



U.S. ECONOMIC & CRE OUTLOOK

ULI BALTIMORE
JANUARY 2025

Better never settles



TIME FOR THE FED TO SHIFT FOCUS

Beveridge curve: job opening rate vs unemployment rate

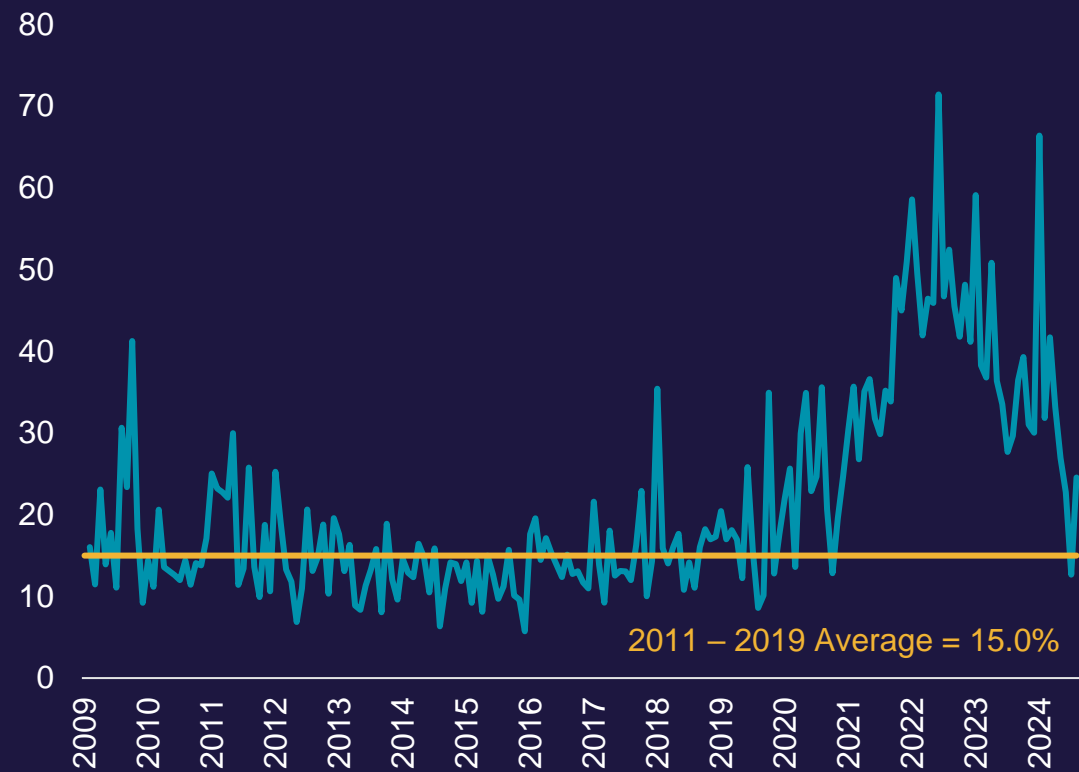


CONCERNS AROUND INFLATION FADING

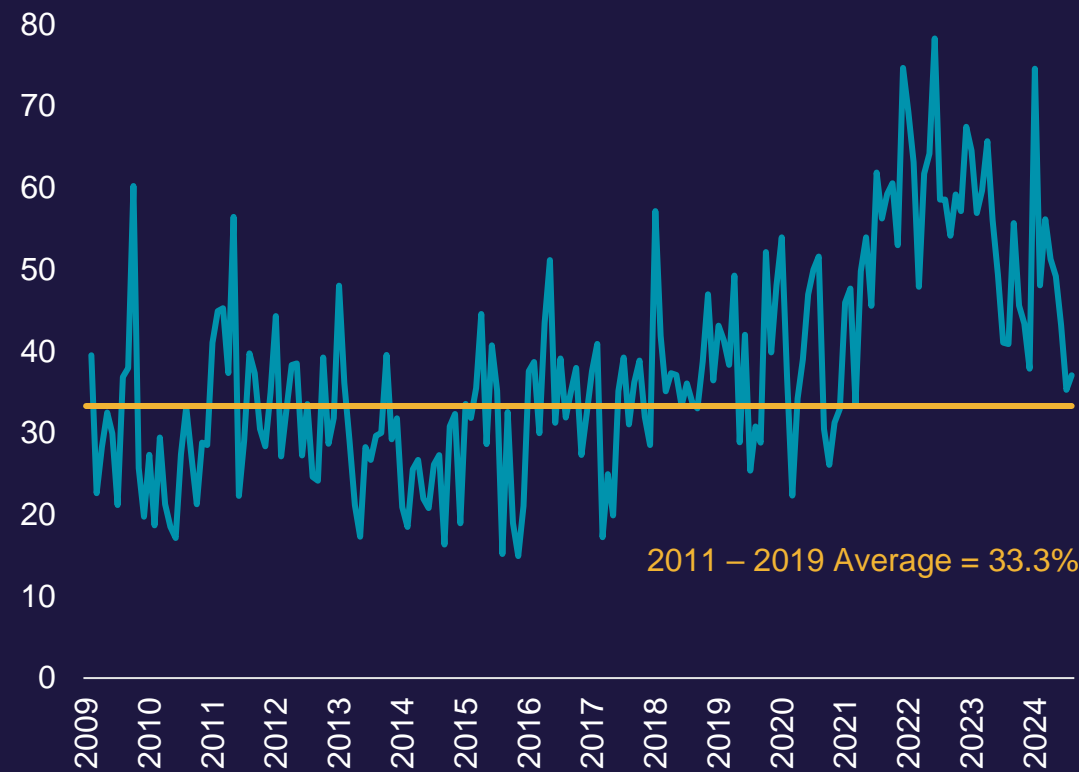
Sum of PCE weights for parts of index with inflation...



Share of PCE Index with Inflation > 5%



Share of PCE Index with Inflation > 3%



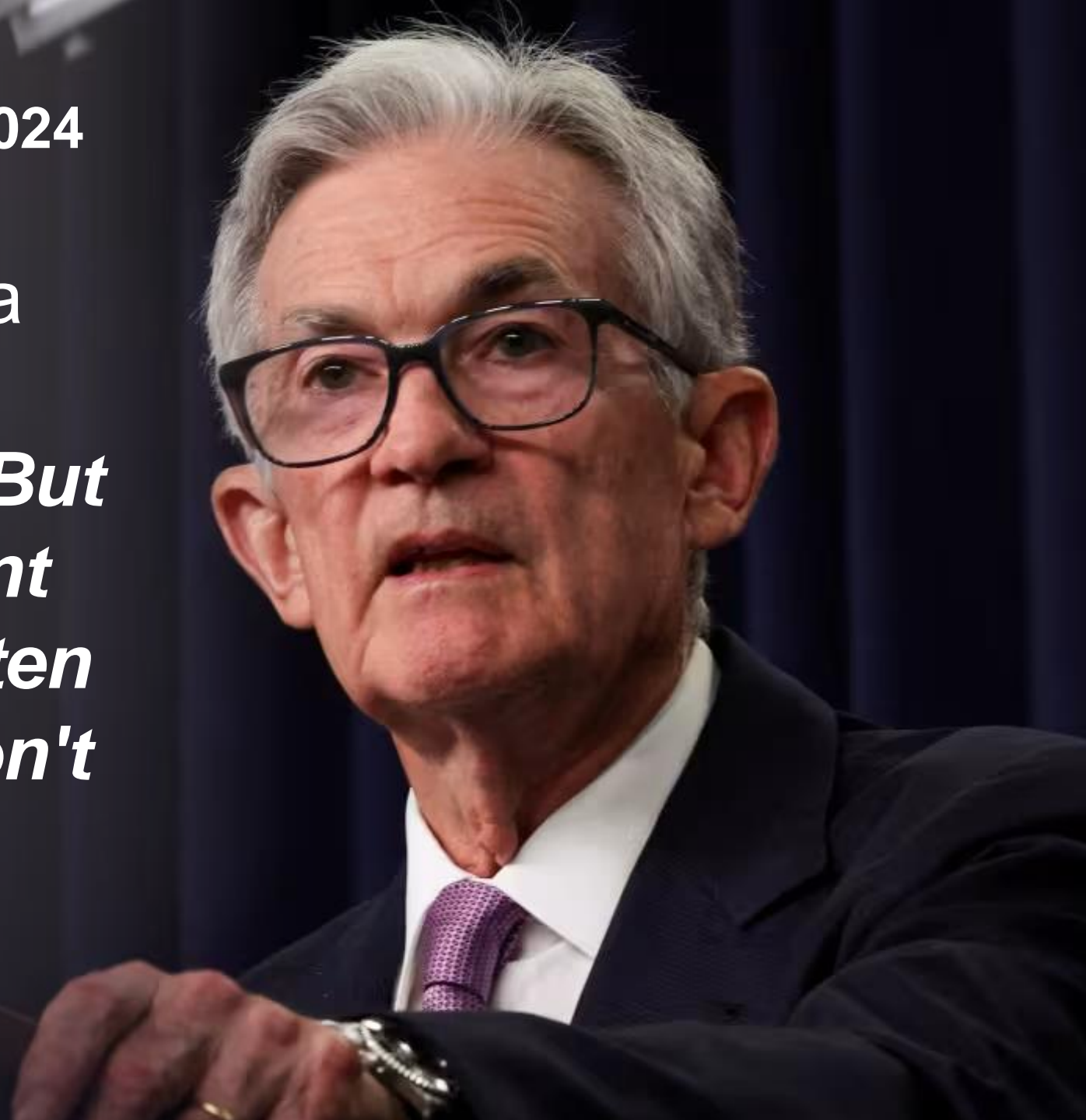
POWELL ON SEPTEMBER 30, 2024

“But [the labor market] really has cooled. [...] And as I mentioned, *we don’t think that labor market conditions need to cool further from where they are.*”



POWELL ON NOVEMBER 7, 2024

“The labor market is not a source of significant inflationary pressures... *But you know, we don't want the labor market to soften much from here. We don't think we need that to happen to get inflation back to two percent.*”



