



Tom McGee
President & CEO

May 4, 2020

The Honorable Steven Mnuchin
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Ave. N.W.
Washington, DC 20220

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave. N.W.
Washington, DC 20551

Dear Mr. Secretary and Chairman Powell:

The International Council of Shopping Centers, on behalf of our 70,000-member network, wants to share its perspective on the April 30, 2020 release from the Federal Reserve on the Main Street Lending Program created by the CARES Act.

Shopping centers are cornerstones of every community in the United States and their viability is essential to our country's economic, social and civic recovery. In normal times, the majority of the estimated \$6.7 trillion of consumer activity generated by the retail, food & beverage, entertainment and consumer service industries occurs within America's shopping centers. Nearly 1 out of 4 U.S. jobs is retail-related and approximately \$400 billion of state and local taxes that support local communities, public safety resources and infrastructure originates from the shopping center industry.

The impact of mandatory closures on the retail real estate sector has been profound. Preliminary data show:

- \$20 billion in estimated lost rent in April, with only approximately 30% of tenants paying rent. May will be worse.
- \$8 billion in estimated lost retail sales in March. April and May will be worse.
- More than 30.3 million people have filed for unemployment in the last six weeks, many of those in our tenants' businesses, including retail stores and restaurants.
- Retail and food service sales fell by \$46.2 billion from February to March (\$28.7 billion of that was retail; \$17.5 billion was restaurants). April and May will be worse.

We know that mandatory closures of public spaces were necessary to limit the spread of COVID-19. But these important public safety measures have devastated shopping centers and the consumer-facing businesses that are our tenants. These establishments are closed and many have stopped paying contractually obligated rent. Accordingly, shopping center owners are facing mounting challenges to meet mortgage obligations.

Without significant assistance from the federal government, there is an existential risk to the shopping center industry, our tenants and their employees, retail real estate values, the financial markets and future revenue to state and local governments, which rely on property and sales taxes from retail real estate establishments.

So far, although well-intentioned, federal programs have not – and generally, will not – help. ICSC urges policymakers to consider ways to address the urgent economic needs of our sector, including revising the Main Street Lending Program and developing additional, new solutions, like a separate market relief fund for CMBS borrowers. We outline our ideas below.

Main Street Lending Program:

- On April 30, the Federal Reserve released additional term sheets and information on the Main Street Lending Program. Even with these changes, the program significantly restricts the types of potentially eligible borrowers at a time when many industries need additional support.
- ICSC is disappointed that the latest announcement indicates the program will generally follow the same eligibility rules that apply to Small Business Administration (SBA) programs like the Paycheck Protection Program (PPP), which specifically EXCLUDE owners of passive real estate. This is inconsistent with the language of the CARES Act.

We recommend the following to truly make the program viable to more of America's businesses:

- Drop the "ineligible business" rule. It is not required by the CARES Act and the Main Street Lending Program is not an SBA-administered program.
- Waive the dividend prohibition for Real Estate Investment Trusts (REITS) so that they can meet legal requirements under the Internal Revenue Code. This requirement was waived for other kinds of tax distributions in the April 30 guidance.
- Retail real estate businesses typically have much higher debt to EBITDA ratios thanks to their traditionally predictable cash flow. The Fed should consider different metrics for these businesses, as it has indicated it might do for certain other businesses (such as asset-based borrowers). These leverage constraints are extremely problematic for commercial real estate.
- While ICSC appreciates lowering the loan threshold to \$500,000 in order to assist Main Street businesses/small shop retail tenants with rent and other operating expenses, this amount remains unreasonably high for many small tenants. We recommend a minimum loan size of \$100,000.
- Allow the maximum loan size for borrowers who own buildings placed in service after January 2019 to be based on the projected stabilized net operating income to reflect the long construction and lease-up times in retail real estate.

Primary Market Corporate Credit Facility/Secondary Market Corporate Credit Facility/Commercial Paper Funding Facility:

- The PMCCF, SMCCF and CPFF facilities generally require borrowers to have publicly rated investment-grade debt. Many shopping mall and other retail real estate owners do not have those ratings, so these facilities are not available for these borrowers.

Commercial Mortgage Backed Securities (CMBS) Markets:

- ICSC urges the Treasury and the Federal Reserve to recognize the \$135.8 billion in outstanding debt underlying CMBS owed by shopping centers and other retail real estate owners and the expected increase in defaults from cessation of cash flow. In many cases, the underlying asset will return to being a productive asset once the economy reopens in full. Unfortunately, by then, the systemic damage to the CMBS market and CRE asset values broadly may already be underway. We ask for the establishment of a separate program within the Main Street Lending Facilities or another emergency lending program to support those borrowers. The program could utilize some of the funding allocated to the Treasury Department under Title IV of the CARES Act that has not yet been deployed.
- In the absence of regulatory flexibility that allows CMBS servicers and borrowers to work out potential solutions during this challenging time, we believe the market relief fund option warrants serious consideration. ICSC requests immediate action to address the looming CMBS meltdown, which will have ripple effects through communities across the nation.

In sum, our membership needs the Fed to broaden eligibility and create a robust, workable Main Street Lending Program, as well as other programs that can stabilize real estate values and the CMBS market. Failure to do so quickly sets the stage for a deep and long-lasting economic crisis in our country. Please contact me at tmcgee@icsc.com or Betsy Laird (blaird@icsc.com), Senior Vice President of Global Public Policy, for more information. Thank you for your consideration and swift action.

Sincerely,



Tom McGee
ICSC President & CEO