

Unprecedented CARES Act Provides Backstop for Workers and Businesses; Investors Navigate New Temporary Reality

CARES Act injects trillions into economy. The largest stimulus package in U.S. history, the Coronavirus Aid, Relief, and Economic Security Act aims at providing financial security to individuals as well as small and large businesses, while also supporting the government response to the pandemic. Funds will be distributed to taxpayers, corporations, small businesses, and several additional organizations over the next few weeks while federally backed loans are eligible for forbearance. Coupled with action by the Federal Reserve and U.S. Treasury Department, approximately \$6 trillion in government aid could be injected into the economy in the second quarter while fading in the second half of the year. The Federal Reserve and government have moved much more quickly to shore up the market relative to the Great Recession in the hopes of avoiding a deep economic downturn that persists for several quarters. Additional rounds of stimulus to enhance individual programs are now in discussion on Capitol Hill in case they are needed.

Commercial and multifamily owners search for decline in uncertainty. The impact of shelter-in-place orders has uneven, albeit dramatic implications across the major property types. Grocers, some big-box stores and online retailers that utilize warehouse space are scrambling to find workers. The performance of drive-through restaurants has been better than takeout only, while drugstores and convenience stores are less impacted because they are essential businesses. Some of these assets are targeted as the replacement property for a 1031 exchange, which is a significant motivator in recent deals. Single-tenant net-leased assets, in particular, continue to be listed as sellers recognize ongoing demand and are proceeding with dispositions, keeping this sector of commercial real estate more active than others. Investors are navigating a challenging lending environment, which is also supporting the new loan programs. Regional and local banks have moved to fill the void created by large financial institutions.

Executive Summary

- CARES Act attempts to support most of the economy through pandemic shutdown.
- EIDLs offer first line of protection for business owners through \$10,000 cash advance and up to \$2 million.
- PPPs will serve as a two-month bridge for small companies to keep workers on payrolls. These loans range up to \$10 million and can be forgiven in certain instances.
- Midsize businesses can apply for low-interest loans directly from banks through a Fed lending facility.
- Multifamily owners with federally backed loans can request forbearance from lenders.

CARES Act Programs Offer Different Levels of Support Across Commercial Real Estate

	Economic Injury Disaster Loans	Payroll Protection Program	Fannie/Freddie	Unemployment Benefits	Midsize Loans	Corporate Loans	
Apartment	5	4	5	5	3	2	5 High Impact
Hospitality	5	5	1	3	2	4	4 Above Average
Industrial	3	4	1	3	4	4	3 Average
Medical Office	2	3	1	2	3	3	2 Below Average
Office	1	2	1	2	5	5	1 No to Little Impact
Retail	5	5	1	5	3	3	
Self-Storage	1	2	1	2	1	2	
Seniors Housing	1	1	3	1	1	1	

Economic Injury Disaster Loans

Existing SBA program serves as first backstop to small businesses in pandemic. Although the CARES Act will funnel more than \$2 trillion into the economy, the logistics of starting new programs is challenging. Working within a current but expanded program, the SBA is attempting to get money to qualifying businesses quickly. These loans are expected to touch on every sector of commercial real state and could serve as a stopgap for companies waiting for a PPP loan due to overwhelming demand.

