CUSHMAN & WAKEFIELD

GLOBAL POLICY RESPONSES TO COVID-19

APRIL 2020

Jump to a region

COVID-19 is wreaking havoc on nearly every aspect of the global economy. It is clear now that what was originally a supply-side shock—and to a lesser extent an export demand shock for the global economy—has morphed into something far more pernicious. The unique nature of the pandemic, and the government actions to stem the trajectory of the outbreak, is severely impacting global manufacturing, production, and supply chains worldwide. As households hunker down, the demand side of the world economy is also experiencing broad-based headwinds. With each new data point, it becomes painfully clear, the global economy has entered a full-blown recession.

As unprecedented as the crisis is, it's being met by a wholly unprecedented global policy response. In the U.S., the Federal Reserve responded within the first weeks of March by cutting the target range of the federal funds rate to effectively 0%, and quickly escalated its financial market support throughout the month. The Fed's balance sheet has already expanded by over $1 trillion in March alone. On the fiscal policy side, the U.S. Congress and President Trump have already responded with three pieces of legislation totaling more than $2.3T, or 11% of 2019 nominal U.S. GDP. For perspective, after the start of the Great Recession in December 2007, it took the U.S. Congress 10 months to pass the Troubled Asset Relief Program (TARP) and it took the Federal Reserve 11 months to implement quantitative easing (QE). The full fiscal stimulus pumped into the economy throughout 2008, 2009 and 2010 combined totaled about 10% of 2007 nominal GDP.

In other parts of the world, the response has been equally timely and aggressive. In Germany, the combined €1T in direct stimulus and guarantees its government is providing amount to nearly 30% of GDP. In Asia Pacific, substantial "synchronized stimulus" on this scale has never been witnessed. Further, Japan is currently working on its third fiscal package valued at ¥60T—more than 10% of GDP—the largest individual fiscal package pursued, dwarfing the April 2009 stimulus deployed after the Lehman Crisis which totaled ¥56.8T. From Europe and the UK to countries throughout Asia and the Americas, central banks and governments have been called to action—and they are stepping up.

WHAT DOES ALL OF THIS MEAN FOR CRE?

- Anything that is good for the economy will ultimately be good for commercial real estate.
- Many businesses around the world will receive at least some financial relief. This will help stem the ultimate number of layoffs and limit the impact on vacancy rates across most CRE sectors; albeit, we still anticipate a rise across most, if not all sectors.
- Many households will also receive at least some financial relief and some governments have eased conditions surrounding near-term mortgage/rent payments. These resources and actions will help support consumer spending, which is critically important to the global economy, and consumer creditworthiness. This will have positive impacts on most property types in the near- and medium-term.
- Fiscal and monetary policy actions are also aimed at providing liquidity to businesses, households and financial markets. This is critically important for CRE because it mitigates the number of bankruptcies, credit stress and a prolonged period of reduced economic activity.
- Most heartening is the signal that these actions have sent to the world: governments and their central banks will do whatever it takes to get the global economy through this pandemic.

NORTH AMERICA

UNITED STATES

While the U.S. has passed three pieces of legislation, it is the third—the Coronavirus Aid, Relief and Economic Security Act (CARES Act)—that is getting the attention. Amounting to $2.2T, its key provisions are aimed at providing immediate economic relief to households and businesses large and small.

