RESEARCH BRIEF

Marcus & Millichap

GROSS DOMESTIC PRODUCT

JULY 2024

Soft Landing Outlook Gains Further Credence from GDP, Aiding Real Estate

Consumers propel GDP to larger increase. The annualized pace of GDP growth accelerated to 2.8 percent in the second quarter, up from 1.4 percent in the opening period of 2024. Momentum came predominantly from gains in consumer spending and private nonresidential investment, particularly for transportation equipment. These drivers are likely to ease in the future, however. Growth in real disposable personal income decelerated slightly to 1.0 percent annualized in the April-to-June period, which may lead to more circumspect spending in the months ahead. Fewer orders placed so far this year for aircraft from the major manufacturers also indicate investment in transportation equipment may slow going forward.

GDP reading supports current monetary policy projections. The combination of greater economic growth in the second quarter but prospects for slower progress going forward aligns well with the prevailing monetary policy outlook. Wall Street expects the Federal Reserve to hold the overnight lending rate flat at its July 30-31 meeting, before cutting 25 basis points in September and again in either November or December. These assessments are supported by recent labor market and inflation dynamics. Employers added more than 200,000 jobs in June, which still allowed for unemployment to loosen, while PCE inflation slowed to 2.5 percent year over year. If both trends continue, a September rate cut is likely.

Rate reductions poised to enliven CRE transaction activity. Once the Fed's intentions become clear, likely when a second rate cut occurs, lending market conditions should loosen. This could become a catalyst for commercial real estate investment, where elevated borrowing costs have severely constrained transaction activity. Higher borrowing rates have also increased construction expenses and hindered development. The prospect of lower interest rates in late 2024 going into early 2025, paired with relief on property operations from less new supply pressure, could foster fervent investment activity, particularly given the ample amount of capital that has been set aside for such a purpose.

Commercial Real Estate Implications

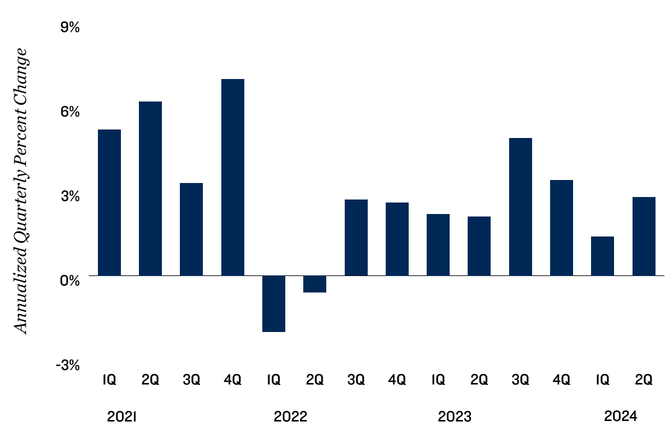
Multifamily demand picks up. Improved GDP growth between April and June was mirrored by a surge in renter demand, as a 10-quarter-high 163,800 apartments were absorbed on net. New demand also surpassed deliveries for the first time since early 2021, allowing the nationwide vacancy rate to inch down 10 basis points quarter over quarter to 5.8 percent. While roughly 200,000 more apartments are slated to open by year-end, the added absorption reiterates the need for housing that supports the sector long-term.

Stability apparent across retail real estate. June core retail sales were up 1.3 percent year over year in real terms, keeping consumer spending near a record high. This consistency is bolstering the retail sector, which continued to be the least vacant commercial real estate property type through midyear. While some store closures are expected by year-end, prolonged modest development and low vacancy indicate this space is likely to be backfilled in quick order, sustaining a stable 2024 outlook.

2.8% *Annualized Rate of Change in Real GDP in 2Q 2024*

2.3% *Annualized Rate of Change in Personal Consumption Expenditures in 2Q 2024*

GDP Growth Accelerates in Second Quarter



Sources: Marcus & Millichap Research Services; Bureau of Economic Analysis; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; RealPage, Inc.