INSTANT INSIGHT

U.S. 2020 ELECTION
IMPACT ON PROPERTY

OCTOBER 2020

THE ELECTION

On November 3, the American people go to the polls to elect a President, and their representatives to the House of Representatives and one-third of the Senate. As has been the case with much of 2020, the COVID-19 virus is already having an impact on the election process. Rather than go to polling places, an unknown but potentially large number of voters may vote by mail. This possibility has already triggered court challenges on the vote by mail process in many states and could lead to a prolonged election process and possibly widespread protests. In this report we present some risks that are emerging in this uncertain environment as well as review policy differences between the candidates and their potential impact on U.S. property markets.

RISKS

The largest threat to the financial markets, the economy and to property would be a disputed result that drags out well after Election Day, potentially sparking social unrest around the nation. The financial markets appear to have priced in the likelihood that there will be some delay due to mail-in votes, but the process could be prolonged, and the longer it stretches out, the greater risk the election result debate could create more of the kind of unrest seen across the U.S. in 2020.

The Electoral College is required to cast their votes for president and vice president on the Monday after the second Wednesday of December which is December 14 this year. That means that states have a little more than a month to count ballots and conduct recounts if necessary. If on that date, the election results are still unclear or disputed, and if the outcome cannot be decided by the Electoral College process, then according to the 12th Amendment of the U.S. Constitution, the House of Representatives elects the President and the Senate elects the Vice President. That scenario has occurred only once in U.S. history when John Quincy Adams was elected this way in 1825.

If the election is resolved quickly (two to three weeks), it will likely have no material impact beyond a few shaky weeks in the stock market. If the election of 2000 is a useful guide, during the one month “hanging chads” recount, the Dow Jones Industrial Average (DJIA) fell 4% and the U.S. 10-year Treasury yield fell by 50 bps. The DJIA returned to pre-election levels a few weeks after Al Gore conceded to George Bush.

FISCAL RELIEF BILL

It is looking increasingly unlikely that lawmakers will come to terms on an economic stimulus package before the November 3 election. Both presidential candidates are in support of another fiscal stimulus package early in their presidency. Both have endorsed plans providing stimulus in excess of $1.5 trillion. The markets appear to be pricing in a Democratic win in November that could result in larger fiscal stimulus in 2021. Ultimately, the results of the Congressional elections will play a role in the size of stimulus, since Congress is responsible for spending and tax policy. Senate Republicans have demonstrated less desire to go beyond a $1 trillion than President Trump. If the Chambers remain split—Republicans in the Senate and Democrats in the House—then it is possible that a stimulus package will be pushed until the lame duck session is over. A lot of “what if” scenarios can be constructed around possible election outcomes.

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TAX POLICY

Former Vice President Biden's tax proposals are, in large part, a return to the tax regime that existed in the Obama years: higher taxation than current policy, particularly on higher income earners and corporations, along with more federal spending.

The Trump campaign proposes making permanent the individual tax provisions in the Tax Cuts and Jobs Act passed in 2017, some of which are scheduled to expire in 2025. There is also a proposal, with no specific details, to implement a 10% tax cut for middle income taxpayers.

TRADE POLICY

Former Vice President Biden opposes the trade war with China and calls the tariffs "self-defeating." A Biden win would likely lead to a return to the international/multinational framework approach, revisiting the Asia Pacific trade deal called the the Trans-Pacific Partnership and ultimately lowering tariffs.

The Trump Administration would likely continue the bilateral approach, focusing on the trade deficit, and applying tariffs on countries where the trade balance is viewed as being uneven.

DEBT

The national debt has been growing rapidly and debt accumulation has been accelerated by the pandemic. Regardless of the election, over the near-term, the size of the national debt is likely to increase.

According to the Committee for a Responsible Budget, President Donald Trump's campaign plan would increase the national debt by $4.95 trillion over 10 years and former Vice President Biden's plan would increase the debt by $5.60 trillion.

National debt would rise from 98% of nominal gross domestic product (GDP) today to 125% by 2030 under a second term of President Trump and to 128% under former Vice President Biden, compared to 109% under current law.

MONETARY POLICY/INTEREST RATES

Under all election scenarios, the Federal Reserve will remain aggressive throughout the pandemic and recovery, keeping interest rates near historic lows until labor markets approach full employment.

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REAL ESTATE POLICY

On specific real estate policy provisions, former Vice President Biden appears more open to change current policy than President Trump who is more willing to maintain the status quo.

Former Vice President Biden's campaign proposes eliminating favorable tax treatment on 1031 exchanges and reducing exemptions for passive loss rules for rental losses.

Both have expressed some support for taxing carried interest as ordinary income, but there are no formal proposals.

IMPACT ON PROPERTY

A prolonged contested election poses the biggest downside risk to the global economy and to the health of the property markets.

Assuming that scenario is avoided, it is unclear whether property will perform better under one candidate or the other and there is no statistical evidence to support one way or the other. We note that since 1979, NCREIF property index returns have averaged better than 8.5% annually under various Democratic and Republican administrations.

Rather than elections, the real estate cycle, the economy, interest rates, COVID-19, geopolitical events, and long-term growth drivers (like demographics and technological change) are the areas to focus on in determining leasing fundamentals and property values.

Longer-term, administrations have different spending priorities that will impact where growth occurs across the nation and what industries have greater growth opportunity.

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