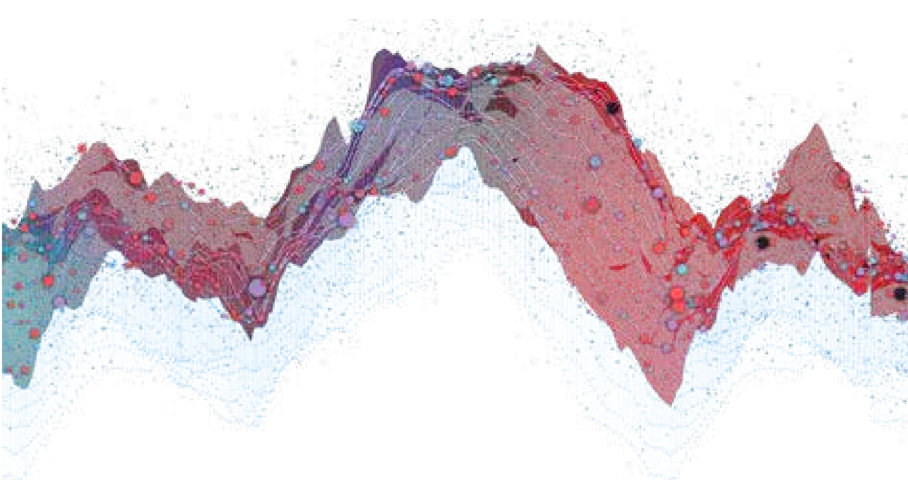
- **Small and medium enterprises (SMEs):** The Small Business Administration (SBA) is allotted $377B, $349B of which will be in the form of loan guarantees through its 7(a) program. Should these low interest rate loan funds be used to retain payroll and pay for things like rent, mortgage payments and utilities, then a portion of the loan will be forgiven (up to eight weeks of average payroll costs). Further, the legislation increased the maximum loan size for the program, waived fees and personal guarantees, and the Treasury Department and regulators are working to expedite the approval process. Lastly, program restrictions capping total business employment at 500 have been eased (to be by location and not by parent company) for the hotel and restaurant industries.
- **Larger enterprises:** The Treasury Department received $500B in funding to assist companies, state and local governments and financial markets via the Federal Reserve. Of the $500B, $29B will go to airline and cargo companies in the form of loans. Another $17B will go to companies deemed important to national security. The remaining $454B can be used for direct loans or to guarantee private loans to companies. Restrictions on these loans or guarantees include that companies cannot do stock buybacks, high-earning employees must forgo wage increases and "golden parachutes" are capped. The $454B of funding could be leveraged possibly up to 10 times in lending facilities, implying that the full impact of this aid could reach $4.5T. The Federal Reserve is working on a "Main Street Business Lending Program" in conjunction with the Treasury which is likely to rely on these funds.
- **Households:** A combined $551B will benefit households, with $250B targeted at the expansion of unemployment insurance benefits and $301B in direct checks to households. There are some restrictions on the direct checks to persons based on income thresholds.
- Other provisions include $221B in tax deferrals and tax breaks, $150B in direct state and local government aid, $117B in healthcare and veteran's care funding, $32B in grants to airline and cargo companies exclusively for payroll and $25B for public transit systems facing steep declines in ridership.
- Some of the tax changes will favor hard-hit industries and real estate:
  - Provides a technical correction to the Qualified Improvement Property (QIP) depreciation drafting error from the 2017 Tax Cuts and Jobs Act. This error resulted in a 39-year depreciation period for QIP, rather than making it eligible for immediate expensing.
  - Allows 5-year carryback of net operating losses (NOL) for non-REIT businesses for 2018, 2019 and 2020.
  - Increases the limit on deductible business interest from 30% to 50% of EBITDA for 2019 and 2020. Excludes from income the cancellation of debt related to new, emergency small business loans.

This piece of legislation follows actions to provide paid sick leave to families and COVID-19 medical funding. It also comes as the Federal Reserve pursues unlimited QE, extending its purchases of Treasuries and government-backed MBS to include government-backed CMBS. It has also relaunched or created new lending facilities aimed at providing liquidity to repo, municipal bond, corporate bond, commercial paper and money market mutual funds markets. Generally, these programs are aimed at higher-grade, asset-backed debt and/or shorter-duration parts of the market. Further, banking and housing regulators such as the FDIC, the OCC, FHFA and HUD have issued guidance providing flexibility for mortgage forbearance (on select loans) and in refinancing/restructuring loans due to COVID-19-related cash flow issues. Government backed mortgages also have a moratorium on evictions and foreclosures.

