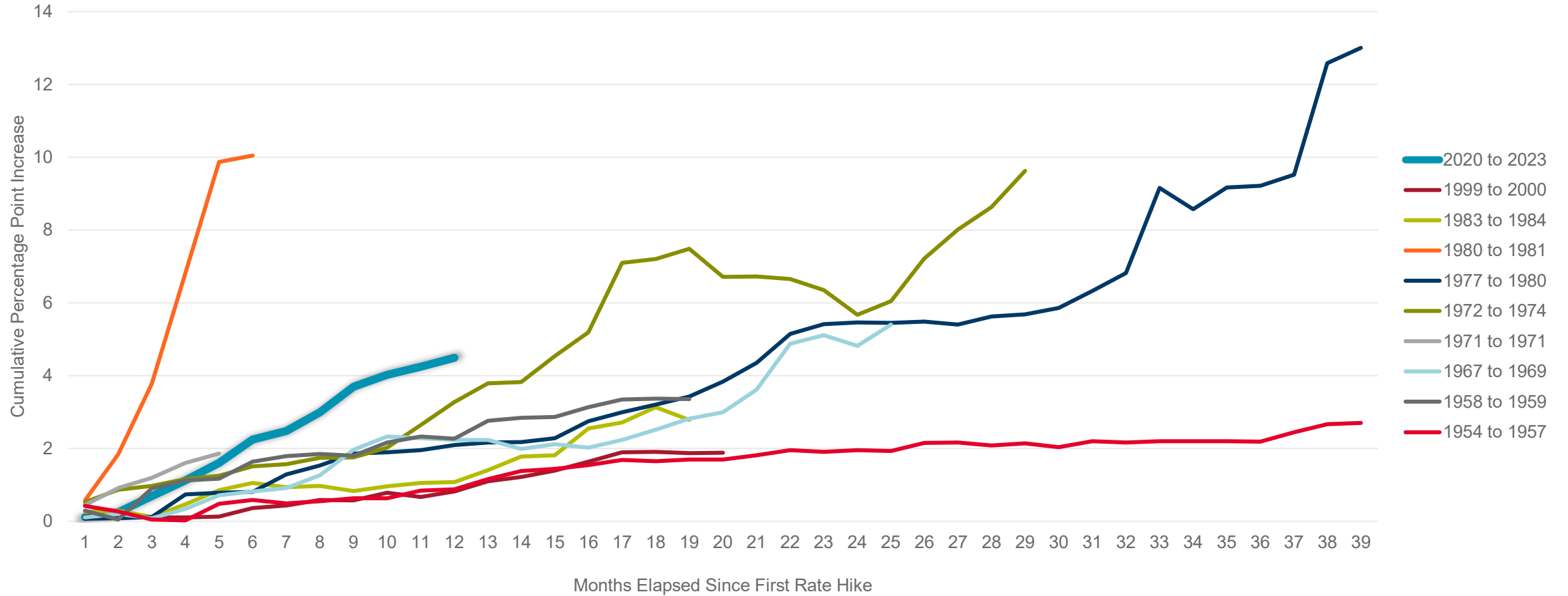
Contractors and Suppliers Anticipate Rising Prices

Cushman & Wakefield Construction Contractor Sentiment Survey, December 2022



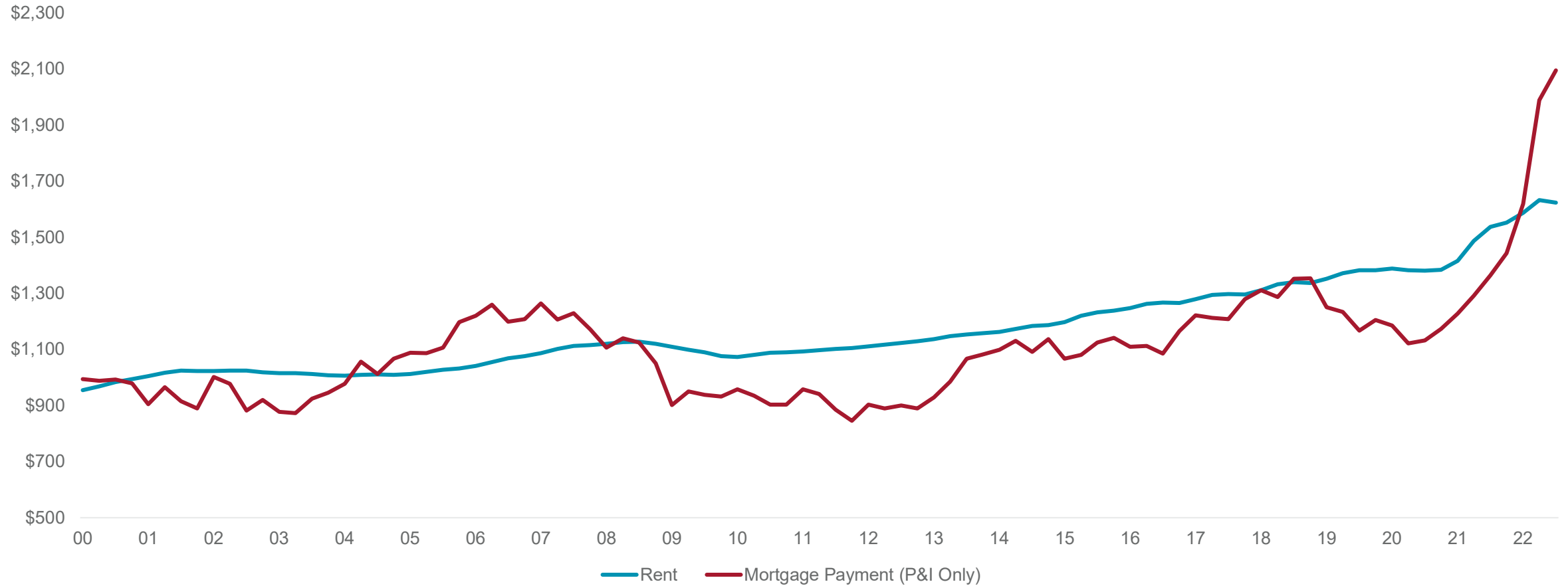
Rate Hiking Cycles

Fastest pace of hikes since early 1980s



Immediate Impact on Housing Market

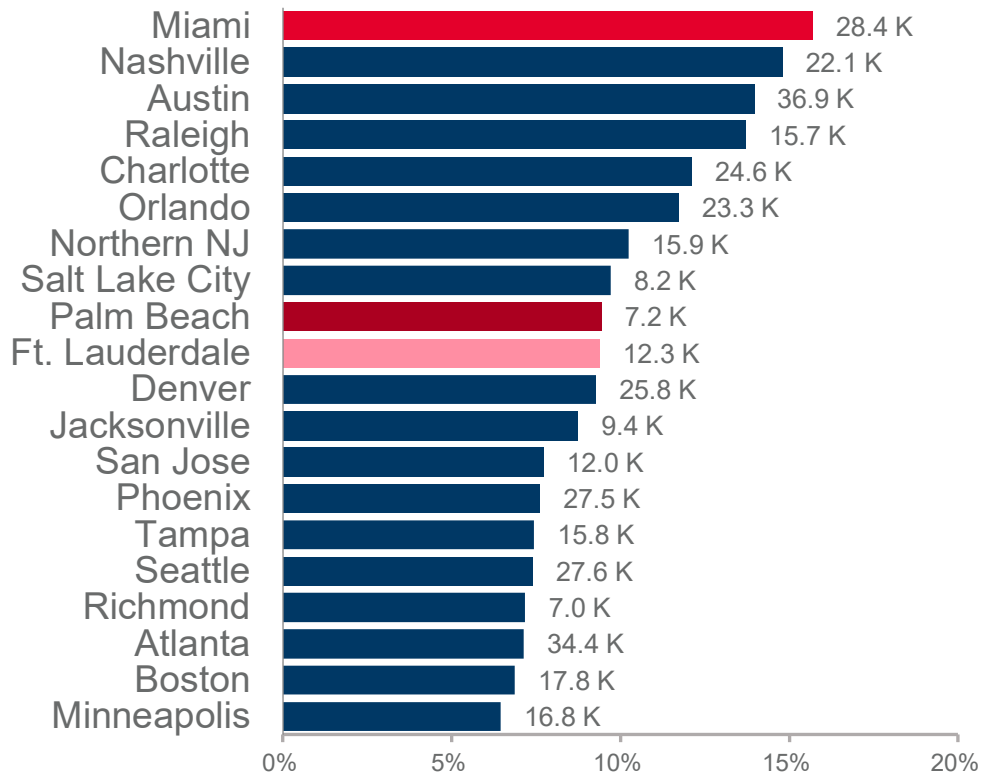
Renting is now relatively more affordable



