The Weekly Take

What’s Up With That? The outlook for commercial real estate in 2024

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Spencer Levy
Happy New Year, folks. 2023 was a year of challenges and unpredictability. It began with high inflation and fears of a recession. It ended with interest rates holding, the Dow hitting an all time high, and ten year treasuries priced below four. All signs of optimism and potential strength for alternative investments such as real estate. On this episode, we look at what we've learned and what it all means at the dawn of a new year.

Richard Barkham
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Spencer Levy
That's Richard Barkham, Global Chief Economist and Head of Research for CBRE. We welcome every year for his wisdom and insights that help us find clarity in the markets.

Jim Costello
When you send the global economy home to sit on their couch for six months, it doesn't come back on right away. And people have been making mistakes, investing in the aftermath, thinking that wherever we were at the moment is where we're going to continue to be.

Spencer Levy
And that's Jim Costello, Chief Economist of the MSCI Real Assets Team, formerly known as Real Capital Analytics, until its acquisition by MSCI in 2021. MSCI is a leader in sales and financing data for assessing performance and risk in the real estate market. Jim is also the principal author of the U.S. Capital Trends Report series. Coming up, we ring in the New Year with a live audience of colleagues and clients who joined us at CBRE’s Office for the recording in early December. It's our annual real estate market outlook for 2024. I'm Spencer Levy and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take, and this week we are going to do our 2024 outlook with two of the leaders of the industry. Jim Costello, Chief Economist, MSCI Real Assets. Jim, thanks for coming out.

Jim Costello
It's fun to be here.

Spencer Levy
Great to have you, Jim. And another great friend of mine, Dr. Richard Barkham, Global Chief Economist, CBRE. Welcome back to the show.

Richard Barkham
Thanks for having me, Spence.

Spencer Levy
So let's begin. First, Jim, before we look forward, let's look back. 2023 was a difficult year for real estate, certainly from a capital markets perspective. So let's just look back first. How would you describe 2023 in your own words, Jim?

Jim Costello
Ugh. Yeah. That ugh right there.

Spencer Levy
We're done! Next question. No.

Jim Costello
It was a pause. It was a pause. It's a staring game. It's potential buyers and current owners just staring each other across the table, waiting to see who blinks first. Current owners, they don't want to take a loss. Nobody wants to take a loss unless they have to. And so they've just been waiting to see, well, maybe I can survive this. Maybe things don't turn out as bad as everybody's saying. And I can wait until the loan matures and I can refinance at a lower rate and I can get through this alive. Buyers are looking at this and saying, I don't want to be that person that everyone remembers five years from now at an industry cocktail party, the person who bought that last asset at the top of the cycle and the top of prices, and everybody asks later, hey, remember, Joe, what industry is Joe in now? Nobody wants to be Joe. So that disconnect between the two is just depressing deal activity and it is just throwing a lot of uncertainty in the air because without a lot of transactions, people have a hard time making decisions. They don't see a lot of comparables that can help guide them on where to expect the market. So it's just this waiting game.

Spencer Levy
Richard, in your words, how would you describe 2023?

Richard Barkham
I think it was the worst forecast year, in my, at least the last 20 years, possibly my career. So we expected a recession and we got a not exactly a booming economy, but a pretty robust economy. So a tricky year. It was, I would say, even more easy to forecast during the pandemic than it was over the course of 2023; a very complex economic environment. Hopefully things become a bit clearer in 2024. I think they will.

Spencer Levy
Well, fortunately, this is the 2024 forecast and you have the opportunity to make it clearer for our listeners. Big picture, how do you see 2024 compared to ‘23?

Richard Barkham

I think it's going to be a slower year in terms of economics, economic growth. We've got a slowdown in Europe taking place. We've got a slowdown in China taking place, and possibly a kind of a longer term crisis in China brewing. And I think some of the lagged impacts of interest rates will finally feed through into the very exuberant U.S. economy. But I do see resilience in the U.S. economy. We don't see, necessarily, a recession, but at least a slower year. Thankfully, around the world, inflation is finally trending down. The last mile might be a little bit more difficult, but it does mean that we are at the peak of the rate cycle and rates may not come down quite as quickly as the market is expecting, but they will be trending down over the course of the year and that should feed into capital markets activity and probably improved occupier sentiment as well.

