SitusAMC

6 Macro Trends to Watch in 2024

Residential Real Estate

INTRODUCTION

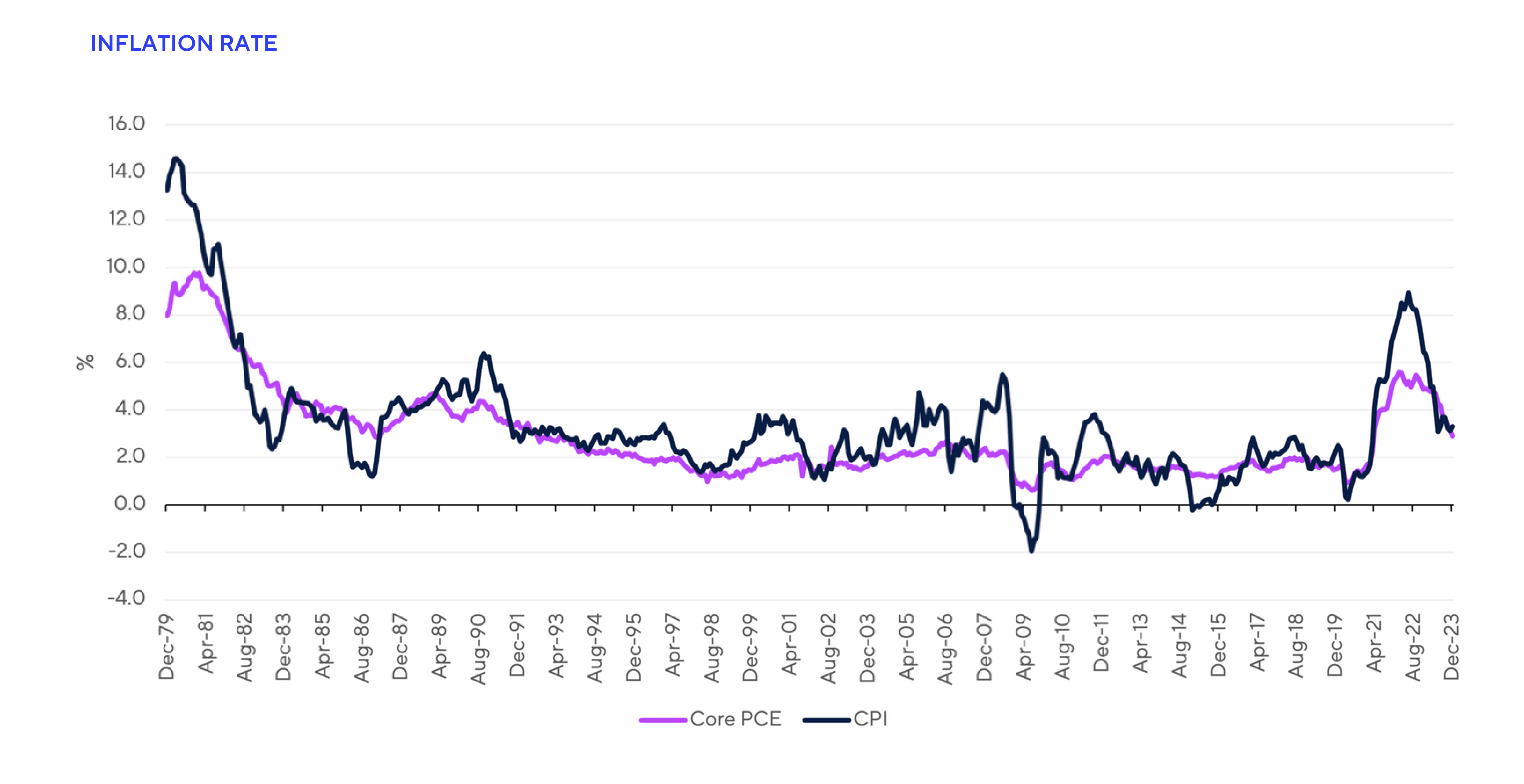
The watchword for 2024 appears to be resilience. The U.S. economy is on relatively solid footing, with gross domestic product (GDP) rising 3.3% in 4Q 2023 on an annualized basis, following a 4.9% spike in third quarter. The labor market remains strong, and inflation has decelerated from the 40-year highs seen in mid-2022. SitusAMC has identified six macro and interconnected themes to watch in 2024. Some will offer economic and real estate market stability while others create risk. However, these themes generally lead us to predict a thawing of the freeze we saw in residential real estate activity last year.

