



Piasky Solutions

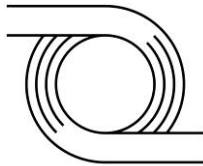
Real Estate and Development

Real Estates Bullets #31

Hello and happy New Year to our **7,905 familiar faces** from last week, and a **warm welcome** to all our **new readers!**

Piasky Solutions Recommended Companies

Piasky Solutions is your resource for vetted & trusted providers. Explore our **"Recommended Companies"** to fulfill your needs.



D & D ENGINEERING, INC.



SEAWOLF

Bullets #31:

2024 Commercial Real Estate Predictions by Dr. Peter Linneman

Dr. Peter Linneman joined Willy Walker on the Walker Webcast for the **Most Insightful Hour in CRE**. Peter nailed his 2023 predictions – so what is he forecasting for the year ahead? See below for **highlights from the webcast** and the latest Linneman Letter (<https://www.linnemanassociates.com/the-linneman-letter>):

- **Interest rates and inflation:**
 - Surprised at the Fed's decision to cut rates in 2024 after **inflation concerns**.
 - Emphasizes looking at month-over-month data and annualizing to understand inflation trends.
 - Asserts that inflation concerns were **exaggerated**, and the focus should be on real-time data.
- **Reference to an adage "Survive to 3.5" related to the 10-year Treasury yield:**
 - Predictions of reaching a **3.5% yield** due to steady inflation and normalization after the pandemic.
 - Mention of December inflation at 2%, January at 1.1%, and February at 1.4%.
- **Addressing housing shortages:**
 - Challenges in addressing housing shortages due to **NIMBY-ism** and local control but suggesting federal funds as an incentive to local governments meeting housing production.
- **Increased insurance spending:** Should we be worried?
 - Social Security, Medicare, and Medicaid absorb 11.3% of GDP and **60% of all federal spending**.
 - Corporate profits after tax in the U.S. peaked at 11.1% of GDP in Q2 2021, now at 9.6%.
 - Spending on Social Security, Medicare, and Medicaid as a percentage of GDP exceeds all U.S. corporate profits after tax.
- **Consumer and Household Debt:**
 - Household debt as a percentage of disposable personal income was **81.4%** in Q3 2023 (down from 123% in 2008).
 - Credit card delinquencies were 2.6% in Q4 2019, now at 3% in Q3 2023.

- Rising credit card usage is partially due to a **shift from cash**, and a significant portion of credit card debt is not "real debt."
- Country can easily pay off the debt with its substantial net wealth.
- **Debt Service Ratio:**
 - Debt service ratio **peaked at 13.2%** in 2007, bottomed at 8.3% in 2021, and is now at 9.8%.
 - Emphasizes that the context (long-term vs. short-term, fixed vs. floating, property type) matters in interpreting debt service ratios.
- **Canaries in the Economy:**
 - Nine out of 50 canaries indicate concerns, with a focus on a "**misguided Fed**" not aligning short-term rates with inflation expectations.
- **Getting in the Game – Type 2 Investing Error:**
 - Type 2 investing error highlighted – the risk of not being in the game and missing opportunities.
 - People may be overly relying on models and **missing the dynamic nature** of capital markets during turbulence.
- **Multifamily Construction and Real Estate Opportunities:**
 - **Multifamily construction** outlook positive, with potential short-term softness but long-term opportunities.
 - Highlights the disparity in construction spending across various asset classes, with industrial and multifamily leading.
- **Healthcare Impact of OICs (Obesity Intervention Compounds):**
 - Suggests that OICs and weight loss drugs could save 2-3% of GDP in overall healthcare spending by addressing health issues related to obesity.
- **Predictions:**
 - Predicts 3 rate cuts in 2024.
 - Expects the Dow to be up 7-8% by the end of the year.
 - **Oil prices may decrease** to around \$65-\$70 by year-end.
 - US GDP growth is predicted to be around 2.5% from 2024 to 2027.
 - Does not foresee Jerome Powell getting renominated as Fed chair in May 2026.

Full Webcast



Piasky Solutions

Real Estate and Development

Copyright (C) 2024 Piasky Solutions . All rights reserved.