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ULI survey predicts modest slowdown, quick economic recovery. Others are less optimistic.

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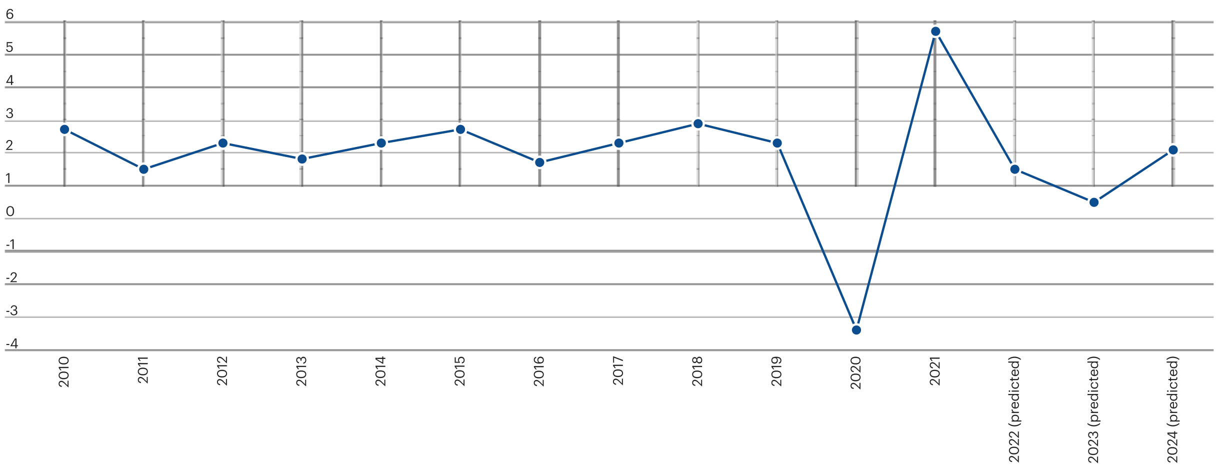
The survey, released every May and November, gives median measurements among surveyed economists on how they're forecasting 27 economic and real estate data points will fare in the coming quarters and years. The most recent survey was conducted between Sept. 28 and Oct. 12.

Some key predictions for major economic indicators from the survey:

REAL GDP GROWTH



Source: Bureau of Economic Analysis; Urban Land Institute survey

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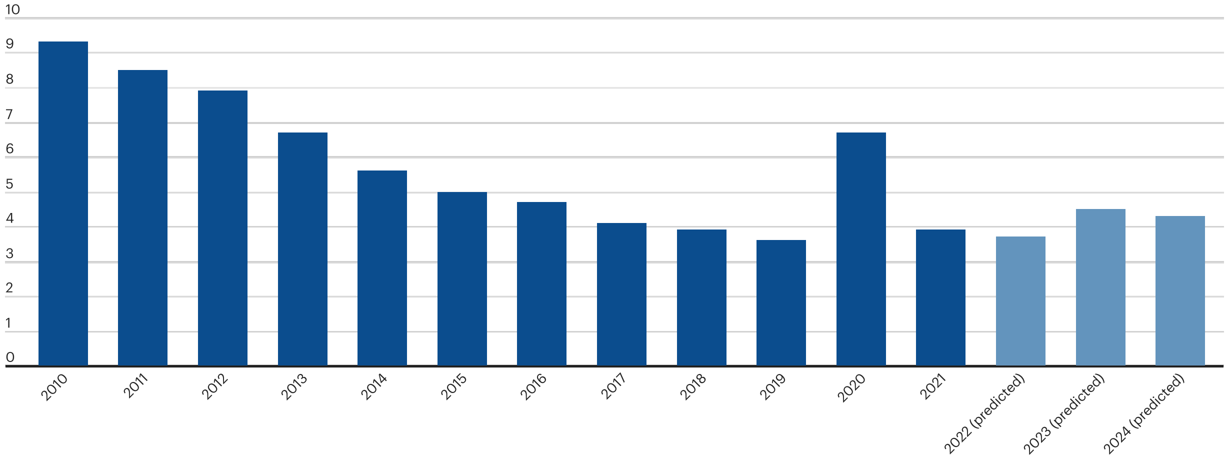
UNEMPLOYMENT RATE