1 Interest Rates & Inflation

The sharp rise in interest rates has been the primary culprit in recent capital markets turmoil. To tame soaring inflation, the Federal Reserve raised the federal funds rate 11 times between 2022 and 2023, for a total of 525 basis points (bps). At the end of 2023, the Fed set the benchmark rate at 5% to 5.25%, and interest rates reached a near two-decade high in October 2023. Treasuries and mortgage rates retreated at the end of 2023 as the Fed kept interest rates unchanged; however, rates remained historically elevated. At its January 31, 2024 meeting, the Fed left rates unchanged, noting in its policy statement that “the risks to achieving its employment and inflation goals are moving into better balance.” The Fed said it could make “adjustments” to the target range based on shifts in the economic landscape.

While the rise in interest rates has led to declining transactions and origination activity, the Fed’s actions appear to have cooled inflation. The seasonally adjusted consumer price index (CPI) measure of inflation reached a 40-year high of 8.9% in mid-2022, kicking off the Fed’s aggressive interest rate policies. The CPI decelerated by 560 bps by the end of 2023. Core personal consumption expenditures (PCE), the Fed’s preferred inflation measure, fell to a 2.9% annualized rate in December while headline inflation came in at 1.7%, below the Fed’s target of 2%, and well under its peak in February 2022.