Spencer Levy
Jim, ‘24 versus ‘23, how do you see it?

Jim Costello
Well, you know, I want to think about some of the stuff that Richard said first. Two things I took away from that: lagged impacts. That word just sparked in my mind. There's been an issue that we've been dealing with since 2020. We're still dealing with the negative shocks of 2020. It's like when you walk into the shower in the morning and you turn the hot water on and it's not on yet and it's cold and so you just turn the hot water even higher and then suddenly it's too hot and then you're getting burned, and so you turn the cold on and you're just back and forth. You can never get it right, because those lagged impacts. We're still dealing with those issues in the economy. When you send the global economy home to sit on their couch for six months, it doesn't come back on right away. And people have been making mistakes, investing in the aftermath, thinking that wherever we were at the moment is where we're going to continue to be. Think of 2021, early 2022, when interest rates were at record lows. There were investors doing deals and expecting that income was going to continue to grow like it had been, rates would be low forever and they can just keep refinancing out of that. It was poorly formed expectations, and I think people need to be looking at more of a longer term impact, not just where we are at any one point of time, and be thinking about those lagged impacts and sort of the longer term trend there. Then the other issue that Richard talked about that I think is interesting, sort of the rate cuts. I think the expectation of the market now is, yeah, we're going have rate cuts this year, but the debate really centers around just how much and how far down we're going to go. And I think we have a problem with that in our industry, in that we have too many young people in our industry. I tell you...

Spencer Levy
Nothing personal to the folks in this room here today, did not apply to any of you.

Jim Costello
I go to a lot of events and many folks I talk with, their only experience in the commercial real estate world, you’ve got senior people in our industry in their late thirties, early forties. They've only worked in their professional careers in this low interest rate environment that really kind of came after the global financial crisis. That's changing and the expectations a lot of people have are that we kind of go back to where we were before we had this interest rate spike, but I just don't see the confluence of events that would really bring us back down to the extremely low interest rates. There are people out there legitimately thinking that they can refinance at low rates in the future. Mortgage rates will go back down to 4%. They'll pay anything to roll the dice one more time and just refinance at some high rate today for a short term deal, thinking that they can be fine in the future. But I'm not sure how well all of that works out, because I don't know that you get the degree of rate

cuts. I think the probability of that is probably lower compared to other outcomes in the sense that we're in a totally different environment than we were in the aftermath of the financial crisis. You don't have the same kind of government intervention. In fact, it's more of a headwind than a tailwind at this point.

Spencer Levy
Well, I just had to take your line of paying anything to roll the dice just one more time, because I think it's appropriate, because that was from the Journey song “Don't Stop Believin'”. And are you telling our real estate audience to “stop believin'”?

Jim Costello
Well, no. The song says “Don't stop Believin'”. But listen, it's not that I'm negative on real estate. The economy has to live somewhere. Real estate’s the box where it lives. There's a good reason to invest in it. But I think there are people who are too optimistic about just how many rate cuts are going to get there. I think the debate is sort of the range of cuts that are going to happen. And there are some folks, I think, that expect we're going to go back to where we were in 2019 or so, and everything right before the financial crisis or even the middle of the crisis, and the expectations, I think, are pretty extreme.

Richard Barkham
And a lot of people are spilling ink over that. I do see interest rates heading down. If you look at history, they go up quickly, they come down slowly. So wherever they’re going, it's going to be a multi-year process. It's not going to happen in 2024 or even 2025. But I think the big picture, the big factors that generate interest rates in the global economy, namely inflation as the base, is definitely going back to around 2%, maybe to 2.5%. But also beyond that, the factors that create real interest rates are supply and demand of capital in the global economy. The factors that drive that haven't really changed, and that's demographically driven. The fact is that people save more when they get older, and as life expectancy increases, as it will continue to do, people will continue to save and there just isn't enough productive investment opportunity. So some of that money is going to go into financial assets, it’s going to bank accounts. It will drive interest rates down. I don't think necessarily to the level of 2009, 2019. Ten year Treasury averaged 1.9% over that period. I think we probably see it heading down to somewhere 3.5% between 2024 and maybe 2030. So down from where we are now, probably not down to those super low levels because between 2009, 2019, we had austerity in government and we had quantitative easing in central banks. I don't think those factors are going to be around that really depress interest rates. But they are heading down.

