CUSHMAN & WAKEFIELD

PRESIDENT BIDEN'S

FIRST 100 DAYS

Implications for the Property Markets

Biden's First 100 Days: The Market Positives

- The U.S. is making significant progress on the vaccine front - **herd immunity is expected to be achieved this summer**.
- A surprise "Blue Sweep" in January allowed President Biden's $1.9T American Rescue Plan to pass via reconciliation, **providing an uplift to near-term economic growth forecasts**. (The median real GDP forecast for 2021 has been revised upwards from 4.0% to 6.2% since December 2020.)
- Partly because of the additional fiscal boost, **certain sectors of the U.S. economy are beginning to boom**. Some of latest economic data (e.g., retail sales, job growth) indicates that March of 2021 was one of the strongest months on record.)
- Despite some upward movement in inflation expectations, **the Federal Reserve continues to maintain a highly accommodative monetary policy**, with an equal focus on repairing the labor market.
- **Tremendous capital is in the system.** Debt markets are functioning well and fundraising to be invested in property is at record highs.
- Households have a lot of dry powder heading into summer: **an estimated $2.6T in excess savings will start to be unleashed** as consumers feel safer and more confident… and that was before the latest stimulus bill.

Biden's First 100 Days: The Market Negatives

- Many countries around the world will lag the U.S. in achieving herd immunity, and the efficacy of vaccines to new variants is a wild card. **COVID-19 will remain a key driver of the global outlook in 2021 and beyond.**
- Despite U.S. vaccinations ramping up quickly, **the return to the office remains uneven and sluggish** throughout the country.
- While interest rates can rise for "good" reasons, **concerns about inflationary pressures, fiscal space and sovereign debt could put additional upward pressure on them.**
- President Biden has proposed a nearly $3T infrastructure bill and has yet to release the second part, called the American Family Plan. **This introduces uncertainty into the outlook, particularly since this will be paid for via changes to other spending and tax policy.**
- **The federal deficit and debt are both headed for record levels**, which introduces uncertainty for other spending and tax policy over the long-term.
- The Biden administration has largely continued the Trump administration's confrontational approach to China both on trade and security matters.
- **Geopolitical risk is elevated:** North Korea, Russia, Middle East
- **Still many unknowns:** Debt ceiling (August 2021), AHCA Repeal/Replace, TPP


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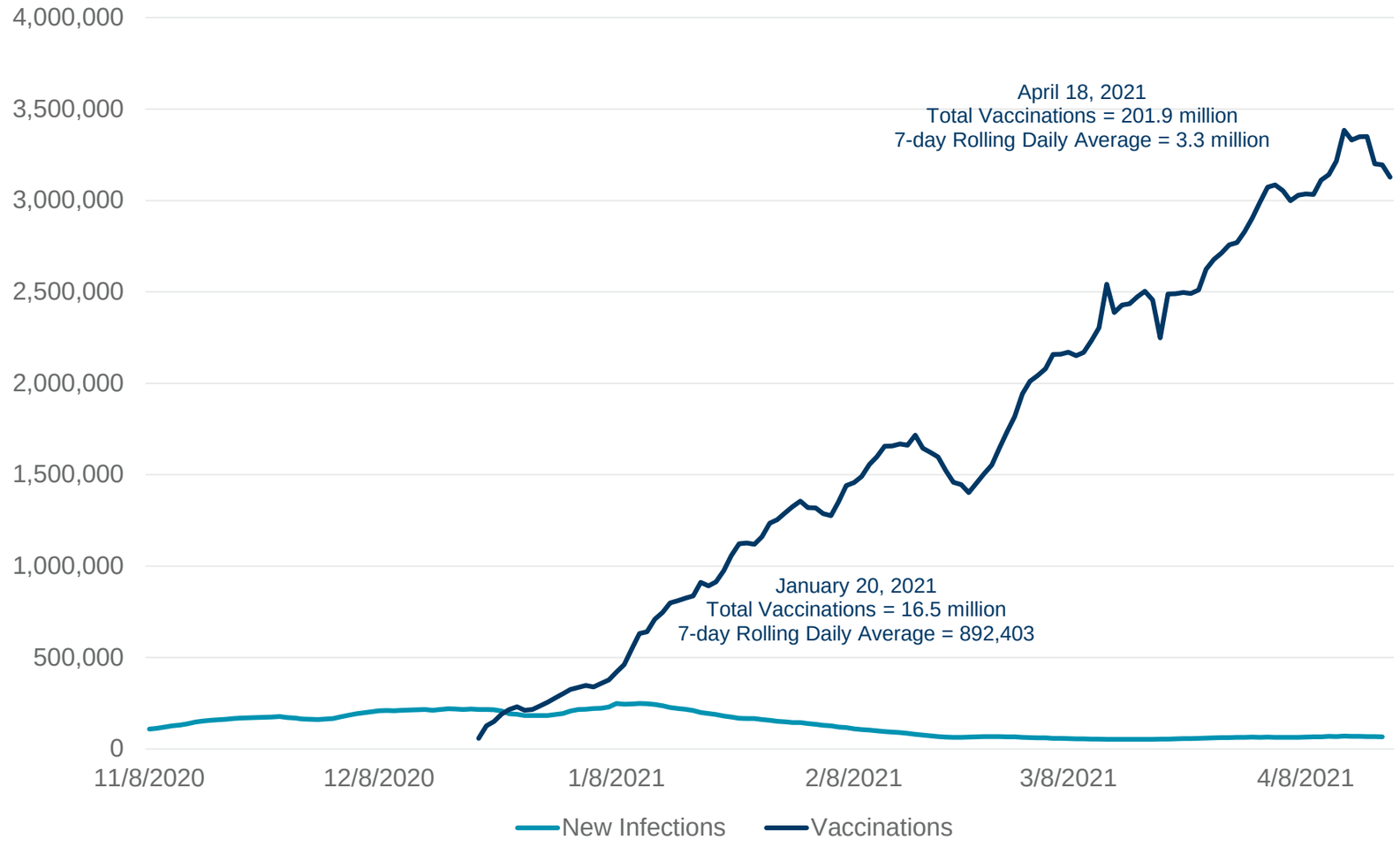
COVID-19

Vaccines Outpace New Infections

7-day moving average



Source: U.S. Centers for Disease Control, Our World in Data. As of April 20, 2021.

First 100 Days

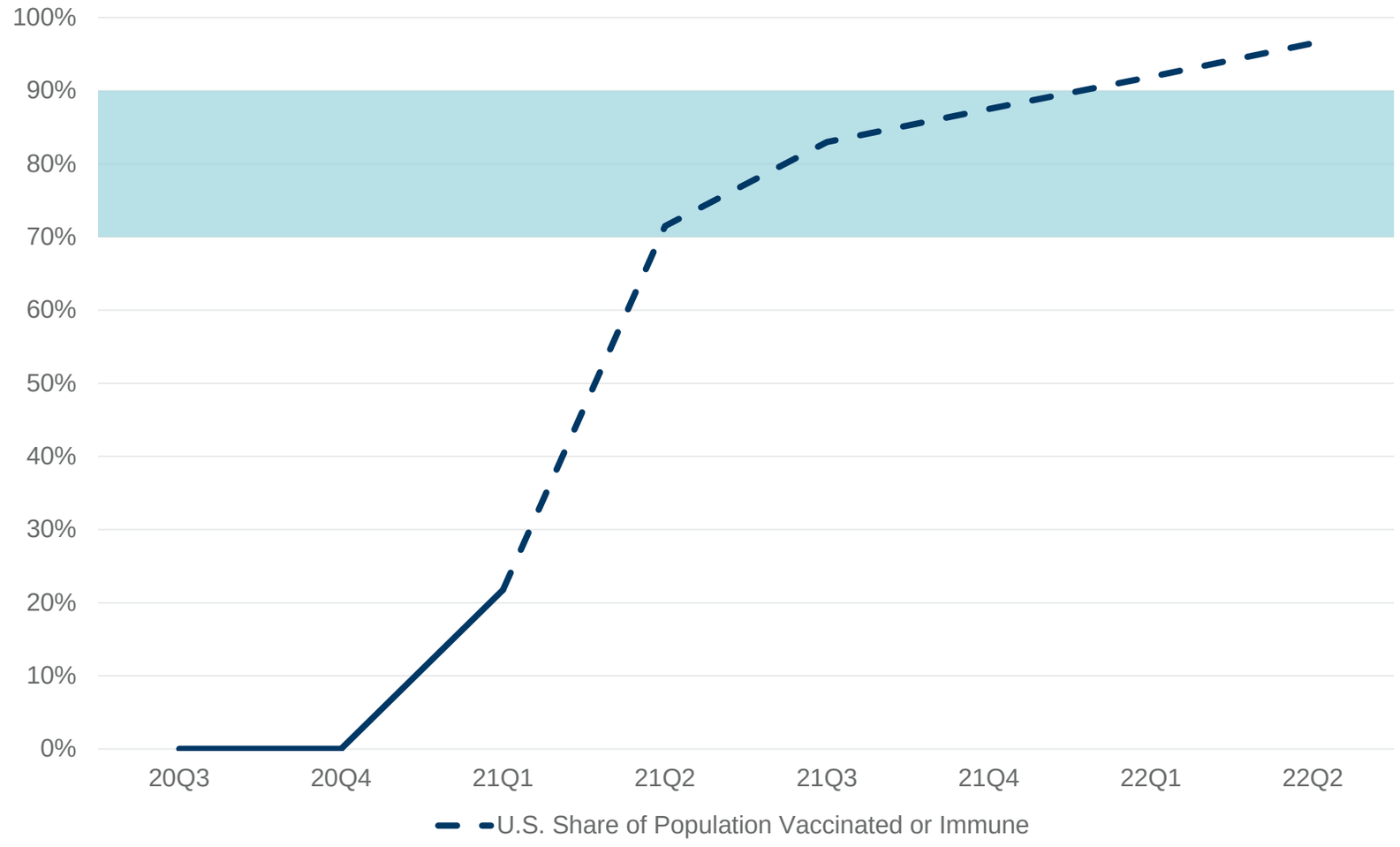
- **Initially, then President-Elect Biden set a goal to have 100 million vaccinations in his first 100 days.**
- **On January 20, only 16.5 million vaccines had been given.**
- **Daily vaccinations have been rising rapidly, with 100 million achieved within his first 50 days. President Biden then increased the goal to 200 million vaccinations in his first 100 days, which was achieved.**

Key Points

- **A more aggressive roll-out of vaccinations will boost economic growth and particularly face-to-face commerce, and thus CRE.**
- **Businesses will be able to reopen and achieve higher occupancy levels sooner given the improved trajectory.**
- **The impacts on consumer confidence and behavior are set to benefit many types of CRE.**