INFLATION COOLS FROM 40-YEAR HIGHS IN 2023

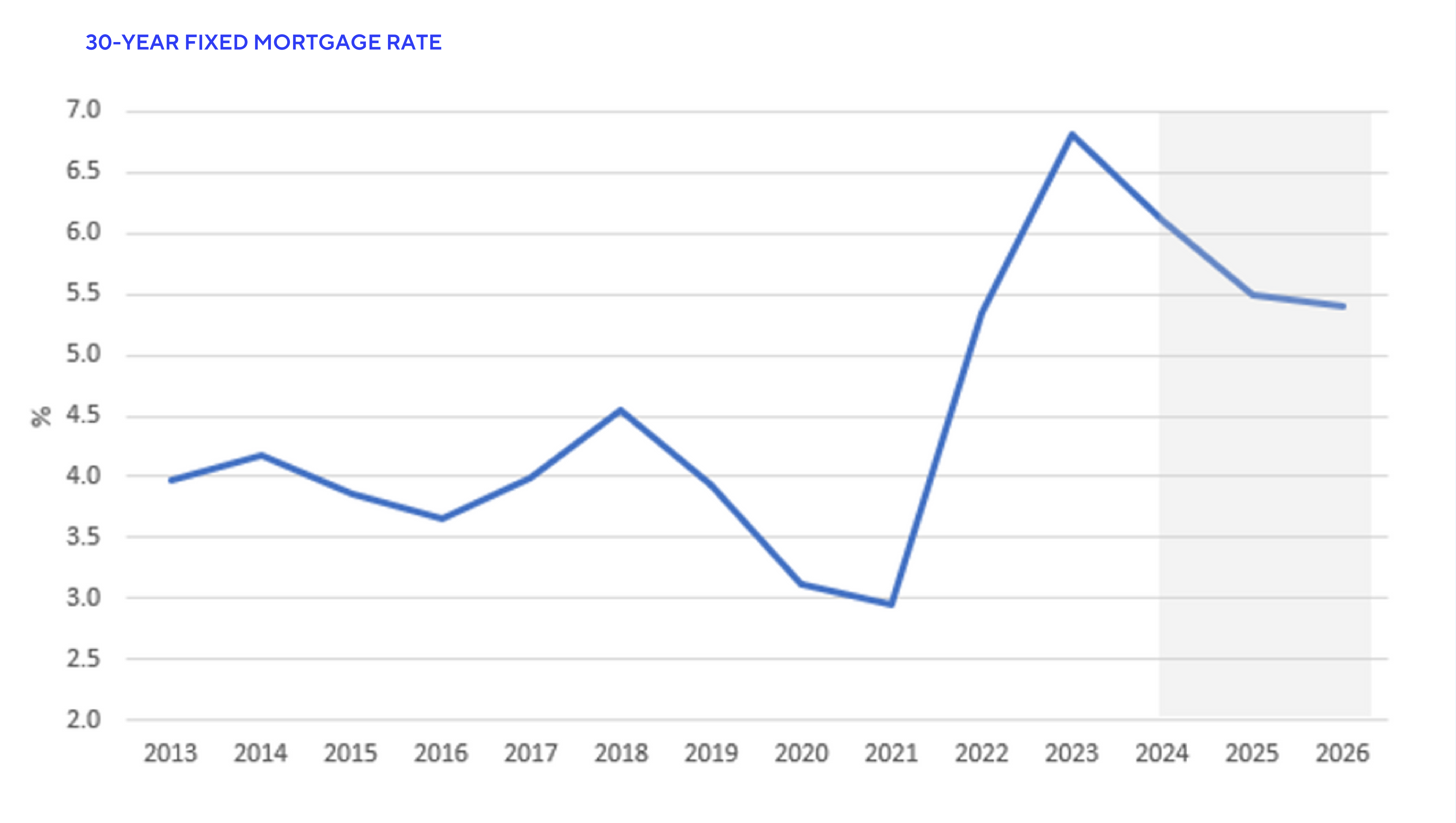


Sources: BEA, BLS, SitusAMC Insights, December 2023.

The Fed's summary of economic projections (SEP), released in December 2023, indicated that the Fed will likely cut rates three times in 2024. The median federal funds rate projection was 4.6% in 2024, with all SEP participants projecting rate cuts during the year. In its January 31 statement the Fed signaled rates cuts are likely not imminent. However, the robust economic growth in the 4Q 2023 is likely to delay any easing to later in 2024. Projections are for the federal funds rate to fall further in 2025 to 3.6%.

MBA forecasts the 30-year fixed mortgage rate to fall from a 6.8% annual rate in 2023 to 6.1% in 2024. The mortgage rate is expected to hover near 5.5% in 2025 and 2026. While declining and more stable rates should help improve transaction and origination activity, the levels remain high compared to recent years and are unlikely to spur much refinancing activity.

30-YEAR MORTGAGE RATES EXPECTED TO RETREAT FROM 22-YEAR HIGH YET REMAIN ELEVATED



Note: Shaded area indicates forecast.
Sources: Freddie Mac, MBA, SitusAMC Insights, January 2024

