Joe Biden, the 46th US President: Real Estate Implications

A Biden victory represents a potentially sharp departure from the current policies of the Trump administration.

Joe Biden's victory in the 59th US presidential election will likely represent a sharp departure from the current policies of the Trump administration, with an expected focus on climate/clean energy, immigration reform, broadening health care and rebuilding the US economy. This agenda is likely to be supported by higher taxes on corporations and higher income earners, and an unwinding of Trump-era deregulation.

This commentary takes a brief look at what some of the real estate implications might be based on Biden's stated policy positions prior to the election; policies directly specific to real estate are few.

Simply winning the presidential race does not ensure a candidate's policy agenda will be implemented. There are many checks and balances in the US legislative system. Policy cannot become law without the consent of both chambers of the US Congress - the House of Representatives and the Senate. Without alignment with both chambers of Congress, a president faces considerable challenges to implementing their envisioned agenda.

Although policies shift as presidents change, their impact on the business cycle and the economy is often limited.

Based on the status of election results as of 7 November, the Democrats are expected to control the White House and maintain control of the House of Representatives. Control of the Senate will remain with the Republicans. These results will be subject to legal challenges and recounts, along with runoffs of certain congressional races. But they do pose the most probable outcome at present. If these results hold, moving policy forward through normal channels will be challenging. Expect Biden to pursue his policy initiatives using other means, including a broad use of executive orders, as Trump utilized during his time in office.

History would suggest that although policies shift as presidential administrations change, their impact on the business cycle and the economy is often limited. Unless there are policy proposals that affect real estate directly, the trajectory of the business cycle is generally more influential than public policy. As a result, even if the occupant of the White House changes, we do not expect to change our general approach to real estate in the US or elsewhere. Moreover, real estate is a long-term asset class based on relatively stable income derived from relatively long-term contractual leases. Thus, any changes that might occur as a result of policy shifts will likely be at the margin.

For real estate, the trajectory of the business cycle is more influential than public policy.

As we navigate through the challenges of the COVID-19 pandemic we are mindful of short-term headwinds as we act and remain focused on our long-term secular convictions. Pricing scrutiny is heightened; thus, we are maintaining our investment disciplines. Our investment posture is to remain alert to opportunities that could be caused by market dislocation, such as being able to access assets that usually would not be available, and to recapitalize assets where risk and pricing are misaligned.

Key policy positions and potential impacts to real estate:

First and foremost, Biden will need to deal with the COVID-19 pandemic. The Trump administration has been widely criticized for its pandemic response. Biden has indicated he would place more reliance on science and public health professionals in deciding his course of action, step up testing and improve transparency and communication. Regardless of approach, without a solid health foundation in place, pursuing other policy initiatives will be extremely difficult.

	Policy	Likely impact
Fiscal Stimulus $	▪ Expected to focus initially on an additional large fiscal stimulus package. ▪ Prior to the election lawmakers appeared headed toward a $2 trillion package and expectations are that something in this range will now quickly move forward. ▪ Further stimulus may also be used in 2021 if the economy is still struggling.	▪ Stimulus could provide a much-needed boost to a recovery that has slowed in the face of a resurgence of the COVID-19 virus. ▪ Expect the stimulus to provide further supplemental unemployment benefits, additional Paycheck Protection Program funds for small businesses and help for struggling industries and local governments. ▪ This should aid both residential and commercial tenants to remain current on rent payments.
Taxes	▪ Expected to raise taxes on higher earners and corporations to support his spending priorities. ▪ Stated that he will attempt to unwind Trump's 2017 tax cuts.	▪ Higher taxes could be a drag on both business and consumer spending, potentially slowing demand for both commercial and residential sectors. ▪ But this drag could be mitigated as the revenue raised is expected to be used to support various spending initiatives, which could provide a growth stimulus for the macro economy.
Regulation	▪ Expected to work to reimplement many of the regulations rolled back in Trump's first term, particularly those related to climate change and the environment. ▪ Likely to focus on raising the national minimum wage to $15/hour. ▪ Big banks and tech firms would likely face more scrutiny, but Biden is not explicitly calling for breaking them up.	▪ Increase in minimum wage would lift consumer spending, but could be a drag on small business growth, potentially impacting commercial space demand. ▪ Regulation of tech could potentially moderate growth in faster-growing innovation hub markets. ▪ Increased regulation of the energy sector could negatively impact energy-oriented markets, such as Houston, Denver and Pittsburgh.
Heath care	▪ Would build upon the Affordable Care Act and move to offer a public health insurance option. ▪ Also focus on reducing drug prices. ▪ Tackle market concentration among health providers.	▪ Expanding access to health care should support medical office demand broadly. ▪ Lower drug prices could impact life-science demand and reduce incentives for R&D spend; focused impact would be primarily on life-science hubs.

