

RESEARCH BRIEF

GROSS DOMESTIC PRODUCT

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FIRST QUARTER 2022

GDP Growth Strong in Fourth Quarter; Fed Actions To Play Large Role in 2022

Economy exceeds expectations in fourth quarter. Annualized gross domestic product jumped 6.9 percent in the final period of last year, largely on the back of an increase in inventories. Personal expenditures contributed nearly 2.3 percent to last quarter's gain, primarily due to holiday spending that was spread throughout the period. Much of the positive momentum could carry into 2022. While the influence of stimulus on capital markets is fading, the ongoing labor shortage is applying upward pressure to wages, supporting greater consumer spending. Ultimately, growth prospects could hinge on the Federal Reserve's response to ongoing economic headwinds, most notably high inflation.

Commercial real estate well positioned. Uncertainty surrounds the ability of the Fed to both maintain maximum employment and rein in price increases. If the central bank overcorrects, it would temper or even suspend growth; commercial real estate, however, is in a strong position to weather these headwinds. Fundamentals in nearly all commercial sectors, including industrial and multifamily, have recovered from the effects of the pandemic. Retail, which was projected to be one of the hardest hit sectors, will see vacancy come to within 10 basis points of the pre-health crisis rate this year.

Hospitality poised for gains in 2022. While the worst projections for retail never emerged, the travel industry did take a large hit due to the impact of the pandemic. Since the dissemination of vaccines, tourism has markedly improved. The recovery in business and international travel has lagged, leading to divergences in hotel property performance. Limited service hotels and establishments in popular domestic leisure destinations are generally outperforming properties with higher room rates or those in urban centers. Assuming subsequent virus variants present smaller threats to health, more offices will reopen, aiding hotel room demand. That should help boost food services, as well as accommodations and recreation services components of GDP. Neither sector has played a significant role since the onset of the downturn.

Challenges Still Ahead

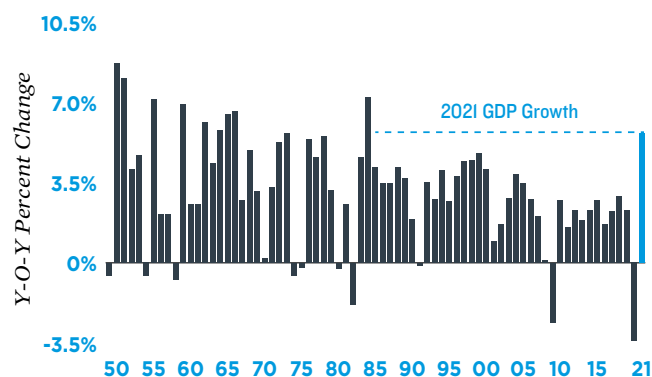
Headwinds mounting for growth this year. Several factors will have a ripple effect on the economy in 2022, testing the Fed's ability to maintain price stability and GDP growth. Inflation, which is at a 40-year high, is a prominent concern, and will require the Federal Open Market Committee to be more aggressive with rate hikes. Potentially, three to five rate increases are expected this year, depending on the magnitude of the increases. Elevated borrowing costs could affect investors' yield requirements on properties. This is particularly true for properties leased to high credit tenants for an extended period without inflation-backed lease escalations included.

Employment situation challenged. Approximately four million jobs have not been recouped since the recession, despite the fact the unemployment rate is under 4 percent. The overall workforce has declined significantly as baby boomers have retired and some households have taken on added family care responsibilities or transitioned to one income. Less severe health threats, paired with strong wage increases, should prompt more people to fill some of the 11 million positions available across the country.

6.9% Annualized 4Q
Increase in GDP

4.0% 2022 Forecast
Increase in
GDP Growth

Highest GDP Growth in 37 Years



Sources: IPA Research Services; Bureau of Economic Analysis;
Bureau of Labor Statistics; STR, Inc. U.S. Census Bureau



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