BEYOND THE GLOBAL HEALTH CRISIS

Marcus & Millichap

SPECIAL REPORT EXECUTIVE ORDER SNAPSHOT THIRD QUARTER 2020

Executive Orders Aim to Ease Fallout of Stimulus Gridlock; Implementation Hurdles Could Stall Relief

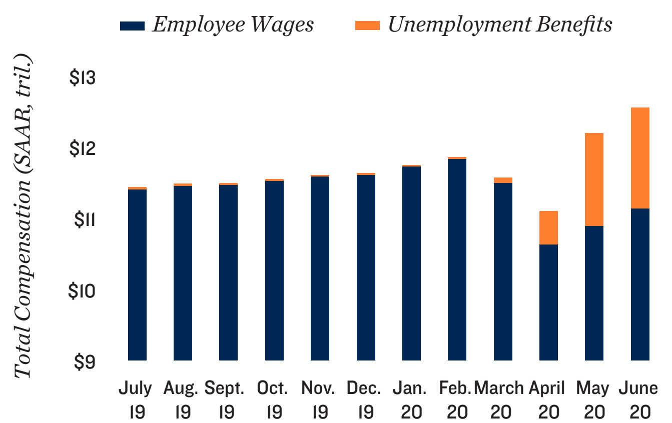
Congressional stalemate results in White House action. President Trump signed a series of executive orders in response to Congress' lack of progress on another stimulus package to boost the ailing economy and provide funds for those impacted by the pandemic. The directives focus on federal unemployment benefits, payroll taxes, interest on student loans, as well as residential evictions and foreclosures. These orders have the potential to bolster discretionary spending and assist out-of-work individuals in making rent payments; however, the question of when and how these orders will be enacted is still up for debate.

Federal unemployment benefits extended. Enhanced unemployment benefits under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) ended on July 31. A lack of congressional action and a national unemployment rate above 10 percent prompted the president to sign an executive order that aims to continue to provide resources for out-of-work employees. The order will provide $400 of weekly unemployment benefits, down from the previous $600. Under this "lost wages assistance" plan, the federal government would cover $300 per person per week from $44 billion in funds available in the Department of Homeland Security's Disaster Relief Fund (DRF), while each state would be responsible for the remaining $100 per week.

Lost wages assistance program requires states to opt in. Unlike the CARES Act, under which states were not responsible for any portion of the federal benefits, in order to receive these federal funds, governors of each state must request the funds from the FEMA administrator and agree to the cost-sharing requirement. To qualify for the added unemployment benefits, recipients of the funds must be receiving at least $100 per week in state aid. Unemployed workers in all but a few states already qualify for the required amount. The program is retroactive to Aug. 1 and will run until Dec. 6, 2020, unless Congress passes new federal unemployment legislation, or the FEMA funds run out. Most estimates expect the federal funds to last four to six weeks. The action aims to continue to provide resources for workers unemployed due to COVID-19. However, questions remain about the ability of many budget-constrained states to provide an additional $100 per week in unemployment benefits and it is uncertain at this time how many states will opt in.

Payroll tax collection may be delayed for some workers. The CARES Act provided businesses with the option to defer the employer share of 2020 payroll taxes. Now a new executive order allows the Treasury Department to defer the collection of the employee portion of payroll taxes from September 1 through the end of 2020. Workers who earn less than $4,000 before taxes per two-week pay period would be eligible for the tax deferment. This could add $30 billion to $40 billion a month in higher paychecks for employees making less than $104,000 per year. The average employee would save roughly $1,200 over the four-month period, which could boost consumer spending. The order also directs the Treasury Secretary to seek avenues to eliminate the deferred tax obligation. The uncollected taxes will not accrue any penalties or interest during the suspension period, but workers would receive smaller paychecks down the road if the taxes owed are not forgiven. The order is vague on specifics, directing the Treasury Department to issue further guidance. It also raises questions as to whether employees can opt out of the deferral or if consumer spending will increase if workers know the money must be paid back.