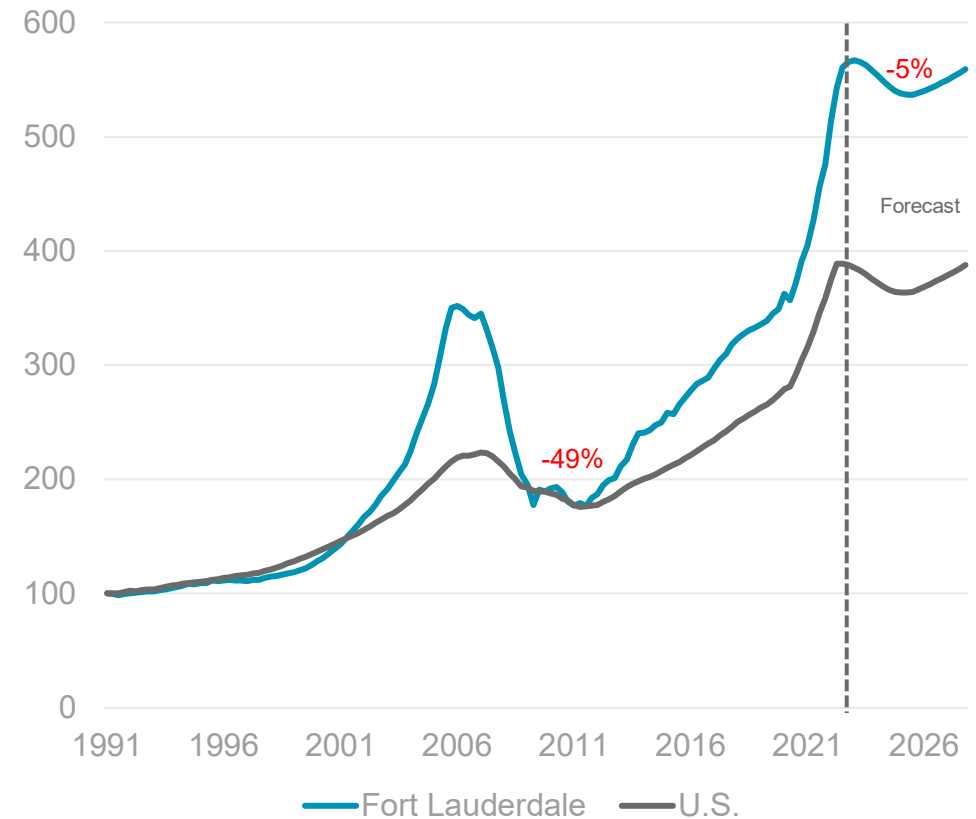
Don't Call It a Housing Bubble

Prices will correct, but the market needed a breather

Apartment Completions (% of inventory)



FHFA Home Price Index (1991=100)

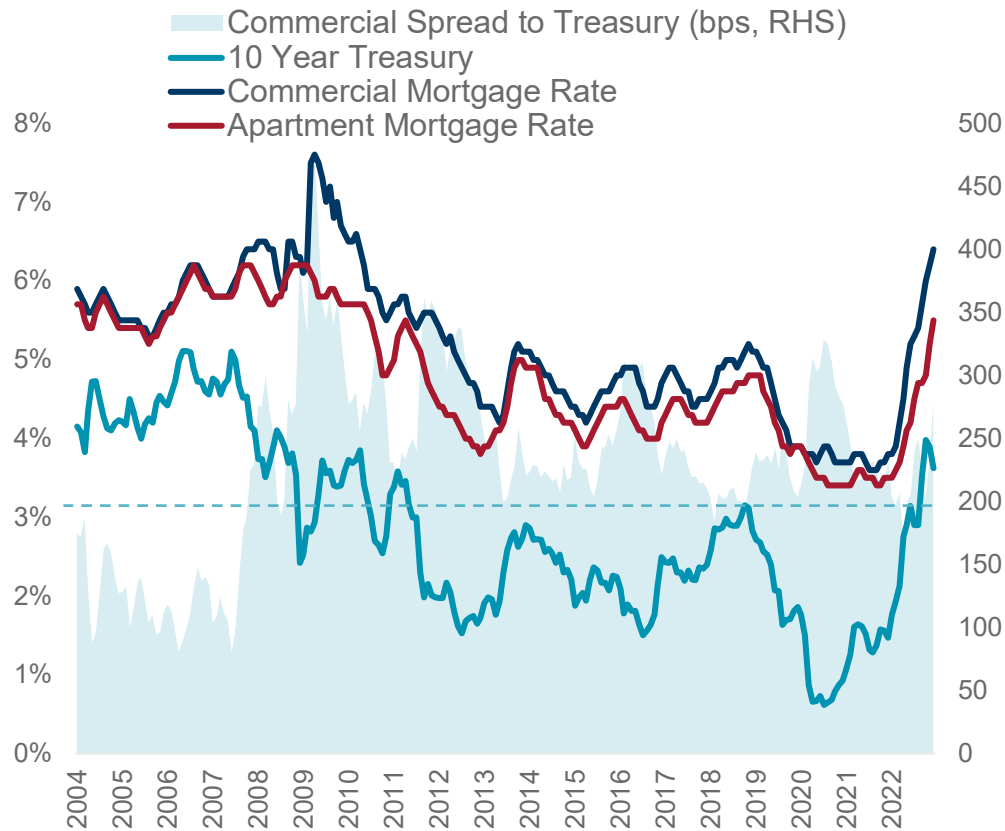


Lending Environment Tightening

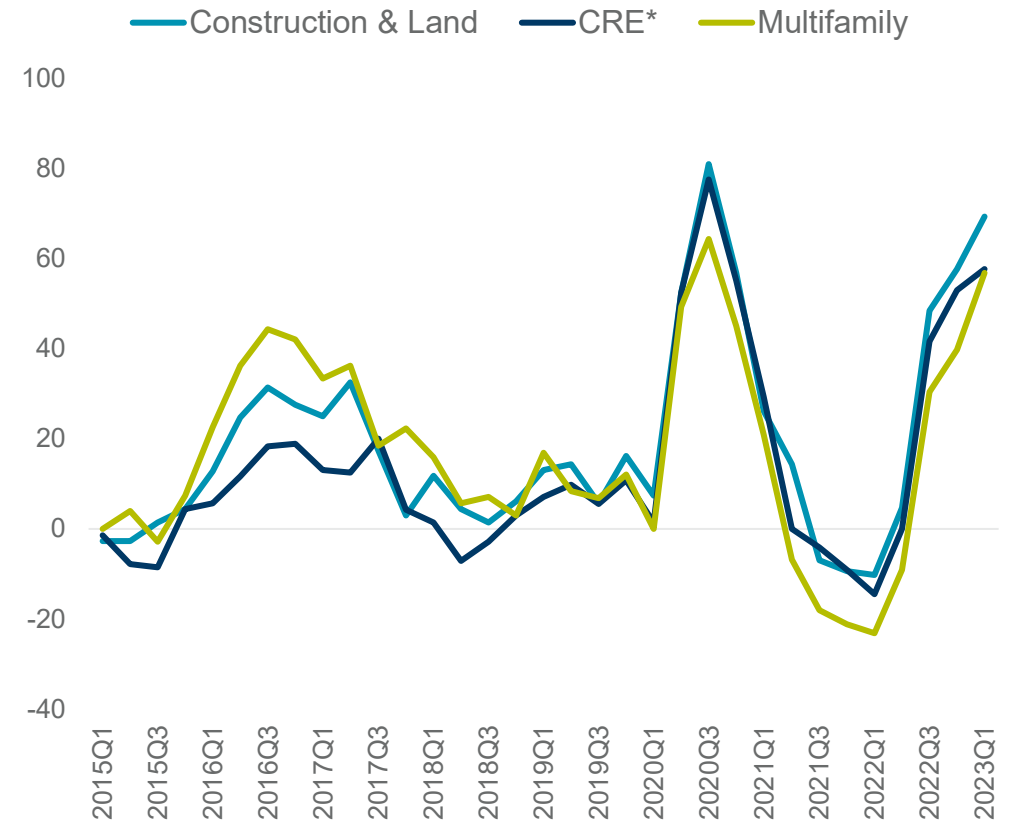
CRE spreads widening more than apartment