CANADA

On March 27, 2020, the Bank of Canada cut rates by 50 bps to 0.25%. The Bank of Canada had previously lowered rates twice on March 4 and March 13, by 50 bps each time. The Bank also announced two new programs to provide liquidity and support to financial markets—a Large-Scale Asset Purchase program (C$5B/week, across the yield curve) which will scale as needed until the economy fully recovers. It will also begin primary and secondary market purchases of commercial paper to support credit flow and alleviate strains in short-term funding markets. The Bank of Canada has also lowered buffer requirements for large financial institutions and broadened the scope of its bond purchase and repo programs. Additionally, in an unprecedented move, Canada's six major banks are allowing customers to delay mortgage payments by up to six months.

The Canadian government has also passed a bill with C$82B to assist families and businesses. Of that, C$55B will be used for tax deferrals and C$27B will be used as direct aid. The government is streamlining and expanding unemployment insurance programs (up to C$900 bi-weekly for 15 weeks). It also provided C$10B for a Business Credit Availability Program to be executed by the Bank of Canada, which will provide additional liquidity to the SME lending market. Additionally, the wage subsidy for SMEs was increased from 10% to 75% to help prevent further layoffs.



EUROPE

The European Commission approved two German state aid schemes in the past week. Both schemes were approved under the State aid of Temporary Framework set up to support the EU economy in the context of the COVID-19 outbreak. The European Commission clearly stated, “we are working with Member States to ensure that national support measure can be put in place as quickly and effectively as possible, in line with EU rules.” The Temporary Framework will remain in place until the end of December 2020 and is seen as a complement to other mitigatory options that have been made available. For example, Member States can make changes in favor of businesses that fall outside State Aid rules. They are also able to grant compensation to companies for damage directly caused by the virus. The Commission also approved €47.5M for 17 projects for vaccines and treatments via the EU’s Horizon 2020 research program and €37B in EU structural funds to be used to combat the effects of COVID-19.

With a myriad of countries all deploying national stimulus, the European policy response landscape is diverse but key themes are consistent. Alleviating pressure on households, businesses and the financial markets is at the forefront of the actions taken. Here is a look of some of the many actions European countries are taking:

EUROPEAN CENTAL BANK

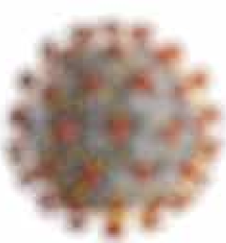
- ECB providing additional €3T in liquidity through refinancing operations at minus 0.75%.
- ECB providing additional €750B net asset purchases will be added until the end of the year, on top of the extra €120B announced on March 12, 2020. Since that commitment, the ECB provided guidance that intervention would be unlimited, if needed, even at the country level. Its purchases include sovereign debt and investment-grade corporate bonds. It expanded its program to include Greek bonds.
- ECB interest rates remain unchanged. Reinvestments of principal payments from maturing securities to continue.

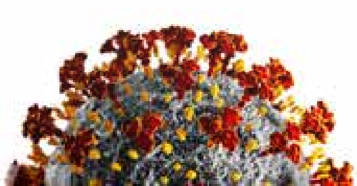
FRANCE

- Fiscal package €45B, or 2% of GDP, combined with €300B in state guarantees for loans to companies.
- Key provisions include support for healthcare insurance, spending on healthcare supplies, social security and tax deferrals for companies and unemployment or reduced-work wage benefits.
- Direct financial assistance will be provided to SMEs and independent (gig/self-employed) workers, including the delay of rent and utility payments for SMEs with COVID-19 related cash flow stress.