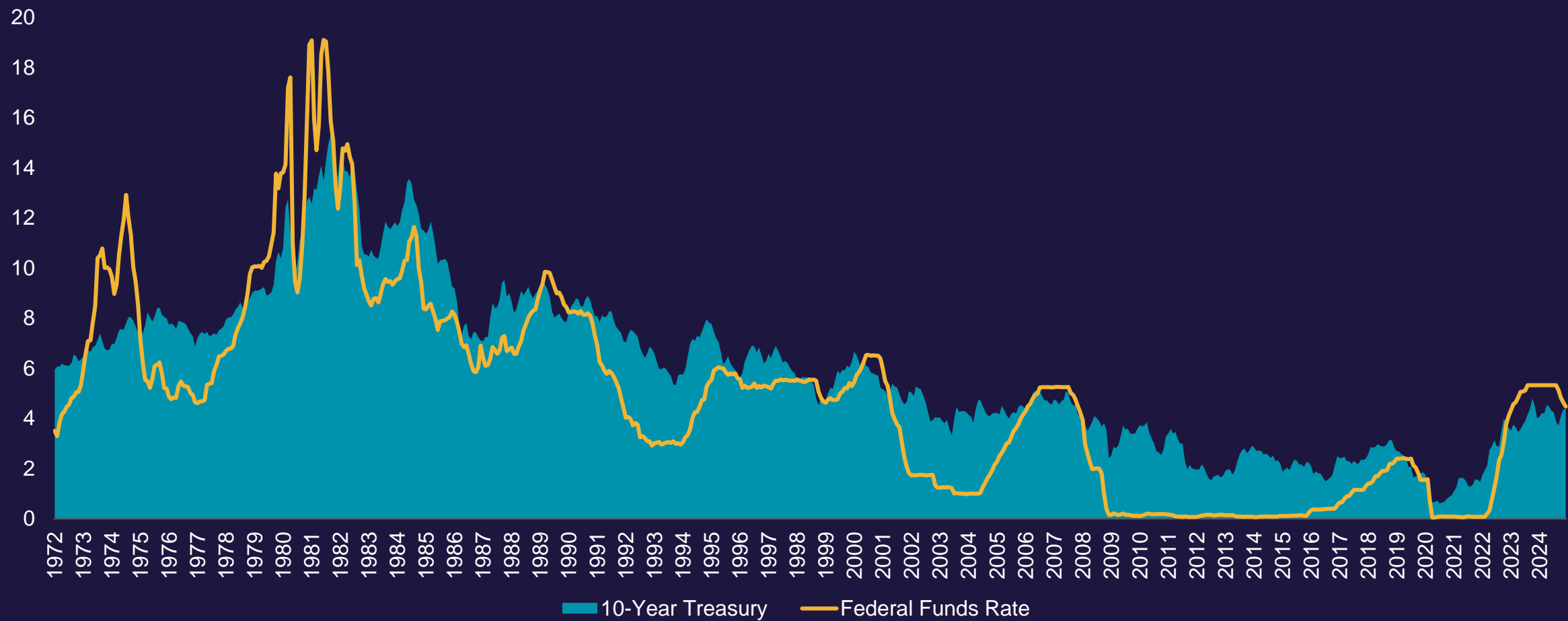
POWELL ON DECEMBER 18, 2024

“The labor market is not a source of significant inflationary pressures... *Downside risks to the labor market [...] have diminished, but the labor market is now looser than pre-pandemic, and it’s clearly still cooling further, so far in, in a gradual and orderly way. We don’t think we need further*



THE OPERATIONAL ALPHA ERA IS HERE

10-year Treasury at highest sustained level since 2007



Source: Federal Reserve, Cushman & Wakefield Research

IMPLICATIONS OF SOFT-ISH LANDING



Positives

Resilient macro-growth and a rebalanced labor market to support CRE new demand-formation and current cash-flows

Productivity gains allowing for strong wage growth with reduced inflationary pressures

Healthy household foundations allow gradual deleveraging without broad household stress, supporting resilient spending

Fed continues to cut rates in restrained manner, improving sentiment, loosening financial market credit conditions

Business conditions to benefit from potential stimulus, regulatory shifts and tax cuts, spurring business investment

Challenge Points & “Storms” to Weather Ahead

Macro outlook to remain accentuated by post-election economic policy uncertainty

Job growth constrained by higher rates and choppy underbelly in labor market

Moderating and diverging consumer spending to impact retail sales in polarizing (+/-) ways

Bond market volatility to persist as markets calibrate to post-election outcomes and a prudent Fed

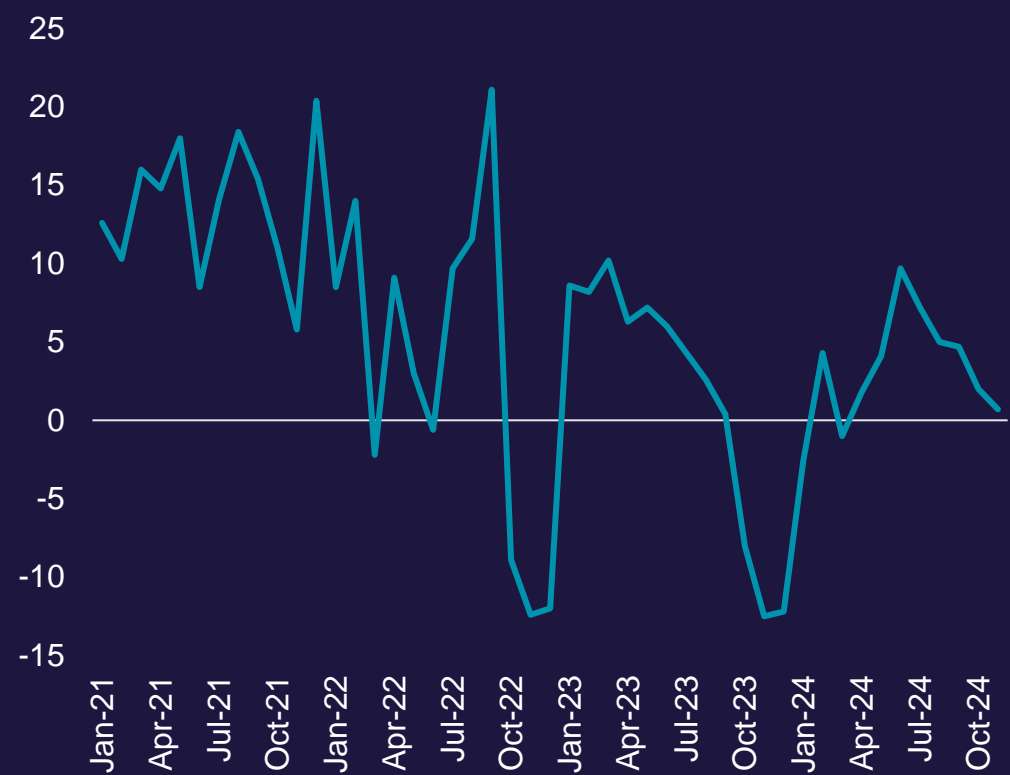
Long end of yield curve to face upward pressure from potentially rising inflation expectations and rising term premiums

BALTIMORE'S LABOR MARKET STRUGGLING

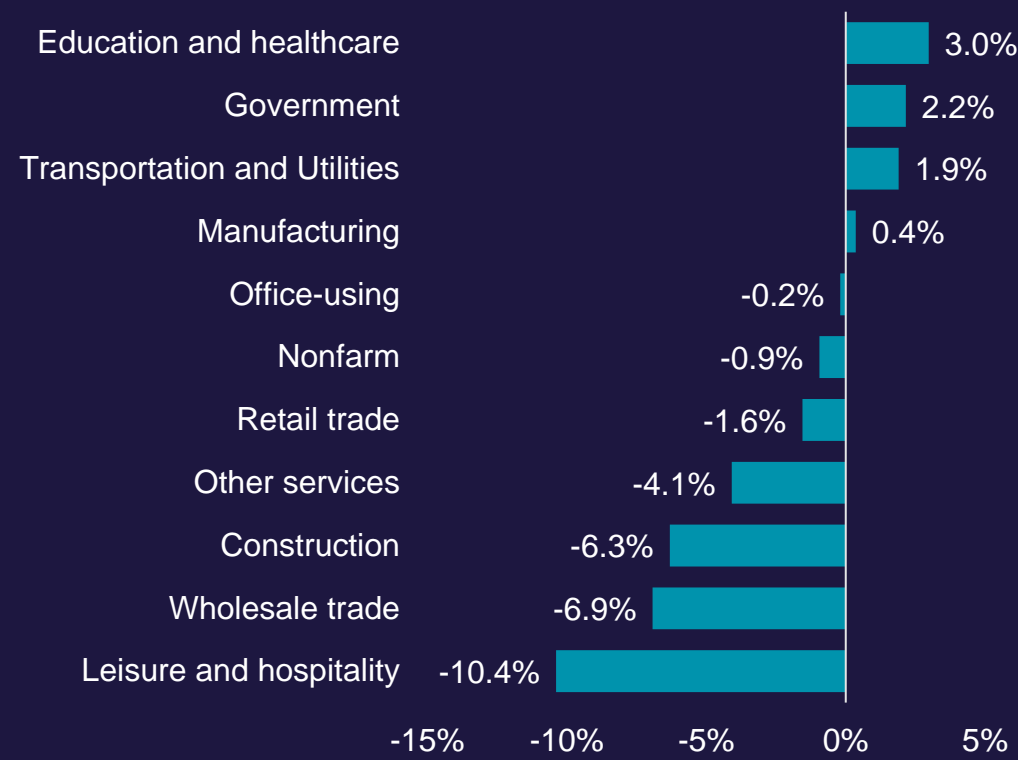
Choppy and uneven, and lagging the U.S.