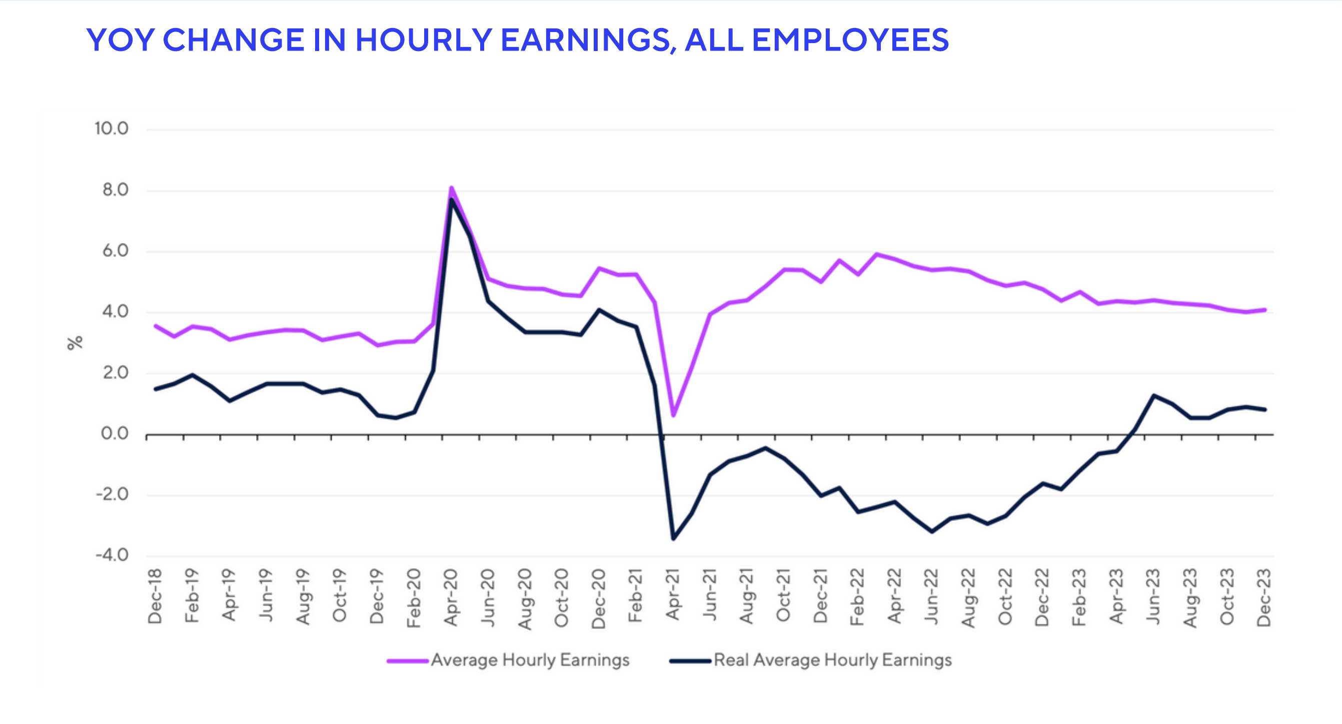
2 Consumer Financial Health

The labor market has remained remarkably resilient amid the Fed's aggressive rate-hike campaign. After peaking at 14.8% during the COVID-19 pandemic, the unemployment rate had dropped to 3.7% as of December 2023, well under the historical average of 5.8% and even below the Fed's 4% benchmark for full employment. Meanwhile, opportunities remain plentiful, with the job openings rate (ratio of job openings to population) remaining exceptionally high from a historical standpoint. The cushion in available jobs suggests that the labor market will remain healthy enough to support economic growth in the coming year, even if interest rates remain elevated.

Wage growth data suggests a relatively healthy consumer. Average hourly wages increased 4.1% in 2023 and over 20% since the onset of COVID-19. By comparison, annual wage growth over the last 15 years has averaged 3%. Ultra-high inflation has certainly eaten into consumers' wallets recently. However, inflation-adjusted real wages have grown 1.1% since the onset of COVID-19. In 2023, real annual wage growth averaged 0.8%, 20 bps higher than the 15-year average.