GERMANY

- Fiscal package worth over €1T, or 30% of GDP, making it the largest in the country’s history.
- Up to €822B in loans were being made available to companies hit by COVID-19. These will be provided via KfW, the state development bank, and will be available to all companies. €400B will be provided for loan guarantees for secured corporate debt, €100B to support business lending facility and €100B for direct equity stakes.
- Expanding its program of export credits and other guarantees to help companies in crisis.
- Pledged that companies affected by coronavirus can defer “billions of euros” in tax payments.
- €156B in additional spending, tax deferrals and aid, mainly targeting the healthcare sector, unemployment benefits, small businesses and self-employed persons.





ITALY

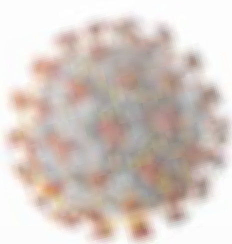
- Has started distributing funds from the fiscal rescue package of up to €25B. The main measures are to provide €1.15B for the Italian health system and €1.5B for its civil protection agency, which is in charge of organizing the country's coronavirus response.
- Expected to include one-off payments of €500 per person for the self-employed, government support for companies paying redundancy payments to their staff, a freeze on any worker layoffs, and a cash bonus for Italians still working during the lockdown.
- Also included loan guarantees for businesses hit by the crisis and a moratorium on loan and mortgage payments.
- There will also be financial support for Italian families that have children at home, and for taxi drivers and postal workers who are continuing to work providing urgent services during the outbreak.
- Injection of more funds into Alitalia to keep its struggling national airline afloat.

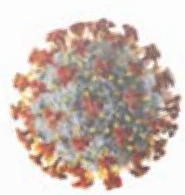
SPAIN

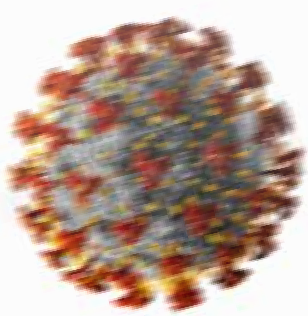
- Exemptions of social contributions by impacted companies that maintain employment under the ERTE; tax payment deferrals for small and medium enterprises and self-employed for six months (€14B).
- Additional key measures amount to about 0.7% of GDP, or €8.9B. Depending on the usage and duration of the measures the amount could be higher; these measures include:
  - » Entitlement of unemployment benefit for workers, increased sick pay for COVID-19 infected workers or those quarantined, and an allowance for self-employed workers affected by economic activity suspension.
  - » Advance transfer to the regions for the regional health services (€2.8B).
  - » Budget support from the contingency fund to the Ministry of Health (€1B) and additional funding for research related to the development of drugs and vaccines for COVID-19 (€110M).

UNITED KINGDOM

- Loosened fiscal policy by approximately 3% of GDP and provided government backing for £330B (15% of GDP) of loans to businesses.
- Provided an open-ended commitment to provide grants covering 80% of the wages of workers at risk of losing their jobs as a result of coronavirus-related disruption, up to a total of £2,500 per employee per month.
- All businesses will see their VAT payments in Q2 deferred until the end of the financial year, (temporarily) costing the exchequer £30B.
- Business rates abolished for the next year for shops, restaurants, hospitality companies, venue owners, galleries and cinemas with rateable value of up £51,000. All smaller businesses that pay no business rates will receive a £3,000 cash grant.
- Bank of England (BoE) introduced Term Funding Scheme with additional incentives for small and medium-sized enterprises.
- BoE to maintain stock of UK government bond purchases financed by issuance of £645B of central bank reserves, including £230B targeting sterling non-financial investment-grade corporate bonds.







ASIA PACIFIC

Throughout Asia Pacific, though the policy response so far has been impressive, further policy relief and stimulus still seems likely. Like other regions, the policy backdrop is changing swiftly as each country faces the pandemic. Nevertheless, substantial "synchronized stimulus" on this scale has never been witnessed.