Source: Bureau of Labor Statistics; Urban Land Institute survey

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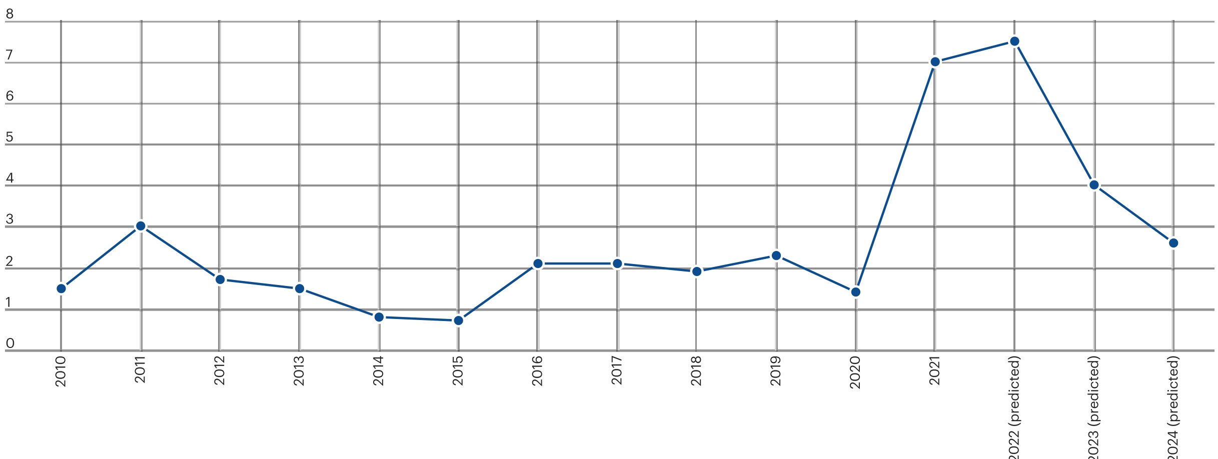
CONSUMER PRICE INDEX INFLATION RATE



Source: Bureau of Labor Statistics; Urban Land Institute survey

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But some of the surveyed researchers who participated in a discussion hosted by ULI on Wednesday say the median results paint a somewhat overly optimistic picture — although, on some metrics, could be too pessimistic in the short term. An informal survey of attendees at Wednesday's virtual talk found 56% felt the survey results were overall too optimistic.

"It's likely too positive in general, specifically as it relates to the relative outlook for strength in the macro economy," said Sabrina Unger, managing director of research and strategy at Los Angeles-based American Realty Advisors Inc. "We're monitoring a lot of high-frequency data points and we're seeing how meaningful of a deceleration we're in, and we don't think we're done yet."

Will Pattison, head of research and strategy at MetLife Investment Management LLC, said he thinks it's more likely unemployment will trend closer to 6% in the coming years than the survey-predicted 4.5%, although GDP predictions seem accurate, he added.

Slower GDP growth would likely dampen demand for real estate in sectors like industrial, which would result in a more pessimistic outlook for returns in that property type in the coming quarters and years, he added.

Despite the prognostication ULI's survey sets out to do, and the predictions made by economists on Wednesday, most agree it's too difficult to say with certainty when and if the U.S. economy is (or will be) in a recession, and how deep it'll be. Both of those factors will be critical in determining how the real estate industry will fare in 2023 and 2024.

Already, Unger said, cracks are starting to appear on the consumer spending side. In fact, bank card balances reached a record high of $866 billion in the third quarter, a 19% annual increase, according to a recent report by credit-reporting agency TransUnion Corp. That increase was attributed to financial pressures from high inflation.

