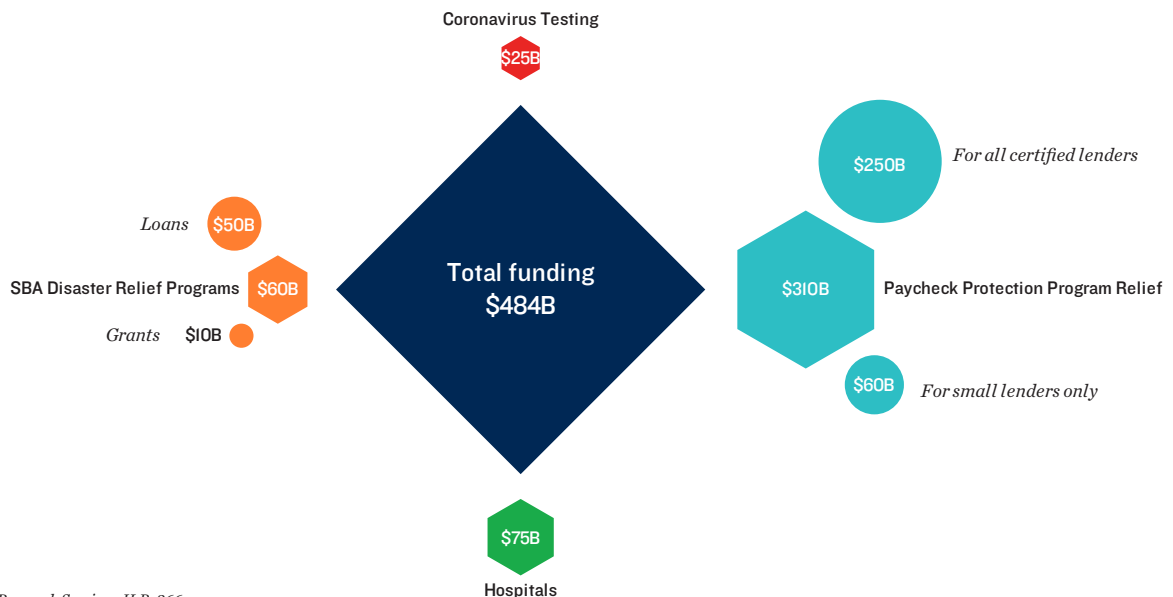


Congress Replenishes Paycheck Protection Program; Additional Small Business Aid Clearing Final Hurdles

New stimulus incoming to beleaguered small businesses. Following the passage of the \$2 trillion CARES Act in March, Congress is moving forward with an additional \$484 billion in stimulus. The main focus of the new Paycheck Protection Program (PPP) and Health Care Enhancement Act is to replenish the depleted PPP, which reached its original \$349 billion funding limit in less than two weeks. The PPP was a critical component of the CARES Act designed to help small businesses weather the current health crisis and keep employees on payroll. The new legislation will provide an additional \$310 billion to the PPP, with about \$60 billion of those funds specifically allocated to lenders with less than \$50 billion in consolidated assets. A similar amount has also been slated for the Small Business Administration's (SBA) economic injury disaster relief programs. The remaining stimulus will go toward the healthcare sector. Approximately \$75 billion will be made available to hospitals and \$25 billion will support coronavirus testing. Overall, the latest federal action aims to help reduce unemployment and provide financial resources to businesses in distress. This is also unlikely to be the last act of fiscal stimulus during this epidemic.

Dramatic demand quickly drained PPP. The \$349 billion in initial funding for the PPP was distributed to 1.6 million businesses, representing roughly 6 percent of small companies in America, over the course of 13 days. The rollout was plagued with numerous hurdles and technical issues from the start. The SBA issued interim guidance late on the night before the April 3 launch, which prevented lenders from having loan applications ready for borrowers and excluded certain businesses from applying. Many passive real estate entities who do not occupy the asset, which can include property owners and developers, are ineligible. This especially impacts the multifamily sector. Exceptions exist for certain residential properties that provide medical or health-care advisers. Even for eligible businesses, many were not able to easily apply for a loan if they did not have a pre-existing relationship with an SBA-certified lender. The sheer volume of loan applications overwhelmed many financial institutions, keeping them from taking on new customers. The next phase of funding aims to avoid this pitfall by allocating resources to small lenders. Businesses are encouraged to apply to their local institutions even though many applications remain outstanding.