Nonfarm Payroll Growth (3-Month Total, ths)



Payroll Recovery by Sector (vs Feb 2020)



Source: U.S. Bureau of Labor Statistics

POST-ELECTION DOWNLOAD



Tax & Spending Policy

- Full extension of TCJA
- Lower corporate tax rate from 21% to 15% (particularly for domestic production activities, totaling \$360B in tax savings over 10 years)
- Rescind limit on SALT (totaling \$1T in tax savings over 10 years for higher-cost, largely more Democratic cities and states)
- Increase child tax credit
- Exempt tips, social security and overtime from income tax
- Deductibility of auto loan interest

- Rescind parts of IRA
- Rescind IRS funding
- DOGE
- Pare back Biden's ESG/DEI initiatives (e.g., reverse pause on LNG export licensing)
- Pressure to further water down Basel III

Deregulation

Trade & Foreign Policy

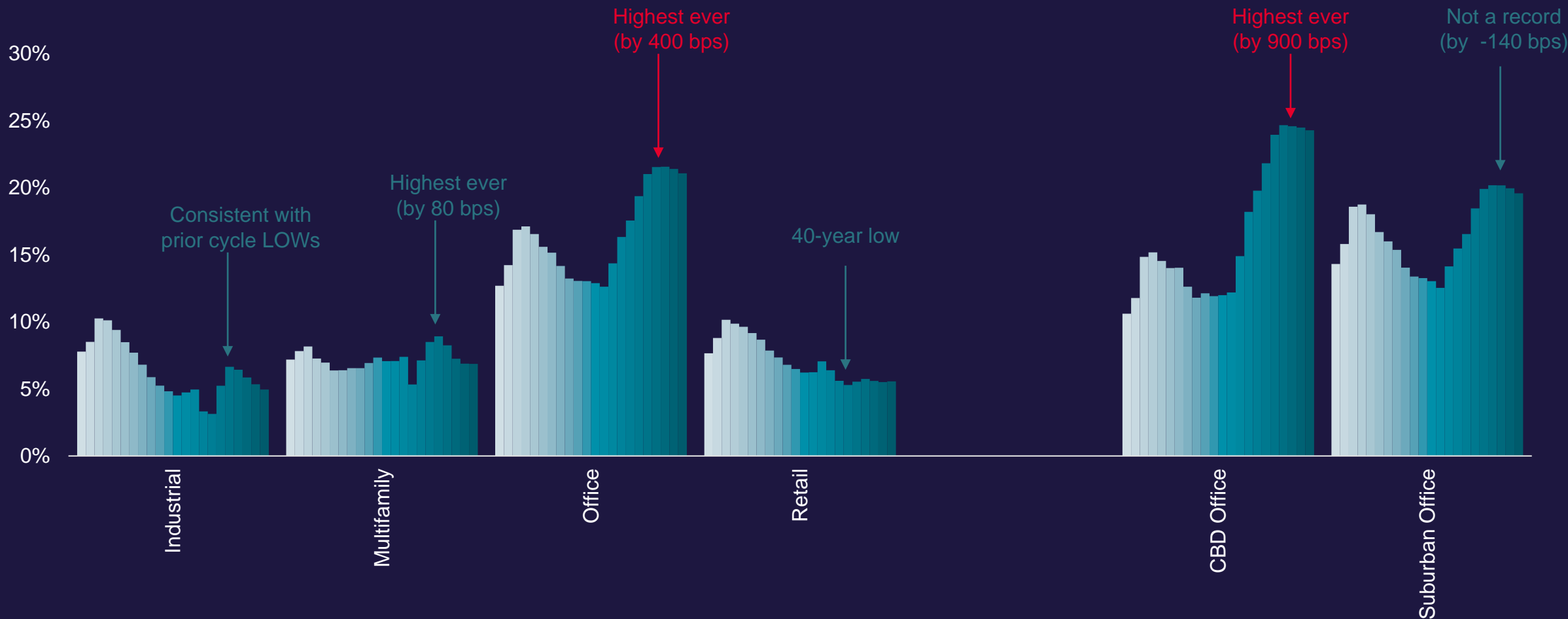
- Higher uncertainty
- Campaigned on 10% across the board tariffs on all imported goods, potentially 60% on China
- Trump Reciprocal Trade Act (tariff rate changes to match whatever country is enforcing against U.S.)
- Invoke review period of USMCA in July 2026 (threatened 25% tariffs on Mexico)
- Ratchet up tension with WTO as many stated policies violate MFN protocols
- Deportations and tougher restrictions on immigration

- Omnibus bill/government shutdown risk
- Lift debt ceiling
- Pressure on Fed to include President's views on monetary policy
- Privatize GSEs

Other

CRE THEME #1

Vacancy will inflect in most property types

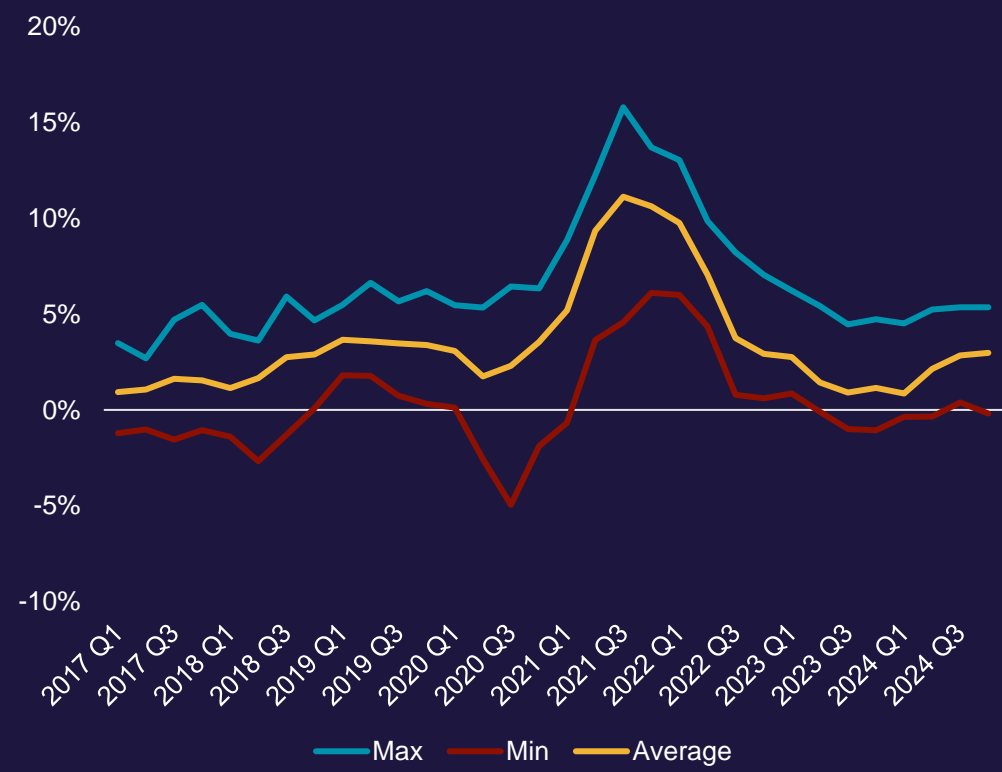


CRE THEME #1

Fundamentals improving in most sectors

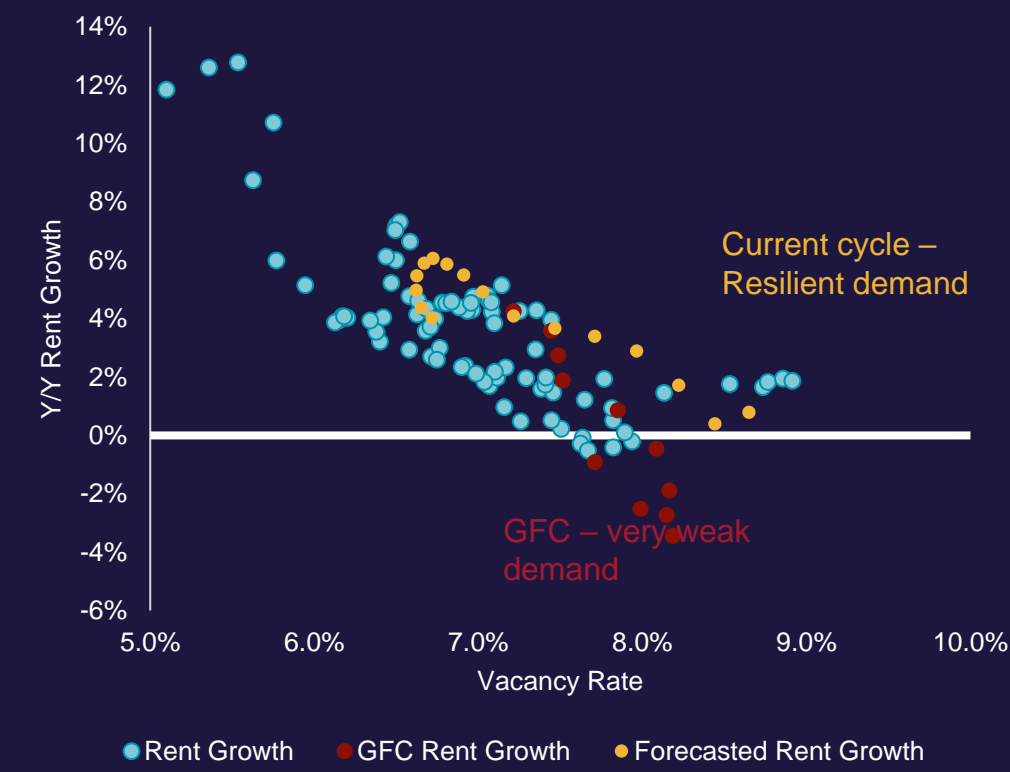


Baltimore Multifamily Rent Growth by Submarket



Source: CoStar, Cushman & Wakefield Research

Rising Multifamily Vacancy Temporary Across U.S.