Layoffs are also becoming a more frequent occurrence, most visibly in the mortgage and technology industries so far. Menlo Park, California-based Meta Platforms Inc. (Nasdaq: META) disclosed this week more than 11,000 layoffs, or 13% of its workforce, are coming.

Unemployment remains low, at 3.7% in October. Even as that number is expected to increase, unemployment overall is coming from a very, very tight position, which may prevent deeper economic scarring, Unger said. For comparison, unemployment during the Great Recession peaked at 10% in October 2009.

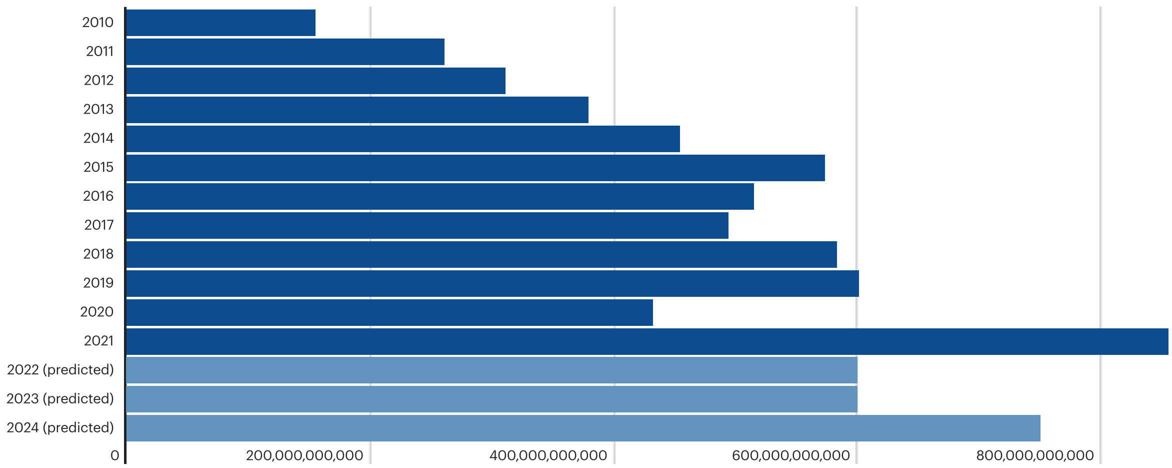
Commercial real estate outlook

The outlook for the major commercial property types varies somewhat but ULI's survey overall suggests a more modest decline in 2023 before starting to recover the following year.

Already, a slowdown in deal volume has been widely acknowledged, with global commercial real estate investments totaling $234 billion in Q3, or an annual decline of 18%, according to Jones Lang Lasalle Inc. (NYSE: JLL) research. This year is forecasted to end at $600 billion in total commercial real estate transaction volume, according to ULI's survey. That's down from the $855 billion in deals done in 2021, MSCI Inc. found.

The forecast suggests commercial real estate deal volume will be flat next year. Unger said, given slower deal volume, it's reasonable to assume a similar dynamic will occur next year, but chronologically in reverse, with the first half of the year being slow before a relative unleashing occurs in the latter half.