Key policy positions and potential impacts to real estate (continued):

	Policy	Likely impact
Trade	▪ Supports onshoring of essential industries. ▪ Will broaden and strengthen "buy America" clauses in federal contracts and procurement. ▪ Provide incentives to encourage domestic R&D spending. ▪ Supports strong global trading rules; rollback of China tariffs not certain.	▪ Onshoring focus should be a positive for industrial demand. ▪ But shifts in industrial demand could result if onshoring is significant: Moderation around West Coast ports, increase in Southern lower-cost manufacturing hubs. ▪ Onshoring of manufacturing production may be capital/ technology intensive rather than labor intensive, so this may not be a significant job generator.
Infrastructure	▪ Commitment to spending broadly on infrastructure, including on road, rail, air, ports, municipal transit systems, broadband and wireless networks. ▪ Much of Biden's infrastructure plan wraps in his commitment to generate and use clean power. His goal is to achieve a carbon pollution-free power sector by 2035.	▪ Improvements in infrastructure are a broad positive for real estate, making certain locations and assets more valuable depending on where spending occurs. ▪ Increased infrastructure spending could directly benefit infrastructure investors.
Climate	▪ Biden is committed to tackling the climate emergency, a focus that underlies many of his policies. ▪ He has stated he would rejoin the Paris agreement and reengage globally to drive climate-change legislation. ▪ Significant spend on clean energy with a drive toward net-zero emissions by 2050.	▪ A Biden win may be a net negative for traditional energy hubs (Houston) but may be a positive for tech hubs that focus of renewable energy research.
Immigration	▪ Biden is expected to be more empathetic towards immigration. ▪ Likely to rollback Trump immigration policy. ▪ Provide a roadmap for citizenship for undocumented; safeguards for Dreamers. ▪ Modernize the existing immigration process. ▪ Broader use of technology for border security and screening.	▪ Broader immigration policy should support overall labor force growth, net positive for the economy. ▪ This is more important for some sectors than others, where immigrants comprise a larger portion of the labor pool (tech, health care, construction, leisure and hospitality).
Federal Reserve	▪ Biden has stated his full support for Fed independence. ▪ Likely to retain Chairman Powell.	▪ Monetary policy is expected to remain highly accommodative for the foreseeable future. ▪ Interest rates are likely to remain low for longer, potentially putting downward pressure on real estate yields for certain in-demand sectors such as industrial and apartments.

Key policy positions and potential impacts to real estate (continued):

	Policy	Likely impact
Housing	▪ Biden recognizes the need for access to affordable, safe and healthy housing and has committed to spending \$640 billion over the next 10 years in support. ▪ Proposed up to a \$15K "First Down Payment Tax Credit" received immediately upon home purchase. ▪ Impose a new renter's tax-credit for low-income renters, designed to cap rent and utility costs at 30% of income. ▪ Establish a \$100 billion "Affordable Housing Fund" to construct and upgrade affordable housing. ▪ Develop a national strategy for tackling the homeless crisis.	▪ First-time homebuyer incentives could negatively impact rental demand. ▪ Affordable housing focus could result in development and investment opportunities in this sector. ▪ Reducing homelessness could improve the attractiveness of some urban core locations.

Other factors to monitor:

1031 like-kind exchanges	Biden has proposed eliminating the 1031 "like-kind" exchanges for real estate investors with incomes of \$400K or above to pay for spending on childcare and elderly care services. The 1031 like-kind exchange has been part of the tax code for nearly 100 years, allowing real estate investors to defer capital-gains taxes when they sell properties by directing the proceeds into new investments – deferring tax liabilities. It comprises a significant portion of the transactions market and could potentially impact overall liquidity and transaction volume if eliminated. It could also result in a flurry of transactions if investors believe the 1031 elimination is imminent.
Yields/ cap rates	Although periods of economic uncertainty typically result in near-term risk aversion by investors and the widening of cap rates, this is not a typical period. Historically low interest rates and low debt costs could result in yield/cap rate compression for those sectors and assets that have successfully navigated through the COVID period, such as industrial and apartments. In contrast, we would expect to see upward pressure on yields/cap rates for less successful sectors and assets, especially retail and some segments of office.
Capital flows	The uncertainty surrounding COVID has significantly tempered capital flows. We believe that finding a firmer health footing will be more impactful on the direction of capital flows than a change of occupant in the White House.
Occupier trends	Like capital flows, we expect occupiers will continue to postpone major leasing decisions until we have better visibility regarding a COVID vaccine. Again, near-term this will likely outweigh any uncertainty surrounding the election. Mid-term, a material increase in corporate taxes could, in time, moderate business growth and leasing.

To reiterate, real estate is a long-term asset class based on relatively stable income derived from relatively long-term contractual leases. As we work through the COVID disruption, we are mindful of short-term headwinds, but remain focused on our long-term secular convictions. The heightened economic policy uncertainty that surrounds presidential elections reinforces this approach, so any changes are really at the margin.

Our focus continues to be on real estate fundamentals: Identifying sectors, markets and assets that we believe have the potential to deliver sustainable outperformance over the long term.

Risk warnings

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realised.

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