Commercial Mortgage Rates



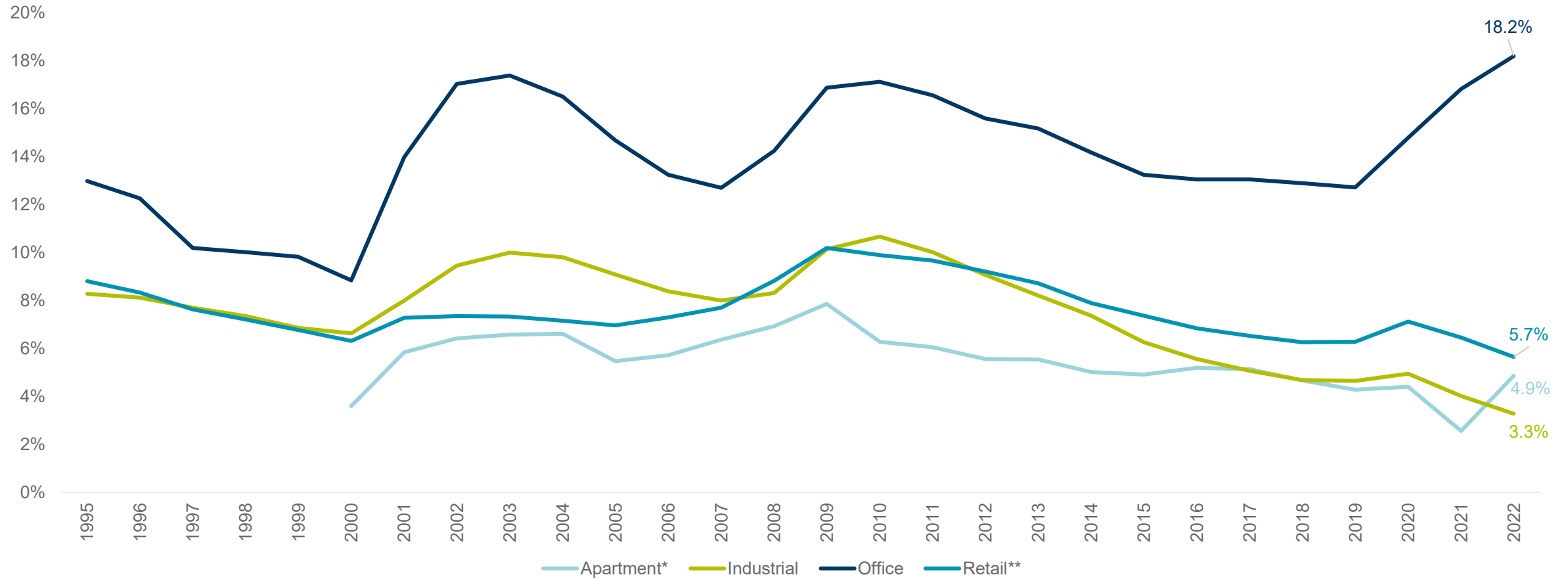
Share of Banks Tightening Lending Standards (%)



Source: Federal Reserve, Federal Reserve SLOOS, MSCI Real Capital Analytics. Note: *CRE denotes nonfarm nonresidential CRE lending.

Very Different Backdrop by Asset Group

National vacancy rates

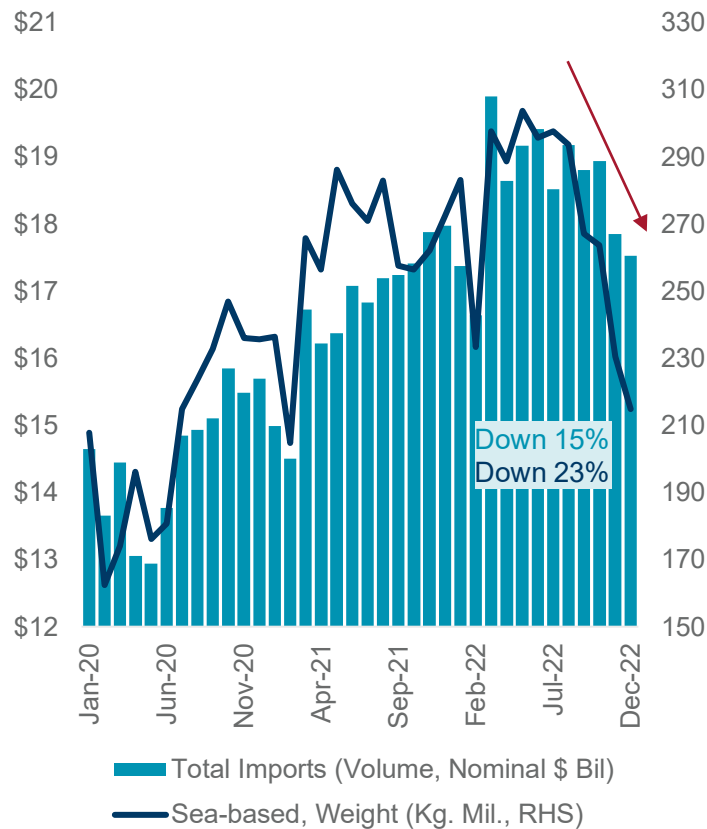


Source: Cushman & Wakefield Research, *Axiometrics, **CoStar/Cushman & Wakefield Research. Note: Year-end figures shown.