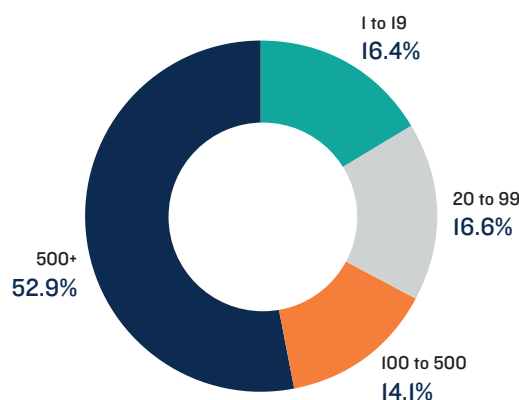
- EIDLs are available for companies with less than 500 employees through the SBA for as much as \$2 million with a maturity of up to 30 years.
- Waives personal guarantees on loans under \$200,000 and “unable to obtain credit elsewhere” provisions.
- Interest rates on these loans are as high as 3.75 percent for individuals and 2.75 percent for nonprofits. Principal and interest payments can be deferred for one year.
- A cash advance of \$10,000 is available for applicants of EIDLs through a \$10 billion provision in the CARES Act. The advance can be later converted to a grant if used for payroll, paid leave, and COVID-19 costs, among other expenses.
- The CARES Act included \$562 million to the SBA to begin the financing of these loans. Although dwarfed by other components of the legislation, the expectation is that these loans will be converted to PPP loans.
- Processing the loan has traditionally taken 18 to 21 days and then two to five days to disperse funds.

Payroll Protection Program

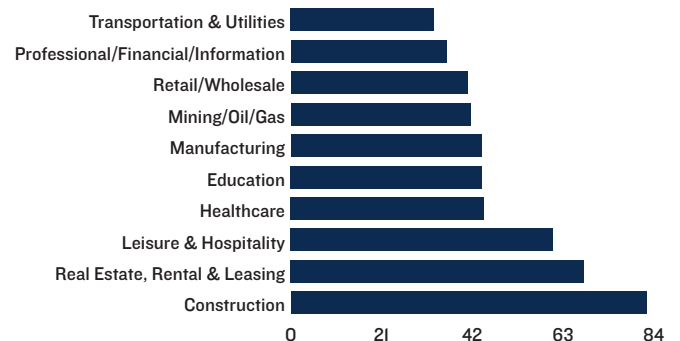
The bulk of CARES Act relief for small businesses is PPP. A massive \$350 billion in funding is allocated to these potentially forgivable loans, and the White House has called on Congress to inject an additional \$250 billion to the program. Tenants, landlords and lenders across the investment real estate spectrum will be impacted by the PPP.

- PPP loans’ expanded coverage includes companies up to 500 workers, independent contractors, nonprofits, sole proprietors and self-employed individuals. Hotels and restaurant franchisees that employ more than 500 employees are also eligible, though there may be additional restrictions. Some apartment owners may not be eligible for benefits.
- Borrowers can receive loans for \$10 million or up to two months of their past year’s average monthly payroll cost plus an additional 25 percent of that sum. Salary, wages, commissions and tips are capped at \$100,000 per year, per employee.
- Interest rate set at 1 percent. The Fed will create a lending facility to provide term financing backed by PPP loans, while borrowers can apply at SBA affiliated lending firms.
- Forgiveness of the loan comes with several stipulations. Namely, the borrower must spend at least 75 percent of the loan on payroll costs over the eight weeks following disbursement. Up to 25 percent of the loan can be allocated to mortgage interest, rent and utility bills.
- Firms that received an EIDL before June 30 will have an opportunity to refinance that loan into a PPP loan. If a grant is received through the EDIL program, it will be deducted from the total refinance amount.

Employment by Company Size*



Sectors With Highest Concentration of Employment in Small Businesses*



* Through March 28
 ** Through February

Midsize and Large Business Loans

Midsize and large business relief takes back seat. The CARES Act provides instruments to help support these companies, but the details of lending plans will only emerge after small-business programs are running. Midsize firms, which have between 500 and 10,000 employees, will receive direct loans from mostly large commercial banks. An initial war chest of \$464 billion is provided to the Federal Reserve to support emergency lending facilities to offer loans, loan guarantees and investments. A large share of these firms occupy significant office footprints, as well as industrial buildings. Hotels and restaurant franchisees have a special exemption that should allow most of them to fall under the PPP.