U.S. Herd Immunity Soon

Expected by summer 2021



Source: Moody's Analytics

First 100 Days

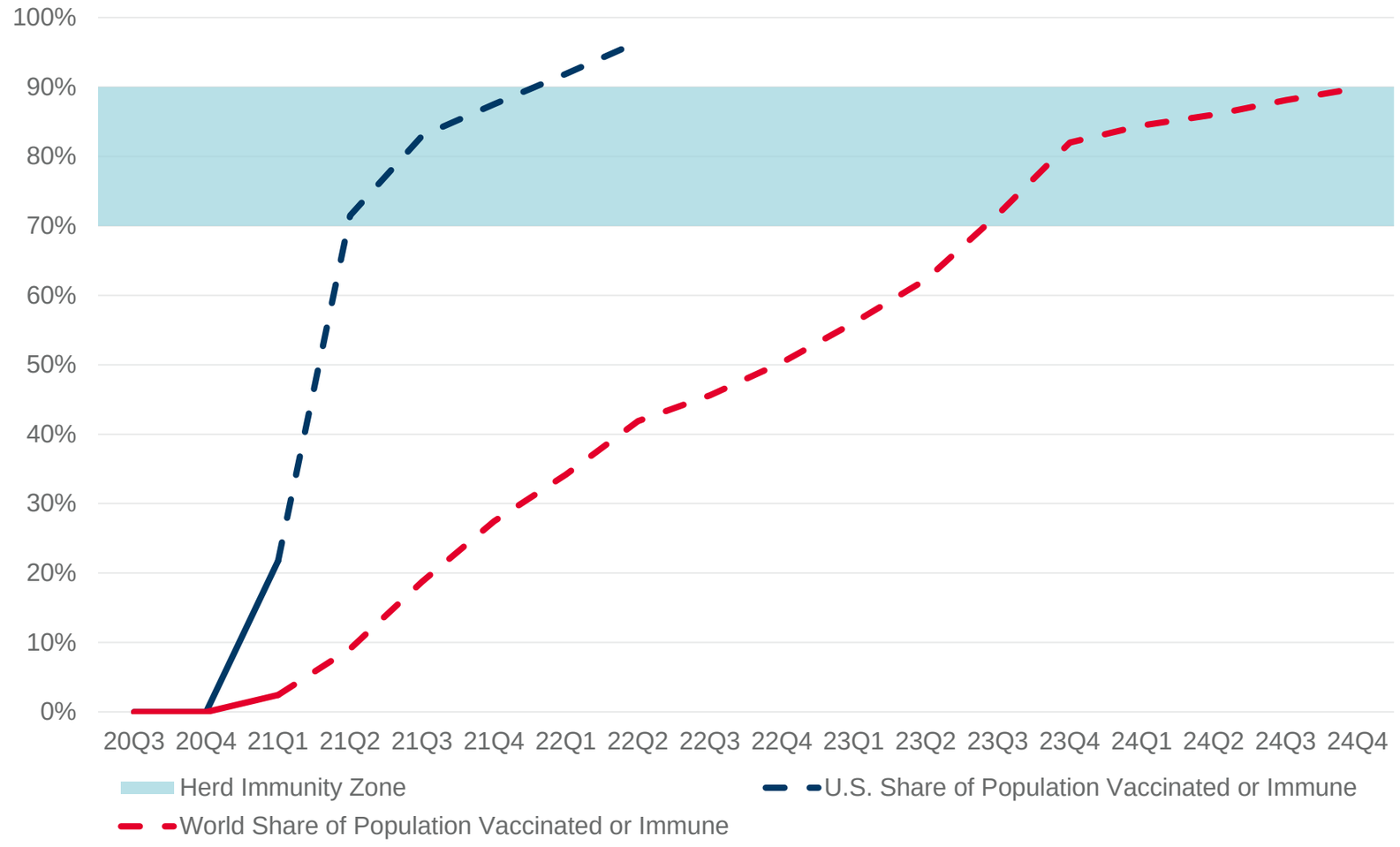
- **The U.S. is expected to reach herd immunity—defined as approximately 70% to 90% of the population having been vaccinated and/or infected— by mid-summer 2021.**
- **Already, as vaccinations increase, the U.S. economy and labor markets are accelerating.**

Key Points

- **Ability to congregate without fear, or with less fear, of infectious disease will benefit office, retail, hotels and any other real estate that serves to bring people together.**
- **Investors are keenly aware of this dynamic. For example, since January 20, 2021, the U.S. hotel/resort REIT index is up by 13.7% versus 9.4% for the overall property REIT index.**

Global Herd Immunity Farther Away

Possibly by several years



Source: Moody's Analytics

First 100 Days

- **The pace of vaccinations is accelerating globally but remains highly uneven.**
- **The U.S., Israel and the UK are leading the world in per capita vaccinations.**
- **Emerging markets and some advanced countries are also lagging.**
- **The return to "normalcy" will be staggered globally.**

Key Points

- **Global travel will be limited, putting a constraint on cross-border capital flows.**
- **Getting to herd immunity globally will have positive impacts on:**
  - **International business travel and tourism (hotels)**
  - **High-street retail**
  - **International migration flows (labor force growth)**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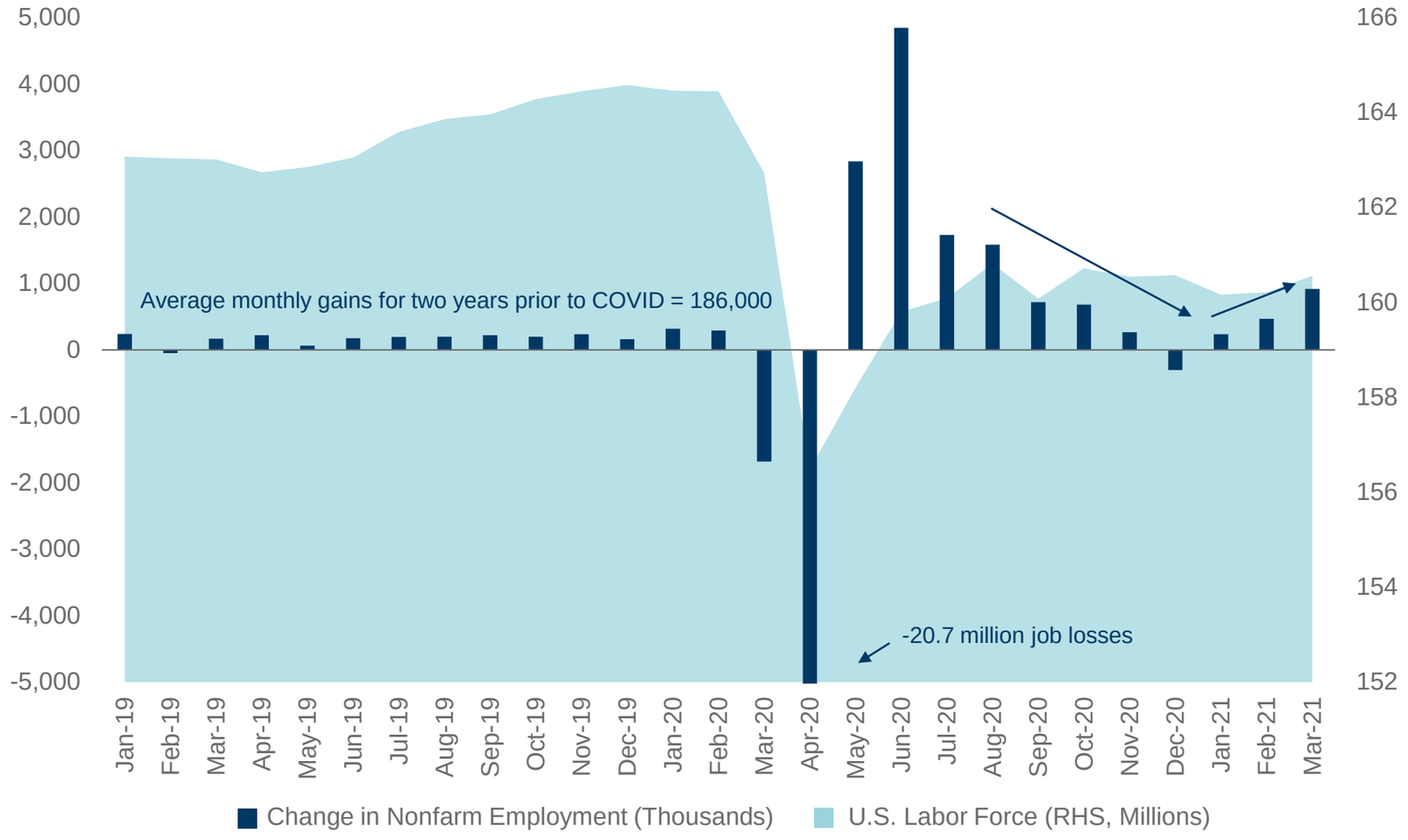
ECONOMY/CRE

Labor Market Turned “Second” Corner

Job growth re-accelerated after a harsh end to 2020



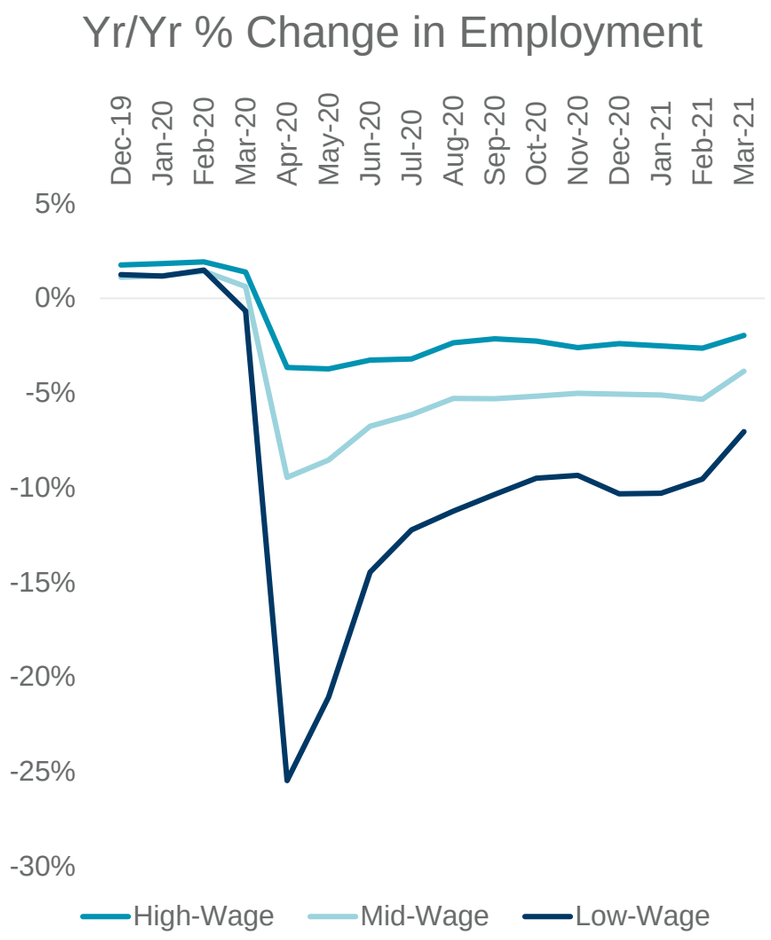
Source: U.S. Bureau of Labor Statistics, National Association of Business Economics, various forecasters

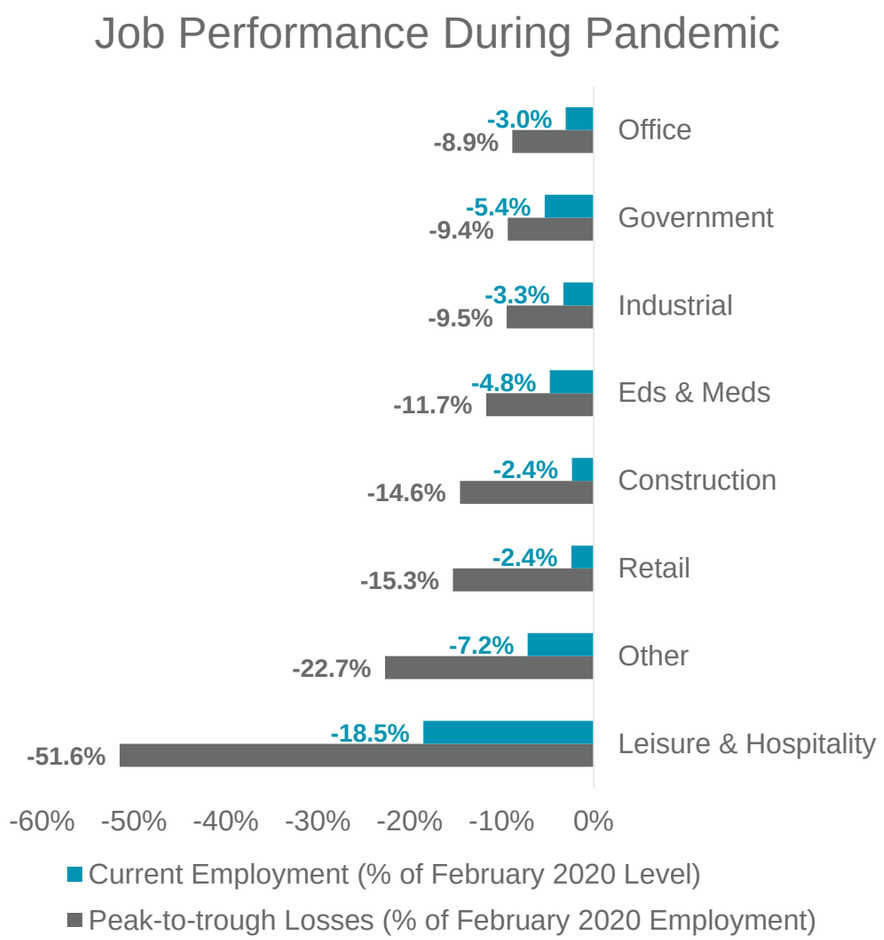
Key Points

- **After losing 22.4 million jobs in two months, the U.S. labor market started to rebound in May 2020.**
- **Initially the rebound was strong, gaining back 9.4 million jobs from May to July 2020.**
- **Given varying lockdown measures and capacity restrictions, a full recovery was not realistic and indeed, job gains started to slow down in Q3 and in Q4.**
- **The labor market has now begun a second acceleration, which is expected to continue.**
- **The U.S. economy is forecast to create nearly 7 to 7.5 million net new jobs over the next 2 years, according to measures of the consensus. This would put 2021 and 2022 among the strongest two-year period ever recorded.**