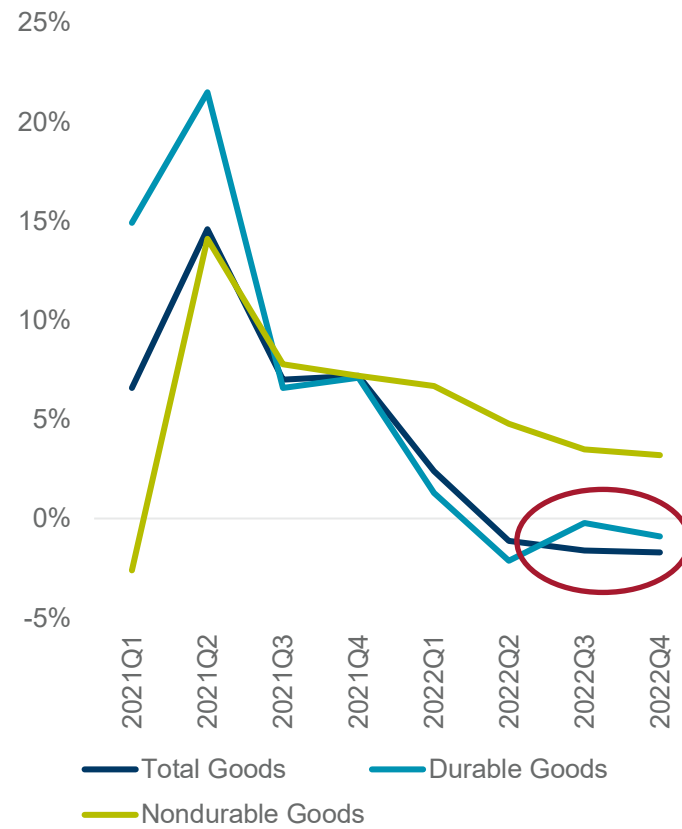
Recent Momentum

Annual 2022 figures mask recent deceleration in goods spending

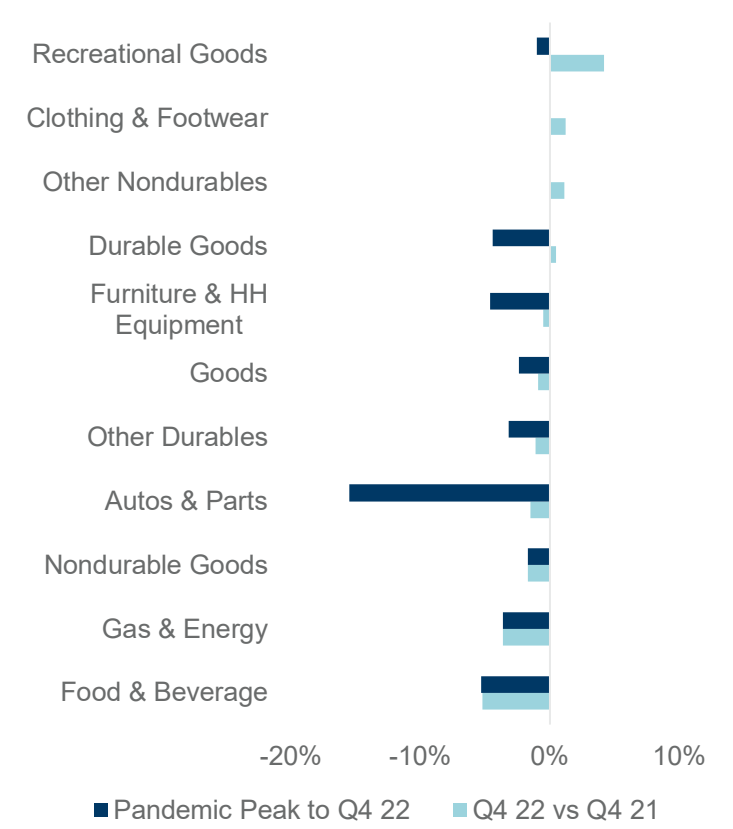
U.S. Goods Imports



Real Consumer Spending on Goods



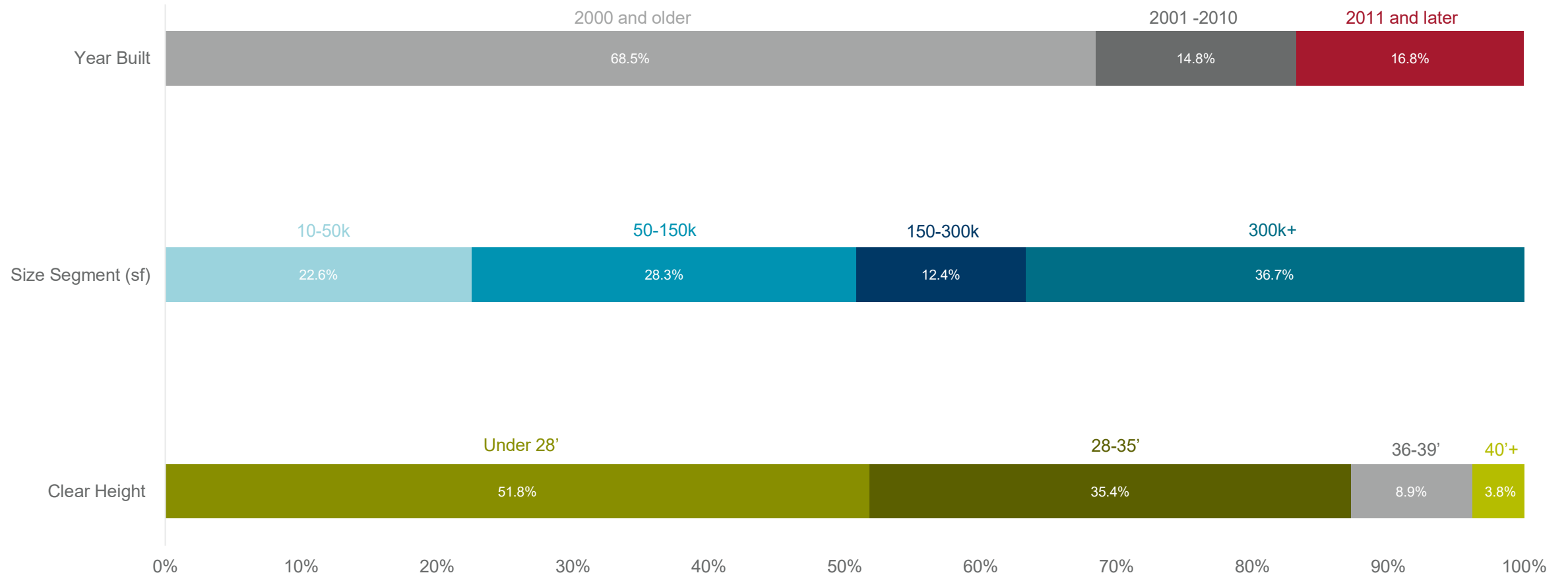
Real Spending, By Category



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau

Quality of Vacant Stock

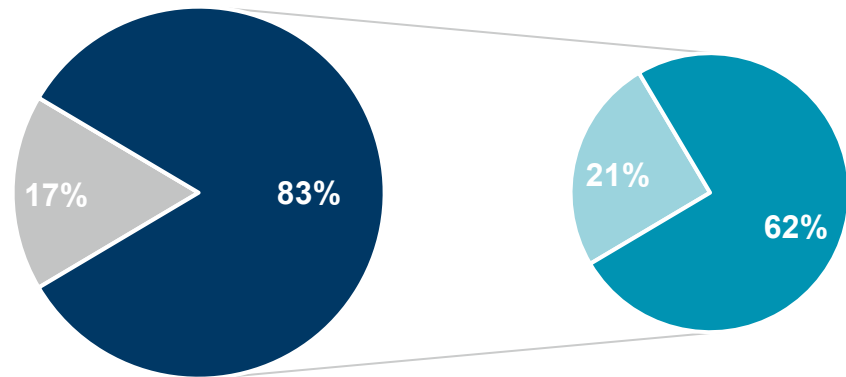
Current vacancy dominated by product that doesn't meet demands of modern tenants



Supply Not as Scary as it Looks

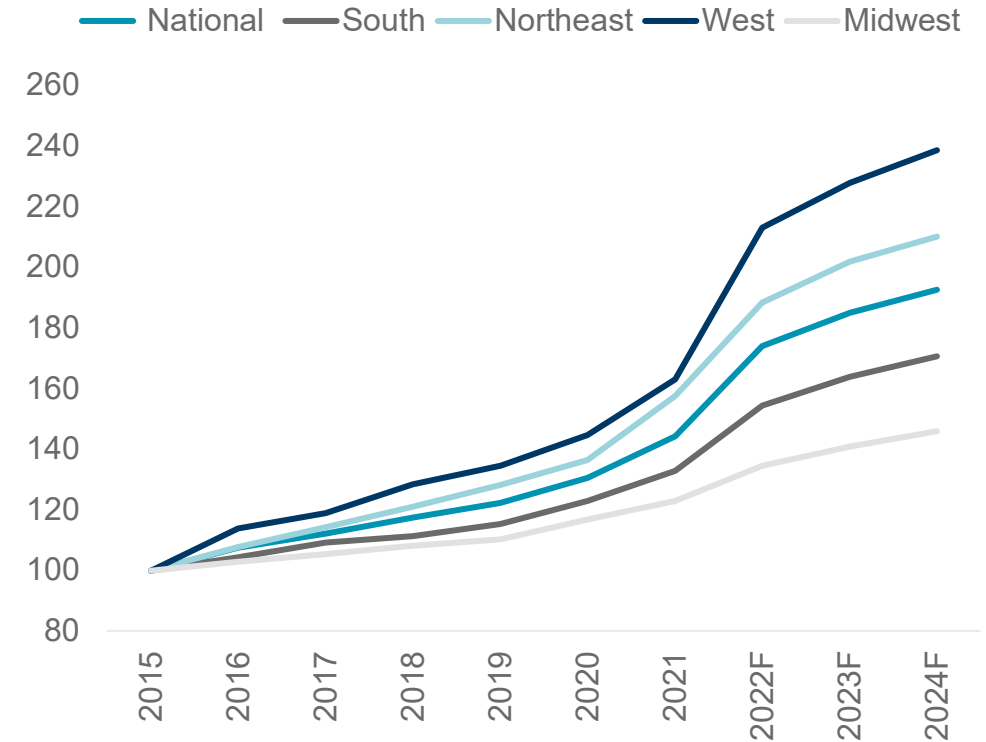
New construction will impact vacancy and rents, which is a good thing