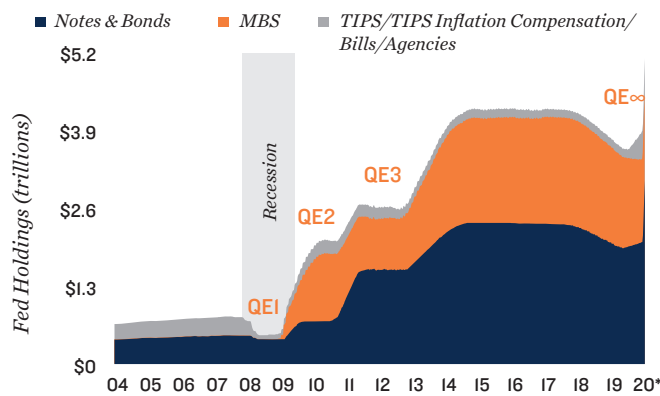
- Details surrounding the midsize lending program will likely be issued with Fed and Treasury term sheets. Interest rates will be capped at 2 percent and a six-month deferral is in the legislation. These loans do not include a mechanism for forgiveness.
- Companies must intend to restore 90 percent of their workforce and all compensation and benefits within four months of the public health emergency termination.
- Other riders in the law include: remaining neutral in collective bargaining, no outsourcing of jobs, no abrogating of existing collective bargaining agreements, and limits on executive compensation paid for by the loan.
- Large businesses will receive funding through two resurrected Fed facilities from the financial crisis. The Primary Market Corporate Credit Facility will acquire newly issued corporate debt and the Secondary Market Corporate Credit Facility will acquire existing corporate debt.

Other CARES Act Stipulations

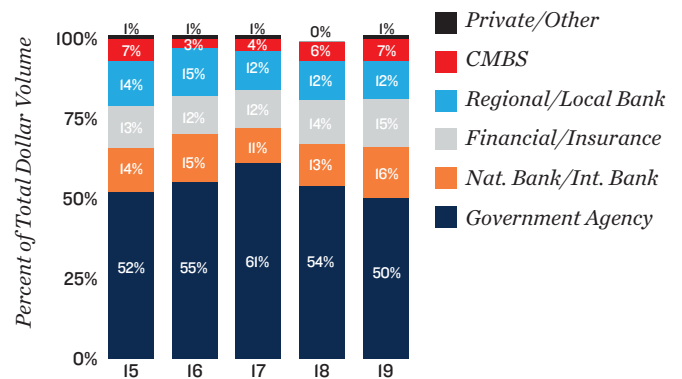
Individuals and some landlords accounted for in CARES Act. Several sections of the CARES Act aim to keep unemployed individuals solvent through the crisis and provide relief for apartment landlords. Although the legislation serves as a backstop for individual renters, careful consideration is necessary between renters and property managers to ensure the maximum benefit of the legislation. Special provisions are also made for seniors housing.

- Individuals that made less than \$75,000 in 2018 will receive a \$1,200 direct payment and a \$500 per child allotment. Income levels for married couples double and the program phases out at \$99,000 per year. Direct payments are expected to cost \$300 billion.
- Unemployment benefits are extended by 13 weeks to a maximum of 39 weeks and include a \$600 federally funded boost until the end of July to state allocations. The forecast price tag for the enhanced unemployment program is approximately \$260 billion.
- Evictions for failure to pay rent and fees at multifamily properties with federally backed loans are on hold for 120 days following enactment. Tenants that participate in criminal activity or damage the property may still be susceptible to eviction. Fannie and Freddie back approximately 50 percent of multifamily loans.
- Multifamily borrowers are eligible to request forbearance through their lenders for up to 90 days. The request for forbearance must happen during the national emergency or the end of 2020, whichever comes first.
- Seniors housing received \$200 million for the CMS to assist with infection control and 2 percent rise in fee-for-service reimbursements.