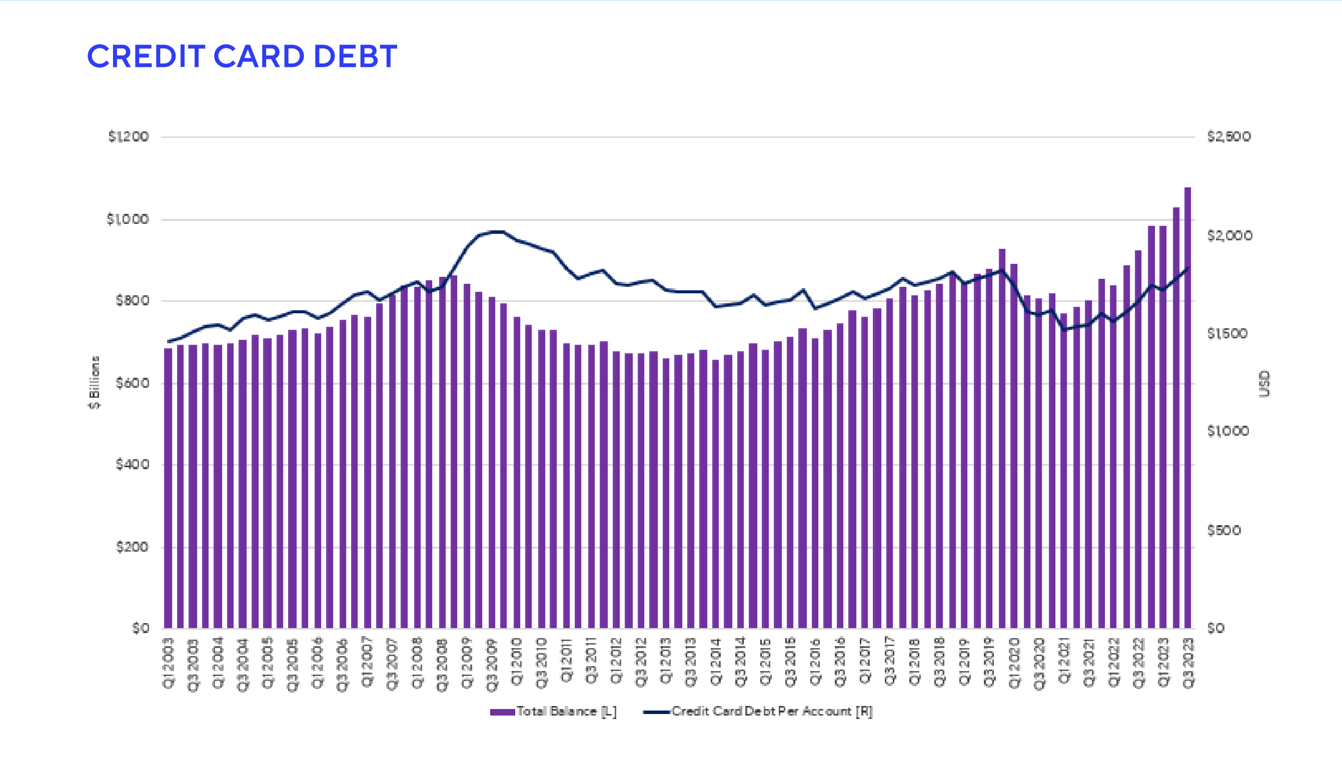
Though the financial health of the consumer is expected to remain relatively robust in 2024, one trend to monitor is consumer debt. Credit card debt, which began rising rapidly in 1Q 2021, hit a record $1.07 trillion in 3Q 2023, a 16.6% increase YoY. The average credit card debt per account also spiked, to to $1,830, the highest amount since 2011. Meanwhile, delinquencies (90+ days) jumped by more than 24% YoY, though the rate of 9.4% in 3Q 2023 equaled the 15-year average.

WAGE GROWTH DECELERATES IN 2023 BUT REMAINS ABOVE HISTORICAL AVERAGE



Sources: BLS, SitusAMC Insights, December 2023.

RISING CREDIT CARD DEBT SIGNALS POTENTIAL CONCERN FOR CONSUMER FINANCIAL HEALTH



Sources: Federal Reserve Board of New York Consumer Credit Panel/Equifax, SitusAMC Insights, 3Q 2023.

3 Population Growth & Domestic Migration

Population growth drives real estate demand, and the Sun Belt is still winning the lion's share. The U.S. population grew 0.5% in 2023, up from 0.4% growth in 2022, according to the U.S. Census Bureau. Domestic migration (i.e., migration between states) accounts for the largest share of population growth. In 2023, the largest percentage increases in domestic migration occurred in many of the Sun Belt States: South Carolina (1.1%), Delaware (1.0%), North Carolina (0.9%), Tennessee (0.9%) and Florida (0.9%). The biggest losers on a percentage basis included states with large urban metros: New York (-1.1%), California (-0.9%) and Illinois (-0.7%) as well as Hawaii and Alaska (both at -0.8%).