Recovery Still K-shaped

Across wage tiers, industries and cities





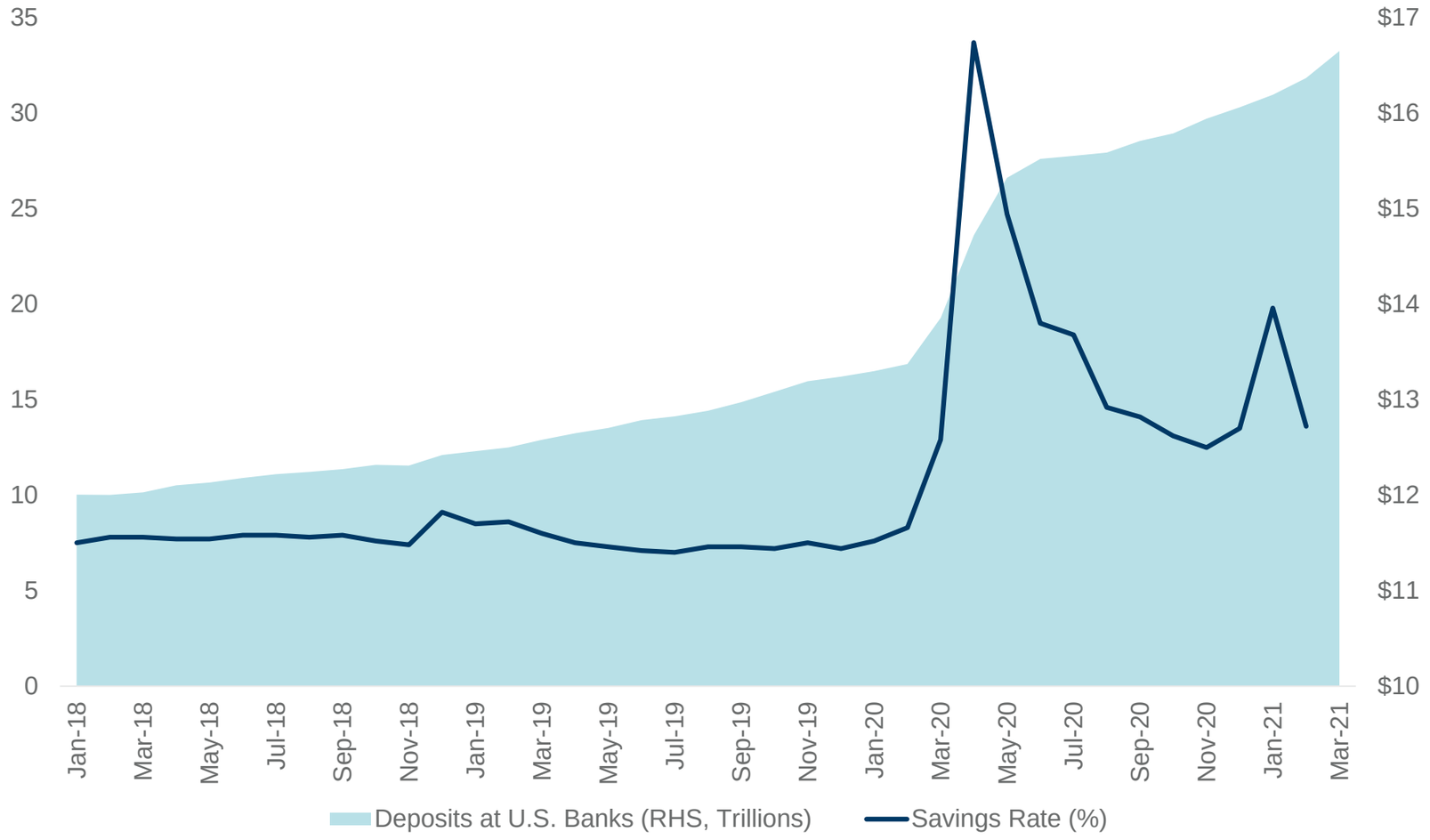
Source: U.S. Bureau of Labor Statistics, Moody's Analytics

Key Points

- **Lower wage workers (across all industries but particularly in services-oriented ones) have been hit the hardest.**
- **Although the December stimulus bill set the expiration of federal UI to March 2021, the American Rescue plan extended it to September 2021, supporting the economy as the labor market further heals.**
- **Total nonfarm employment is expected to recover to pre-pandemic levels by the end of 2022.**
- **While office-using and retail employment are expected to return to pre-pandemic peak by end of 2021, leisure/hospitality employment is not expected to until early 2029.**

Backdrop for Strong 2021

Recovery to become more robust with every passing month



Source: U.S. Bureau of Economic Analysis, Federal Reserve

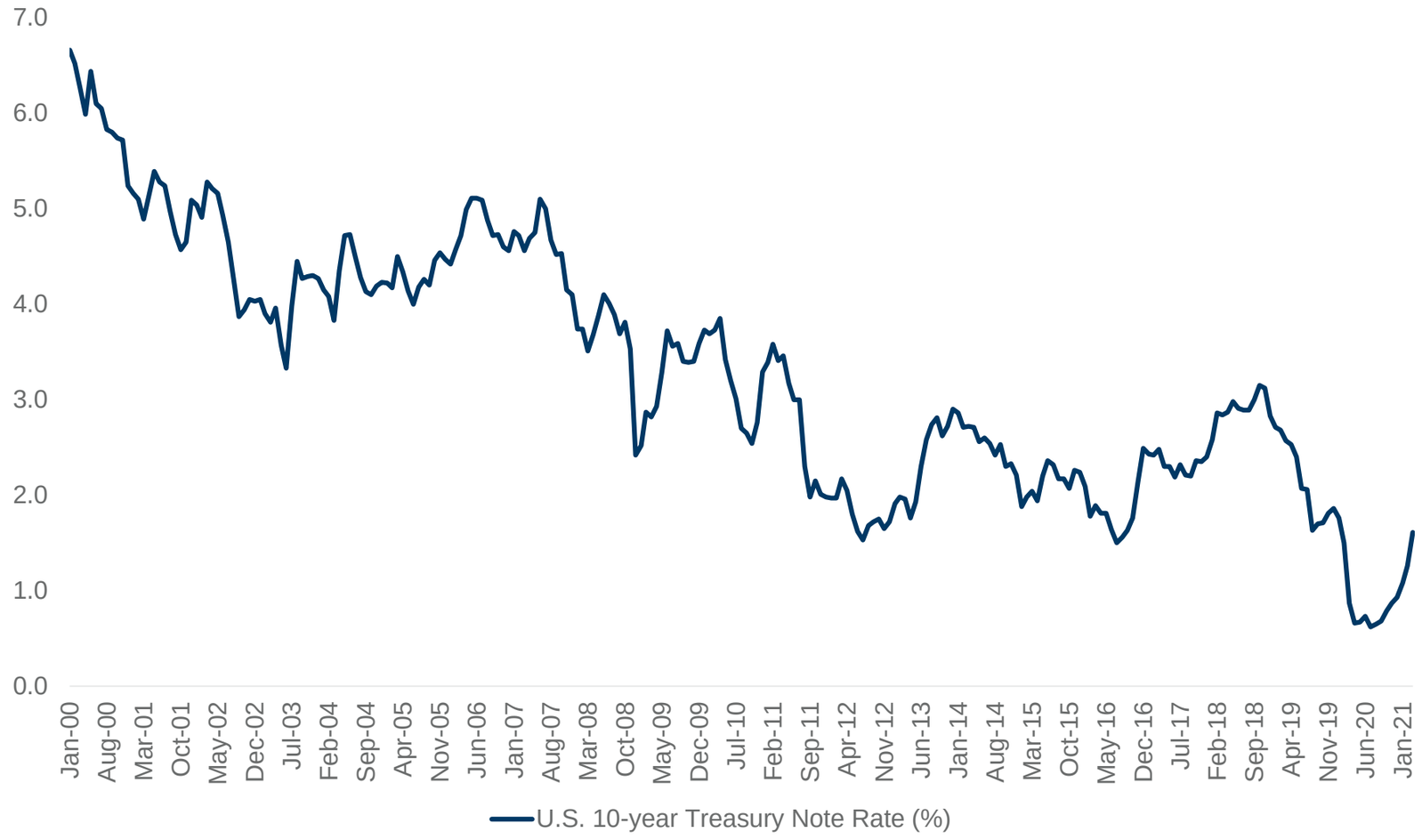
Key Points

- **It is estimated that U.S. households have around $2.6T of excess savings, with an ample portion in lower- to mid-wage households whose propensity to spend is high.**
- **This is an enormous amount of "dry powder" and pent-up demand for services, travel and experiences is likely to be unleashed as the country nears herd immunity in 2021.**
- **While there will be some constraints on this impact—one can only eat out so many times per day—it is still expected to drive a bulk of headline real GDP growth.**
- **A healthy U.S. consumer is good for all kinds of real estate and will propel a more robust recovery across all sectors and across most markets.**

For more insight access our report *U.S. Retail Outlook: Boom Scenario In the Works*