Jim Costello
Three and a half isn't that bad, relative to long history. I mean, that's the challenge I think we have. The people have done good deals in the past when rates were that high for interest rates and mortgage rates have all been higher. It's just yeah, you're not at the 50 basis points for the ten year treasury.

Richard Barkham
No no. I mean a friend of mine used to say a very successful business and you give people free money, they do stupid things with it. And if in a world where we're not giving away free money, then you get better allocation decisions. And as you point, I think probably real estate prices have already adjusted enough to be able to cope with a 3.5% sort of ten year treasury. I hope we get there in 2024. I think we might get somewhere close. But the longer term perspective is for low interest rates and as you say. It's not going to be long, I think, before maybe cost of capital is lower than cap rates, but cost of

capital falls below forward IRAs on real estate. We may even be at that point now. That will begin to kind of reignite investor interest. So I think that's what we're on the cusp of.

Jim Costello

I certainly see that in our data. If you look at, except for offices, particularly CBD offices, let's put that aside. But if you look at apartment buildings, if you look at retail and industrial, yeah, there was a price decline and the pace of growth slowed. But it seems like it was a one time adjustment to a higher rate environment. And all those declines are really starting to moderate. If that is the case, then the data is showing that it's kind of following that path right now. Offices are a different story. There's still uncertainty and changes in demand. They're probably impacting this as well.

Richard Barkham

That's right. We've had a generational shift in interest rates and a big shock. But outside of the office sector, actually, for the time being, because of the resilience of the economy, real estate fundamentals aren't that bad. In fact, vacancy rates are going up. But I think only two long run averages. So the fundamentals are relatively good. And with interest rates trending down, it's an interesting year in 2024, probably more positive than we might be thinking.

Spencer Levy

So this is a concept I've been explaining on stage and on this show for quite some time, is that real estate's the tale of two worlds. There's the capital markets world, which is as difficult as we just described. And then there is the fundamental world, which is, with the exception of commodity office, doing quite well. Yes, it's flattening. Yes, it's getting slower in terms of rent growth. And yes, we have seen some rent declines. But as you put it, Richard, fundamentally, we may just be getting back to historic averages. Is that how you see it, Jim? Capital markets versus fundamentals?

Jim Costello

The way I've been phrasing it actually in some of my recent client talks is Boomers versus Gen Z. If you look at the average holding period for commercial real estate asset, it's about seven years. So any time someone's been buying an asset since the mid 1980s, they always had capital market forces at their backs because whoever they're buying it from had bought it themselves in a higher interest rate environment with a higher mortgage cost and a higher cap rate than what they were offering it for. So there's always a little bit of a boost to returns from just those capital market forces. That game is over. The boomers had it easy in a sense because they had the wind at their back. And so I go in and tell this story to these companies, and the Gen Z’s there say, I'm actually excited for you because you're going to be real estate people now. You're not just going to be financial engineering that drives your performance. You're going to have to be really good at asset management. You're going to have to manage your CapEx spend well. You're going to have to work really closely with your leasing teams and get the right tenant mix in there to secure your income. And those, it's the fundamentals of real estate management that are going to drive success moving forward for these folks. So I do see it in that way because those capital market forces, even if we go to, let's say we get the lower bound, go down to 3% for the ten year Treasury moving forward. Even at that point over the next five years or so, you're still going to be facing headwinds and capital market forces from all these owners, given where they had bought it and where they had financed it, because they're going to want more from it than before. So to get any kind of return out of it, you're really going to have to focus on an income growth, and it's just managing that asset properly. So these Gen Z’s, I think they have an opportunity to do something different.

Spencer Levy
Well, one of the things that Gen Z's are doing today is spending. And because they are spending, notwithstanding the fact the consumer may be out of excess savings from Covid, two asset classes that historically were bringing us down and in down markets, retail and hotels, have done extraordinarily well. But I think the consumer spend story might be coming to an end. So, Richard, how do you see the consumer impacting not just retail and hotels, but demand for other forms of real estate?