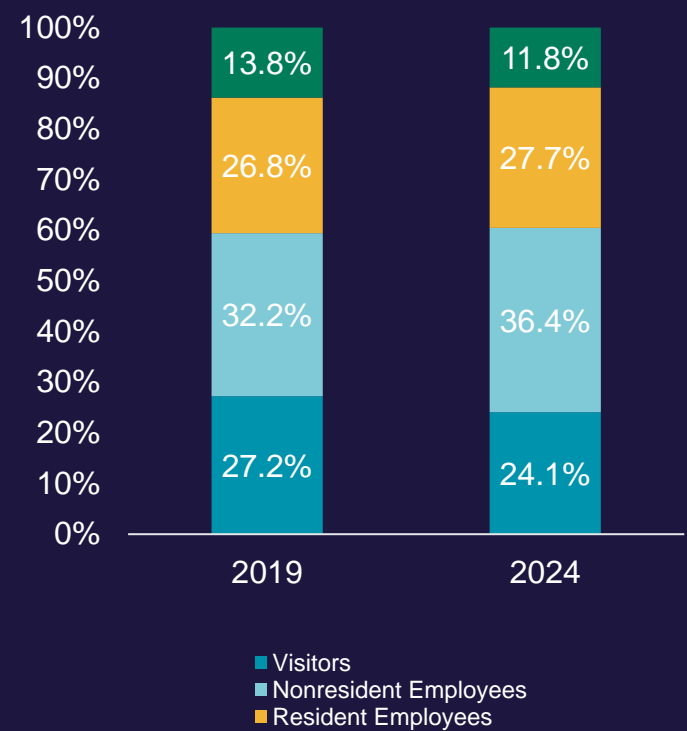
Source: CoStar, Cushman & Wakefield Research

BALTIMORE FOOT TRAFFIC DETAILS

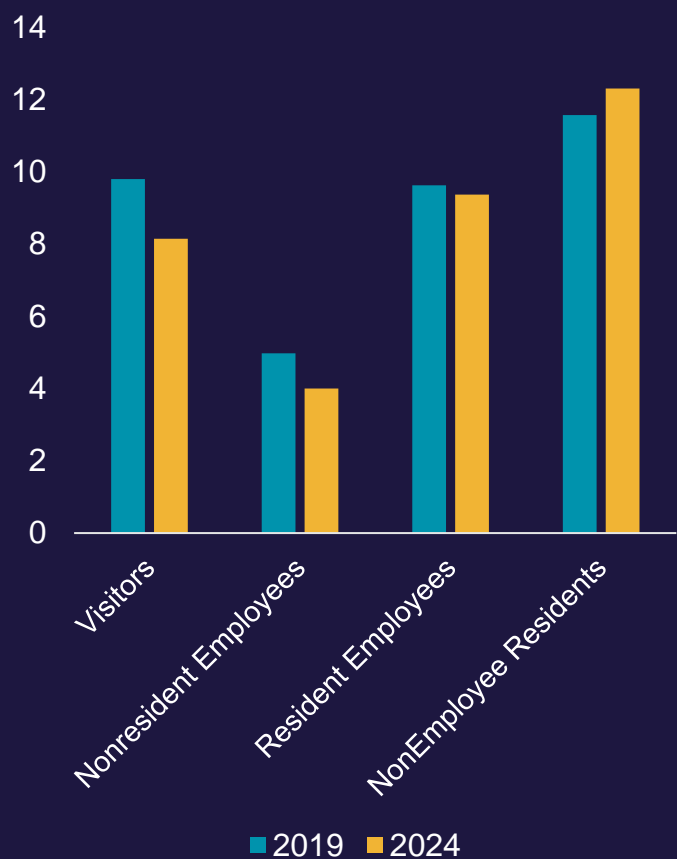
Foot traffic down about 4 million/day



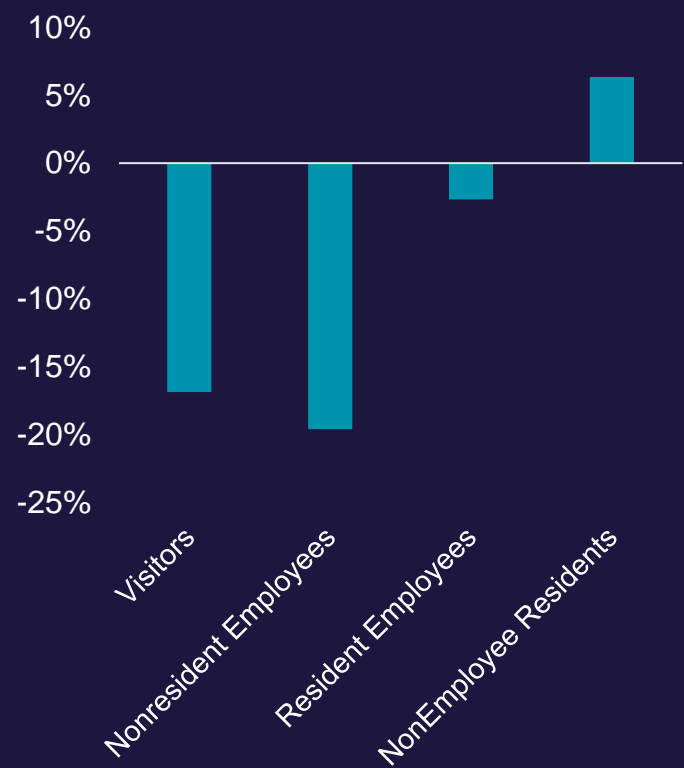
Composition of Foot Traffic



Nominal Recovery



Relative Recovery (2019 vs 2024)



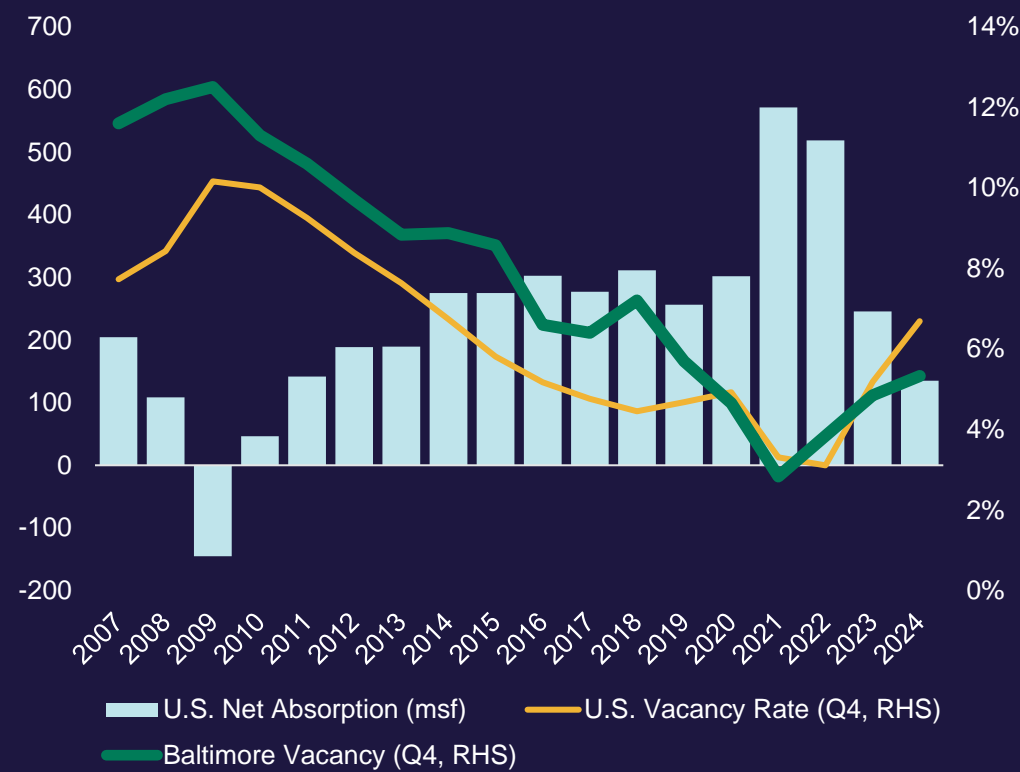
Source: Placer.ai

CRE THEME #1

Fundamentals improving in most sectors

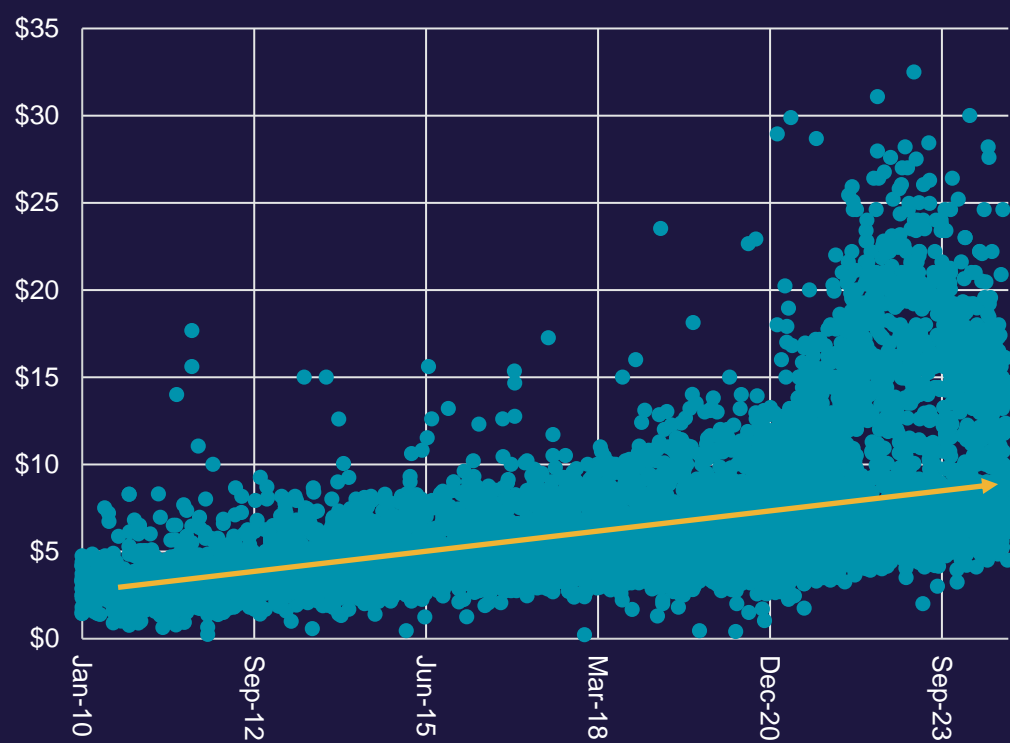


Industrial Demand More Than “Normalized”, Just From Super-Tight Market



Source: Cushman & Wakefield Research

Net Base Rents on Industrial Comps* (\$ per square foot)