Pressure Forming on the Long-end, But Still Low

10-year Treasury trending up from historic lows



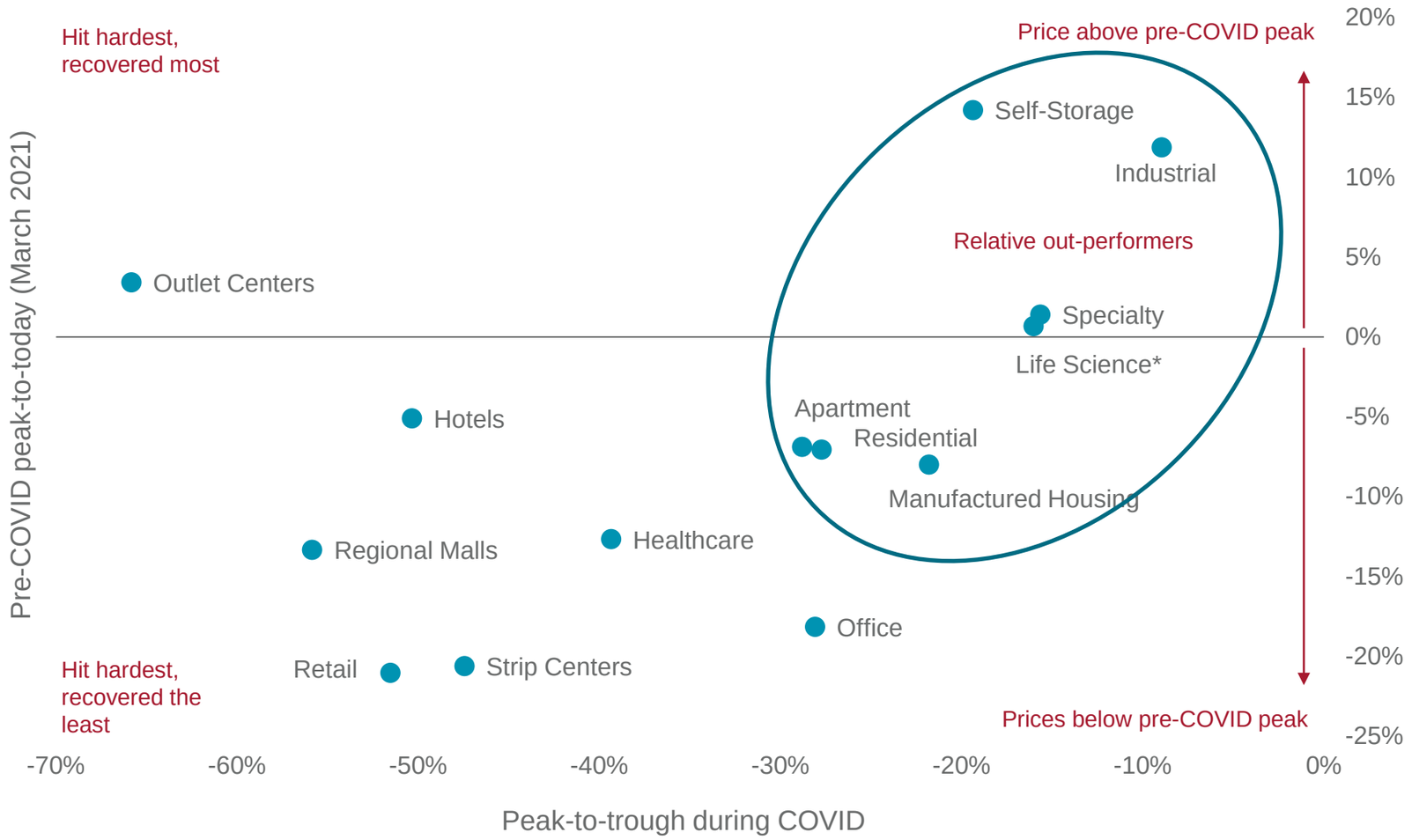
Source: Federal Reserve Board

Key Points

- **The improving outlook for the economy, record-setting debt-financed fiscal stimulus and swift roll out of vaccines has raised expectations for a strong, rapid recovery.**
- **It has also increased concerns of higher inflation, especially with the passing of the American Rescue Plan and surging global commodity prices.**
- **Investors have taken notice. Despite a record contraction of the economy and Federal Open Market Committee's avowed policy of doing whatever is necessary to hold down long-term interest rates, the yield on the 10-year Treasury note has more than tripled since August 2020.**
- **Higher interest rates can raise the cost of financing real estate purchases and operations. However, they remain low relative to historical levels.**

Capital Markets Sheds, Beds and Meds

REIT closing prices, percent change



*Source: S&P Dow Jones Indices LLC, * Life sciences = Alexandria.*

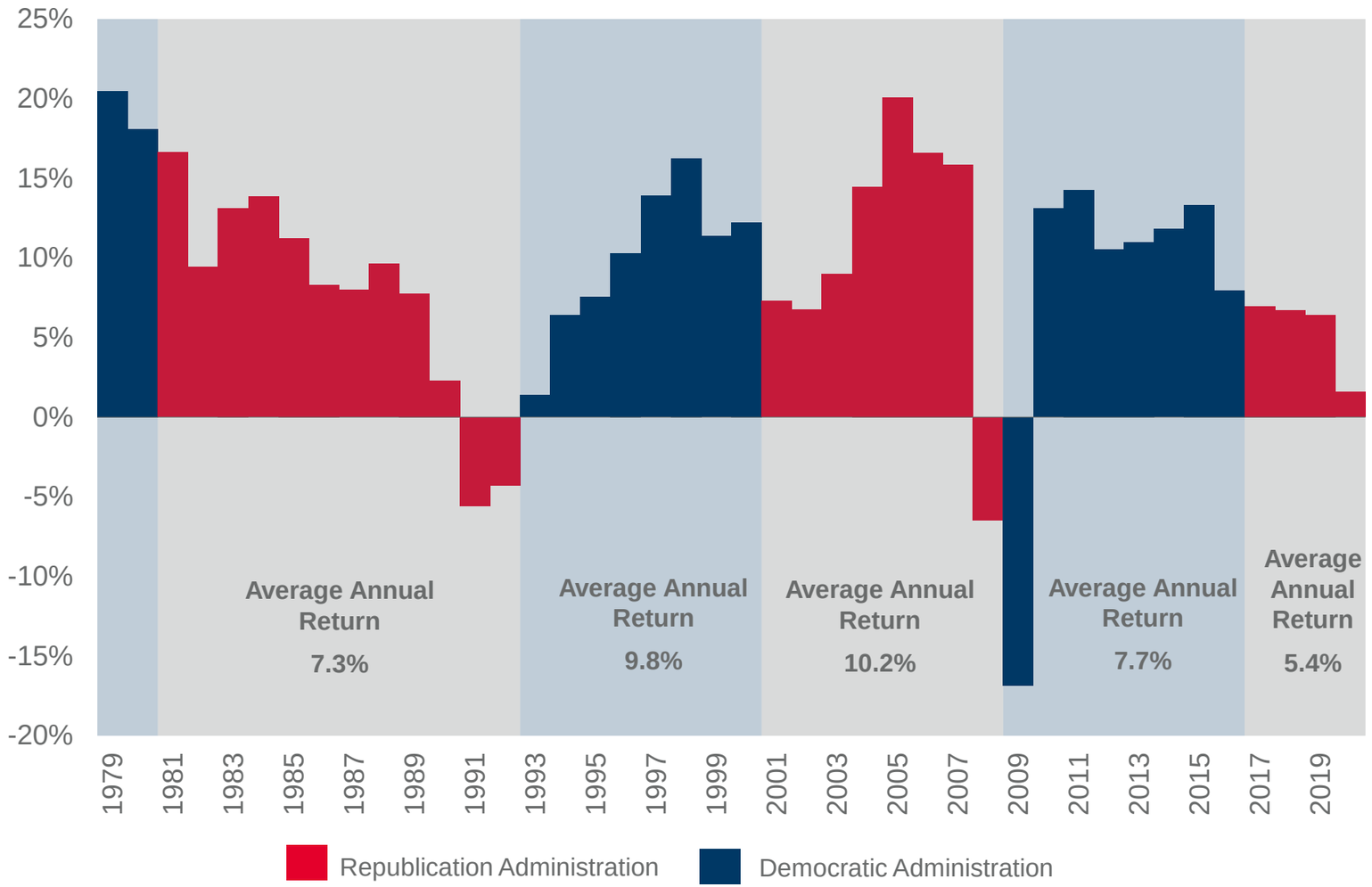
Key Points

- **As the economic outlook has brightened, investors are becoming more optimistic.**
- **Across the globe, there is tremendous capital targeting commercial real estate, creating pent up demand that is beginning to be activated.**
- **While "sheds, beds, and meds" remain the #1 target, only so much product is available, which in turn, has investors beginning to seek yield in other asset classes (e.g., office, retail).**
- **Other niche assets such as data centers and life sciences are also attracting attention.**

For more in-depth analysis see our report *"The Signal Report: Global Guide to CRE Investing in 2021"*

CRE Returns Agnostic to Party

Total unlevered returns, all property types



Source: NCREIF

First 100 Days

- **Total returns for CRE depend largely on the economy and fundamentals, and do not display a significant correlation with the party in power.**
- **CRE total returns had been slowly trending downward since 2015, but slowed sharply since the pandemic began: annualized total returns fell from 5.3% in 2020 Q1 to 2.7% in 2020 Q2, and faded to 1.6% by 2020 Q4.**

Impact on CRE

- **The uneven nature of the pandemic's impact on the economy is reflected in property returns: hotel and retail are seeing the most significant value corrections, but also stand to gain the most from a rosier economic outlook.**
- **Changes in national tax policy tend to impact returns close to evenly across asset classes and CRE may well remain advantaged via depreciation.**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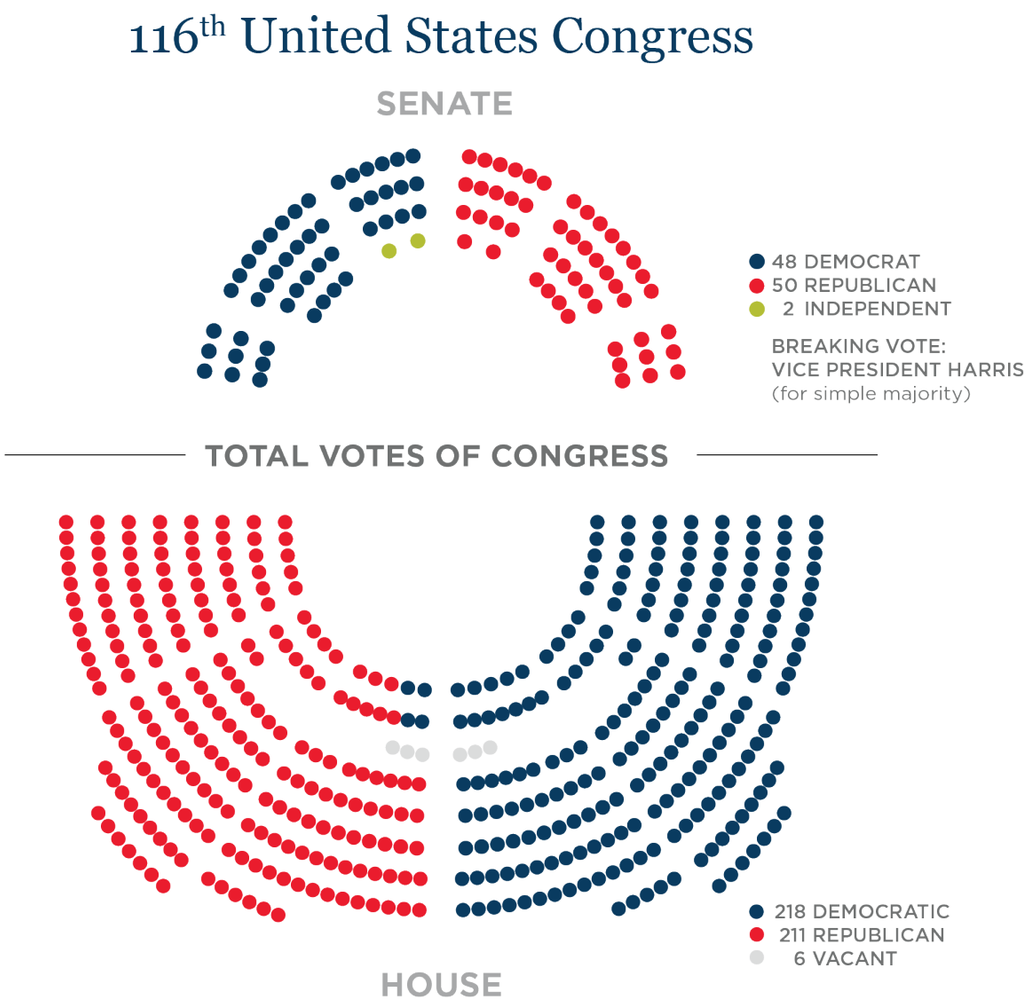
POLICY