Richard Barkham
Oh, many ways. I do think the consumer story is going to slow down. I mean, it's very strongly linked to the labor market. And although the labor market is pretty strong at the moment and it's not going to weaken too much, the rate of job generation is clearly weakening, and that will take just a little bit of confidence out of people's psyche. So probably a little bit of slowdown in consumer spending, but I don't think enough to, I mean, it's a big component of the U.S. economy. I don't think that's going to be enough to bring the economy into recession, although that's where the key danger lies. One of the interesting things that hasn't slowed down, though, is it's demographically driven as well as spending driven. It's just travel. It's Boomers and Gen Z, actually, more Boomers moving into retirement, huge numbers of relatively wealthy boomers, and they are just fueling travel. But also the 25 to 35 age groups still have money. Probably, we'll see some shift away from spending on stuff into spending on experiences, including travel. So one of the areas that I think is going to really continue to thrive, I think, is the travel economy or the leisure economy. I think it's more the travel economy. We've seen it really strongly since since COVID, and I think it's only going to continue.

Spencer Levy
It comes down to an acronym that I never knew before the crisis. FOMO I had heard, fear of missing out, but then there was YOLO, you only live once. And I will tell you I personally have bought tickets for trips and ball games that I would probably not have bought before. But it brings me to a more macro point, which is when people take a look about where we are today or where we were in 2023, a lot of people point to the 1970s and the cycle we had then. I saw a very interesting article about this is more similar to the post-World War II period where people had been deprived of spending, people had been sacrificing not just from a military standpoint, but from a personal standpoint, what they could do. And because of that we had this huge boom post-World War II and then it toned down again. Any thoughts on that, Jim?

Jim Costello
Well, yeah, in fact, Richard talked about stuff versus experiences. I think of that as goods versus services. And there's data in the consumption data published by the government around how much we're spending on each. And it gets back to that shower analogy because when you shut down the global economy, you can't spend on services, you can't go get your hair down and can't get your nails done. You can't, I can't get my hair done anyway. You can't, you just can't do that stuff. And so the services, many felt, what grew was goods. And then goods continued to grow during the low interest rate environment when so many people were buying homes. When the home purchases accelerated, you had people buying stoves, new furniture, new furnishings and that drove tremendous industrial demand because you've got to store that stuff someplace. And the goods spending is slowing. It's slowing faster now than services spending. Services spending, it increased once all the lockdowns ended, once the experience of the lockdown led to

people to do this YOLO kind of stuff. I've bought some tickets too, for just, randomly I bought some tickets the other day for a group playing in London next year, that I have not seen in person, but I want to see them. It's like, well, why not? Just do it. But that service spending is accelerating. So that changes the mix from a real estate perspective, because spending is going to happen, but it changes the mix of the real estate solutions that are needed to satisfy that consumer behavior. You know, maybe you don't need as much industrial space. It's still growing at a good pace, but maybe it doesn't continue at the pace that drove so much industrial demand. As opposed to the services stuff: you’ve got to do that someplace locally. You need, you can't do some of that services spending online. You can't get a nice steak and a glass of wine online. So you have to do that someplace.

Spencer Levy
Richard, let's turn to commercial real estate. And what do you see in 2024 as the places where we're going to see the greatest opportunity, the greatest challenges?

Richard Barkham
There is a range of opportunities depending on the level of risk that you want to take. One of my kind of most successful friends told me you get the best bargains in the most bombed out markets. So I think by far and away, the most bombed out market at the moment is the office sector. And I think people are going to find the best opportunities there. It's not for the faint hearted and you’ve got to have skill and we've already referred to it. We're moving to a world of the “hotel-ification” of real estate where you've got to treat assets not as chunks of concrete, but as services offerings. But within that, I think we're going to see a slow return to the office. We've had some repricing. We're going to get some distress. I think they're going to be great opportunities in the office sector for investors. But that is a high risk strategy because the future of work is still a bit evolving. If you want more core strategies then you're going to go into multifamily, you’ve got to go to industrial, and you're going to go into retail. I mean, retail is not quite core. Its value-add, I would say, but lower risk will give you lower returns. And I think we're probably going to return to stable 6 or 7% returns in those asset classes. I think hotels are a real opportunity, very low levels of new supply in the hotel sector. And as I say, we're on a travel boom. And then alternatives continue to grow. Data Centers in Dallas, where I live. They're leasing data centers for occupation in six years time. I haven't seen that level of demand in real estate for quite some time. So, but that's a specialist game. So good opportunities in 2024 I would say. But, a range of risk levels associated with that, from core to quite risky.

Spencer Levy
Jim, how do you see the risks and opportunities within different commercial real estate sectors in ‘24?

