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Private Investment Fuels Economic Growth, Bolstering Select Property Types

Top-line GDP growth steady if unimpressive. The U.S. economy expanded at an annualized 2.0 percent in the first quarter of 2026, slightly below the 2.2 percent consensus estimate. Following a softer fourth quarter impacted by a government shutdown, a rebound in public spending provided a modest lift, though not enough to push growth above the 2025 annual pace. At the same time, increased import and export activity points to solid underlying demand. While these imports weighed on net exports and overall GDP growth, they may also signal continued economic momentum in the near term, even amid headwinds.

Inflation remains elevated, weighing on retail assets. The core PCE Price Index rose 3.2 percent year-over-year in March, indicating notable pricing pressures. Elevated inflation, particularly in energy-related categories, has slowed consumer spending growth. Real PCE increased at a 1.6 percent annualized rate in the first quarter, marking the second slowest quarterly gain since 2024. This slowdown has also weighed on retail properties, as the sector recorded more than 4 million square feet of net space relinquishment in the first quarter, pushing the national vacancy rate up to 5.0 percent, the highest since 2021.

Private investment remains the primary growth driver. In contrast to softer consumption, gross private domestic investment expanded at an annualized 8.7 percent in the first quarter, representing the strongest quarterly reading since 2024. This growth was driven by investments in software, computing capacity, and technology-related infrastructure tied to the expansion of AI models and data centers. While investment in these areas remains high, emerging constraints — such as power availability, supply chain bottlenecks, and increasing regulatory scrutiny — have led to project delays and cancellations in some markets, suggesting potential moderation in investment growth over the medium term. Still, if private investment spurs infrastructure improvement, it could also benefit industrial properties more broadly, particularly in hot spots such as Northern Virginia and Central Ohio.

Decline in residential investment stands out. Residential investment contracted at an annualized 8.0 percent rate in the first quarter. The decline reflects elevated mortgage rates, tighter credit conditions, and high construction and insurance costs, which are weighing on both development and transaction activity. This dynamic is also reflected in the slowdown in new single-family home deliveries, with total completions over the 12 months ended in March falling to less than 900,000 units, a 15 percent decline compared with the prior yearlong period.

Multifamily benefits from less supply pressure. Slower residential investment will also affect the multifamily sector. Apartment completions in 2026 are projected to reach their lowest level since 2014. In the first quarter, the national vacancy rate saw a slight compression following approximately 75,000 new-unit deliveries, the lowest quarterly total in three years. Fewer new units coming online should support rent growth over the course of the year.

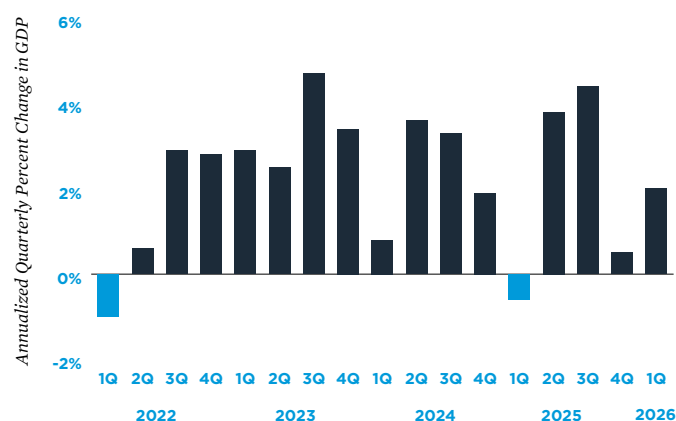
2.0%

Annualized Rate of Change in Real GDP in 1Q 2026

3.2%

Year-Over-Year Change in Core PCE Price Index in March 2026

— Top-Line GDP Growth Recovers in the First Quarter —



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