683 MSF Under Construction Nationally



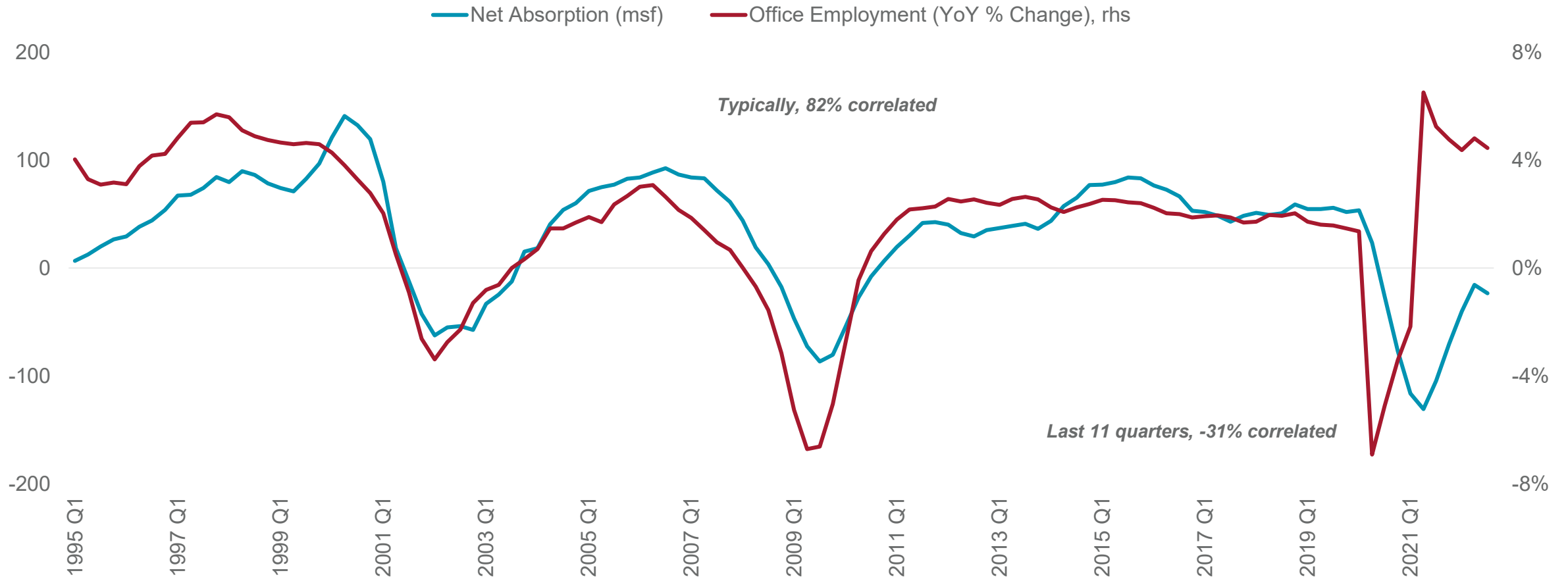
■ BTS ■ Speculative ■ Spec - Prelet ■ Spec - Vacant

Rents Will Keep Climbing (2015=100)



