

RESEARCH BRIEF

GROSS DOMESTIC PRODUCT

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

SECOND QUARTER 2021

Economy Regains Footing as Vaccinations Permeate Population

Gross domestic product surges in first quarter due to stimulus.

In the opening three months of 2021, GDP jumped an annualized 6.4 percent, supported by consumer spending fueled by government funds. The economy should continue to grow at a rapid pace due to the influx of capital from stimulus legislation and Fed aid to small businesses. Gains may be more broad-based in this year's spring period as additional restrictions are lifted across the globe and more people can participate in the retail economy again. Furthermore, tax returns and stimulus money are being distributed in the second quarter at a time when occupancy restrictions are being withdrawn in many states across the country.

Retail real estate to benefit from robust economy. The worst of the pandemic appears to be behind the U.S. and surviving retailers have the potential to thrive in the coming months. While some of the world is still ravaged with COVID-19, high vaccination rates are bringing down positive tests in much of the nation. As a result, more Americans are able to visit retailers unencumbered by the fear of falling victim to the coronavirus. Additionally, the collective sum of retailers that permanently shuttered due to the pandemic is creating an environment with less competition, further boosting the possibility that existing and emerging retailers will flourish.

Vaccinations reopening much of the economy, including offices.

Approximately 2 million people in the U.S. receive a vaccine every day and more companies are beginning to transition back into a more traditional work environment. Although there will be some permanent shift to employment schedules, most companies are reopening offices and bringing workers back at least part time. More clarity on the near-term impact to office vacancies should emerge over the next six months. Last year, vacancy jumped 250 basis points to 15.3 percent. Although vacancies are anticipated to rise further this year, particularly in urban centers, office investors will benefit from more transparency and the faster-than-anticipated distribution of a medical solution to the health crisis.

Tailwinds Strengthen

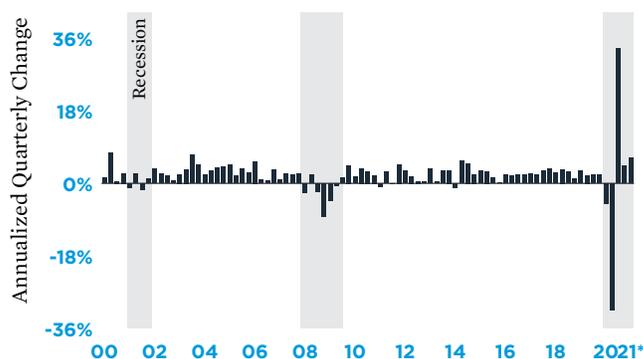
Post-pandemic world coming into focus. Although several other nations are still gaining momentum with inoculations, the prevalence of vaccines in the U.S. is providing the proverbial light at the end of the tunnel. For apartment investors, the long-term impact of dispersed working will provide some clarity into the new distribution of renter demand. However, tenants who moved away from densely populated urban centers appear to have begun returning as absorption turned positive in the first quarter 2021 for hard hit markets such as Boston, San Francisco and Seattle.

Industrial demand permanently reshaped. The health crisis fueled an acceleration of online shopping, and the resulting surge in e-commerce amounted to a three-year leap forward. Imports, meanwhile, rose an annualized 5.7 percent from the fourth quarter to help meet consumers' needs. Investors' appetite for last-mile industrial space should persist as firms rely on an omnichannel strategy that includes additional online shopping. Industrial demand should remain among the highest among commercial property types.

6.4% Annualized 1Q Increase in GDP

10.7% Annualized 1Q Increase in Consumer Spending

GDP Gaining Momentum in 2021



* Through first quarter

Sources: IPA Research Services; Bureau of Economic Analysis; National Bureau of Economic Research



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