

2020 Election Results Bolster Real Estate Investment Outlook; Policy Stability Paired With New Stimulus and Vaccines Could Deliver Broad Gains

Election conclusion stabilizes policy outlook. Following the results of Georgia's senatorial runoff election, the Democratic Party holds a reduced majority in the House of Representatives and the tie-breaking vice presidential vote in an evenly split Senate. Despite numerous policies put forward by President-elect Joe Biden during the campaign, the political division in Congress will greatly restrict legislative reform. Consistency from a policy perspective will help lay a stable groundwork for future decision-making by commercial property investors, although ambiguity remains surrounding the resolution of the health crisis.

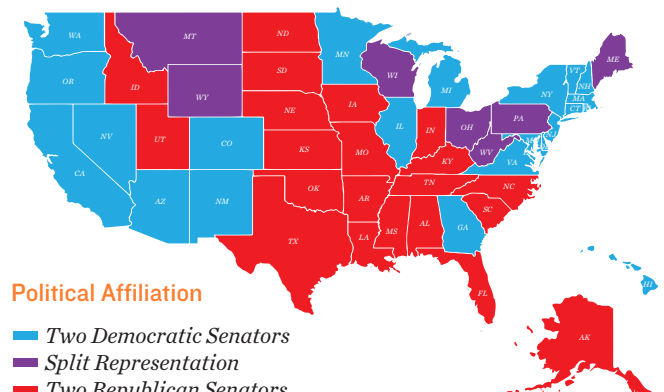
New stimulus a vital economic stopgap. The eleventh-hour passage of a \$900 billion stimulus bill by the outgoing 116th Congress gives the U.S. economy and President-elect Biden much needed financial resources until vaccines are widely available. This most recent round of stimulus includes a new federal supplement to state unemployment insurance, direct payments of \$600 to certain individuals, and additional funding for small businesses, schools, and other social programs. Funds will also go toward COVID-19 vaccine distribution. Omitted from the provision is new financial aid for state and local governments; however, the deadline to return unspent CARES Act funds has been extended by one year. New local aid as well as expanded direct payments are likely to be main discussion topics of any subsequent stimulus spearheaded by President-elect Biden once he is sworn into office.

Robust vaccine program critical to forward momentum. Another key priority of the incoming Biden administration will be insuring the timely and widespread distribution of COVID-19 vaccines. If the medications deliver 95 percent effectiveness as hoped, the economy could see a strong boost once a critical mass have been inoculated. If the recent stimulus successfully provides interim support, the economy could begin to gain notable ground in the second half of the year as people return to businesses especially hard hit by the pandemic. Hotels, entertainment venues, bars, restaurants and brick-and-mortar retailers are still subject to lockdown protocols that will limit foot traffic until the health concerns surrounding social gatherings are reduced. Post-vaccine, companies will also be able to return employees to offices, benefiting urban cores vacated during the health crisis. Overall, by substantially lessening the health threats of COVID-19, an effective vaccine program would remove exogenous forces currently constraining the economy.

Key Stimulus Provisions For Real Estate

- **Supplemented unemployment insurance:** Unemployed individuals will be eligible for weekly payments of \$300 for up to 11 weeks. Part-time and self-employed individuals can also receive these benefits.
- **Renewed Paycheck Protection Program:** An additional \$284 billion has been allocated to fund loans for troubled small businesses. Firms that already received a program loan may be eligible for a second round.
- **Other small-business relief:** Theaters and live entertainment venues will also receive \$15 billion, while \$20 billion has been slated for Economic Injury Disaster Loans.
- **Rental assistance:** The legislation has set aside \$25 billion in emergency rental assistance, and the national moratorium on residential evictions has been extended by one month to the end of January 2021. The Biden administration can opt to extend this deadline.
- **Transportation aid:** Airline employee and contractor payrolls will receive \$15 billion, part of a larger \$45 billion package for the overall transportation sector, spanning rail, bus, airports and highways.