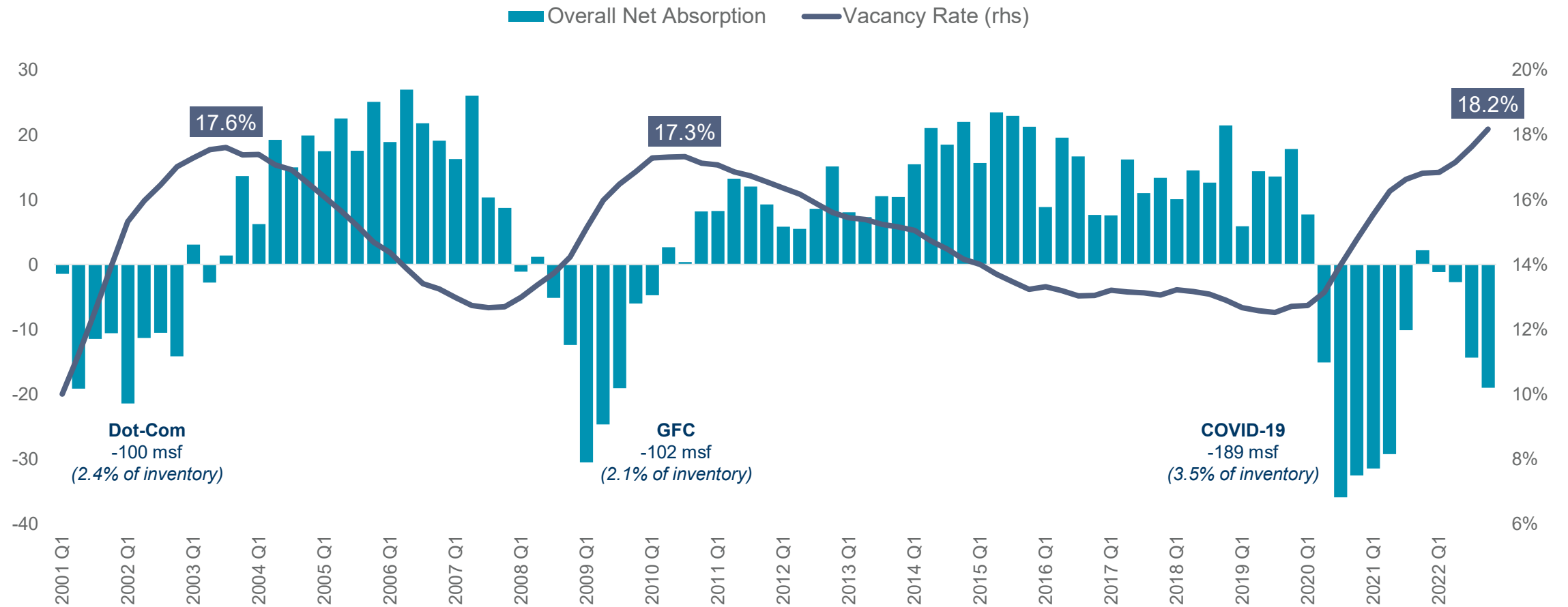
Normal Drivers Temporarily Diverging

Office employment not linked to demand trends in real time



Demand Weakened in Second Half of 2022

U.S. office: quarterly net absorption (msf) and vacancy rate



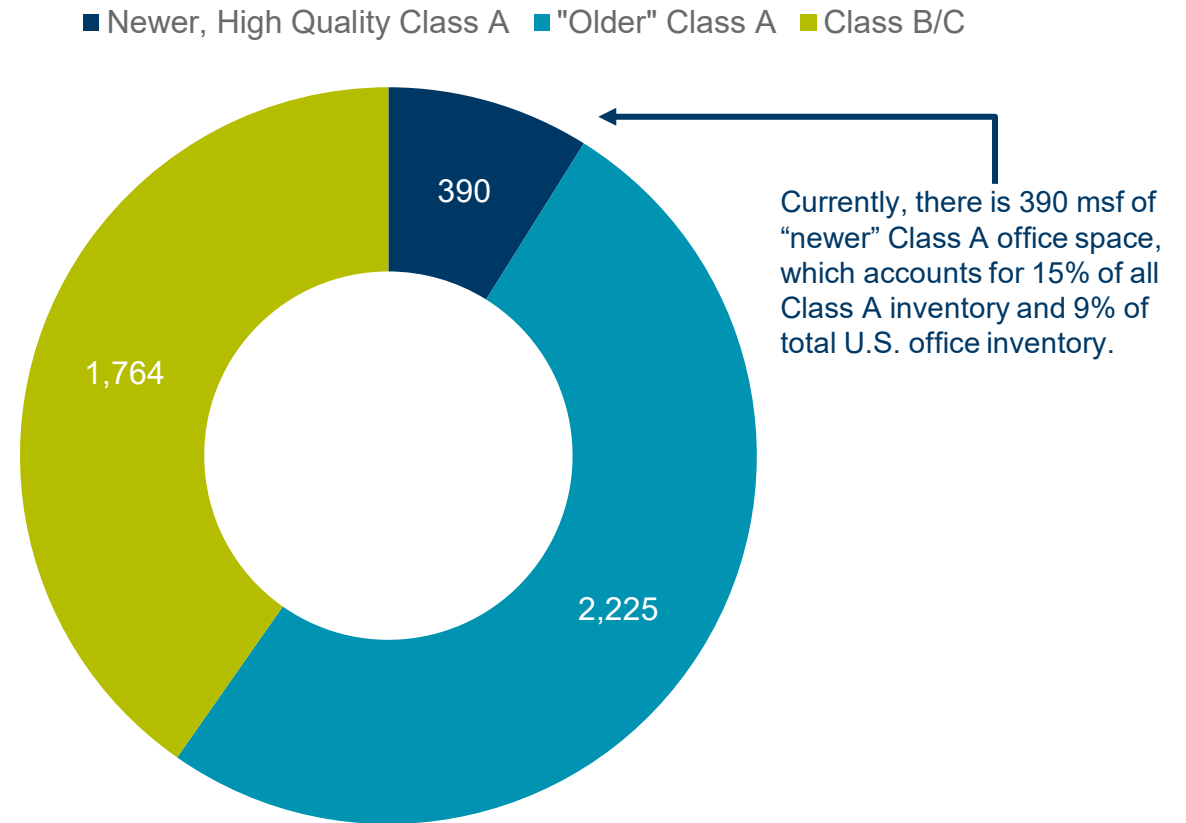
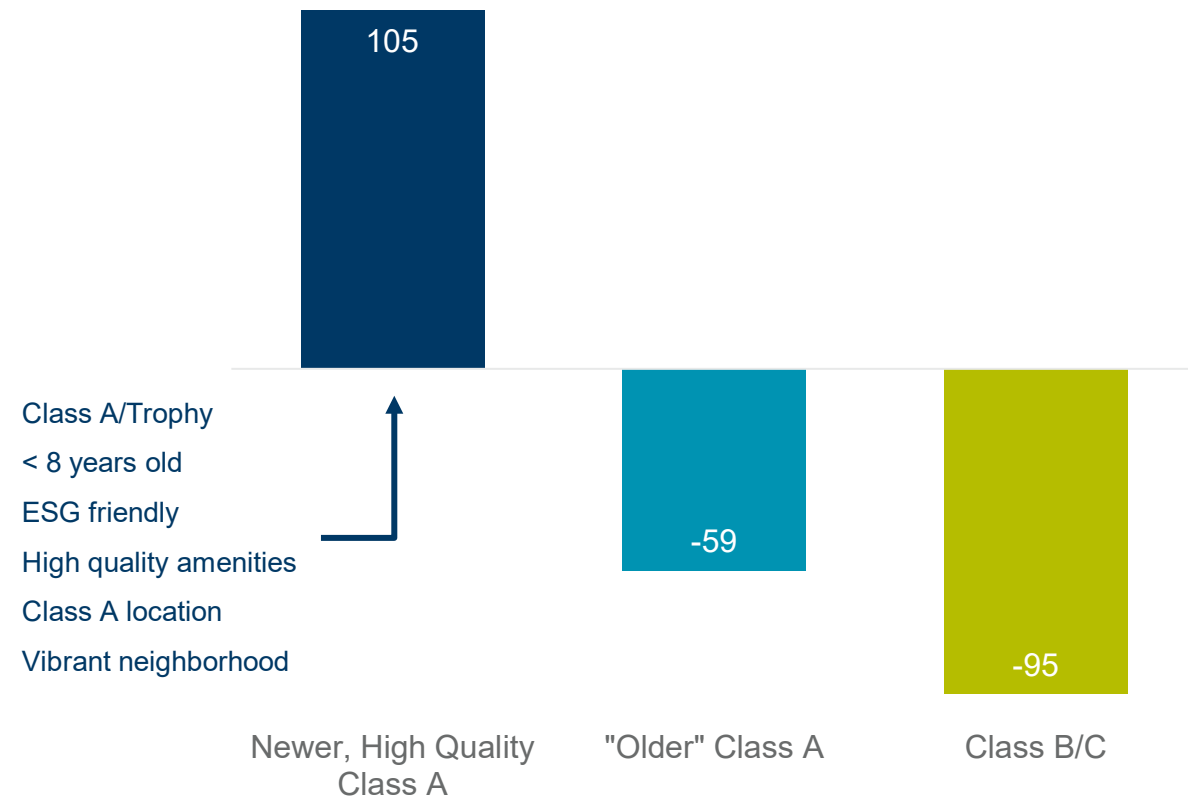
Demand Accruing to the Best & Newest Office Assets



