1. GDP

- According to the Bureau of Economic Analysis, Real GDP increased at a seasonally adjusted annualized rate of 6.4% during the first quarter of 2021.
- Personal consumption expenditures (PCE), a sub-component of GDP output, rose at an annualized 14.6% in the first quarter, reflecting both an upswing in consumer confidence and the impact of government stimulus payments on consumption. Spending on both durable and non-durable goods posted healthy increases of 25.9% and 5.8% year-over-year, respectively. Within the two subcomponents, spending on automobile parts (+28.3% YoY) and food and beverage (+2.9% YoY) were notable standouts.
- Beyond consumption, increases in nonresidential investment, including equipment and software, boosted output. Government spending increased, mostly reflecting government payments to banks for Paycheck Protection Program (PPP) processing and purchases of COVID-19 vaccines for public distribution.
- Decreases in retail trade and net exports both negatively impacted growth in the first quarter, with the latter a common drag on output due to the US economy's import-heavy nature.

2. LUMBER & WOOD PRICES

- According to the US Bureau of Labor Statistics, lumber prices continue to eclipse all-time highs. Through March, lumber and wood prices are up by 65% year-over-year, the fastest annual pace of appreciation on record.
- Lumber was already facing increased price pressures before the pandemic from tariffs. Further, when the COVID shutdown hit, there was a brief pause in production. However, post-April 2020, lumber production has steadily risen as a blistering hot housing market has spurred higher demand for residential construction inputs.
- According to the NAHB, lumber prices have, on average, added roughly $36,000 to the price of a new single-family home and $13,000 to the value of a new multifamily home over the past year.

3. CENTRAL BANKS

- The Bank of Canada moved up its timetable for a possible interest rate increase, citing an expectation that inflation may overshoot its 2% policy target this year. While the central bank has not made any policy changes to date, the pivot is significant as policymakers around the world attempt to walk a tightrope of accommodating a recovering economy while guarding against rapid inflation.
- The Federal Reserve has maintained its accommodative stance, citing an improvement in the economic outlook but warned that lower-paid jobs have recovered at a slower pace. The FOMC—the policy-setting arm of the US Central Bank—notes that inflation has risen recently, though it attributes these increases to

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"transitory" factors.

- The Bank of England left its benchmark rate unchanged at 0.1% but upgraded its forecast for the British economy's recovery. It raised its 2021 GDP growth forecasts from 5% to 7.25%.
- The European Central Bank has held a more dovish stance, leaving its benchmark rate unchanged in March, and increasing bond purchases to keep borrowing costs suppressed as the Euro-block recovers from its own COVID-recession.

4. ISM PMI

- The Purchasing Manufacturing Index (PMI), a measure of manufacturing sentiment where a reading above 50 indicates expansionary expectations, fell to 60.7 in April 2021, a 4.0% month-over-month decline, according to the Institute for Supply Management. Despite the decrease, the index has remained in expansion territory since it last fell below 50 in April 2020.
- A subcomponent of the index that measures input prices rose by 4.0% in April 2021, the steepest month-over-month increase across all sub-indices.
- Imports saw the sharpest decrease of all subcomponents, dropping 4.5% month-over-month, though it remained on the positive side of the expansion expectation line of demarcation (index reading of 52.2). The only sub-index in contraction through April 2021 was the one tracking inventories, which fell to 46.5 from 50.8 the month prior.
- According to the survey, supply issues, especially a global semiconductor shortage impacting cars, transportation equipment, and consumer electronics, are having an outsized impact on producers. Additionally, rising energy and commodity prices are similarly straining manufacturing production.

5. PROPOSED REAL ESTATE TAX CHANGES

- As part of the Biden Administration's recently introduced "American Families Plan," the White House has proposed a tax hike on real estate transactions with gains exceeding $500,000. The proposal puts 1031 exchanges in the crosshairs, a feature of the current tax code that allows investors to defer taxes on real estate earnings if profits are rolled into new commercial property investments.
- Under the new rule, profits over $500,000 would be subject to capital gains taxes, which the administration is also pushing to raise from its current 20% level to 39.6%. Both the proposed tax increase and spending plan will require congressional approval.
- According to a 2020 National Association of Realtors survey, between 2016 and 2019, approximately 12% of investment real estate transactions were involved in a 1031 exchange. The survey also indicated that 84% of all 1031 exchanges involved at least one party who was a small investor, though it is unclear what share of those transactions exceeded $500,000.