Unemployment Benefits Replace Lost Wages



Sources: Marcus & Millichap Research Services; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Department of Labor;

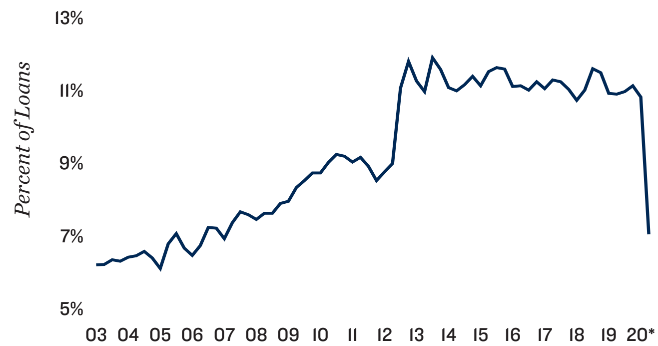
Student Loans, Eviction and Foreclosure Assistance Also Addressed In Executive Orders as Recovery From Pandemic Lengthens

Deferral of federal student-loan interest payment extended. Through executive order, the president also prolonged the suspension of interest on student loans and payments held by the Department of Education through the end of the year. So far, the halt has severely curtailed the number of delinquent loans. Students continue to be impacted by the pandemic. Many remain out of work or have accepted jobs with lower wages or reduced hours. Some recent graduates struggle to find employment. This directive could temporarily provide additional financial resources to the more than 35 million people with federal student loans. The suspension of interest also provides the opportunity for borrowers with available funds to pay down the principal balance. The directive, however, does not affect the roughly 9 million people that originated or refinanced student loans with a private lender. Nationwide, federal and private student debt totals nearly $1.6 trillion.

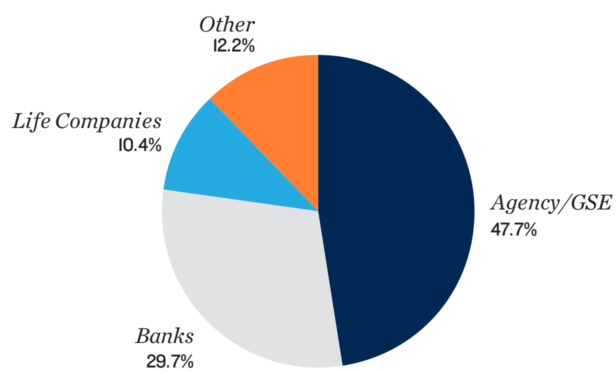
Eviction and foreclosure protection. While the Federal Housing Finance Agency's (FHFA) suspension on foreclosures lasts until the end of August, the eviction filing moratorium for renters provided under the CARES Act expired in July. This ended eviction protection for residents in public housing, people receiving Section 8 vouchers, and those renting from landlords with some federally backed mortgages. The president's order did not extend the freeze, although his action directs some federal agency heads to investigate what measures their departments can take and what funds are available for renters and homeowners in need of assistance due to financial hardships caused by the pandemic. In addition, the secretary of Health and Human Services and the director of the CDC are directed to consider whether measures stopping tenant evictions are necessary to prevent the spread of COVID-19.

Road to normalization longer than expected. These executive orders may provide a softer landing to some people severely affected by the spread of COVID-19 through the end of the year. However, the economic impact of the pandemic will continue to be felt until a widely available health solution is available. In the meantime, consumption habits by both businesses and consumers have changed. The number of employees working from home and the surge in e-commerce are examples. As a result, many jobs will not be returning, keeping the unemployment rate elevated. Longer-term economic assistance will likely be needed as people transition into new employment opportunities.

Percent of Student Loans With Balance 90-Plus Days Delinquent



Multifamily Mortgage Debt Outstanding 1Q20



** Through second quarter*
Sources: Federal Reserve Board of Governors; FDIC; Intex Solutions, Inc.; New York Fed Consumer Credit Panel/Equifax; Wells Fargo Securities, LLC.

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Price: $500