“Newer” class A office vs. everything else, United States

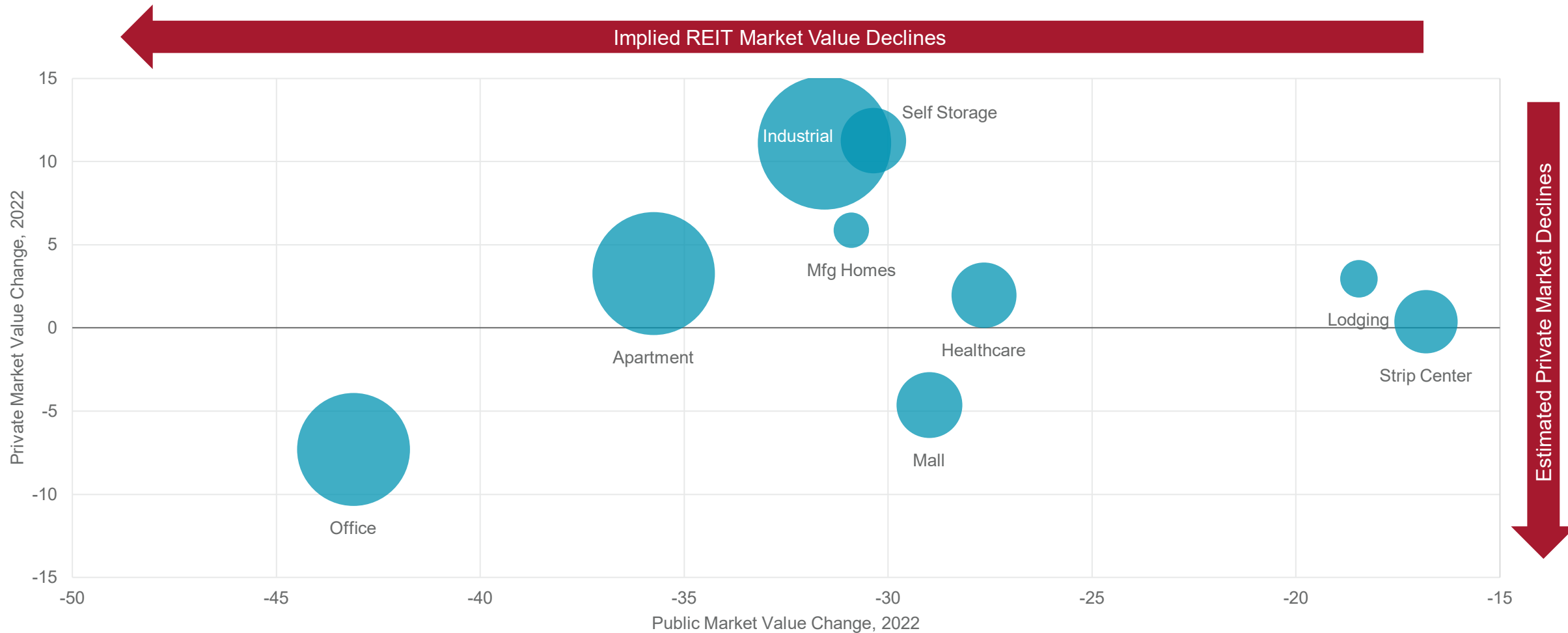
Net Absorption Since 2020, MSF

Total U.S. Office Inventory, MSF



Private Markets Behind on the Pricing Memo

Public vs. private pricing change from peak levels

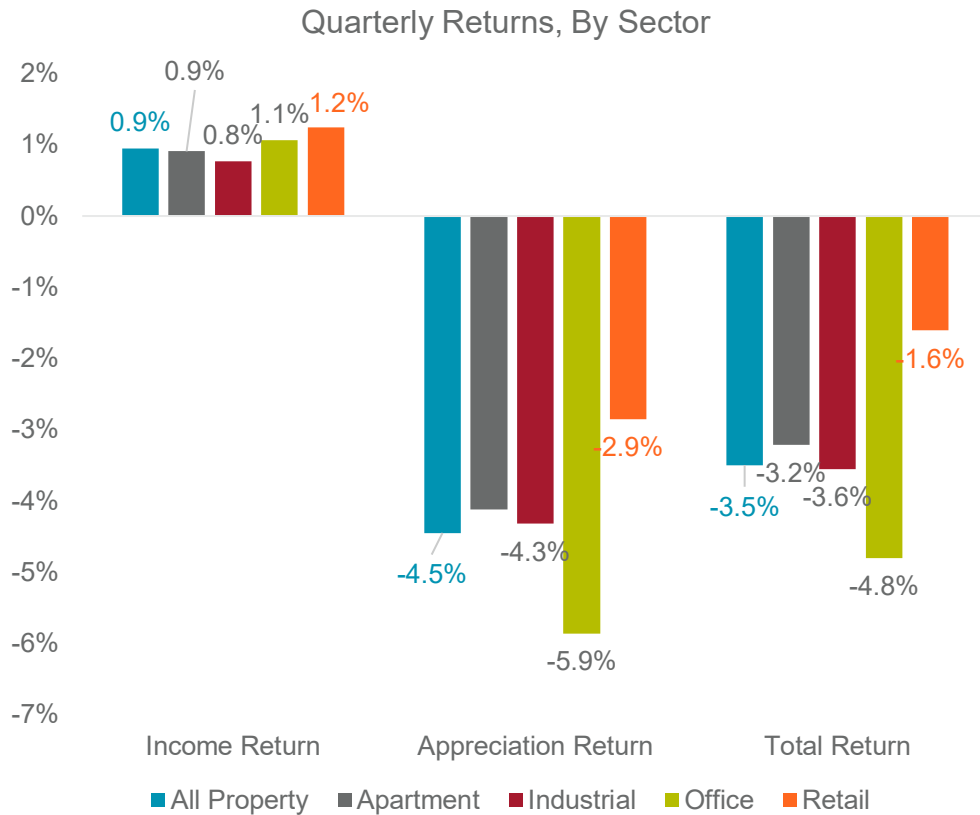


Source: NAREIT (x-axis), NCREIF (y-axis), Cushman & Wakefield. Note: Size of bubble denotes estimated public + private market size.

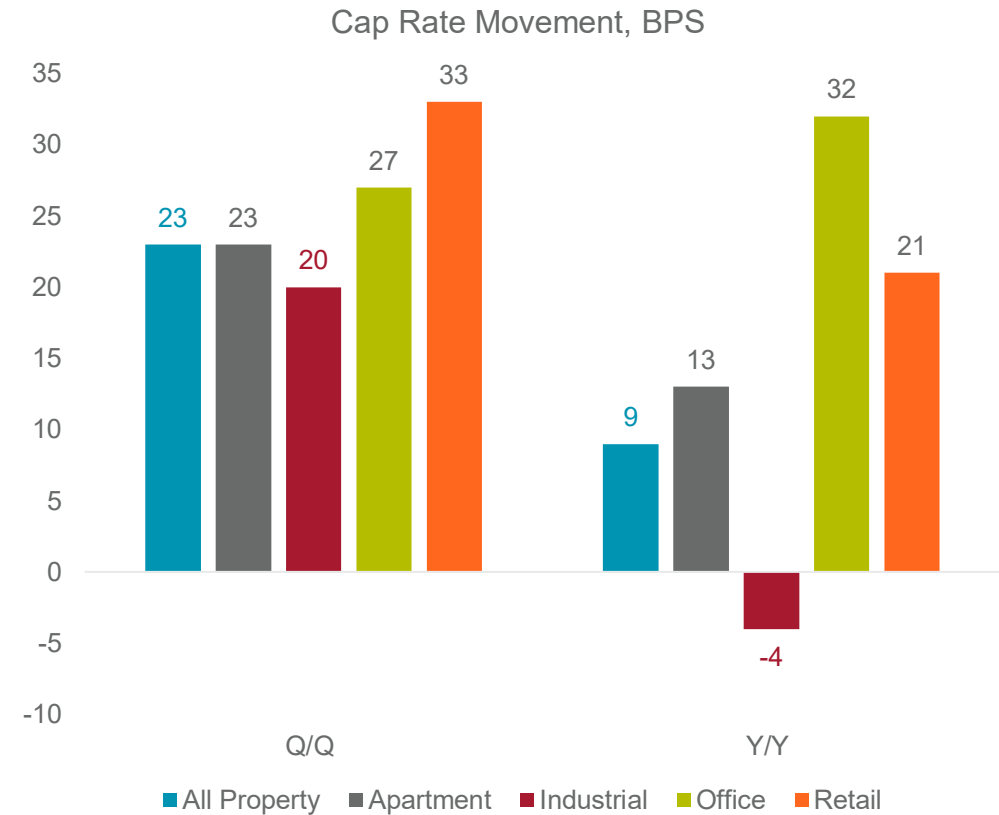
NCREIF 4Q 2022 Results Highlight Divergence