House & Senate Composition

Blue Sweep surprises in January 2021



Source: U.S. House of Representatives, U.S. Senate

First 100 Days

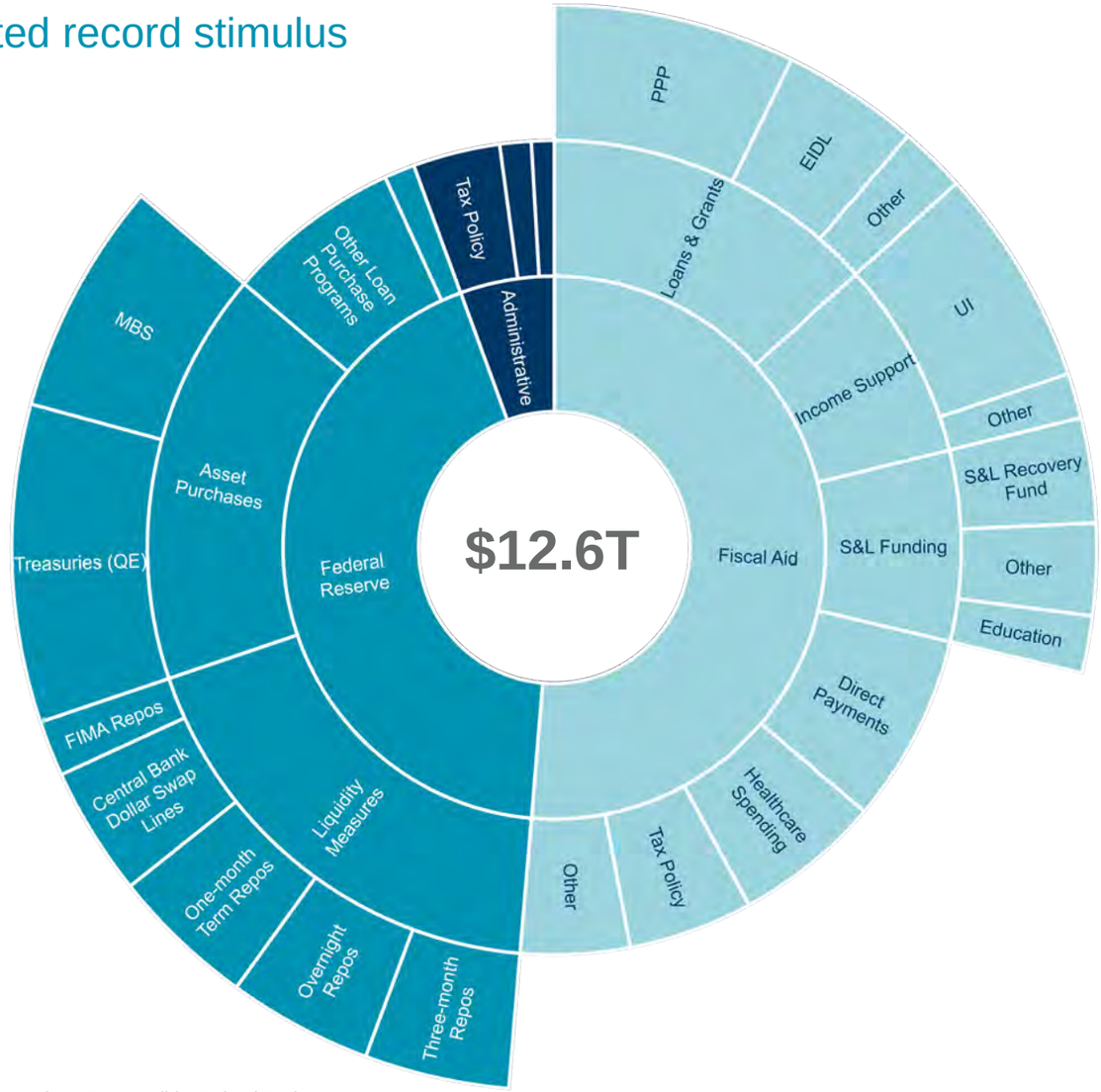
- **Prior to President Biden's inauguration, it was unknown what the control of Congress would look like, particularly in the Senate.**
- **The Georgia run-offs on January 6 resulted in a "Blue Sweep," with Vice President Harris as the tie-breaking vote.**
- **Having a unified Congress has led to larger and faster stimulus than would have been possible under a divided Congress.**

Key Points

- **Budget reconciliation can be used beyond the first 100 days and may be used later in 2021 to enact other legislative proposals.**
- **Current proposals would stimulate the economy further even though they are likely to be paid for via other policy changes and place pressure on the national debt.**
- **Faster economic growth in the near-term will benefit the CRE fundamentals.**

Total Policy Response Unprecedented

President Biden inherited record stimulus



Source: Center on Budget and Policy Priorities, Center for a Responsible Federal Budget

First 100 Days

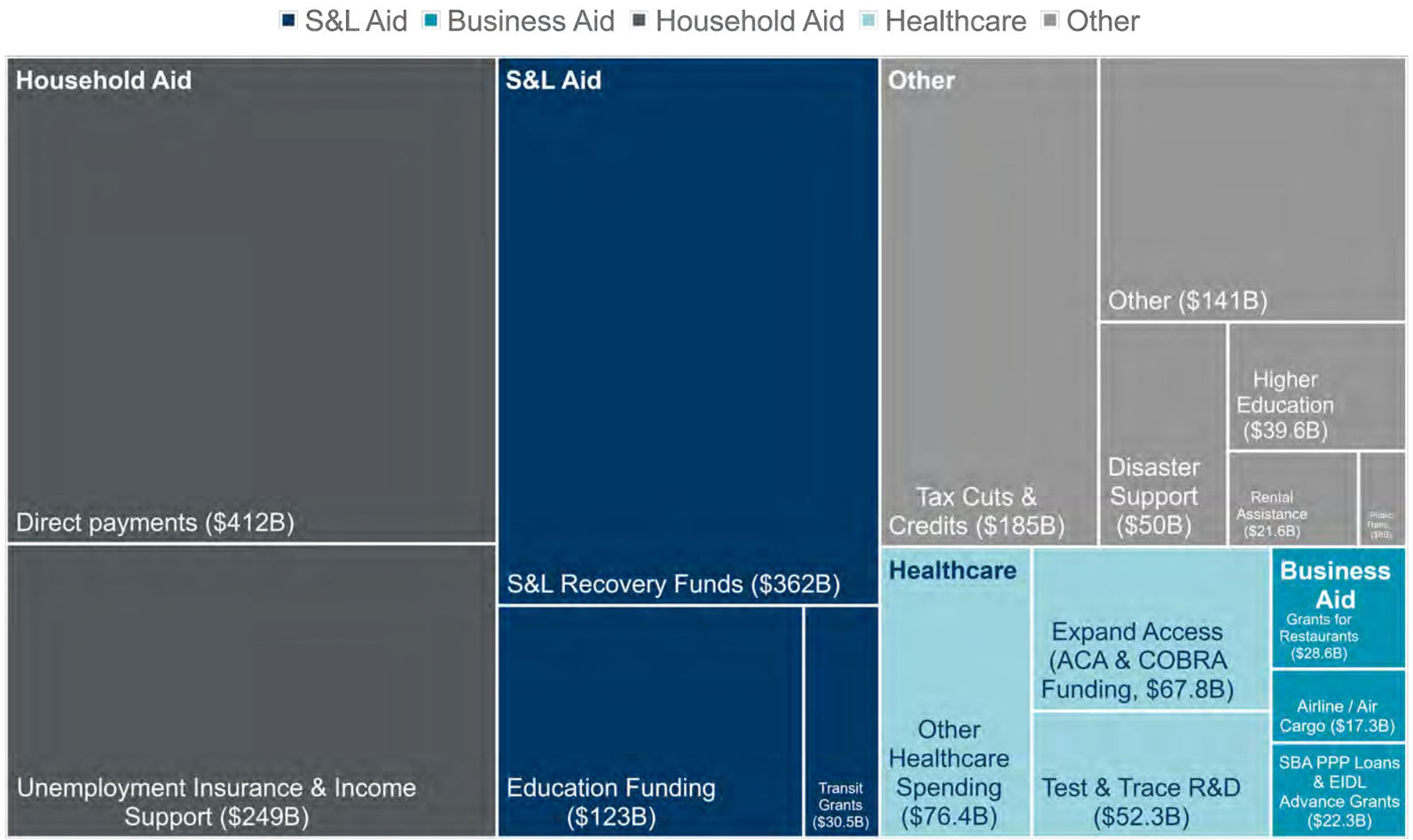
- **Prior to President Biden's inauguration, a record $4.2T of stimulus had been injected into the economy via fiscal policy and another $700B via administrative actions taken by former President Trump.**
- **The fact that this support was in place means that the economy President Biden inherited did not experience as much damage as it could have.**

Key Points

- **In the December 2020 bill, $25B was allocated to rental assistance, the first, direct targeted relief for multifamily. Another $15B was allocated for shuttered venues.**
- **Indirectly, loans and grants for businesses, liquidity facilities, unemployment insurance and tax policy changes provided much needed aid to both the economy and real estate. Read more about policy resources here.**

American Rescue Plan

Passed March 11, 2021



Source: Moody's Analytics, JCT, Committee for a Responsible Federal Budget

First 100 Days

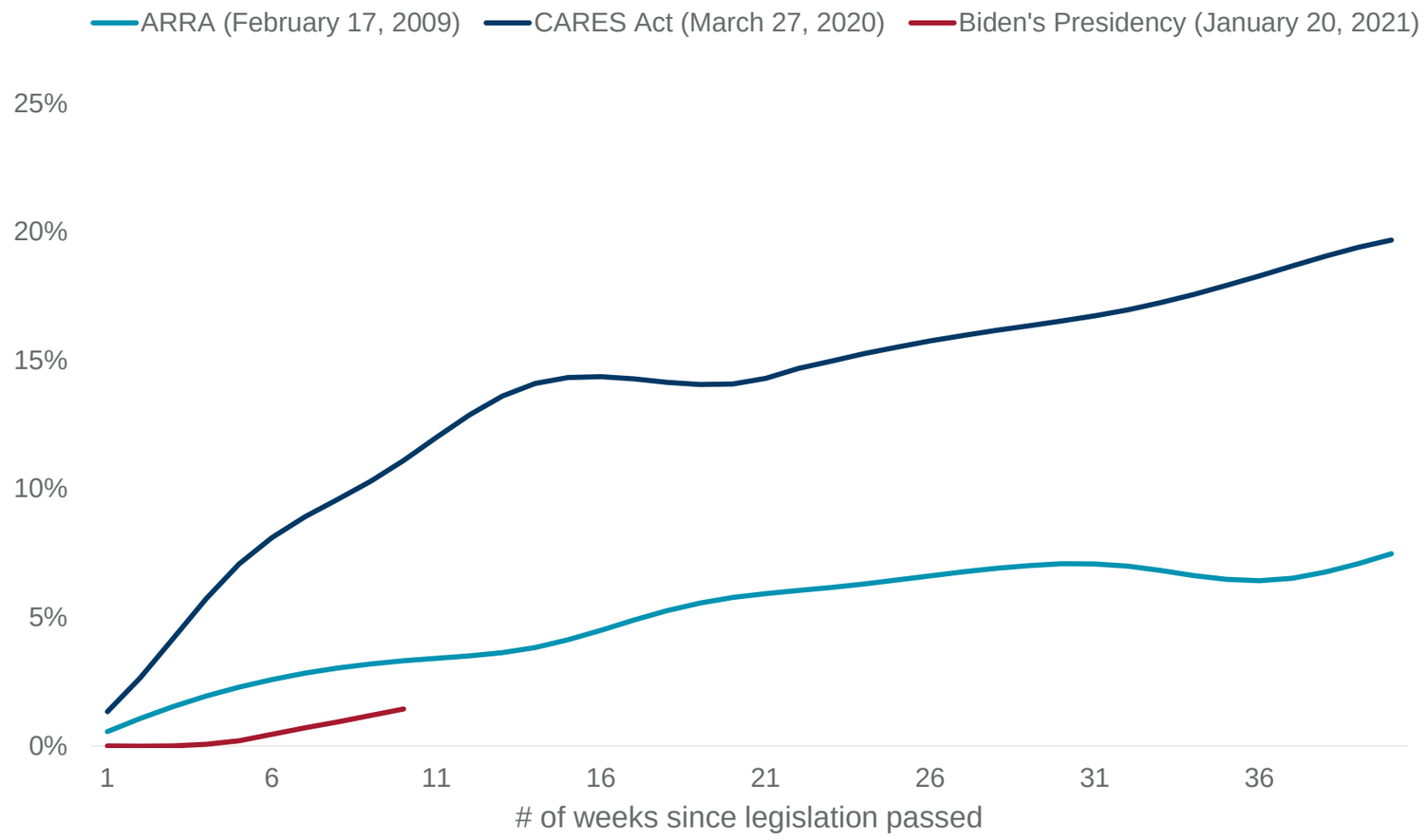
- **The $1.9T American Rescue Plan included inflows of funds for industry, consumers, state and local governments, and for vaccinations.**
- **The plan was debt financed, with no major tax policy changes except for larger child tax credits.**
- **The main objective of the ARP is to speed up the economic recovery and return the labor market to full employment as quickly as possible.**

Key Points

- **Little direct impact, although it included $21.6B for rental assistance, another $15.7B in other housing/utility aid, and $28.6B for a Restaurant Relief Fund.**
- **While S&L government revenues were not as negatively impacted in 2020 (as many thought they could be), S&L recovery funds may reduce pressure on budgets. Since CRE taxes are a source of revenue, this bodes well for CRE.**

Federal Budget

Cumulative increase in the debt-to-GDP ratio



Source: U.S. Treasury Department, U.S. Recovery Accountability and Transparency Board, U.S. Bureau of Economic Analysis, Moody's Analytics