Political Affiliation of the 117th Senate



Note: Includes two Independent senators who caucus with the Democratic Party
Sources: Marcus & Millichap Research Services; Senate.gov

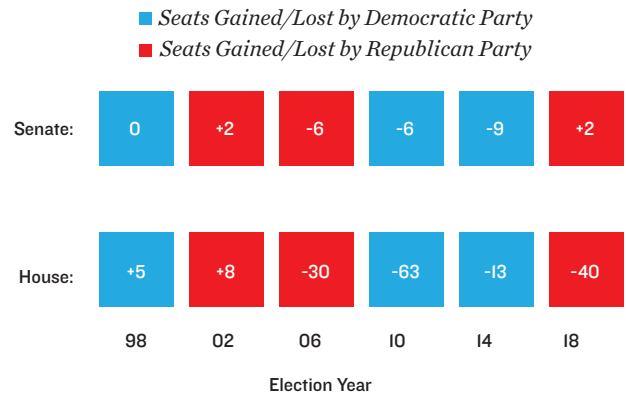
Limited Tax Reform, Low Interest Rates Improve Investment Landscape

Political division frames in tax reform. Once the health situation has stabilized, President-elect Biden will shift his focus to a range of policy initiatives, including tax reform. During the campaign, the Biden team suggested eliminating the step-up basis on estate inheritance and the 1031 tax-deferred exchange for real estate investors earning over \$400,000. These and other tax changes are improbable given the current division in Congress. While the 50/50 split in the Senate creates one pathway to tax reform via budget reconciliation, where Vice President-elect Harris can cast a tie-breaking vote, there is no margin for error. The complete cooperation of every Democratic senator, as well as two Independent senators who normally caucus with the Democratic Party, will be needed to reach the 51-vote threshold. That challenge is unlikely to improve after the 2022 midterm election, as such contests historically favor the party aligned opposite the executive. This reduces the probability that real estate investors will face substantive tax reforms in the near future.

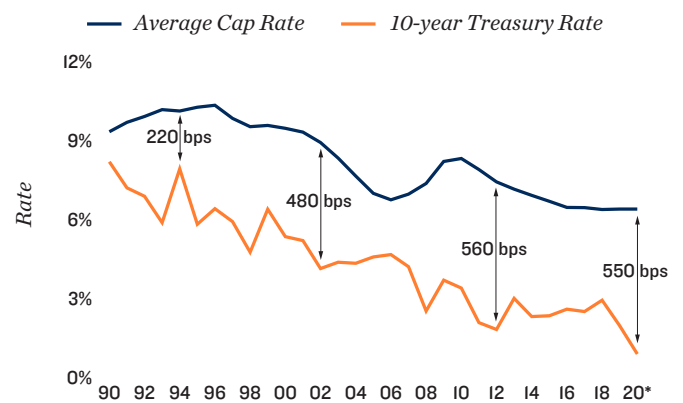
Wide-sweeping policy changes unlikely. More far-reaching legislation discussed during the campaign, such as large-scale new spending on clean energy and infrastructure, will still require a 60-vote majority in the Senate. Achieving that watermark will require bipartisan support. Instead, President-elect Biden will likely focus on influencing policy at the bureaucratic level through personnel appointments. The Democrat's 51-vote majority should ease the presidential appointment process for agency heads and federal judges, who will have input on the design and interpretations of regulations going forward.

Investment outlook promising, aided by monetary policy. A consistent policy outlook paired with a comprehensive and effective vaccination campaign will do much to bolster the economy and real estate performance in the second half of 2021. Furthermore, Federal Reserve statements imply that interest rates will remain low for an extended period of time, emphasizing the value proposition of many commercial property investments. The margin between the average commercial real estate cap rate and the yield on a 10-year Treasury has rarely been wider over the past three decades. This substantial positive leverage will be an important driver of investment decisions, especially once the broader economy is lifted by a return of in-person socialization.

— Midterm Elections Disfavor President's Party —



— Cap Rate Premium at Near-Record High —



* Through third quarter
 The number of congressional seats gained or lost in a midterm election are from the perspective of the party of the President in office
 Sources: Marcus & Millichap Research Services; RealPage; CoStar Group, Inc.; University of California Santa Barbara

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Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; H.R. 133; Real Capital Analytics; Senate.gov; University of California Santa Barbara