AUSTRALIA

- Total of A$189B is being injected into the economy by all arms of government. This includes an A$66B economic stimulus package by the federal government, an initial A$17.6B economic stimulus package announced prior to that, $90B from the Reserve Bank of Australia, and A$15B from the Federal Government to deliver easier access to finance.
- Measures in the A$66.1B package include:
  - » Small and medium size (SME) businesses will receive tax free cash payments up to A$100,000 and some welfare recipients will receive another A$750.
  - » Temporarily doubling unemployment payments for workers losing jobs due to pandemic.
  - » Allowing people to access A$10,000 per annum from their retirement savings (superannuation) in 2019-20 and 2020-21.
  - » The Government will guarantee 50% of new loans issued by eligible lenders to SMEs (up to A$40B).
  - » Measures to improve retirees' access to government assistance (reduction in deeming rates).
- A further A$130 billion support package called 'JobKeeper' aims to provide a A$1,500 per fortnight wage subsidy to businesses that are significantly affected by COVID-19 and will be directed to employers to pass on to employees, if enacted. Those who lost jobs as of March 1 will be eligible.
- Reserve Bank of Australia reduced cash rate target to 0.25%, started its first QE program, buying Australian 3-year government bonds in secondary market with a target yield of 0.25%. It also will provide 3-year funding facility to support credit to SMEs.

CHINA

- Fiscal measures totaling RMB 1.7T were approved and are being implemented. Key measures included increased spending on medical supplies and equipment needed to contain and address the COVID-19 outbreak, including the production of new equipment.
- The program accelerated payments of unemployment insurance, provided tax relief and waived social security contributions.
- VAT was reduced from 3% to 1% for small businesses until the end of May and has been waived on supplies related to the outbreak.
- China has also provided forbearance to deliver relief to households, companies, and regions facing repayment difficulties. Deferrals of loan payments for SMEs and households, regulatory tolerance for higher non-performing loans, flexibility in debt refinancing/restructuring and the easing of housing policies by local governments are additional actions taken to date.
- The State Council approved 500B yuan for SMEs lending in addition to 300B yuan approved in early February. Furthermore, the State Council ordered large state-owned banks to increase lending to SMEs by at least 30% y/y in the first half of 2020. The prime rate set by the central bank for commercial lenders was cut by 25 bps to 2.5%, and regional banks offering such loans are required to stay below 50 bps above the prime rate.
- The People's Bank of China cut the interest rate it charges on loans to banks by the biggest amount since 2015, reducing the interest rate on 7-day reverse repurchase agreements to 2.2% from 2.4% when it injected 50B yuan ($7.1B) into the banking system.
- Though far less dramatic than the previous RMB 1.7T stimulus, local city level or provincial government policies in China increasingly encourage opening of retail venues and other public facilities. In this case more focused local policies are expected to have a major impact across the country as a whole. For instance, in Shanghai, companies in transportation, catering, hospitality and tourism sectors may be entitled to tax concessions, including a carryover extension on losses incurred in 2020, emergency lines of credit and more favorable terms for loans. In Hangzhou, e-vouchers are being deployed by the local government to boost consumption.