Jim Costello
The office market is the one where there's still so much uncertainty. The “return to work" phenomenon, “return to the office” phenomenon, I should say, I think it's mostly played out. If you just look at the New York City subway ridership. Every year after Labor Day since the pandemic, there's always been this, oh, it'll get back to normal after Labor Day. Everyone's just away for summer and it'll get back. And every year from 2021, 2022, 2023, there was a little bit of an increase in ridership from the year before, but it's increasing at a diminishing rate. If it continues on that same kind of path, it's hard to see anything changing it from beyond today. What we've got is what we've got. So you have probably a permanent reduction in demand from that perspective. But there are still some opportunities. There still are people coming in. And even if you're at 70% to where you were, that's still a lot of people, still a lot of a need. And it creates, I think, other demand

elements, because if you have distributed workforces, there's still needs to get together from time to time.

Richard Barkham

Let me launch in with the first disagreement.

Jim Costello

Okay, sure.

Richard Barkham

What we have is what we've got. The last three years has just been so unique in terms of the tightness of the labor market. We haven't seen a labor market like this since the 1960s. You know, the 1960s prompted countercultural behavior. People kind of dropped out and went and did things. We're not quite in that world. But I think the tightness of the labor market, the security that people have felt that they could drop out of the labor market or move jobs and then come straight back in has created a situation which is not going to go forward. So I do see potential for further normalization in the “return to the office”. We're not going to go back to where we were, but we haven't been in a normal world. That will play out, I think, over ‘24 and ‘25. And I think there are further gains for the office sector.

Jim Costello

I think of that period, though, and there were other structural changes that happened in the sixties and seventies, particularly the degree to which women started to enter the labor force dramatically. And that also changed where people worked because you had the growing suburban office market. Part of that was a labor cost issue because if you reduce people's commute times, you don't have to pay them as much, incentivize them to come to the office. So there was a structural change in that period of time in terms of where and who was in the market, and the technological acceptance of remote work, I think, also comes to play today in the sense of, the world is flat. Remote work allows firms to think about having people work for them, not necessarily like in Tampa as a low cost location. The low cost location is now Monterrey, Mexico, the Philippines, Mumbai. There's much more of an ability to distribute teams to lower cost locations. If you don't have social capital involved in your job that's given you a claim to the company's income at a higher level, firms may be able to find ways to put basic administrative work into much lower cost locations.

Richard Barkham

Yeah, well, I mean, but I agree that the structure of suburbanization in the sixties. A great American city has always been a bit of a battle between the skyscraper and the automobile. And in the sixties, the automobile won flat out. Over the last five years, I think the automobile or the suburbs has won, but I think it tilts one way and the other. And I think we're going to see a little bit more of a return to downtown in ‘24 and ‘25.

Spencer Levy

Before we go macro, let's start micro. Let’s start U.S. markets. We're here in New York City and New York City continually reinvents itself. And I think that's one of 100 examples in America of submarkets or big markets reinventing themselves. Jim, give us an idea of which markets in ‘24 and beyond you think people should be looking at. Not just markets, but maybe submarkets.

Jim Costello

You know 2024, one thing we're going to face this year is a lot of noise around different markets. We're heading into political season and you're going to see a lot of negativity around some of these expensive coastal markets that is more politically driven than economically driven. Some of that's going to find its way into investment memos and you're going to have some silliness on that just given the season we're in. So anything you hear this year, take it with a grain of salt and dig into it a bit because some of it may just be driven by some other agenda. But the markets, you know, this time of year, it's cold in New York. And so you always have sort of a migration of some folks to Florida. And so then that always leads in the last couple of years to people talking about, well, Florida's on the upswing. We're going to have all kinds of great growth in Florida. Me personally, I'm doing that as well. I bought a winter place down there and I go down there a lot. Not that I'm leaving New York. There's great amenities here. I like being here. But a nice weekend in Florida and the warmth, you know, to deal with the snow. That's a good thing. But I still think there's good opportunities for growth down there just from the demographics. You think about Florida for what it is, all the markets down there as the baby boomers age and start to move into retirement themselves, it's still going to benefit from that. It doesn't have to be anything beyond that. There's people talking stories around, oh, we're going to replace everything in New York. Everyone's gonna leave New York, move to Florida, move to Texas. And I don't think they have to be successful at someone else's expense. They can be successful on their own just because of the demographic growth. The Texas markets. I really like some of these because the people in Texas really care about the state and have invested quite a lot in the educational systems. There's some good universities in Texas. In a knowledge driven economy, you need highly educated people and they're investing in the universities and building those areas for growth and excellence in the Texas markets. That's really the ultimate thing I like in a market. Do you have good universities where there is investment in the right faculty and some smart folks coming out of there that firms can hire? That's what I'd be looking for.