MANY SUN BELT STATES BENEFITTING FROM DOMESTIC MIGRATION; NEW YORK AND CALIFORNIA SEEING MOST OUTMIGRATION

	State	2023 Change in Domestic Migration (%)	2023 Change in Domestic Migration (#)
Top 10 Markets	South Carolina	1.5%	82,562
	Delaware	1.0%	10,320
	North Carolina	0.9%	97,264
	Tennessee	0.9%	63,417
	Florida	0.9%	194,438
	Montana	0.8%	9,485
	Idaho	0.8%	15,389
	Maine	0.7%	9,216
	Texas	0.6%	186,767
	Alabama	0.6%	30,744
Bottom 10 Markets	New York	-1.1%	-216,778
	California	-0.9%	-338,371
	Hawaii	-0.8%	-11,193
	Alaska	-0.8%	-5,543
	Illinois	-0.7%	-83,839
	Louisiana	-0.6%	-29,692
	Massachusetts	-0.6%	-39,149
	Maryland	-0.5%	-30,905
	New Jersey	-0.5%	-44,666
	Rhode Island	-0.3%	-3,224

Sources: BLS, SitusAMC Insights, December 2023.

4 Geopolitics

With the ongoing turmoil between Israel-Hamas and Russia and Ukraine, geopolitics are weighing on investors' minds. While the economic fallout from these wars has thus far been manageable in the U.S., further escalation of geopolitical tensions could lead to a pullback in GDP and an increase in inflation.

The war in Ukraine has had relatively little effect on U.S. trade. Trade with Russia represented just 0.03% of total U.S. exports and 0.15% of total U.S. imports year-to-date through November 2023. Similarly, trade with Israel makes up just 0.7% for both imports and exports. However, slowing imports can also lead to a rise in inflation. U.S. imports from Russia plummeted from $2.8 billion at the start of the war to $362 million in November 2023. Sanctions on Russian oil and commodities likely contributed to the surge in energy and food costs in the U.S. Concerns are growing that the Israel-Hamas war could also influence trade energy prices. As the U.S. and Britain have ramped up counterattacks against the Houthis in Yemen to protect commercial ships in the Red Sea, OPEC member Iran has begun sending weapons to the Houthis, setting up the potential for a U.S.-Iranian proxy war.

In addition, Time reports that at least 64 countries (plus the European Union), representing 49% of the world's population, will hold national elections in 2024. More voters will go to the polls this year than ever in history. The Taiwanese people elected incumbent Vice President Lai Ching-te for president in January, which analysts say could escalate tensions with China. Should they erupt into conflict, a global recession would be likely. War over Taiwan could cost as much as $10 trillion, or more than 10% of global GDP, Bloomberg Economics estimates. By comparison, the costs of the Great Financial Crisis and COVID-19 were each about 6% of global GDP.

Meanwhile, the U.S. faces a presidential election in November and the impact of the policies that will follow. Republican frontrunner Donald Trump's policies include higher tariffs on international imports, support for Israel, a contraction of financial support to Ukraine, increased oil drilling and rollbacks of clean-energy policies. Democratic frontrunner Joe Biden's policies include access to affordable health care for all, relief to those still burdened by the COVID-19 pandemic, higher taxes for billionaires and large corporations, support for small business, and job creation.

5 Evolving Work Models

About 22% of employees worked remotely some or all of the time in December 2023, up from 9% in February 2020, according to the Bureau of Labor Statistics. But this varies greatly by industry, with up to 60% of employees in industries in information, financial activities and professional and business services working remotely some or all of the time.

Many companies have announced return-to-office (RTO) plans, which is affecting residential real estate. Some 10% of home sellers are moving because of RTO policies, according to Redfin. Many of these relocators will likely be selling their homes at a loss because they purchased at the height of the work-from-home trend when prices peaked.