New Fiscal Stimulus Provides Much-Needed Additional Aid to Businesses and Hospitals



Guidelines for PPP Loan Forgiveness

For the loan to be fully forgiven, 75 percent of funds must be used for payroll expenses, including wages, salaries, commissions, tips, and the employer cost of employee benefits. The remaining 25 percent can be used to meet other costs such as rent, utilities and mortgage interest. The employer must also use all the funds within eight weeks of receiving the loan. In addition:

- » Employers must keep workers on payroll or quickly re-hire.
- » Businesses have until June 30, 2020, to restore full-time employment and salary levels from Feb. 15, 2020.
- » Once restaffed, businesses must maintain salary levels as loan forgiveness will be reduced if full-time headcounts decrease.

Loans are backed by the federal government, require no collateral or personal guarantee, and businesses do not need to show that credit is unavailable from another source. No fees will be charged by the lenders or the government, and if any loan payments are accrued, the payments will be deferred for six months.

These guidelines provide basic parameters for loan forgiveness, but do not comprise all of the requirements. Paycheck Protection Program borrowers should consult SBA rules and documentation for complete requirements.

Payroll Protection Program Qualifications

New PPP loan guidance better protects small businesses. Additional funding will allow existing PPP loan applications to be approved and for new borrowers to apply. Employers with fewer than 500 employees will be eligible, including veterans organizations, nonprofits, tribal entities, independent contractors, sole proprietorships and self-employed people. Some businesses with more than 500 employees in select industries such as dining and hospitality may also qualify, but new SBA guidance adds restrictions. Businesses must show that they cannot obtain financing from other sources. As such, large public companies with access to capital markets are unlikely to be approved for new loans and are being encouraged to return any previously approved funds. Loans issued by the PPP feature a low interest rate and a two-year term, with no payments required for six months. Borrowers can receive loan amounts of up to two months of last year's monthly payroll cost plus an additional 25 percent of that sum, subject to a \$10 million cap. These loans are also fully forgivable. Criteria for forgiveness are designed to encourage employers to keep workers on payroll, but even so a portion of the funds can still go toward paying off other business expenses such as utilities, rent and mortgage obligations.

Loans will be available through institutions certified by the SBA. The SBA has more than 1,800 approved lenders who started taking applications April 3 for sole proprietorships and small businesses, as well as on April 10 for self-employed persons and independent contractors. All loans will have the same terms regardless of lender and employers can apply through any existing SBA 7(a) lender; participating federally insured depository institution or credit union; or Farm Credit System institution. Other lenders are also being approved by the SBA. The loans are 100 percent guaranteed by the SBA, which is waiving all guarantee fees. Businesses should keep in contact with their landlords and lenders and let them know they are applying for funds.

Borrowers need to provide the following to apply:

- Completed Paycheck Protection Program loan application.
- Proof the business was in operation on Feb. 15, 2020.
- Number of full-time equivalent employees for whom salaries and payroll taxes were paid.
- Amount of average monthly payroll costs.
- Monthly payment amount on eligible lease, mortgage and utilities.

For information on Marcus & Millichap Capital Corporation, contact:

Tony Solomon

Senior Vice President, National Director | MMCC
Tel: (310) 909-5500 | tony.solomon@marcusmillichap.com

Prepared and edited by

Cody Young

Research Analyst | Research Services

For information on national commercial real estate trends, contact:

John Chang

Senior Vice President, National Director | Research Services Division
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; Chamber of Commerce; H.R. 266; U.S. Census Bureau; U.S. Department of Labor; U.S. Small Business Administration