6. EARLY FINDINGS ON OPPORTUNITY ZONES

- A recent report produced by a team at the University of California at Berkley analyzed the performance of Opportunity Zones (OZ's) since it was introduced as part of the Tax Cuts and Jobs Act of 2017. The study found that 2,800 "opportunity funds" were created, which together made up $18.9B of investment capital.
- Of the 8,764 census tracts that were designated by States as Opportunity Zones, just 1,362 received capital investment in 2019, which accounts for 16% of all census tracts. The tracts that received investment tended to be closer to downtowns, commuting zones, and areas experiencing high population growth.
- According to an Economic Innovation Group analysis, a lack of regulatory guidelines offered by the IRS, which were not issued in full until December 2019, likely limited OZ investment. The uncertainty surrounding regulations discouraged some investors from engaging with the new program, and those who did commit capital have likely self-selected projects that were deemed safer.

7. EMPLOYMENT SITUATION UPDATE

- Nonfarm payrolls rose by 266k in April, a significant slowdown from the 900k jobs added during the month of March. The gains were led by hires in the Leisure and Hospitality sector, which received a boost from the additional easing of COVID-related restrictions in many areas of the country. The sector, which was the hardest hit during the pandemic, has added 5.4M jobs since the beginning of the year but remains 2.8M below its pre-pandemic level.
- The civilian unemployment rate (U-3) saw a setback in April 2021, rising 10 bps from the previous month to settle at 6.1%. After significant declines through the Summer and early Autumn months of 2020, the jobless rate saw a more modest pace of recovery throughout the Winter before this month's marginal increase. While the U-3 rate has fallen tremendously from the April 2020 high of 14.8%, it remains above the pre-pandemic low of 3.5%.
- The U-6 unemployment rate, a measure that includes the headline U-3 measure in addition to marginally attached workers and laborers who are working part-time for economic reasons, decreased slightly this month but remained 3.4% above pre-pandemic levels, with 2.6% attributable to increases in U-3.

8. LABOR MARKET – BEYOND THE HEADLINES

- In a May 3rd speech, ahead of the FOMC's May 5th meeting, NY Fed President John Williams addressed inflation concerns that have spooked markets in recent weeks while attempting to contextualize continued monetary accommodation. Williams acknowledged the recent healthy pace of job creation that has helped the economy get back on track again but cautioned that more refined metrics such as the labor force participation rate and the employment-to-population ratio are still well below their pre-COVID levels.
- The Labor Force Participation Rate (LFPR) remains 1.6% below its pre-pandemic level of 63.3%. After

reaching a COVID-nadir of 60.2%, the labor force participation rate has made up just 48% of lost ground.

- The employment-to-population ratio rose to 57.9 % in April, climbing 10 bps from the previous month. The ratio fell as low as 51.3% in April 2020 but rose sharply over the summer months as hiring across the nation accelerated. Still, it remains below the pre-pandemic peak of 61.1%.

9. CMBS DELINQUENCIES

- According to Trepp, the Delinquency Rate on CMBS loans dropped by 6 basis points in April to 6.52%. The April improvement follows improvements of 78 bps in February and 22 bps in March. Following the Spring 2020 delinquency rate surge, where non-performance reached 10.32% in June, the rate has now declined for 10-consecutive months.
- Distress remains most concentrated in the Lodging and Retail sectors. The share of Hospitality CMBS loans remains at an exceptionally high 15.65%, though the rate improved by 30 bps month-over-month and 354 bps since January.
- The Retail sector retains the second-highest CMBS delinquency rate at 10.83% through April. After posting an encouraging 94 bps dip between February and March, improvement has slowed considerably, sinking just 6 bps from the month prior.
- For the trifecta of Multifamily, Office, and Industrial, distress in CMBS ranges from low and improving, to nonexistent. Multifamily delinquency rates sank an encouraging 86 bps in April, falling to 2.28%. Office CMBS delinquency rates fell 11 bps to 2.10% and currently sits just 18 bps above where they were one year ago. Meanwhile, industrial CMBS loans continued inching lower by 2 bps in April and settled at a rock-bottom 0.71%. Over the past year, the Industrial CMBS delinquency rate has nearly halved, declining by 65 bps.

10. OFFICE DEMAND

- According to the VTS Office Demand Index (VODI), a monthly measure of real-time tenant demand in the US Office leasing market, Office demand continued to surge through March 2021, making progress back towards pre-pandemic leasing conditions. Following month-over-month increases of 36% and 29% in January and February, respectively, the index continued its hot streak in March, rising 28% from the month prior.
- The VODI fell by 85% between February and May of 2020 as COVID fears and restrictions sent Office demand plummeting nationwide. The sharp rise in early-2021 comes amid an intensifying recovery and major employers starting to rollout non-elective office return plans. In total, the index remains down by just 9% from its pre-pandemic level.
- All core markets tracked by VTS saw dramatic upticks in March. According to the report, Washington, DC posted the most improvement for the month, gaining 33% from the month before and settling above its pre-pandemic benchmark.

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