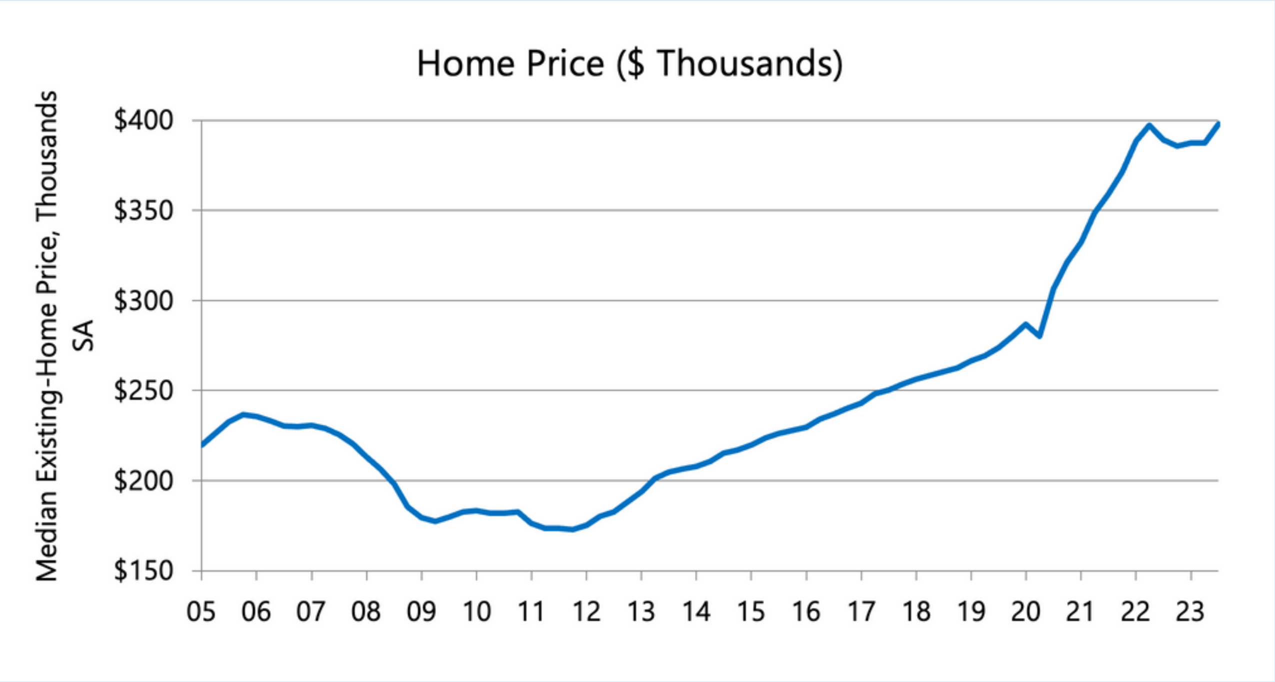
We may see domestic migration reverse from the extreme shift to the South and Southwest that occurred during COVID-19. Home sellers moving back to cities will likely have to adapt to smaller square footage, and homes with multifunctional living spaces will likely see higher demand.

6 Single-Family Home Affordability

The U.S. is in the midst of a housing crisis because of the shortage of both rental and for-sale homes. While new housing completions have returned to their historical average, nearly 15% fewer housing units were built in the past 10 years compared to the long-term average, despite rising population. Higher mortgage rates have further contributed to a lack of homes for sale, as existing homeowners are hesitant to surrender lower-rate mortgages to purchase homes at dramatically higher rates.

