Market Outlook: What Impact Does a U.S. Recession Have on Land, Housing & Long-Term Real Estate Investments?

Economic Signals Suggest Possible Recession—But the Outlook Remains Divided

As of mid-2025, a growing number of economists and analysts are warning that the U.S. economy may be nearing a recession. Inverted yield curves, tighter credit conditions, and persistent inflationary pressures have intensified concerns. The Conference Board's Leading Economic Index (LEI)—a widely watched composite designed to forecast economic activity—declined for the fifth consecutive month in April, historically a reliable indicator of economic downturns. At the same time, the Federal Reserve's higher-for-longer interest rate policy continues to weigh heavily on both consumer and business sentiment.

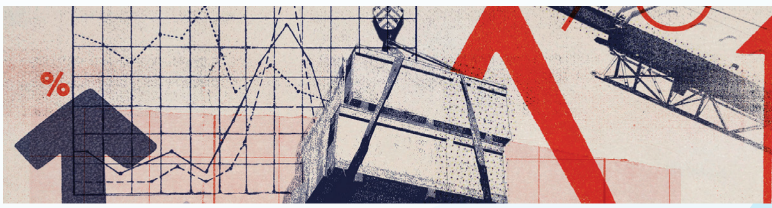
Additional indicators reinforce the case for a slowdown:

- Corporate credit spreads have widened, signaling increased risk aversion.
- Consumer confidence, as measured by the University of Michigan, has weakened.
- GDP growth slowed to 0.8% in Q1 2025, down from 2.4% in Q4 2024.

However, not all data points to an impending contraction. Some models and institutions present a more **optimistic** outlook:

- **The New York Fed's** recession probability model—based on the spread between 10-year and 3-month Treasury yields—places the likelihood of recession by early 2026 at just under 30%.
- **Goldman Sachs** has revised its recession odds downward to 30% (from 45%), citing improving trade relations and a temporary U.S.-China tariff truce. The firm now projects modest GDP growth of around 1% in 2025, with expectations of potential Fed rate cuts beginning as early as December.
- **Barclays** has taken a more bullish stance, declaring a U.S. recession "no longer likely" following the trade agreement. They've revised their 2025 GDP forecast from a contraction to +0.5%, expecting acceleration to 1.6% growth in 2026.
- **The Atlanta Fed's** GDPNow model is projecting real GDP growth of 3.5% for Q2 2025. For context, quarterly growth in the 2–3% range is generally considered the "Goldilocks zone"—strong enough to signal expansion, but not so high as to risk overheating.

Despite this divergence in outlooks, risks remain. Some analysts continue to point to elevated inflation, lingering tariff effects, weakening consumption, and persistent supply chain disruptions as factors that could still tip the economy into a recession in the coming quarters.



The Broader Economic Impact of Recessions

Recessions are officially defined by periods of declining Gross Domestic Product (GDP); GDP serves as the broadest measure of U.S. economic health. A typical recession leads to a slowdown in industrial production, consumer spending, and business investment. Housing-related sectors such as construction and home furnishings often experience a temporary dip in activity, although demand for rental housing typically remains stable or increases. During previous recessions:

- **Average GDP contraction** was approximately **2.5%.**
- In the **2008 financial crisis**, GDP declined by over **4.3%** over six quarters.
- During the **2020 pandemic recession**, GDP contracted by **9.1% on an annualized basis** in Q2 before rebounding sharply.

As of June 2025, GDP growth forecasts for Q2 show a divided picture:

- As previously stated, The **Atlanta Fed's GDPNow model** estimates strong growth of **3.5% annualized,** driven by resilient consumer spending and private investment.
- In contrast, the **Philadelphia Fed's Survey of Professional Forecasters** projects **1.5% growth** for Q2, with **1.4%** expected for the full year, citing softening labor markets and reduced household consumption.
- **S&P Global Ratings** anticipates **1.9% growth for all of 2025**, reflecting decelerating activity across both public and private sectors.

This range of forecasts underscores the uncertainty facing policymakers as they assess the economic outlook for the second half of 2025.

The Federal Reserve's Role: Navigating Through Recession

At the May 2025 FOMC meeting, officials expressed growing concern over the potential for **stagflation**—rising inflation combined with slowing growth. The combination of tariffs, higher input costs, and weakened consumer demand has intensified debate within the Fed over the appropriate policy path.

While the federal funds rate currently remains in the **4.25% to 4.50%** range, markets are watching closely for potential rate cuts later in 2025. However, policymakers have emphasized a **data-dependent** approach, signaling that any shift will depend on sustained signs of economic deceleration and inflation relief.

