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Do GDP Gains Signal Rate Hike?

The United States economy grew at its fastest rate in two years with real gross domestic product (GDP) annualized growth of 2.9 percent, according to the Bureau of Economic Analysis. This solid growth is positive news for the commercial real estate sector. Gains in personal consumption, exports, private inventories and federal government drove growth in the quarter.

The solid GDP growth in conjunction with a tightening labor market has experts anticipating the Fed to raise interest rates in December. However, the increase will likely be in the range of 25-50 basis points which would not greatly affect cap rates for property owners. The spread between cap rates and treasury yields should remain near historic highs despite a minor increase in the Fed funds rate.

Income rises, consumption decreases slightly

Two thirds of total GDP is consumer spending, which increased at a modest 2.1% in the third quarter, less than half of the 4.3% gain in the prior quarter. Despite the slowdown, steady consumption growth bodes well for both retail and industrial real estate, as e-commerce continues to accelerate.

Supporting the increased consumption was disposable personal income which grew 3.6% in the third quarter following 4.1% growth in the second quarter. While income is not growing quite as quickly as rents, the increased wealth should allow multifamily