Fed Sheet Holdings

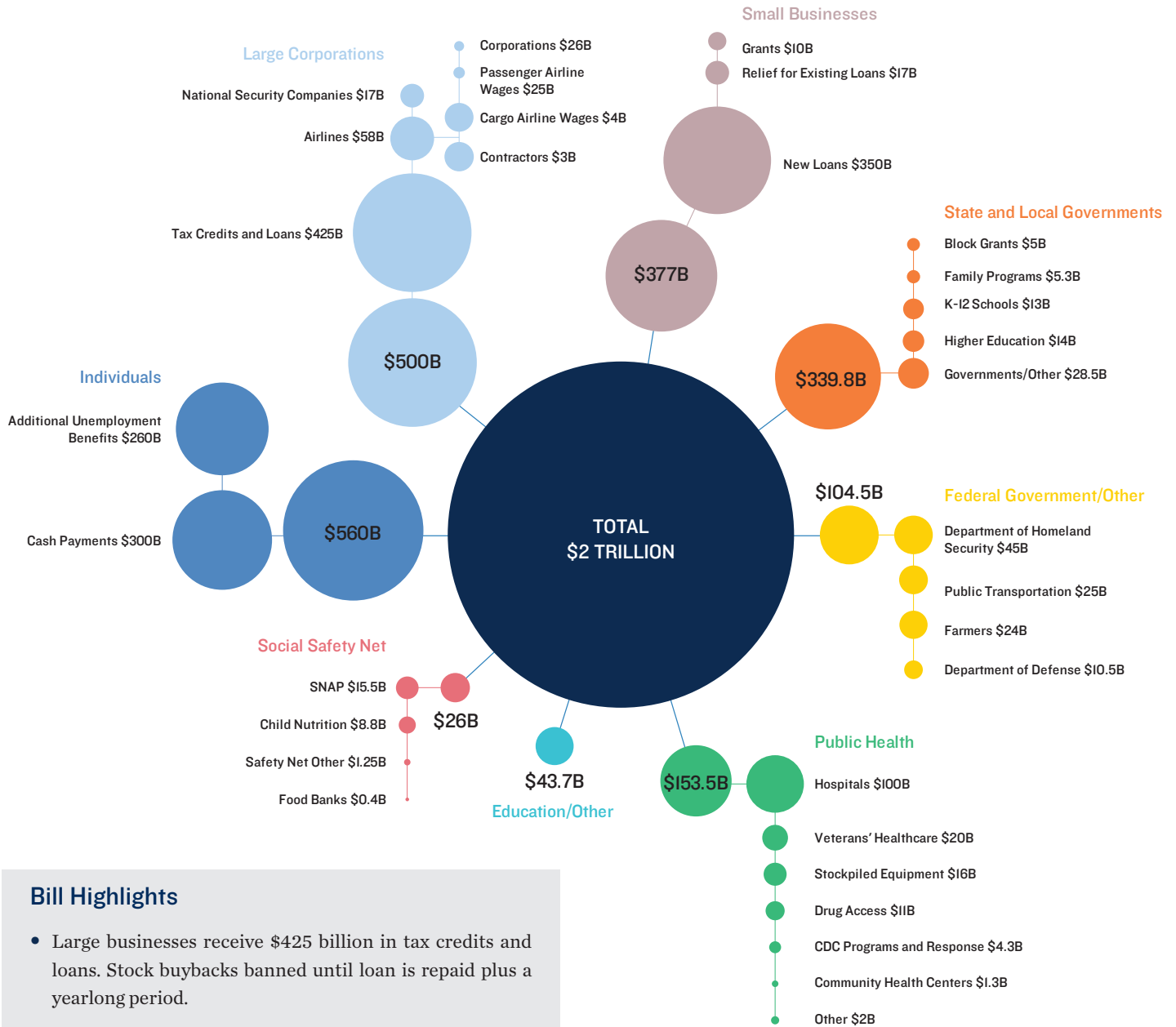


U.S. Apartment Lender Composition Trends



* Pre-crisis

CARES Act Touches Nearly Entire Economy



Bill Highlights

- Large businesses receive \$425 billion in tax credits and loans. Stock buybacks banned until loan is repaid plus a yearlong period.
- Small businesses receive access to \$10 billion in grants and \$350 billion under EIDLs and the PPP.
- Individuals to receive \$1,200 in a one-time direct payment, a maximum of 39 weeks of unemployment insurance and an additional \$600 weekly on top of state-level insurance until the end of July.

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