These conflicting forces—persistent inflation and weakening growth—are making it increasingly difficult for the Fed to strike a balance between curbing price pressures and supporting economic activity.

The Federal Reserve plays a pivotal role in mitigating recessionary risks through monetary policy. During economic contractions, the Fed generally lowers the federal funds rate to stimulate borrowing, investment, and consumer spending.

- **Historical Pattern:** Since 1980, the Fed has responded to every recession by cutting interest rates significantly—typically between **400 to 500 basis points.**
- **Balance Sheet Considerations:** The Fed also has tools like quantitative easing (QE), which it used extensively post-2008 and during the COVID-19 recession to stabilize markets and lower long-term interest rates.
- **2025 Outlook:** While inflation remains above the Fed's 2% target, a sharp economic downturn could force policymakers to pivot, easing rates to support demand.

According to the Federal Open Market Committee (FOMC) minutes from March 2025, officials remain data-dependent but acknowledge increasing downside risks to growth, which could justify rate cuts in late 2025 or early 2026 if economic conditions deteriorate.

Historical Patterns: How Real Estate and Housing Have Performed Through Past Recessions

The U.S. economy has experienced 13 recessions since World War II, averaging around 10 months in duration. While recessions typically slow employment, GDP, and corporate earnings, real estate—particularly housing—has historically shown resilience across most cycles.

In 7 of the past 8 recessions, **home prices either remained stable or increased**, with the 2008 financial crisis being the notable exception due to excessive

leverage and speculative overbuilding. Even during economic contractions, raw land values may experience short-term softness; however, **entitled land typically recovers quickly** in high-growth metros as housing demand resumes.

Beyond home values, **private real estate investment has consistently outperformed equities during and after recessions**. Private real estate's lower correlation to public markets, steady rental income streams, and slower valuation adjustments help stabilize portfolios during periods of market volatility—offering both diversification and income stability.

Compounding real estate's resilience is its unique relationship with interest rates during recessions. Historically, economic downturns trigger monetary easing, with the Federal Reserve cutting rates to stimulate borrowing and investment.

According to Freddie Mac data, **mortgage rates have declined during every U.S. recession since 1980**:

- After the 2001 recession, 30-year mortgage rates fell from **7.0% to 5.8%.**
- Following the 2008–09 downturn, rates dropped from **6.3% to 4.7%.**
- During the 2020 pandemic recession, rates reached historic lows near **2.7%.**

If recessionary pressures emerge in late 2025 or 2026, mortgage rates—currently hovering near 7%—could retreat into the **5–6% range**, improving affordability and stimulating renewed housing demand. This pattern has historically helped **unlock pent-up homebuyer activity and catalyze recovery in both sales volume and land development**, further supporting long-term investment in the housing sector.

Real Estate and Land Investment During Economic Downturns: A Strategic Hedge

Periods of economic uncertainty often drive capital away from volatile equities and into real assets that offer stability, income, and inflation protection. Historically, real estate—particularly land and residential housing—has consistently proven resilient during recessions.

Institutional investors have increasingly recognized this dynamic, especially during the 2001 and 2020 recessions, when allocations to real assets, including housing, logistics, and land banking, expanded significantly. Land investment in particular provides the ability to capture long-duration value, especially when acquired ahead of declining interest rates and before market demand rebounds.

Walton Global's land acquisition and entitlement model is specifically designed to capitalize on these long-term cycles. By partnering with homebuilders, Walton reduces upfront capital requirements for developers, accelerates time-to-market, and mitigates entitlement and development risks—critical advantages during uncertain economic periods.

The Bottom Line

Recessions are a recurring part of the economic landscape—but they often serve as strategic inflection points for investors with vision and discipline. For housing and land, downturns typically offer **buy-in moments**, not breakdowns.

With an eye on long-term demand, capital preservation, and flexible deployment, **land investment remains a compelling option**—especially when backed by operational partners like Walton who understand both local market realities and national housing dynamics.

Sources: Federal Reserve | Freddie Mac | NBER | CoreLogic | MSCI Real Assets | U.S. Bureau of Economic Analysis | Harvard Joint Center for Housing Studies | John Burns Research & Consulting | Lincoln Institute of Land Policy | The Conference Board | Preqin | NAHB | U.S. Census Bureau | Federal Reserve Economic Data (FRED) | FOMC Meeting Minutes (March 2025) | Invesco | Preqin | NCREIF | Federal Reserve Bank of Atlanta | Federal Reserve Bank of New York