Spencer Levy
Let me put a finer point on this, if I could. CBRE just published the annual Tech30 Report, which is, I consider one of our finest pieces. And the Tech30 aren’t markets. They are submarkets within markets that we really like. And so when I mentioned Midtown South, I can mention the Fulton Market in Chicago, I could mention Wynwood in Chicago, I could mention El Segundo, West Hollywood, Santa Monica in L.A.. I can go to Bellevue in Seattle. The bottom line is this: There are great opportunities, even in some of these headline markets that have challenges. Richard, what's your point of view?

Richard Barkham
I’ll talk about to complement the research that we put out last year, that 80% of the decline in occupancy in offices is in 10% of the stock. So let me just reiterate, 80% decrease in occupancy, 10% of those stock, and those stock have characteristics. They are in the less highly ameni-tized submarkets. They're smaller, they're older, typically they're in the submarkets with fewer amenities and higher crime rates. So I think you're on to something here, Spence. You can't generalize completely about cities. There are some general trends in American cities. There is the drift of the population to the Sunbelt. That looks likely to continue. You've got a very favorable combination of demographics, low tax rates and investment in the Sunbelt cities. You've also got endless supply in the Sunbelt cities, as well. That has some adverse consequences for real estate. But I think you're right. It's a tale of submarkets. You can find good submarkets in all of the United States cities. I do think that the narrative around the northern coastal cities and the growth story, it hasn't fully emerged yet. I mean, we've got this growth story about the Sunbelt cities. It's to do with lower cost of living, lower tax and kind of suburban life. And it's clearly a powerful narrative and investors and developers are following that. The northern coastal cities, they do face the period of restructuring and the narrative hasn't quite emerged. I think it's going

to be around live-work neighborhoods, the story of the next ten years is going to be. While I'm talking about this, note in passing that we're working on this at CBRE Research. We've got a report coming out in Q1, “The Future of American Cities”. And we're going to be looking at the transition that American cities need to navigate. There's going to be state aid. There's going to be more policies coming along that enable this transition to take place over the next couple of years, and it's not clear whether northern coastal cities are going, but I think it's an exciting period for them.

Jim Costello
I can't wait to read it.

Richard Barkham
Ah, good.

Spencer Levy
One of our friends, Gensler, one of the largest architectural firms in the world, uses Calgary as a case study, and they say Calgary got it right because they reduced their permitting time from three months, three years to six months with these office buildings. I think that's the kind of change that will make a big difference. I think there's not enough public money to make it work. I think there's enough private money to make it work if people have the time, but...

Richard Barkham
Yeah, change is the key thing. We've got 3 or 4 million homes short in the United States, and it's around fear of changes, around kind of land use planning. In fact, we see in the Western world, we see it in the U.K. I think we're going to have to accept that in order to get the growth that we need and the regeneration, we're going to have to accept some change, as well.

Jim Costello
A place that's starting to figure this out is Canada in general. Michael Brooks at REALPAC has done a lot of work to get the Liberals and the Conservatives to sit down together. And so they've been talking about these issues in the whole country and helping to put some guidelines together for the different provinces to reduce that permitting time and reduce the cost of development. And they have a much bigger issue in Canada than we have in the United States in terms of the number of new migrants to the country. Their borders have been much more open than ours, and housing prices have gone up quite a lot. It's really difficult there, but they're starting to understand that they need to address the supply issue. In the United States, it's difficult to address the supply issue. London as well, the UK, the whole Western world, we've got this issue, just people are resistant to change, like you said. But the permitting times, I saw a presentation, one of the fellows doing a big development in the south side of the Thames. He's been involved for ten years, fighting the city, fighting local groups to take a rundown industrial area that has very little housing, and he's going to build more housing that exists there now. And people are just resistant to doing anything.