COMMERCIAL REAL ESTATE TRANSACTION VOLUME



Source: MSCI Real Assets; Urban Land Institute survey

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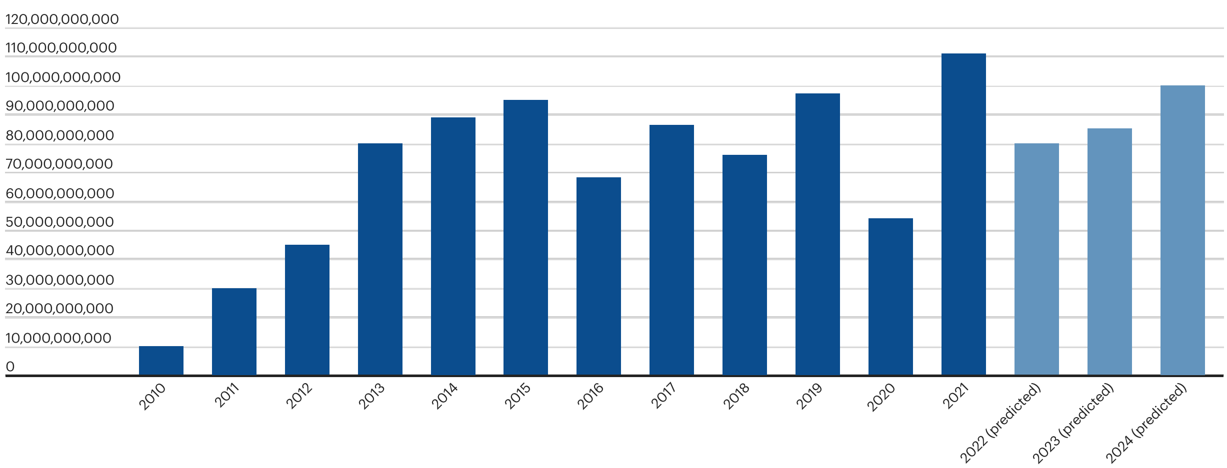
COMMERCIAL MORTGAGE-BACKED SECURITIES ISSUANCE



Source: Green Street; Urban Land Institute survey

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For a market like industrial, which has been a preferred sector for investors especially since the onset of the pandemic, it'll likely continue to see growth but not at the rates observed in the past two years or so.

Pattison said the assumptions in industrial have gotten pretty aggressive, in that a long-term 3% growth rate is no longer the standard assumption.

"Even if occupancy is strong, and rent grows 3% or 4% next year, that might cause value declines because underwriting expected more like 9% to 10% growth," he continued.

For property types like industrial and multifamily that've seen record-low capitalization rates, the rise in interest rates will put more pressure on those sectors than ones that've experienced higher cap rates. Industrial and multifamily are also seeing a greater share of loans with negative leverage than other property types, a Moody's Analytics Inc. analysis recently found.

Paige Mueller, managing principal at Eigen 10 Advisors LLC out of San Francisco, said new industrial construction will be something to watch in industrial as e-commerce sales slow. It prompts the question of whether warehouse construction will eventually outpace demand, she said.

"Our construction right now is about double the normal absorption pace," Mueller continued. "We'll see where it all comes out, but there's a chance, particularly if we do have a recession, that ... we could have a little adjustment in the next year."

The U.S. construction pipeline hit another all-time high of 716.9 million square feet in Q3, a 2.6% increase from the previous high set the prior quarter, according to Cushman & Wakefield PLC (NYSE: CWK) data. Industrial absorption in Q3 nationally was 108.2 million square feet, down from 132 million square feet of absorption observed in Q2.

ULI also evaluated two key metrics on the for-sale housing side: single-family housing starts and home price changes, which analysts on Wednesday's forecast event say they felt were aligned with their expectations.

ULI's survey found single-family housing starts are forecasted to be 950,000 in 2022, down from 1.1 million in 2021, and will shrink to 800,000 in 2023 before increasing to 900,000 in 2024. Home prices are forecasted to grow 7.3% on an annual basis this year — a significant drop from the 17.9% appreciation observed in 2021 — before decreasing 1.9% in 2023 and rising a more typical 3% in 2024.

Unger echoed what other housing economists have said — the persistent inventory shortage will keep home prices on a national basis from falling too precipitously.

"We need to bring this back to the local market level but, at an aggregate level, I do think the price declines will be relatively benign because of the inventory shortage," she added.

Pattison said he's actually more optimistic than the survey results on the home-price forecast because, within the for-sale market, pricing tends to be sticky.

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