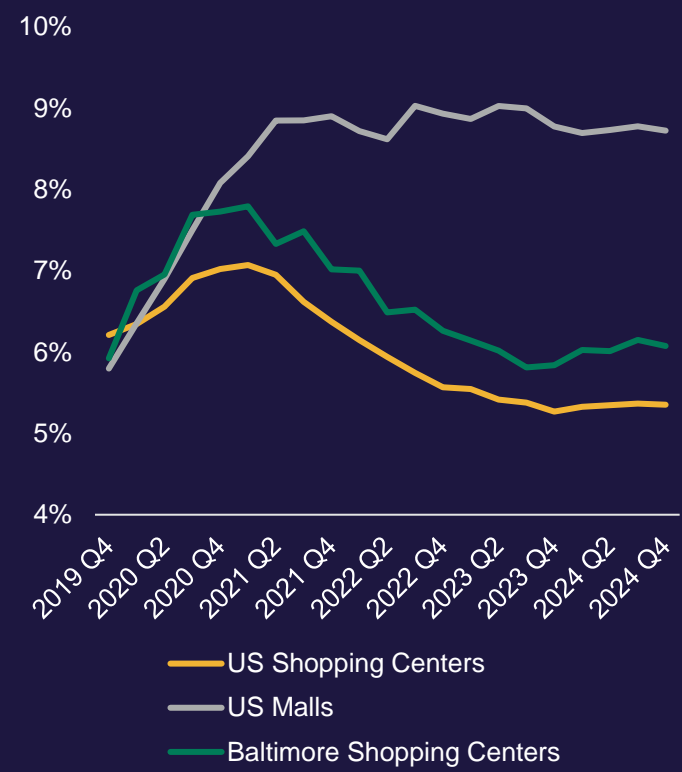
*Data is for leases over 100,000 SF in primary markets.
Source: Cushman & Wakefield Research

CRE THEME #1

Fundamentals improving in most sectors

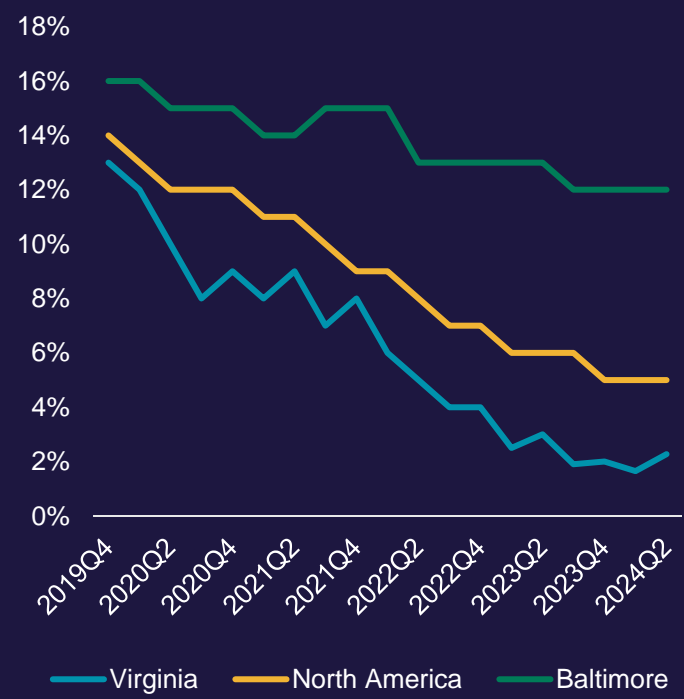


Retail Vacancy



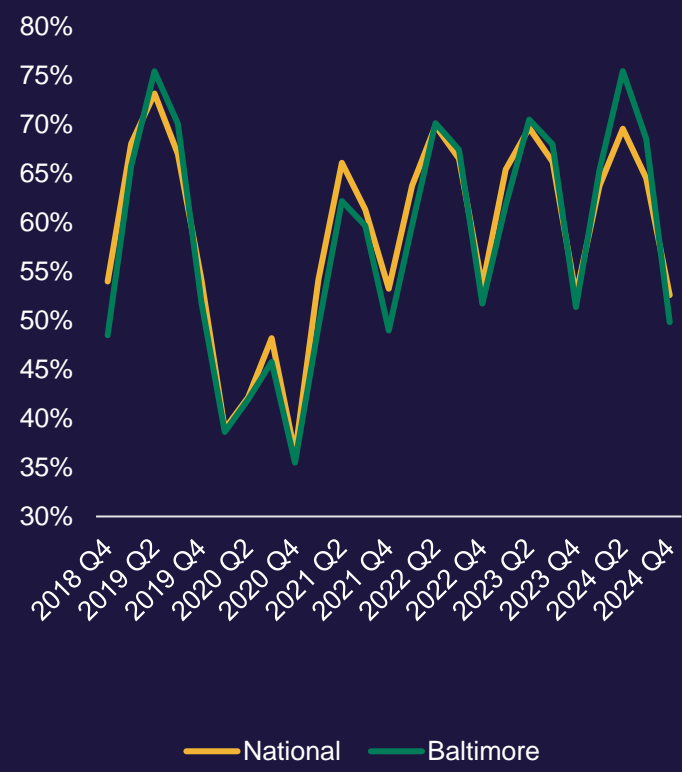
Source: CoStar, Cushman & Wakefield Research

Data Center Vacancy



Source: DC Byte, Structure Research, datacenterHawk, Cushman & Wakefield Research

Hotel Occupancy



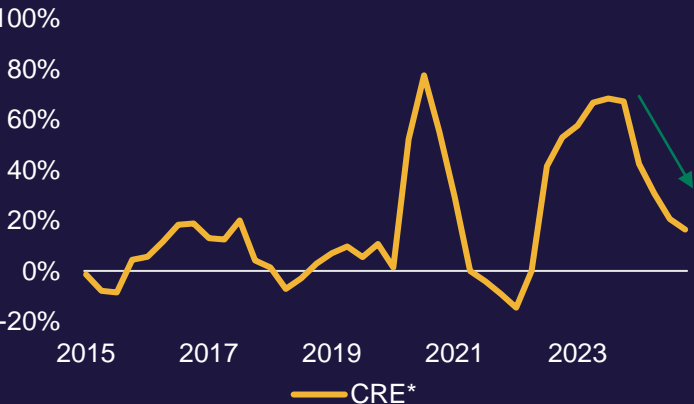
Source: STR, CoStar

CRE THEME #2

Capital markets waking back up



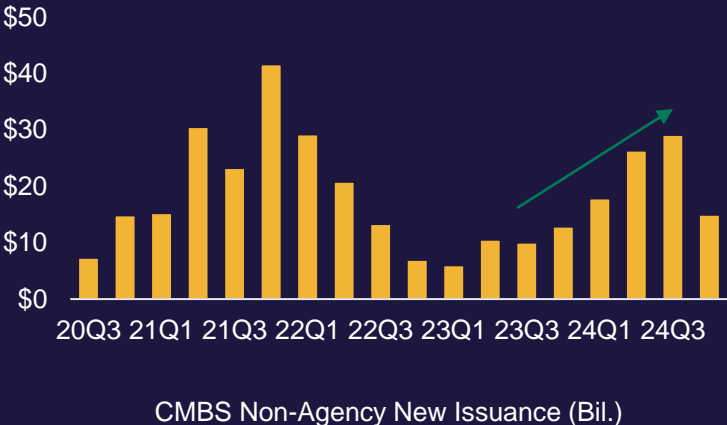
Lending Standards “Shifting”



