RESEARCH BRIEF

Marcus & Millichap

DEBT CEILING AGREEMENT

JUNE 2023

Last-Minute Resolution Averts Default; Mixed Impacts for Commercial Properties

Bipartisan agreement avoids potential catastrophe. President Biden and House Speaker McCarthy reached a tentative agreement on May 27 to suspend the debt limit until January 2025. This bill, known as the Fiscal Responsibility Act of 2023, was approved by the House of Representatives on May 31, and the Senate on June 1, before going to the president for his signature. Treasury Secretary Yellen provided an estimated date of June 5, at which point reserve funds would be exhausted and the government would need to cut costs elsewhere to maintain debt service payments. Every day closer to this key date without a formal resolution expanded the potential for negative consequences. If a deal had not been officially passed in time, veterans' benefits, social welfare programs and government agencies could have been suspended or scaled back. If the impasse had lingered and the nation defaulted, it would have sent a shock through global markets, as U.S. debt is a benchmark for many financial instruments. The agreement should avert the worst-case outcomes.

Debt ceiling deal reduces the most pronounced CRE risks. If the agreement had stalled beyond June 5, the government would have begun to cut costs, straining consumer spending and household formation. Retailers, hotels and medical offices could have been impacted by a decline in spending, while a reduction in government operations and Medicare payments would also have weighed on apartment demand and senior housing. These direct risks to commercial real estate appear to have been avoided; although, as seen in prior last-minute resolutions, there may still be adverse consequences from this photo finish.

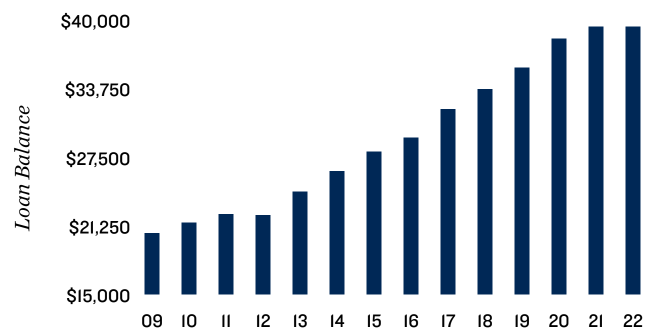
Previous close-calls still had ramifications. In 2011, lawmakers also reached a last-minute agreement, which led Standard & Poor's to downgrade the U.S. government's credit rating. That action led to a reduction in consumer confidence that lasted for several months, while the government's borrowing costs increased during that year. This year in May, Fitch placed a negative watch on the nation's credit rating. Finalizing the agreement before the critical deadline should negate the prospect of a downgrade.

Elements of the Agreement:

Expiration of student loan pause has real estate implications. One component of the Fiscal Responsibility Act agreed to by President Biden and House Speaker McCarthy is legislation that will restart federal student loan obligations in August. Repayment and interest accumulation on these loans has been paused since the early part of the pandemic, contributing to strong retail spending and household creation among borrowers. It has been estimated that the federal government holds roughly $1.6 billion in student loan debt distributed among 44 million borrowers, with an average monthly payment of around $267. The reintegration of this fixed cost into monthly budgets could reduce borrowers' spending on discretionary goods and services, impacting retailers and hotels, among other segments. Amid steep homeownership barriers both in saving for a down payment and qualifying for a mortgage, more renters could opt to stay in apartments for longer.

Environmental provisions could expedite energy projects. The Fiscal Responsibility Act also includes amendments to environmental analysis, which could reduce the amount of time it takes for new energy projects to be approved. Permitting reviews under the National Environmental Policy Act will now be limited to two years for federal projects. This could accelerate wind, solar, electric and gas production in the U.S., ultimately creating new jobs.

Average Student Loan Balance



Sources: Marcus & Millichap Research Services; Experian; Federal Reserve; Moody's Analytics