.....across sectors and components of return

Retail's Income Resilience Proves Out in 4Q 2022



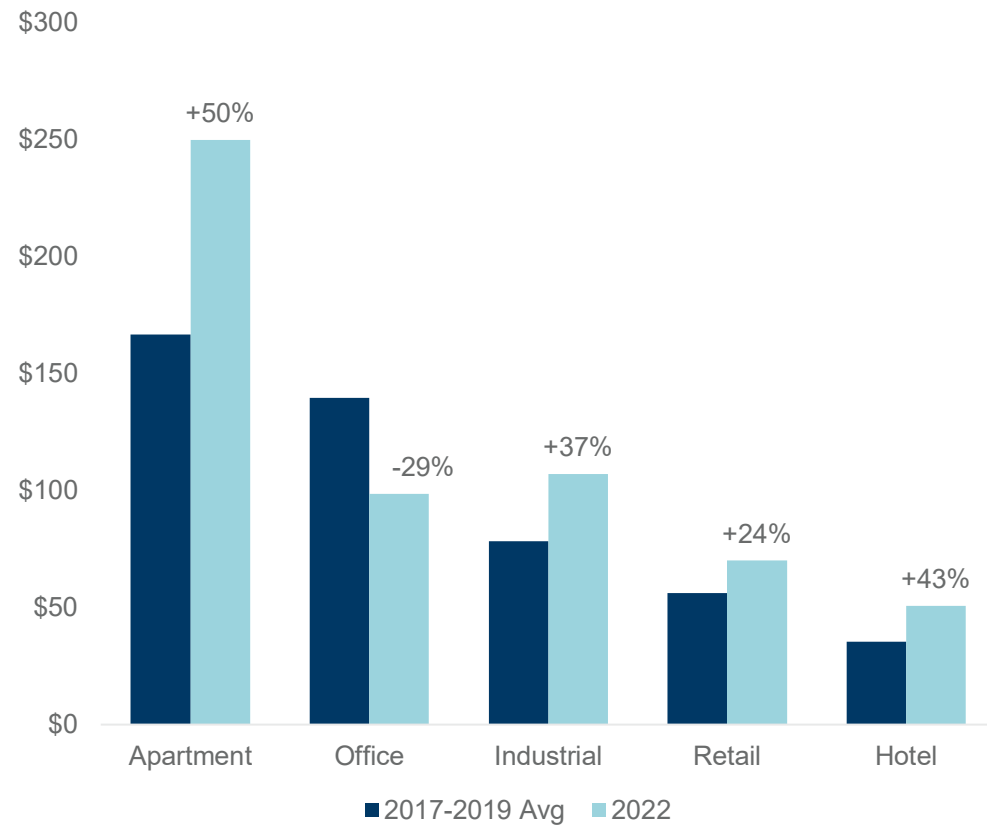
Conviction in Industrial Evident



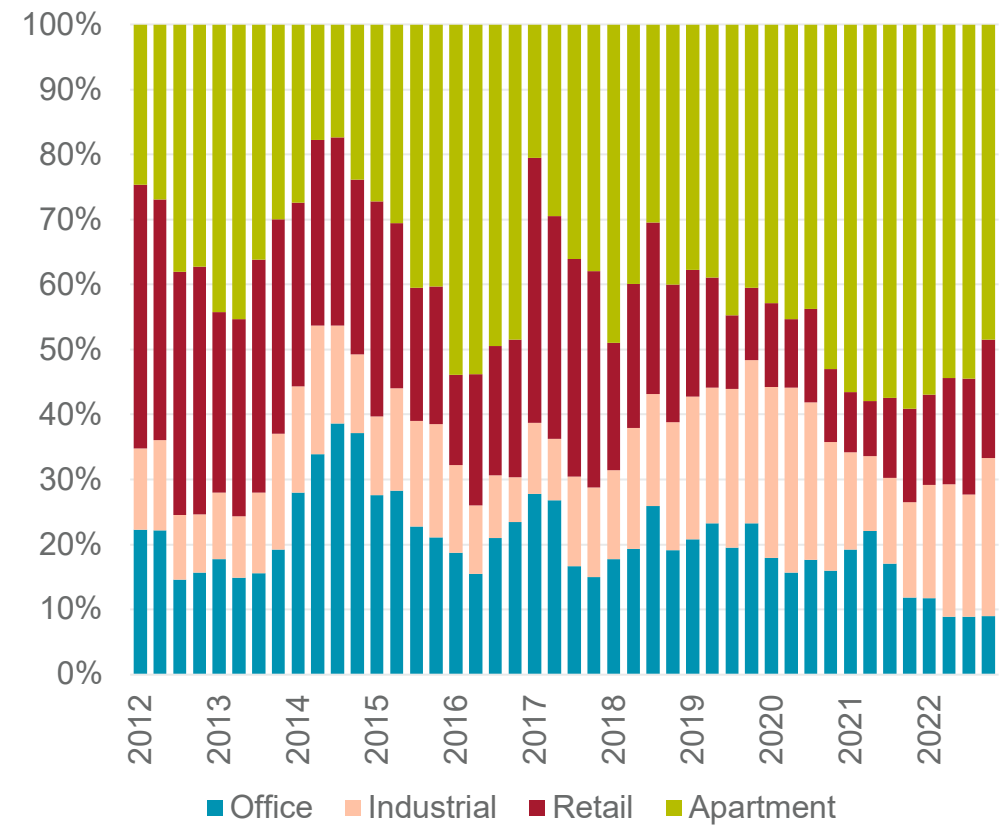
Across Every Buyer: Apartment Remains the Clear Favorite

Office is losing ground; retail looks attractive

U.S. CRE Transaction Volume (Bil.)



Broward County CRE Transaction Share



The Scenarios

SCENARIO 1 Soft Landing

30%
Probability

2021 2022 2023 2024 2025

U.S. Economy					
Real GDP	5.9	1.9	0.5	1.2	2.2
Job Growth, mils	6.2	4.9	-0.5	0.6	1.5
CPI Inflation	6.7	7.3	3.1	2.1	2.3
10-year Gov't Bond	1.5	3.8	4.3	4.1	3.8
Corporate Bond (Baa)	2.4	5.6	6.1	5.7	5.3

SCENARIO 2 Mild Recession

50%
Probability

2021 2022 2023 2024 2025

U.S. Economy					
Real GDP	5.9	1.9	-0.2	1.3	3.1
Job Growth, mils	6.2	4.9	-2.5	2.8	1.7
CPI Inflation	6.7	7.3	3.3	2.0	2.2
10-year Gov't Bond	1.5	3.8	4.3	3.9	3.6
Corporate Bond (Baa)	2.4	5.6	6.9	5.5	5.0

SCENARIO 3 Severe Recession

10%
Probability

2021 2022 2023 2024 2025

U.S. Economy					
Real GDP	5.9	1.9	-1.3	0.3	3.3
Job Growth, mils	6.2	4.9	-6.6	2.2	3.3
CPI Inflation	6.7	7.3	3.5	1.4	1.9
10-year Gov't Bond	1.5	3.8	3.8	3.3	3.7
Corporate Bond (Baa)	2.4	5.6	7.2	5.9	5.5

SCENARIO 4 Stagflation

5%
Probability

2021 2022 2023 2024 2025

U.S. Economy					
Real GDP	5.9	1.9	0.6	-2.0	0.0
Job Growth, mils	6.2	4.9	-1.5	-6.6	0.8
CPI Inflation	6.7	7.3	4.2	1.5	2.2
10-year Gov't Bond	1.5	3.8	4.6	3.9	3.8
Corporate Bond (Baa)	2.4	5.6	7.4	7.6	6.4

Soft landing = Consensus (CF) Scenario, Mild Recession= Proprietary Scenario adjusted by Cushman & Wakefield, Severe Recession = Moody's S3 Scenario, Stagflation = Moody's S6 Scenario. Probabilities do not add to 100% because there are chances of other scenarios occurring, such a recession that is not mild, but also not consistent with stagflation. All figures are year-end except for real GDP growth, which denotes changes in the annual average. Updated 12-30-2022

Recession, Recovery and Opportunities

Key Themes	Observations	Food for thought
Obsolescence = opportunity	<ul style="list-style-type: none"> As leases expire, office vacancy will go even higher; more troubled assets in the works 	<ul style="list-style-type: none"> Loads of opportunity in helping clients figure out how to make these buildings relevant for the future “Building betterment teams”: occupier advisory, opportunistic investor, Construction management Troubled assets
Recession makes high-quality even more valuable	<ul style="list-style-type: none"> New product in high demand Not enough of it and recession will slow new construction 	<ul style="list-style-type: none"> Continued upward pressure on high-quality office rents Demand to spillover into next tier of quality Research to change how we report on office sector – strip out obsolescence
Will tech cities become temporary ghost towns?	<ul style="list-style-type: none"> Tech companies over-hired and leased too much space, now they are firing and giving it back 	<ul style="list-style-type: none"> Be careful with making any additional investments in tech markets; pause and watch
Industrial logistics isn’t bullet proof	<ul style="list-style-type: none"> Goods boom winding down = more vacancy Overbuilding going into a recession 	<ul style="list-style-type: none"> Downside risk to leasing revenue Still a strong long-term bet due to e-commerce tailwind
Don’t miss the next retail boom	<ul style="list-style-type: none"> The retail sector is quietly on fire Retail already faced its day of reckoning and today’s concepts are thriving 	<ul style="list-style-type: none"> Will the ROI for retail be better than anything else in the next 2-3 years?
<u>Secular tailwinds:</u> Aging demographics Data consumption HH formation	<ul style="list-style-type: none"> People are getting older Data consumption is going nowhere but up Population is going nowhere but up 	<ul style="list-style-type: none"> Tailwind for life sciences, medical office, senior housing Data center boom could go for decades Multifamily is now the #1 investor demanded asset class
The recovery may come on fast	<ul style="list-style-type: none"> The economic engines are strong going into this recession, as headwinds fade, this could turn fast 	<ul style="list-style-type: none"> Have a playbook – be ready to move fast with investments

U.S. ECONOMY AND CRE 2023 OUTLOOK

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March 2023

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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