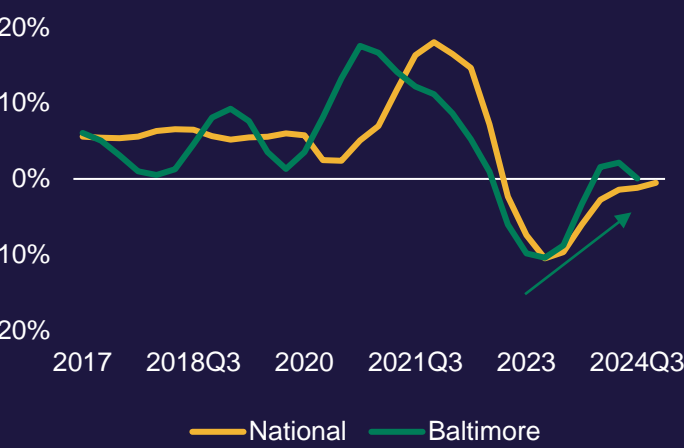
Debt Costs are Improving



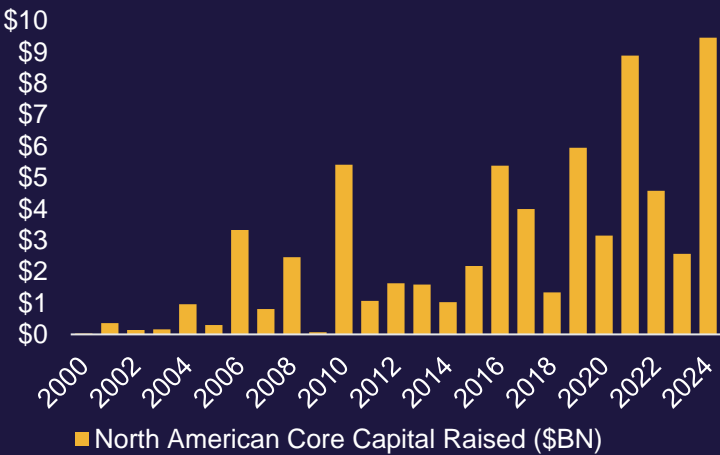
CMBS is Gaining Steam



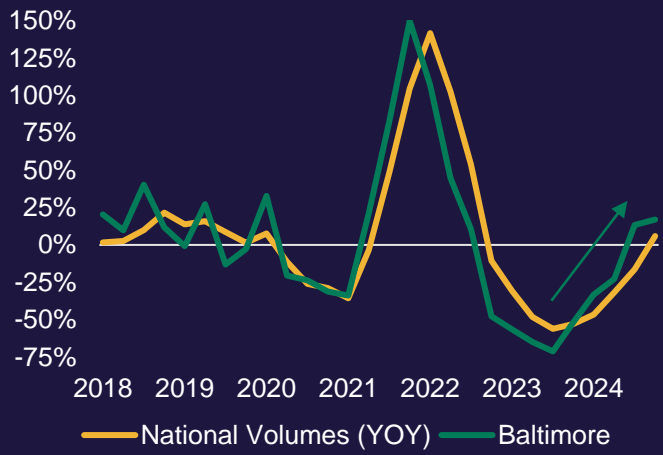
Pricing is Recovering



Core Capital Returning



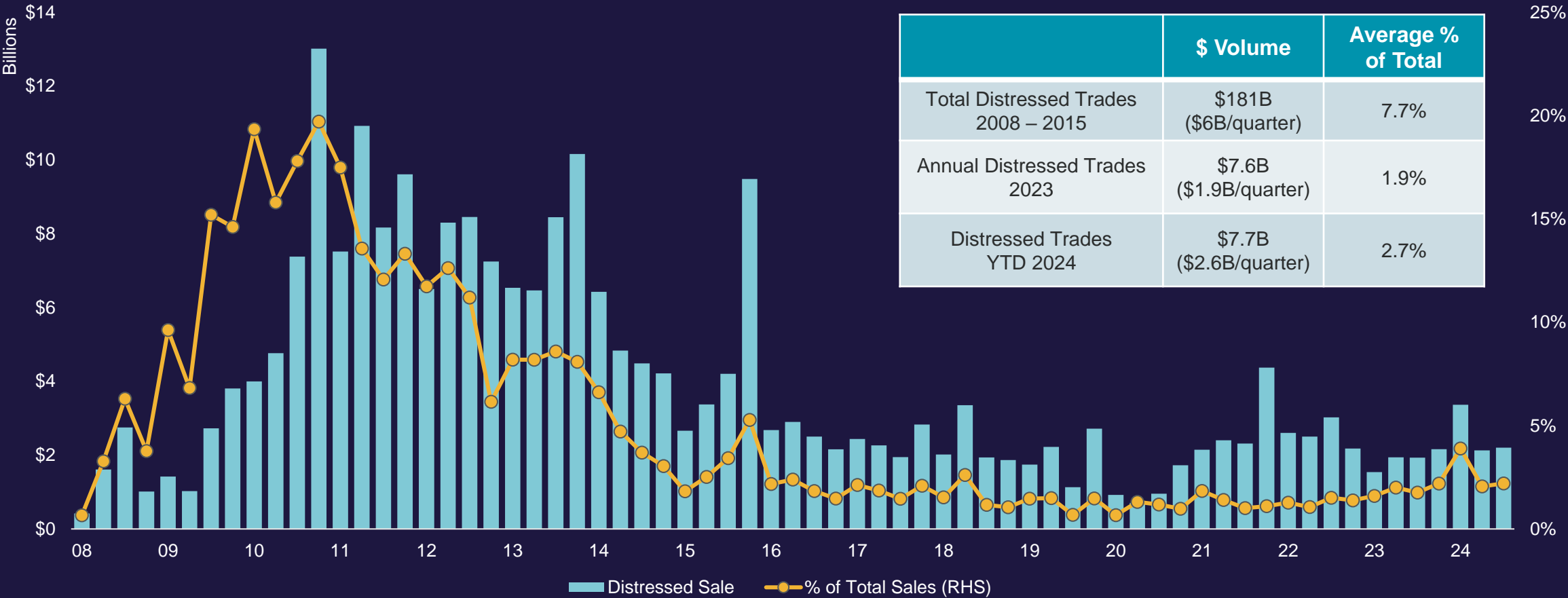
Coming out of a Trough in Volumes



CRE THEME #2



Capital markets waking back up, and it's not all distress (which lags)