First 100 Days

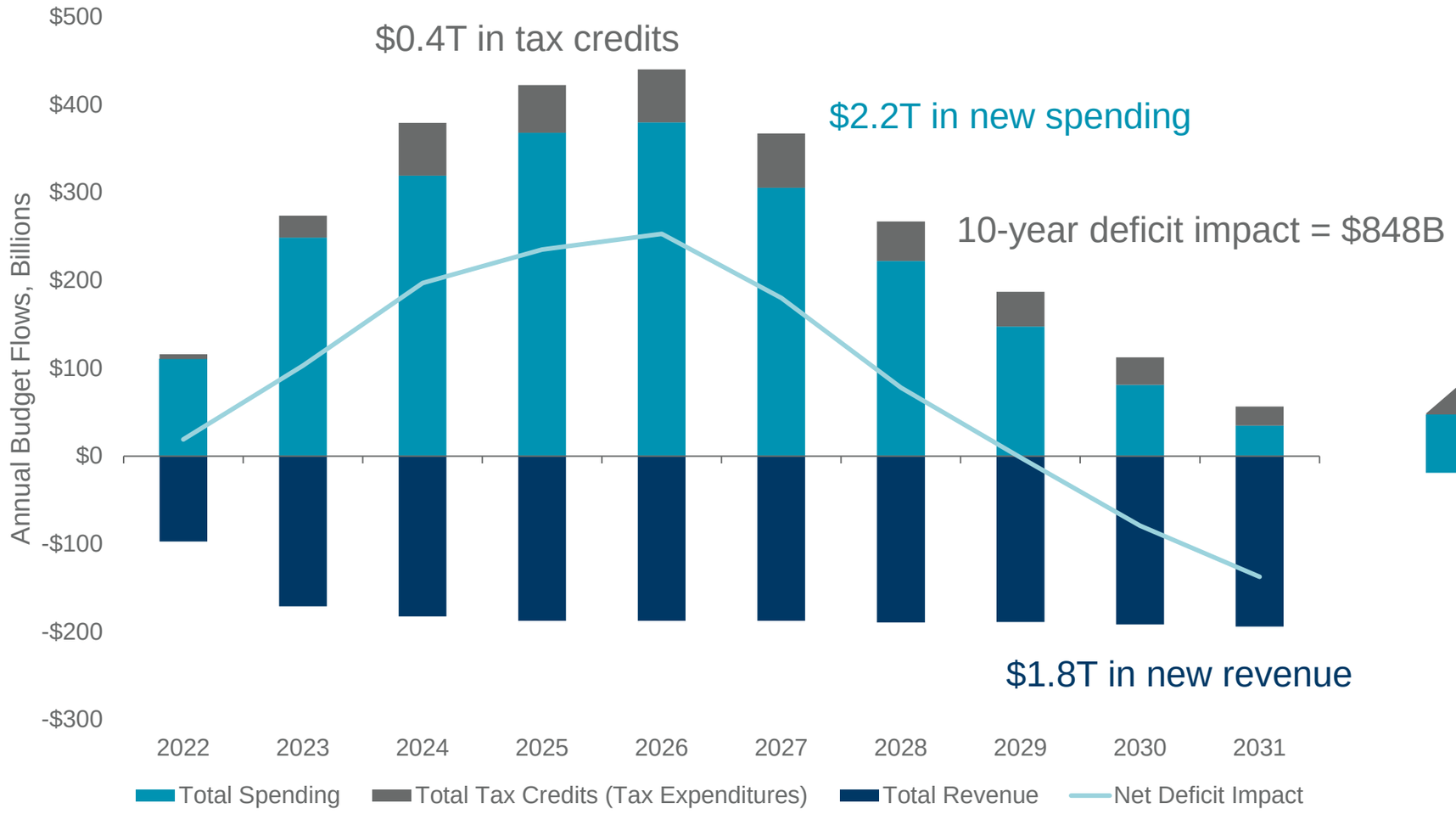
- **Although President Biden signed the ARP into law on March 11, 2020, it has yet to fully be captured by debt-to-GDP numbers since the funds are still being spent.**
- **GDP is also growing more quickly—if nominal GDP growth is higher than debt growth, this ratio will fall.**
- **Some of the increase in 2021 is due to the December 2020 relief bill that totaled $945B.**

Key Points

- **The government's response to the pandemic has resulted in significant debt accumulation.**
- **Although not commonly viewed as a near-term problem, if the debt situation is not addressed post-pandemic, markets may begin to worry about the government's ability to pay its debt, which could affect interest rates, CRE liquidity, and pricing.**

Proposals Mounting

American Jobs Plan (AJP)



Source: WhiteHouse.gov, Moody's Analytics

First 100 Days

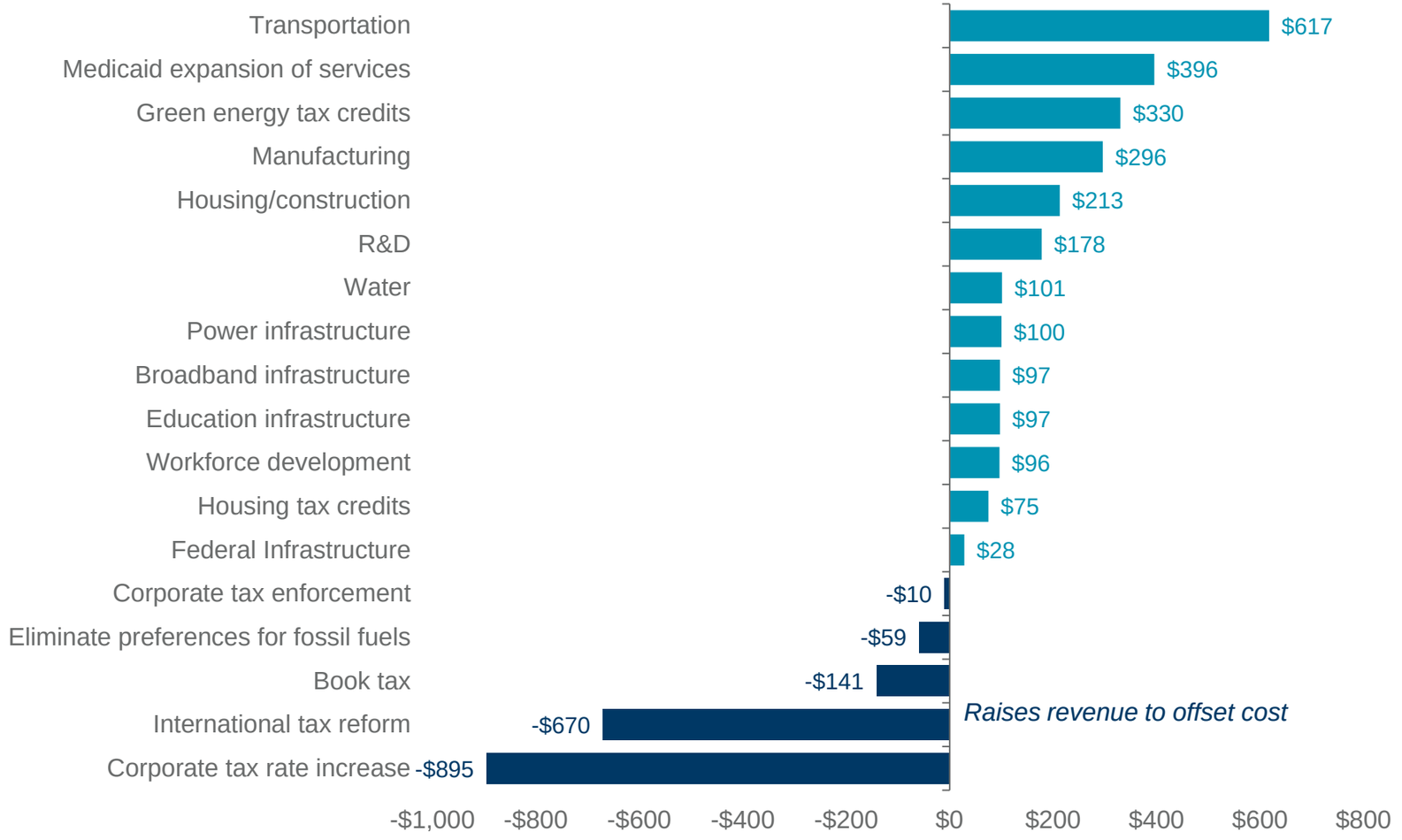
- **The American Jobs Plan is technically not considered stimulus since other policies would change such that it is "paid for" over a longer period.**
- **It is the first in a two-part plan. Details on the American Family Plan have not been released yet.**
- **This proposal is primarily aimed at expanding the supply-side of the economy and increasing productive capacity.**

Key Points

- **The proposal is still subject to many changes, but generally, infrastructure investment is good for CRE. However, it could pressure demand for commodities and labor, increasing construction and labor costs.**
- **If the bill is paid for by substantially increasing taxes, this could create headwinds for real estate, depending on which tax policies change and by how much.**

Proposals Mounting

10-year cost of the AJP, 2022-2031



Source: WhiteHouse.gov, Moody's Analytics

First 100 Days

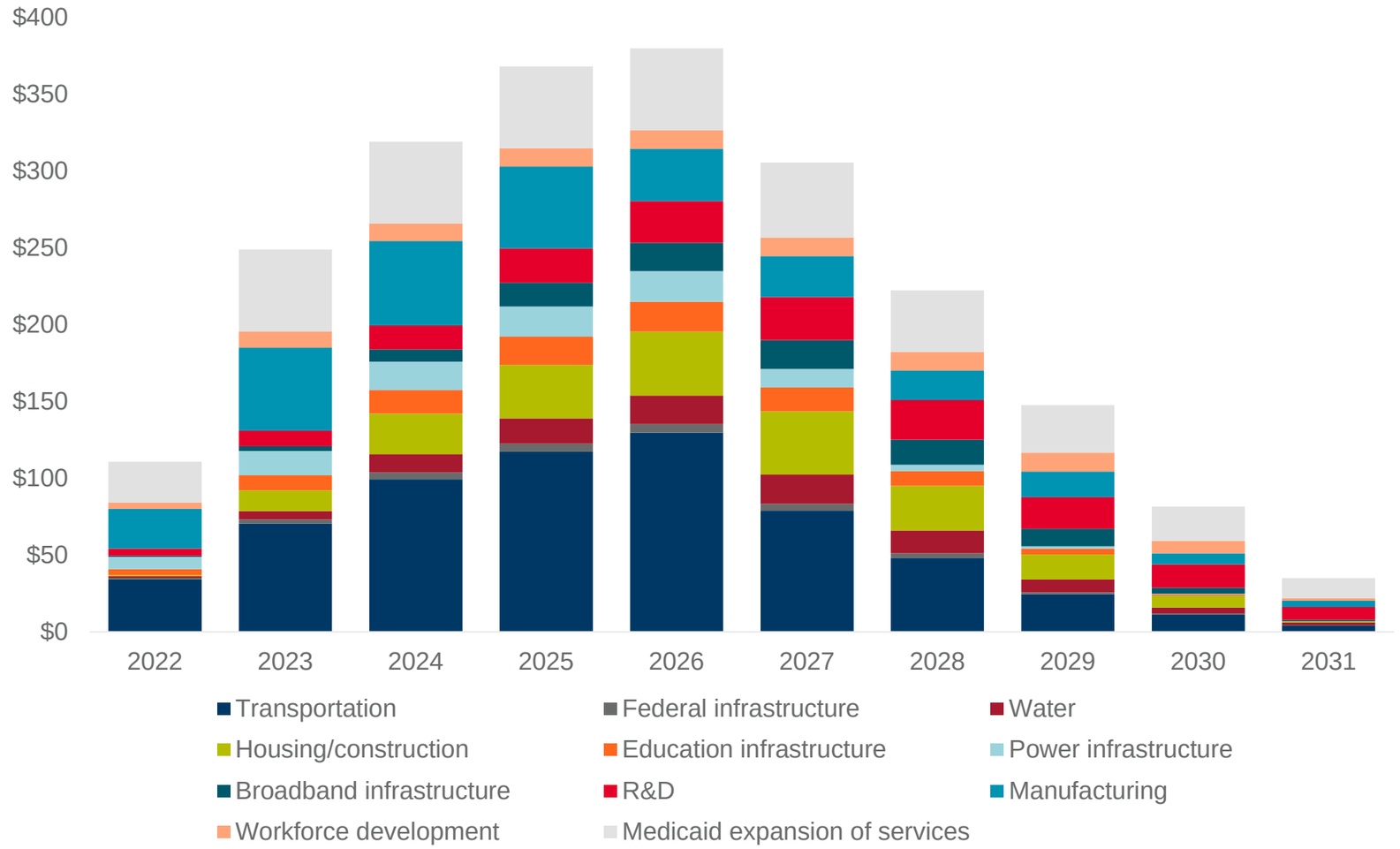
- **President Biden has expressed flexibility with regards to key revenue raisers within his initial proposal. It includes $1.8T in new tax revenue over a 10-year horizon:**
  - **Raising corporate tax rate from 21% currently to 28%, with a 15% minimum tax on corporate earnings (a book tax),**
  - **Repealing corporate tax deduction on foreign earned profits, and**
  - **Proposing base corporate tax rate for all industrial nations.**