INDIA

- An Economic Task Force was established to work towards a stimulus package for significantly impacted sectors like aviation and hospitality as well as small businesses and informal sector workers. Some easing of tax compliance and deferrals for impacted sectors is also underway at the national level. A fiscal stimulus is in the works and likely to be announced going forward.
- Initial relief package of INR 1.7T largely targeting the poor after a 21-day lockdown was announced. The measures are likely to benefit around 800 million people (informal sector workers, farmers, construction workers, poor senior citizens, widows, etc.), providing them essential items and cash through direct benefit transfer. This also includes insurance coverage for healthcare workers.
- The Reserve Bank of India undertook strong monetary measures in its latest policy meeting. It announced a 75-bps reduction in the repo rate, bringing it to 4.4%, the lowest in two decades of official record-keeping of this data. An allied reduction in the reverse repo rate by 90 bps is also an indication for banks to not park funds with the RBI, but to push forward with more credit flow.
- Additionally, the Cash Reserve Ratio (CRR) was also reduced by 100 bps to 3%. With previous Open Market Operations (comprising of LT repo operations auctions plus sell/buy swaps for currency support), the RBI has now infused liquidity to the tune of 3% of GDP into the economy. It is a clear direction for banks for kick-starting the credit take-off cycle.
- The central bank also announced a 3-month moratorium on monthly payments for working capital loans without any impact on credit quality and borrower history, thus pushing to prop up industry during these unprecedented times.
- Central government to spend 150B rupees on healthcare supplies and facilities to address COVID-19 outbreaks.
- State governments have already announced wage support and other financial assistance for the informal sector workers. It is likely that the government may further announce extending loans to SMEs for working capital as well as wage support.

JAPAN

- Initial response package totaling ¥15.3B which relaxed employment adjustment subsidies to companies with China-related businesses and provided funding for emergency lending and loan guarantees via the Japan Finance Corporation to affected SMEs (providing ¥500B of liquidity).
- Second package totaling ¥430.8B support to healthcare including mass production, virus tests and prevention in key healthcare facilities. It further relaxes employment adjustment subsidies to all affected business owners and increased the subsidy rate. A COVID-19 special loan program (¥500B in liquidity) was established to provide interest-free unsecured financing to SMEs. Japan Federation of Credit Guarantee Corporations (JFG) will guarantee up to full loan amount to SMEs with declining sales/profits (application of safety net guarantee system, and credit-related guarantees). Financial support for SMEs totals ¥1.6T through the various provisions. Package supports the financing of restructuring supply chains through crisis response by Development Bank of Japan and Shoko Chukin Bank (¥204B scale).
- Additional fiscal package totaling ¥60T targeting households and businesses underway. Expected to be completed in early April and to include cash or gift voucher handouts, property tax relief and a corporate tax refund for seriously affected companies.
- Bank of Japan (BoJ) is conducting USD funds-supplying operations, lowering the loan rate by 0.25%. It has also purchased ¥1.3T of government bonds.
- BoJ introduced a new operation—the Special Funds-Supplying Operations—to facilitate lending of about ¥8T backed by corporate debts as of late February, and which will last until the end of September 2020. These are being made at a 0% interest rate for loans within a one-year maturity timeframe.
- BoJ is increasing its commercial paper and corporate bond purchases, by increasing the upper limit of the purchase program by ¥4.2T and ¥3.2T respectively, which will continue until the end of September 2020.
- BoJ is raising its ETF-purchasing target from ¥6T to a maximum of ¥12T. It is also doubling its J-REIT-purchasing target from ¥90B to a maximum of ¥180B.

SOUTH KOREA

- Fiscal package of KRW 20T targeting healthcare supplies needed to combat the COVID-19 outbreak. These include testing and prevention measures, support for treatment costs and medical facilities.
- Another fiscal package of KRW 131.7T in support of households and businesses. Households benefit from childcare subsidies, cash transfer for those in quarantine and other emergency family care support. Low-income households are receiving consumption coupons.
- KRW 58.3T will target SMEs, who will receive wage subsidies aimed at retaining workers, relaxed terms on loans, and workers who lose their jobs will be eligible for re-training.
- Measures included multiple tax deferrals or cuts including tax cuts for landlords who reduce rent for commercial tenants.
- Second supplemental budget to fund emergency disaster relief payment of up to KRW 1M (USD$816) per household, totaling except those in the top 30% by income. The package is expected to cost KRW 9.1T.
- At an emergency meeting in mid-March, the Bank of Korea cut its policy rate by 50 bps to a new low of 0.75%. It also retained a USD $60B currency swap line to address dollar funding stress. It has given guidance that it will provide unlimited liquidity over the next three months.

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FOR MORE INFORMATION

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