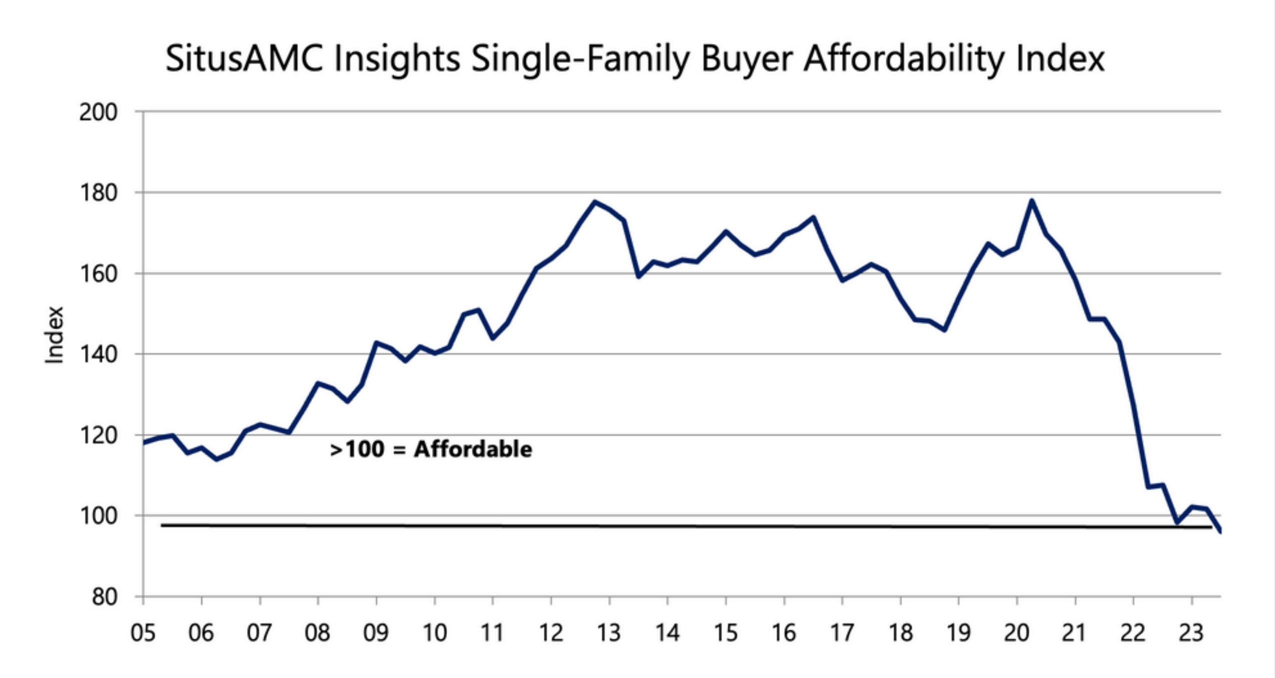
High single-family home sales prices and surging interest rates have caused homeownership affordability to tumble. Despite some recent cooling in home prices amid higher mortgage rates, prices have resumed rising and are at another all-time high: up 42% since the pandemic hit, while mortgage rates recently eclipsed 7% for the first time in more than 20 years. Even with a pause in rate hikes, and potential for modest cuts ahead, the Fed has reiterated its commitment to taming inflation, suggesting any declines in mortgage rates would be mild and have a limited effect on affordability. In addition, inventories of existing homes for sale remain low, exacerbating price hikes and limiting the ability of many households to purchase homes. Mortgage underwriting standards remain tight.

HOME PRICES SURGE ABOUT 40% DURING PANDEMIC TO A RECORD HIGH



Sources: Freddie Mac, NAR, Moody's Analytics, SitusAMC Insights

BOOM IN HOME PRICES COUPLED WITH RISING MORTGAGE RATES HAVE CAUSED HOMEBUYER AFFORDABILITY TO TUMBLE



Sources: SitusAMC Insights, Reis, NAR, Moody's Analytics, Freddie Mac, US Census Bureau

About SitusAMC

We partner with the most respected organization in real estate to help them originate, transact and manage their real estate loans and assets.

Our Residential Real Estate Offering

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- Automated Mortgage Compliance Technology
- Risk Management & Loan Insurance
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- Document Custody Technology
- Document Management, Classification & Data Extraction
- Loan Accounting & Master Servicing Technology
- Transaction, Asset & Portfolio Management
- Newly Originated & Seasoned Diligence & Review
- Asset Valuation, Hedging & Analytics
- Brokerage & Transaction Advisory

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#1

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$100M

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MSR Valuations / Brokerage

$5T / $330B

Monthly valuations representing 80% share / MSR UPB traded in '22

Whole Loan Valuations / Brokerage

$100B+ / $3.2B

Monthly valuations / Whole loan UPB traded in '22

Seasoned Diligence

1.1M +

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$11.2T +

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