RESEARCH BRIEF

Marcus & Millichap
THE VARA GROUP

GOVERNMENT SHUTDOWN

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Economic Ripples from Shutdown To Minimally Affect Commercial Properties

Immediate impact on CRE limited. While the shutdown of the federal government carries implications for the economy at large, in the past, these events have had little direct impact on the day-to-day operations of commercial real estate.

- Most tenants and commercial property operators and owners **fulfill their daily operational needs** without directly interacting with the federal government.
- A notable exception would be the financial subsidies provided by the Department of Housing and Urban Development to private landlords to help low-income renters. **HUD payments could be impacted** if the shutdown lasts more than 30 days.
- From an investment sales perspective, financing is still available, **including from Freddie Mac and Fannie Mae.** This means that transactions can close.
- The suspension of numerous government agencies can **still cause ripples** that indirectly influence the commercial real estate market.

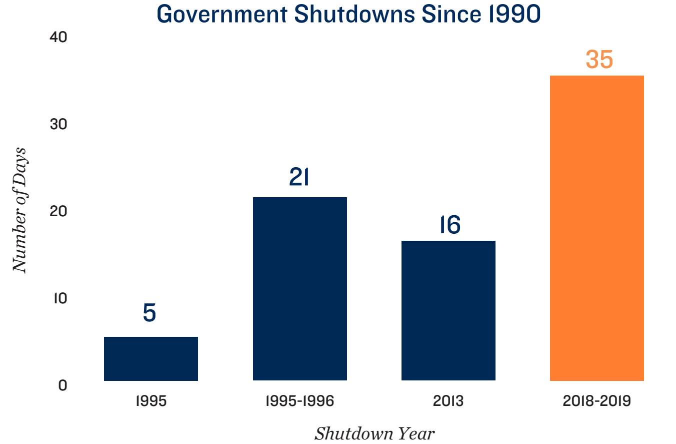
Previous closures provide important lessons. Based on prior instances, the current government shutdown could weigh on economic growth in a multitude of ways.

- It could **delay the release of important data**, such as the Bureau of Labor Statistics reports on employment and CPI. Businesses and investors rely on this information to make decisions.
- The previous government shutdown lasted **35 days**, from late 2018 into January 2019, resulting in the furlough of about **380,000** government employees and an economic impact of **$11 billion.** Roughly $8 billion of that was recaptured.
- The 2018-2019 shutdown was the longest on record, although the economic impact was mitigated by the fact that **some agencies already had funding approved.**
- In **2013**, the government fully shut down for **16 days**, resulting in the furlough of **850,000** individuals and an estimated loss of **$20 billion** to GDP in the fourth quarter of that year.

How might the current shutdown unfold? The present closure is closer in comparison to the 2013 event than the partial 2018-2019 shutdown, which has the following potential implications:

- It is estimated that between **550,000 and 750,000** government workers will be furloughed.
- Each week the government is shut down could shave between **15 and 20 basis points** off GDP growth. The longer the closure lasts, the greater the potential impact.
- It is unclear, however, if the shutdown will ultimately weigh on consumer and business confidence enough to change behavior.
- If a major government furlough is joined by **other layoffs**, it could weaken the employment outlook and weigh on consumer spending, home sales, household formation and other factors.
- It is this reaction that would have the greatest impact on commercial real estate in the short term. **The long-term impact should be minimal.**
- The Federal Reserve is also still expected to carry out monetary policy decisions even with the interruption to some data sources, leaving the possibility open for future rate cuts.

Longest U.S. Federal Government Shutdowns Since 1990



Sources: Marcus & Millichap Research Services; CME Group; Congressional Budget Office; Congressional Research Service; Federal Reserve; Moody's Analytics

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