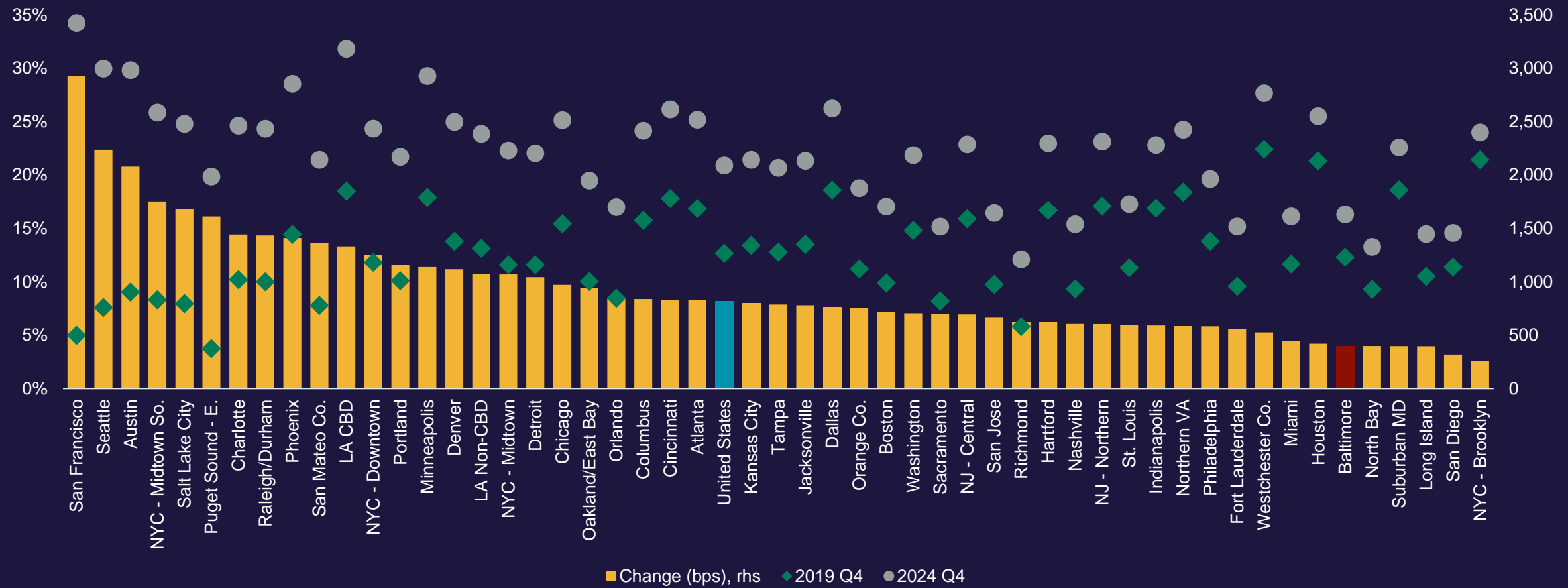


Source: MSCI Real Capital Analytics, Cushman & Wakefield Research

CRE THEME #3



Office sector gets outsized attention, still – vacancy up 821 bps



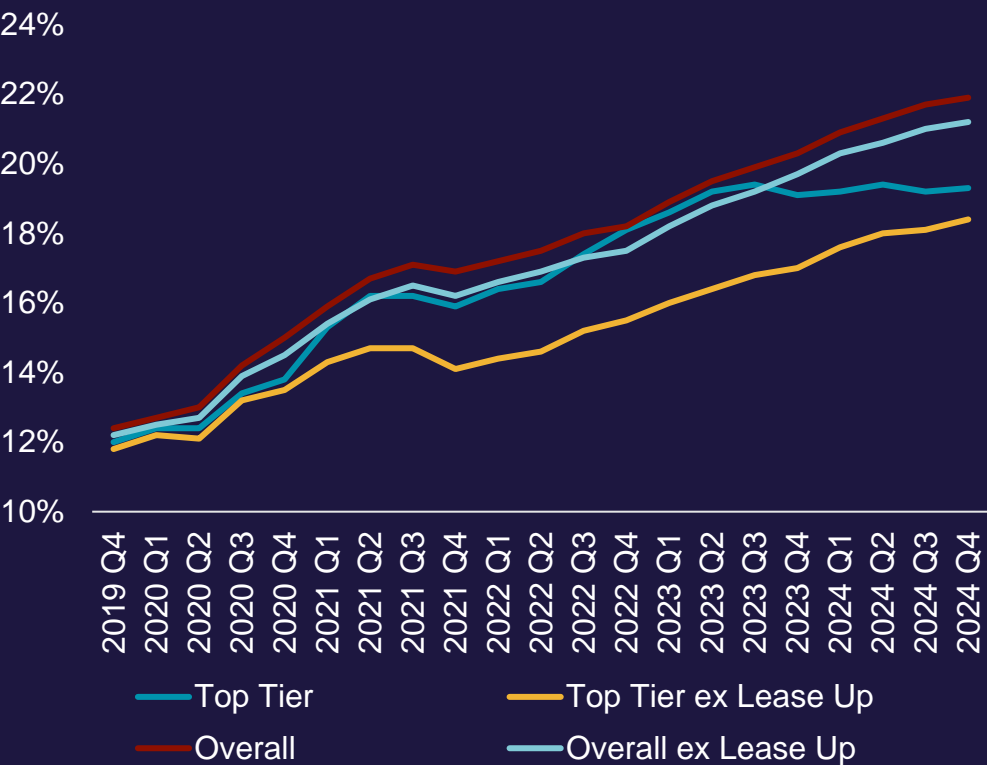
Source: Cushman & Wakefield Research

DEMAND ACCRUING TO THE BEST & NEWEST OFFICE ASSETS



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

U.S. Office Vacancy Rates



Source: Cushman & Wakefield Research

National Net Absorption (msf) Since 2020



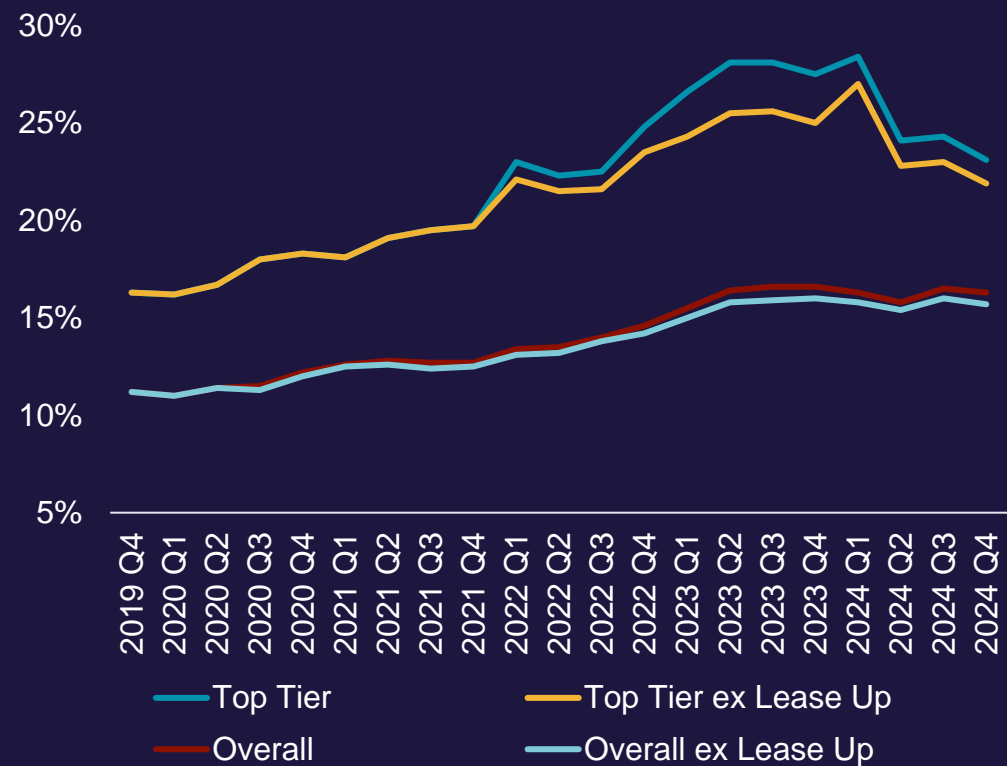
Source: Cushman & Wakefield Research

DEMAND ACCRUING TO THE BEST & NEWEST OFFICE ASSETS



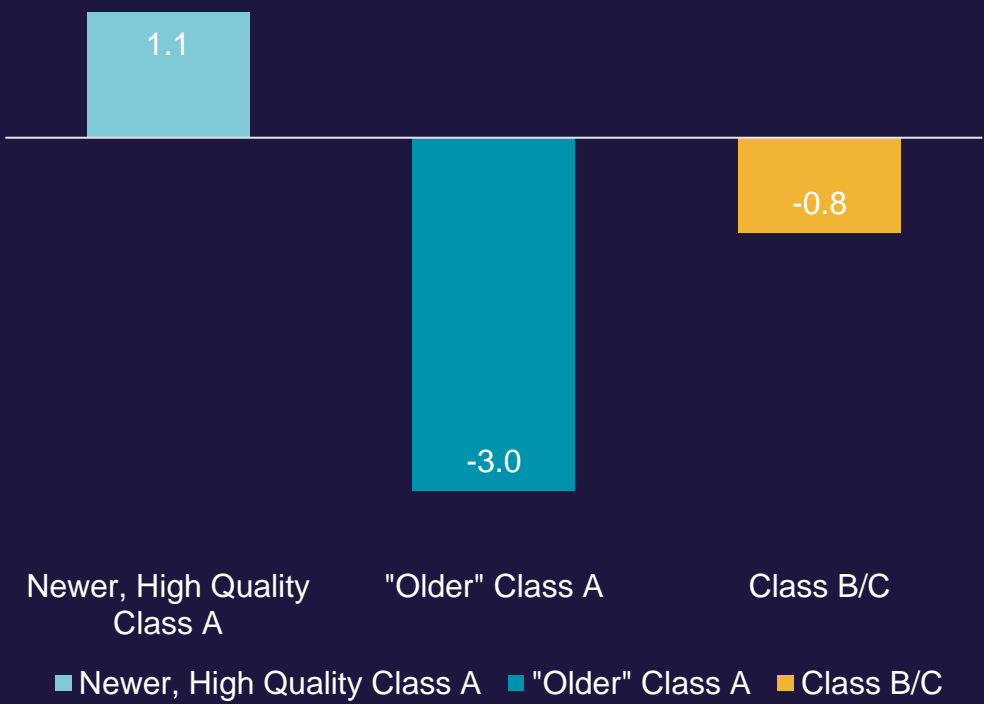
“Newer” class A office vs. everything else, Baltimore