Key Points

- **Higher corporate taxes would act to slow economic growth in the near term, offsetting a part of the AJP's expected positive impacts.**
- **Offsetting the corporate tax increase with user-paid fee structures is theoretically possible.**
- **The 1031 and capital gains taxes are not included in the proposal, which is viewed as "a win" for the CRE industry.**

Proposals Mounting

Projected infrastructure spending in the AJP



Source: WhiteHouse.gov, Moody's Analytics

First 100 Days

- **The AJP represents a 10-year, $2.2T spending plan targeting traditional transportation infrastructure and water, education, power, broadband and other programs to improve the nation's other infrastructure.**
- **It is not clear if the plan will be passed in its current form—any reductions in the ability to raise revenue could lessen the amount of investment being proposed (to mitigate the deficit impact). Sources of funding may also change.**

Key Points

- **Improving the nation's infrastructure is likely to enable stronger economic growth and more jobs. Moody's Analytics estimates that potential GDP growth could be 15 bps higher in the long run.**
- **More and better infrastructure enables modernization of the built stock of space, and enhanced connectivity could lower costs.**

Proposals Mounting

First annual budget request (FY 2022), billions

Department	Proposed Budget	Increase from FY 2021
Total Discretionary Budget Authority*	**$1,521.0**	**-4.4%**
Total Base Discretionary*	**$1,522.4**	**8.4%**
Defense	$715.0	1.6%
Health and Human Services	$131.7	23.1%
Veterans Affairs	$113.1	8.2%
Housing and Urban Development	$68.7	15.1%
State and International Aid	$63.5	11.9%
Energy	$46.1	10.2%
Education	$29.8	40.8%
Agriculture	$27.8	16.0%
Transportation	$25.6	14.3%
Interior	$17.4	16.3%
Justice	$17.4	5.3%
Treasury	$14.9	10.6%
Labor	$14.2	14.0%
Commerce	$11.4	27.7%
Environmental Protection Agency	$11.2	21.3%
Small Business Administration	$0.9	9.4%
Total Non-Base Discretionary*	**-$1.4**	**-101%**

*Source: WhiteHouse.gov. *Offsets to budget authority can occur by changes to non-base discretionary spending. Negative values reflect net cash inflows.*

First 100 Days

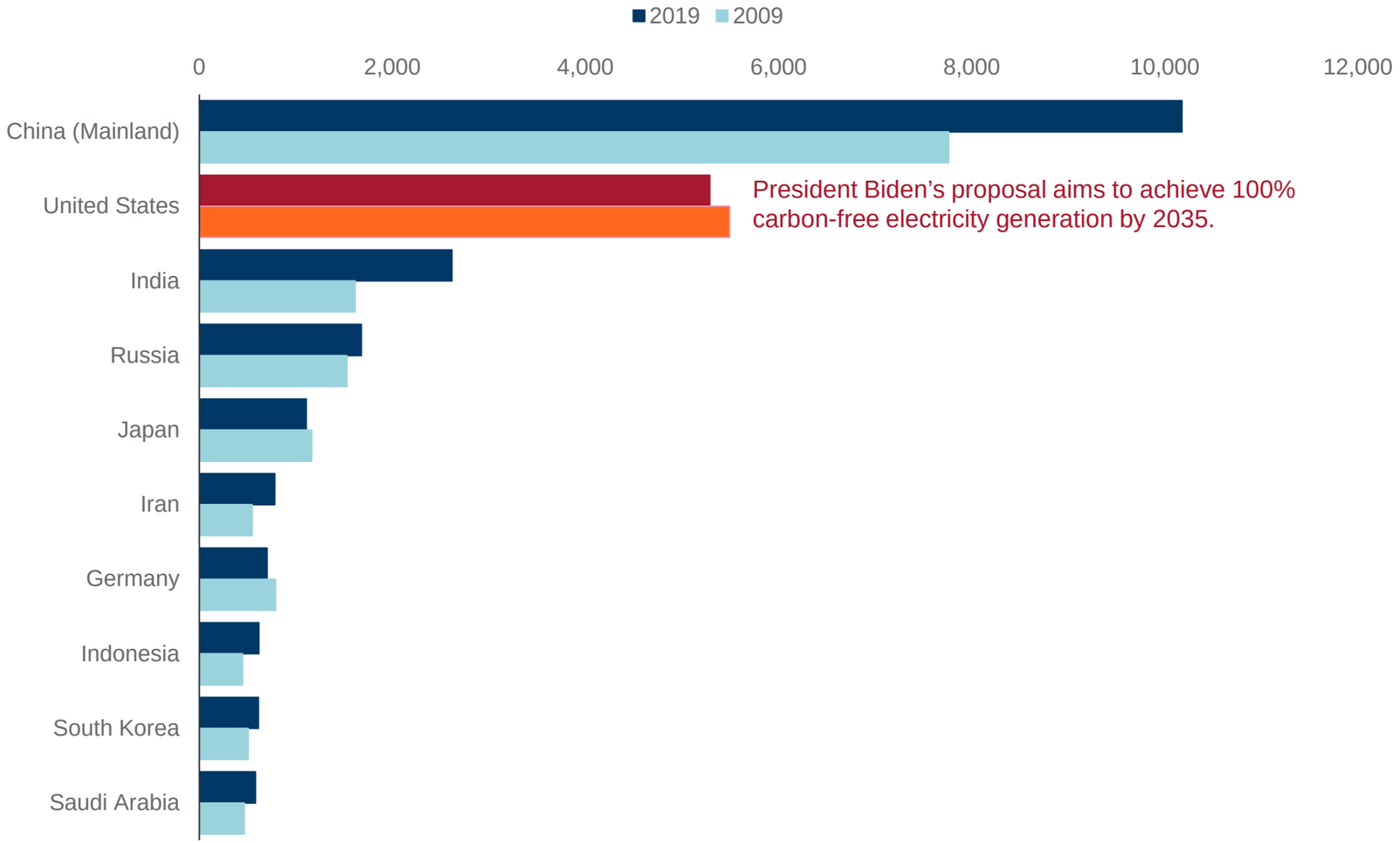
- **President Biden kicked off the annual budget process with a request to increase *base discretionary* spending in FY 2022 by $1.5T.**
- **His proposal is for *non-base discretionary* spending to decline by 101% and for *discretionary budget authority* to be 4.4% lower than in FY 2021.**
- **His budget proposal for *mandatory* spending is still pending.**

Key Points

- **The Congress is charged with the "power of the purse" and the President's budget is sometimes viewed as symbolic.**
- **Until the budget process is further along, it is difficult to say what the impact on CRE might be.**

Sustainability

Carbon dioxide emissions by country (million metric tons), top 10



Source: Statista: Global Carbon Project; Expert(s) (Friedlingstein et al) http://www.globalcarbonatlas.org/en/CO2-emissions

First 100 Days

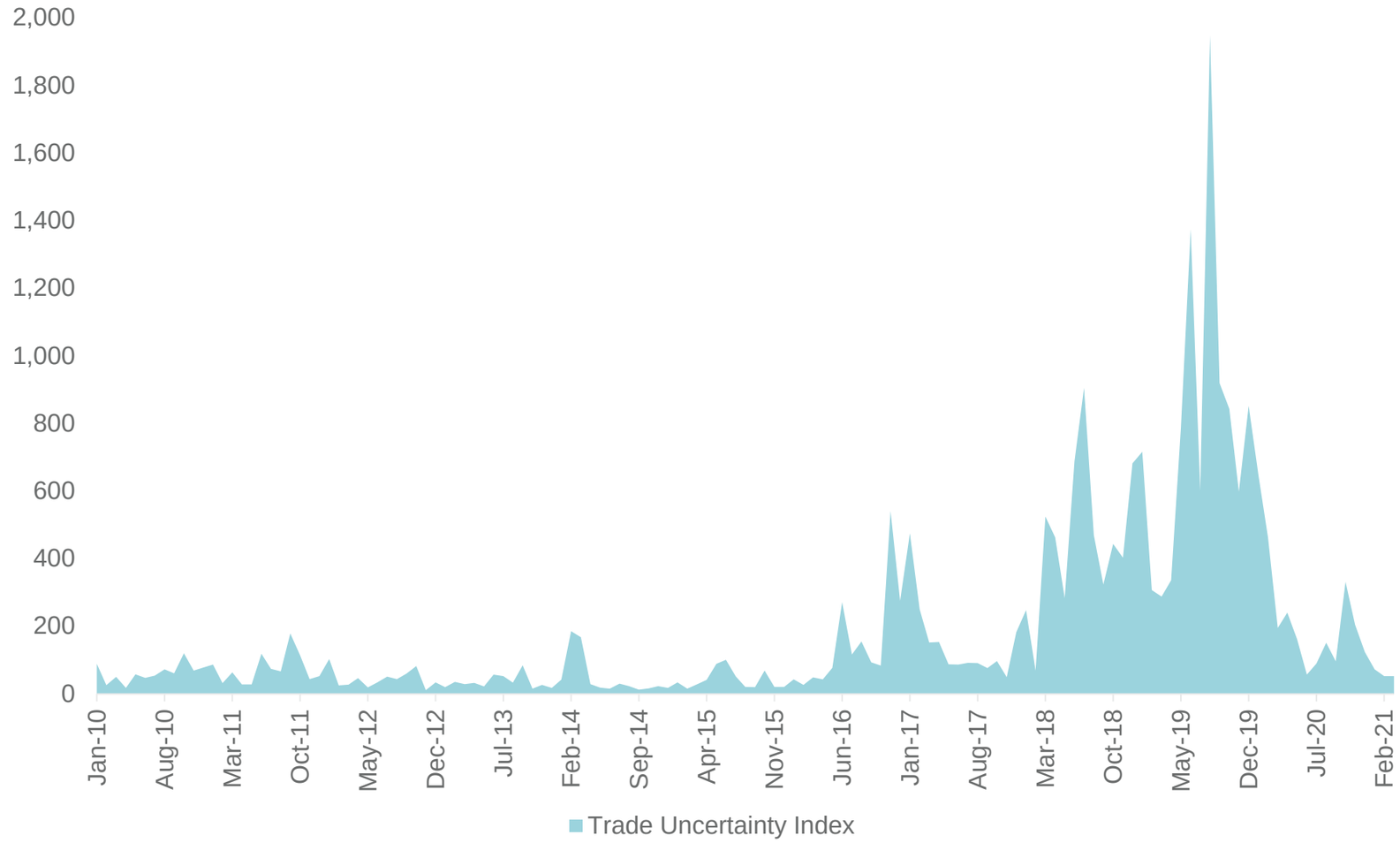
- **Executive Actions already taken include:**
  - **Rejoin Paris Agreement**
  - **Establish National Climate Advisor**
  - **Establish National Climate Task Force**
  - **Direct federal agencies to plan for climate effects**
  - **Make the U.S. an international leader on climate change**
- **The AJP also includes many provisions targeting sustainability.**

Key Points

- **The AJP proposes funding to upgrade the energy efficiency of 4 million buildings and weatherize at least 2 million homes as part of its plan.**
- **It also incentivizes investment in high-efficiency equipment to reduce the use of fossil fuels.**
- **The AJP expands R&D and clean energy tax credits, benefitting owners and select industries/ occupiers.**

