ICSC
Tom McGee
President & CEO

June 2, 2020

The Honorable Eric C. Rosengren
President and Chief Executive Officer
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210

Dear Mr. Rosengren:

The International Council of Shopping Centers, on behalf of our 70,000-member network, wants to share its perspective on the May 27, 2020 release from the Federal Reserve on the Main Street Lending Program created by the CARES Act, which made real estate developers and landlords ineligible for the program.

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:

- $35 billion lost rent for April and May
- $123 billion in lost sales
- 12.2 million lost jobs in retail, restaurant and other tenant categories

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 shopping center tenants. These establishments are still largely closed and many have stopped paying contractually obligated rent. From an informal survey of ICSC members, mall owners reported collecting only 22% of the total rent revenue due for the month of April and only 11% of the rent due in May. Open air centers reported better, but still disturbingly low, collections of 58% and 48%, respectively. These centers typically have grocery stores or drugstores, many deemed essential, so their doors remained open. Accordingly, shopping center owners are facing mounting challenges to meet mortgage and other financial obligations.

Without significant assistance from the federal government, there is an existential risk to the shopping center industry 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 generated by retail real estate establishments.

Despite the clear and obvious harm brought by COVID-19-related closures to the commercial real estate industry, the Federal Reserve released a Frequently Asked Questions document for the Main Street Lending Program that precludes assistance to our industry. Page 20 of the FAQ updated May 27, 2020, states that "ineligible Businesses include Businesses listed in 13 CFR 120.110(b)-(j), (m)-(s)." CFR 120.110(c) list as ineligible "Passive businesses owned by developers and landlords that do not actively use or occupy the assets acquired or improved with the loan proceeds." SBA Standard Operating Procedures 50 10 5(K) explicitly provides "shopping centers" as an example of an ineligible business.

When writing the CARES law, Congress increased the eligibility under the SBA 7(a) to ANY business concern with not more than 500 employees. We believe that the SBA erred when it limited eligibility for the Paycheck Protection Program. By adopting the PPP rules for the Main Street Lending Program, the Federal Reserve has also denied assistance for an industry that has been severely affected by the COVID-19 virus. We believe this action is inconsistent with the intent of Congress and the broad authority granted to the Federal Reserve to develop this lending program.

ICSC urges the following to truly make the program viable to more of America's businesses, especially those that need help most:

- 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.

In sum, our membership needs the Federal Reserve to broaden eligibility and create a robust, workable Main Street Lending Program. 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

Tom McGee
ICSC President & CEO