Baltimore Office Vacancy Rates



Source: Cushman & Wakefield Research

Baltimore Net Absorption (msf) Since 2020



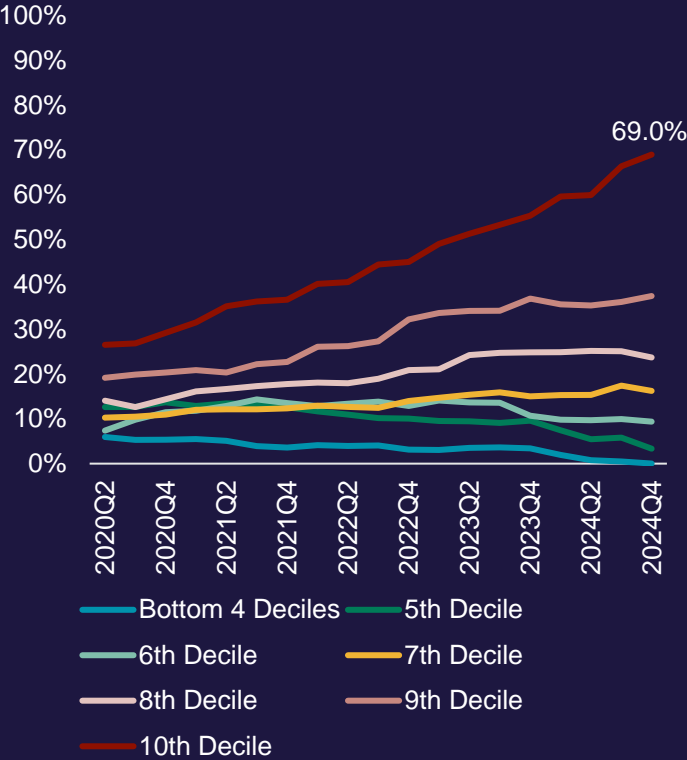
Source: Cushman & Wakefield Research

BALTIMORE: EVERY ASSET HAS ITS OWN STORY

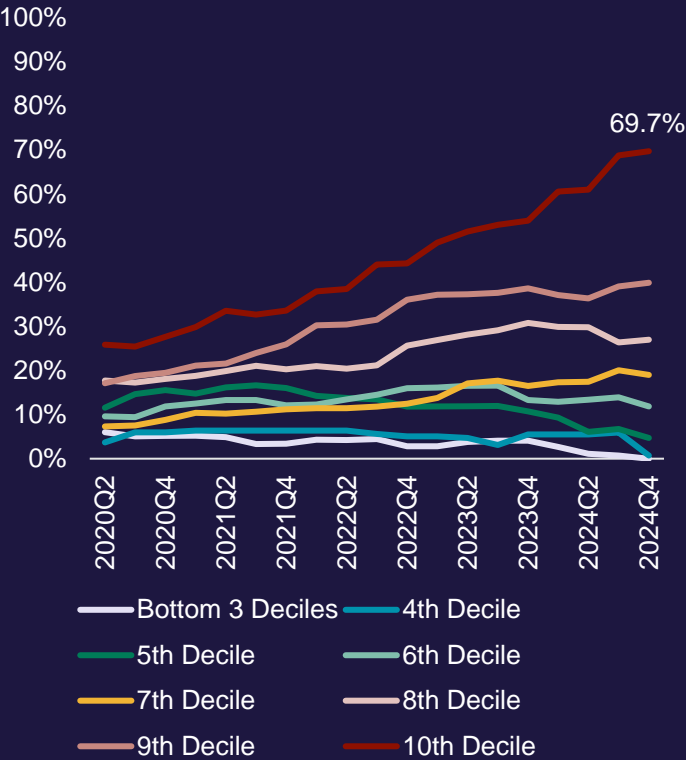
Office gets outsized attention, still



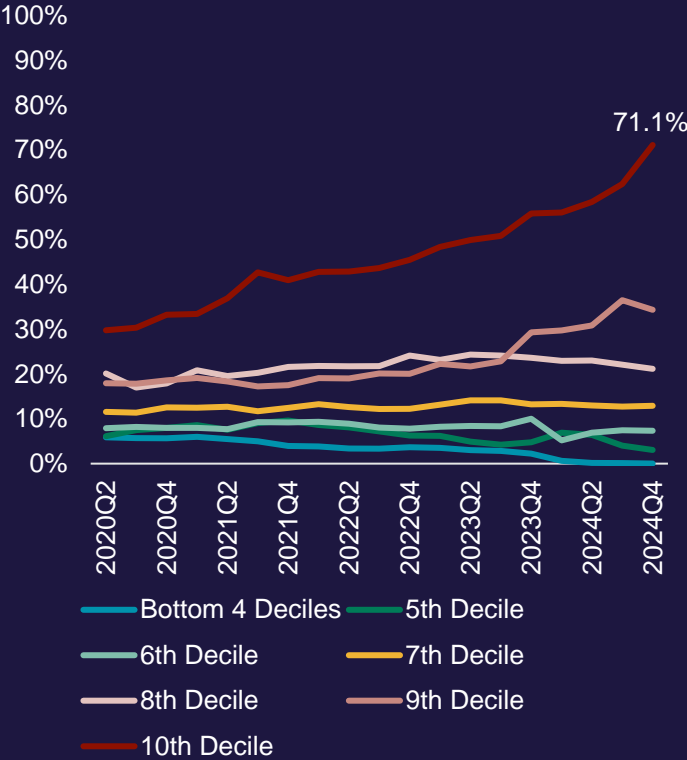
Overall



Class A



Class B

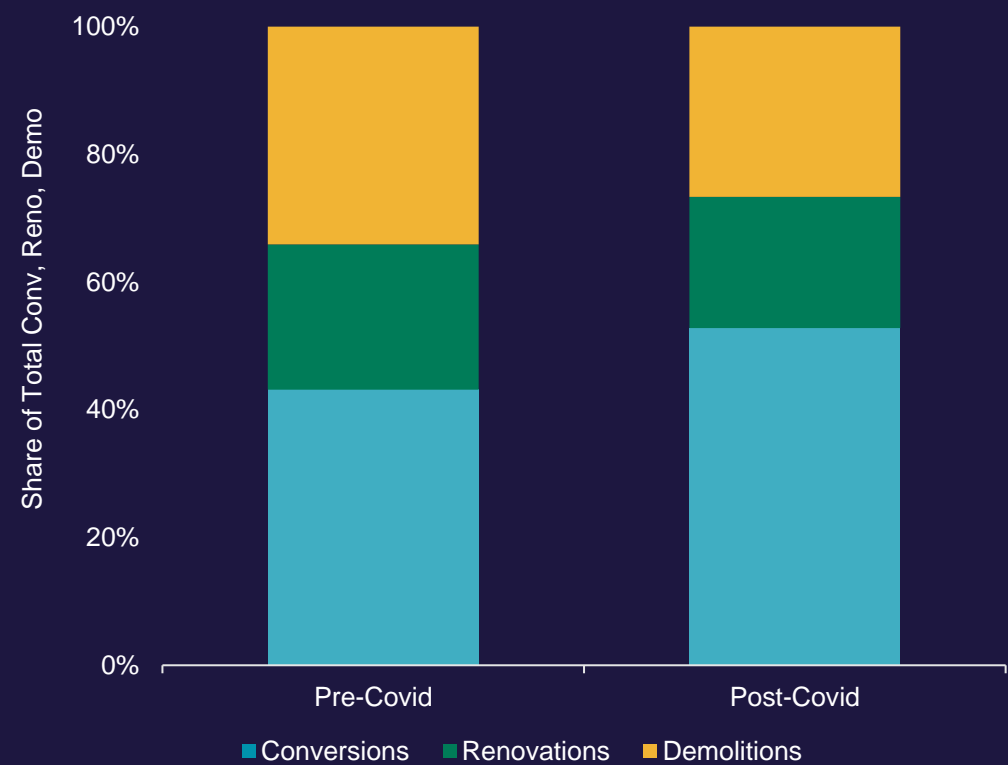


THE SLOW SLOG TO REIMAGINE OFFICE

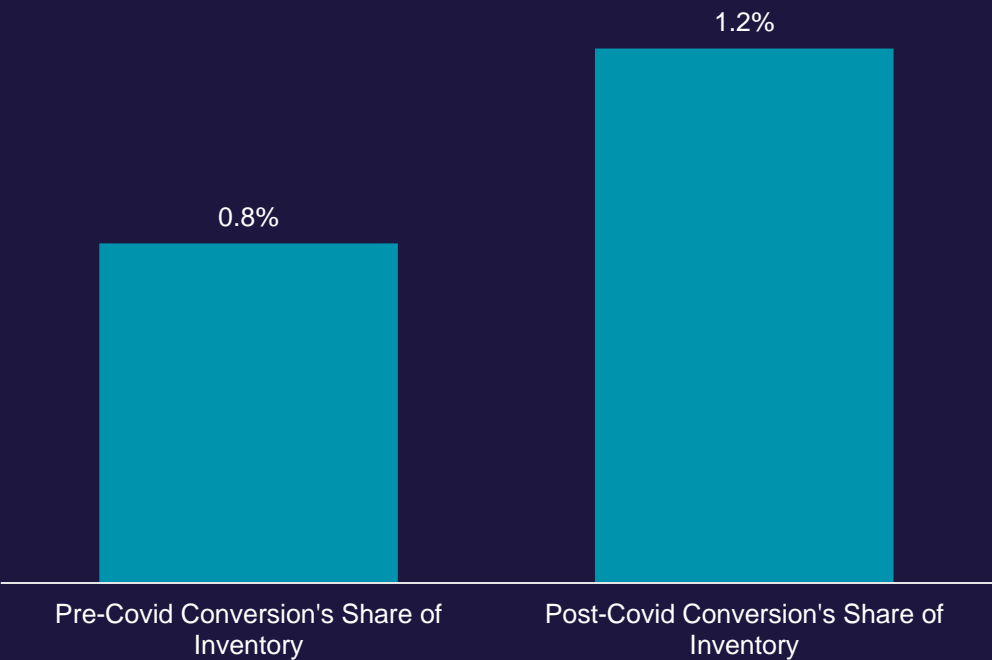
Adapting office will take years to play out >>> we are in inning #1



Office Evolution Favors Repositioning



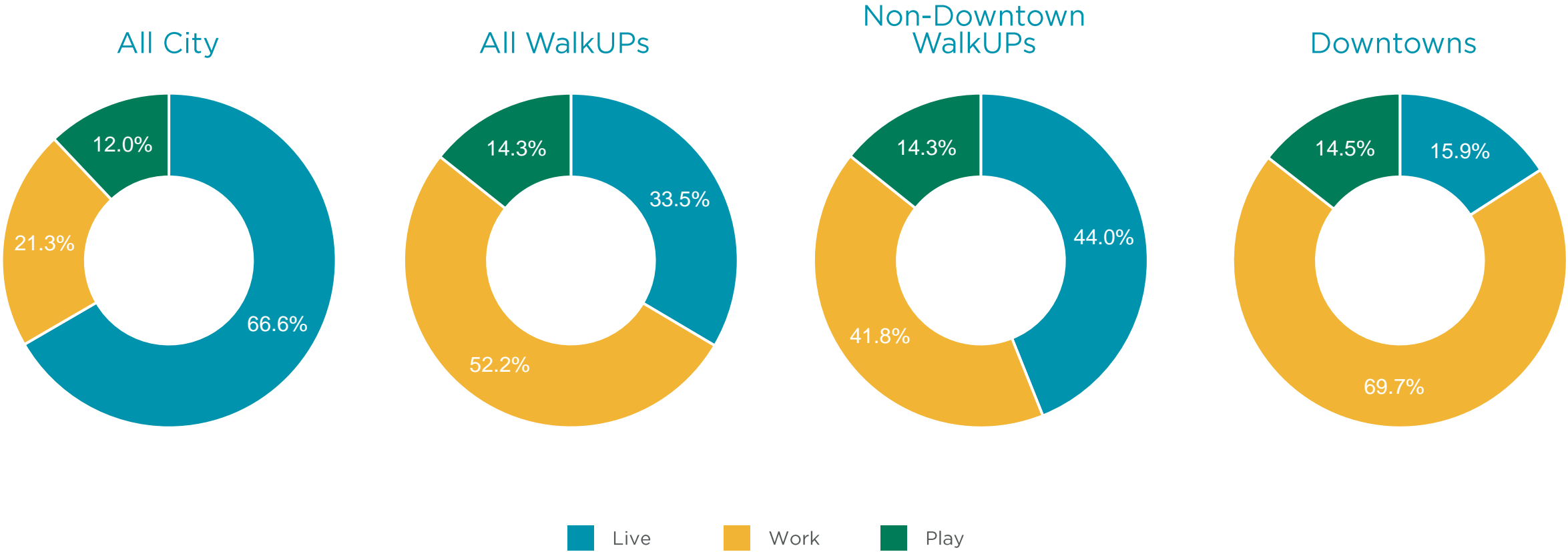
Office Conversions as % of Inventory



Source: Cushman & Wakefield Research. Note: Pre-Covid is 2015-2019, and post-Covid is 2020-2024.

WALKUPS, ESPECIALLY DOWNTOWN, CURRENTLY VIOLATE PORTFOLIO THEORY

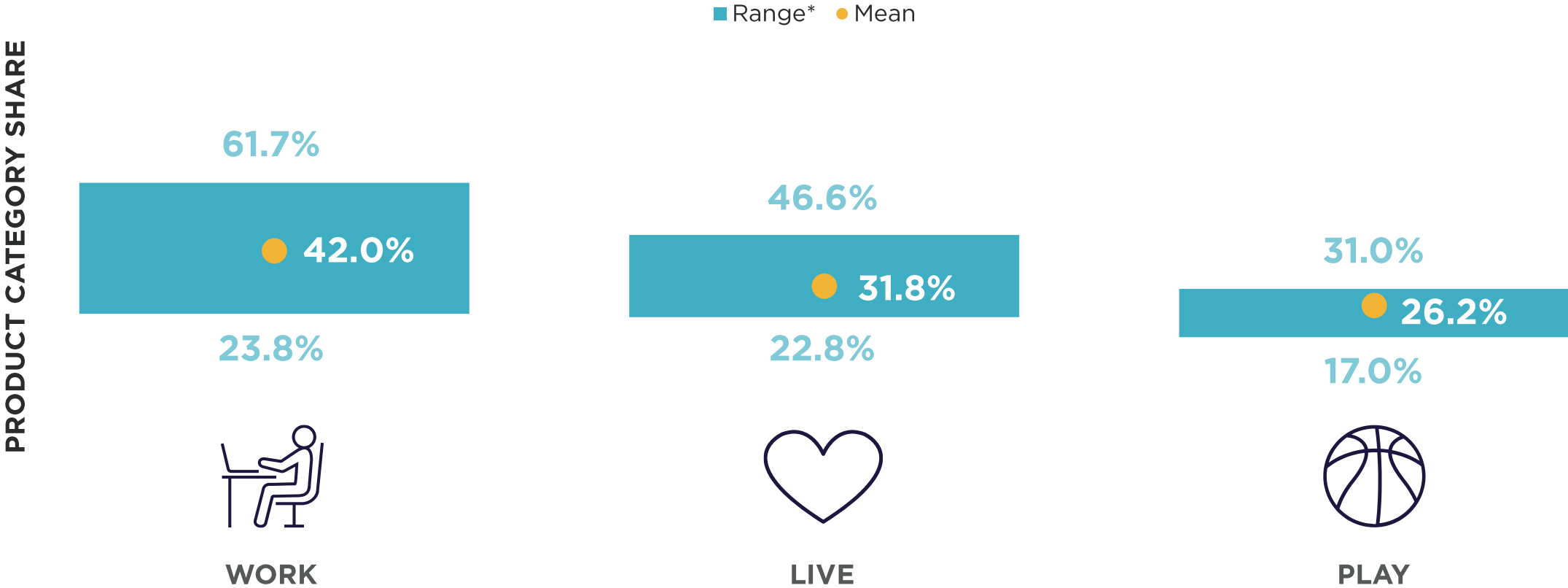
Share of inventory by product category



Source: Places Platform, LLC and Cushman & Wakefield Research estimates based on data from CoStar, CoreLogic, Cushman & Wakefield, U.S. Government Services Administration, U.S. Department of Education IPEDS, U.S. Census Bureau, Property Shark

WALKUPS NEED TO OPTIMIZE THEIR REAL ESTATE

And Downtowns in particular have the most work to do



Source: Places Platform, LLC; Cushman & Wakefield Research

Note: *Conditional 90% margin of error

WALKUPS NEED TO OPTIMIZE THEIR REAL ESTATE



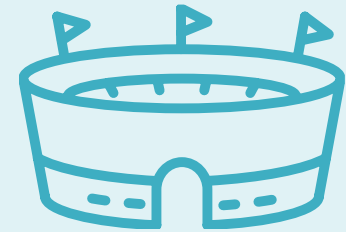
**Decrease Work Share,
Especially Downtown**



**Increase Live Share,
Especially Downtown**



**Increase Ratio of
For-Sale Housing**



**Increase Play in All
WalkUP Types**

REIMAGINING CITIES & REAL ESTATE = OPPORTUNITY



7-year forward total (unlevered) returns





REBECCA ROCKEY
Deputy Chief Economist, Global Head of Forecasting

About Cushman & Wakefield

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