Trade

Impacted by COVID-19, but few actions to date



Source: "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

First 100 Days

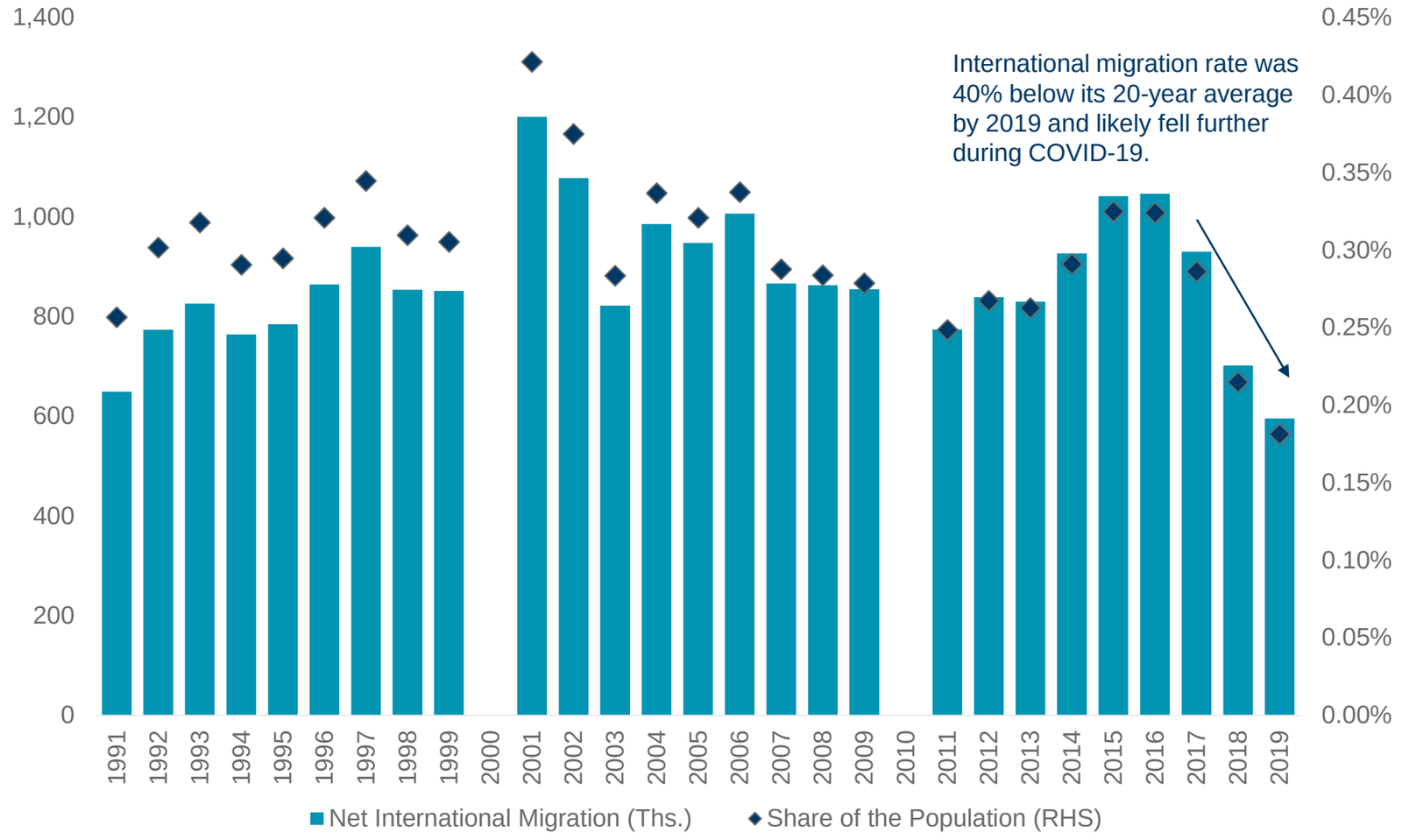
- **President Biden said that he would not reverse former President Trump's tariffs immediately and, so far, has not.**
- **These are viewed as leverage in future negotiations surrounding U.S.-Sino trade and diplomatic relationships.**
- **Trade has been significantly disrupted by COVID-19, but trade policy has been less volatile than in recent prior years.**

Key Points

- **COVID-19-related disruptions continue to challenge supply chains, creating a movement to "just-in-case" after years of focus on "just-in-time."**
- **Pending supply chain reviews that seek to bolster domestic production will benefit manufacturing and augment industrial demand as supply chains are built to support new or increased production**

Immigration

Had been declining prior to COVID-19



Source: U.S. Census Bureau

First 100 Days

- **President Biden has reversed some of the Trump Administration's policies and sent U.S. Citizenship Act to Congress on January 21, 2021.**
- **Weighing the costs and benefits of in-migration will continue to be careful balancing act for this Administration and others well into the future.**

Key Points

- **With an aging population, immigration is an increasingly important form of population and labor force growth. A growing labor force is one of the key drivers of the economy's potential and indirectly affects CRE.**
- **Immigrants start businesses at higher rates and have more children than natural-born citizens, providing economic and demographic dividends long-term.**

Immigration

Foreign-born workers are a key source of talent

In addition to comprising a large share of select occupational groups, the share of jobs that are held by foreign-born workers has been rising over time, from 15.4% in January 2007 to 17.4% as of March 2021, indicating that the labor market increasing relies on this force for growth.

Select cities also tend to rely on immigration as a source of population growth, including most U.S. gateway cities and Miami. The above chart shows that some occupations rely more on foreign-born labor.

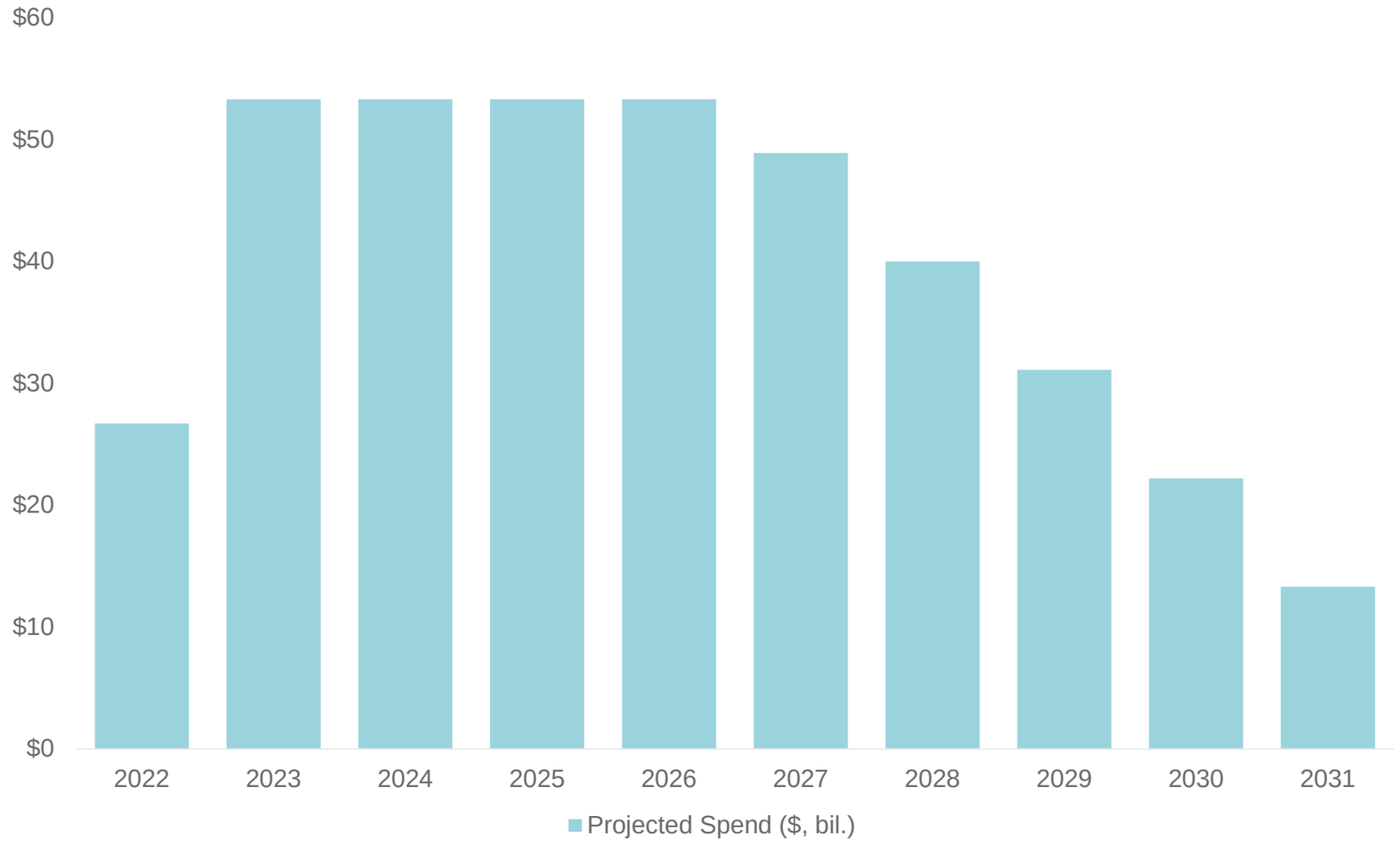
Source: Pew Research tabulations of 2015 American Community Survey

Key Points

- **Although immigration affects the economy in a myriad of ways, and therefore indirectly CRE, there are also some direct implications.**
- **Notably, the foreign-born share of workers has been rising and select occupational groups are disproportionately dependent on such workers. A good example is construction, and with a possible crunch for labor in the wake of a massive infrastructure bill, a lack of immigration could exacerbate those scarcities and push up labor costs.**
- **Occupiers who rely on employment-based visas would benefit from an expansion of the 140,000 annual limit and greater flexibility from the elimination of the per country cap.**
- **Regional exposures, and therefore possible benefits, vary. For example, only five states account for half of all H1-B visa holders. Arguably these states would be beneficiaries of an expanded quota for employment-based visas.**

Healthcare

Proposed AJP In-Home Care funding by year



Source: WhiteHouse.gov, Moody's Analytics

First 100 Days

- **The Biden Administration listed among its top priorities the intention to "build upon the Affordable Care Act."**
- **In the ARP, approximately $134B was included for various healthcare initiatives.**
- **The AJP proposes $395B for In-Home Care, to expand healthcare availability to those with disabilities and improve pay and benefits for caregivers.**

Key Points

- **If more services are delivered at home, it could negatively impact marginal demand for medical office space, senior housing or other healthcare facilities, but the impact is likely to be more than offset by strong growth in the 65+ population in coming years.**
- **Greater levels of total federal spending on healthcare (not just AJP) point to healthcare-related real estate performing well, particularly consumer proximate formats, such as medical-retail.**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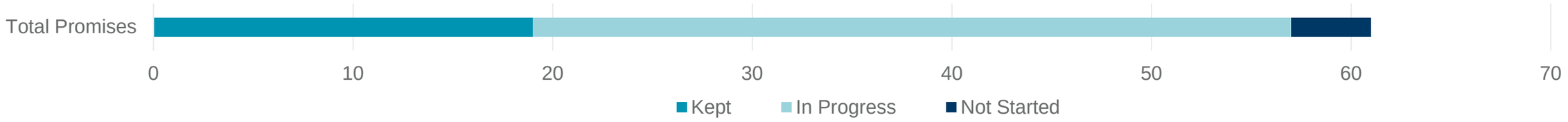
Score Card

President Biden's Campaign Promise Progress



Category	Select Highlights:	Not started / In progress / Completed
COVID-19/Health	100 mill. / 200 mill. vaccinations	● ● ●
COVID-19/Health	Reopen most elementary and middle schools	● ● ○
Economy	OK Pandemic relief	● ● ●
Economy	Review U.S. supply chain for vulnerabilities in key sectors	● ● ●
Economy	Increase corporate tax rate	● ● ○
Economy	Strengthen "buy American" measures	● ● ○
Climate	Rejoin Paris climate accord	● ● ●
Climate	Make infrastructure investments that withstand changing climate	● ● ○
Housing	Pause evictions and foreclosures	● ● ●
Immigration	Send Congress immigration bill	● ● ●

Source: Associated Press

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PRESIDENT BIDEN'S FIRST 100 DAYS

Implications for the Property Markets

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