Richard Barkham
It's an interesting one. One of the things that these northern cities have, they've got plenty of challenges, but what they do have is a sense of place. And I think people love the sense of place and they don't want it to change. It's a question of finding a way of innovating and bringing more relevant space onto the market without disturbing the sense of place too much. That's really what the next five years is going to be about.

Spencer Levy
So what I'm going to do now is ask both Jim, Richard, your final thoughts and advice for our listeners for this year and beyond. So let's start with our guest, Jim Costello. What is the best advice you can give to our listeners for 2024?

Jim Costello
Best advice: Patience is always a virtue. If we think about where prices have been moving, it feels as if the way apartment and retail and industrial prices have been improving in terms of less declines as if there's sort of a one time shock that is just being incorporated in terms of capital market moves. It's just the offices where there's a bit of a challenge, but that creates that opportunity, like Richard was talking about. Don't assume that we're going to go back to the super low interest rates that we were in right around the Covid crisis. Do expect the market to show some sort of decline in rates, but you’re still going to have to focus on the fundamentals. You're still going to have to focus on income moving forward to a greater degree than you did in the past. So you really need to focus on that leasing game. You really need to focus on asset management and your CapEx spends.

Spencer Levy
So, Richard, advice for our clients for 2024.

Richard Barkham
Cautious optimism, I think, on 2024. I think we're through inflation. Interest rates have peaked. They're going to come down perhaps not as quick as some people in the market are hoping. And with a fair wind, we won't have a recession in the United States. But I would say also that the downside risks are quite high. And we haven't touched on geopolitics. But first up, in 2024, is a presidential election in Taiwan, and then we roll through the year. We've got potentially a general election in India, we've got a general election in the UK. So there's a lot of geopolitics out there that could create a wildcard. So in any case, but I think on balance, cautious optimism on 2024, at least from an interest rate and capital markets perspective.

Spencer Levy
Richard, any other macro thoughts around trends you might look for in ‘24 to impact our industry?

Richard Barkham
Well, you've dealt with them, and I have to say on the CHIPS and IRA Act, I mean, we're in a global battle for the manufacturing capability, for electrical vehicles, the next generation of automobiles. China is a neck ahead because they've been at it for a while. But the U.S. is investing heavily in making sure that it doesn't lose capability, and Europe is trying to catch up in that area. I am myself a little bit skeptical of tax driven industrial policy. I've seen it go wrong so many times in the past. But just aside from that, I think we're obviously in some sort of medical golden age. You can see that there isn't a week that goes by without some sort of medical patent coming out and some sort of new technology. It's a trivial point to make, but it's clearly shaping society and the way we live and the age that people can achieve in their life and the quality of life that they can have. But obviously, it's going to be fueling that lab space demand as well.

Spencer Levy

Final, final question. We have a presidential election next year. How much of that do you think will impact the thinking of Jay Powell and the Fed in its decision whether or not to drop rates?

Richard Barkham
That's a good question. I personally think the Fed will probably be inclined in a presidential year to do as much as it can without jeopardizing its inflation targets to make sure that the economy doesn't go into recession. So I think it imparts a dovish bias to the Fed. On the other hand, Jay Powell, I'm 100% certain he is determined not to be the Fed chair who allows inflation to to ramp back up, as happened in the 1970s. So I suppose those two things net each other out. On the presidential election, it typically doesn't have too much impact on the trajectory of the economy. I have noticed in the couple of elections that I've watched pretty closely, the ones that are very contested. It might, in the three or four months before the election, cause markets to calm down a little bit and go a little bit slow, that people tend to put their decisions on hold until they see how they pan out. So there might be a little dampening effect on the investment markets in the mid of 2024. Against that, we've got falling interest rates and declining inflation.

Spencer Levy
For more on our outlook for 2024, we've got a bonus episode coming later this week. We'll answer some of the burning questions on the minds of our audience with Jim, Richard and me taking questions from the young professionals who joined us at the taping of this show. You can also find more real estate insights and related content on our home page, CBRE.com/TheWeeklyTake. Send us your comments or suggestions for topics you might like us to explore in the year ahead and also share the show, subscribe, rate and review us on Apple Podcasts, Spotify or wherever you listen. Stay tuned for that bonus episode and we'll return next week with more original programming. I'm Spencer Levy. Happy New Year! Be smart. Be safe. Be well.