November 26, 2008

The Honorable Henry Paulson, Jr.
Secretary
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20015

Dear Secretary Paulson:

Re: Reviving the Commercial Real Estate Credit Market

We write with urgency about the crisis in credit and confidence which currently holds sway in our financial markets, and about one important, additional step which should be undertaken as a matter of national policy as soon as possible:

> *Extension of the Term Asset-Backed Securities Loan Facility to guarantee, finance or purchase highly rated, asset-backed securities collateralized by newly or recently originated commercial real estate mortgages.*

In recent months, our nation's credit market has been shaken and compromised, introducing a shocking degree of systemic risk that greatly threatens our economy. That is why significant action has been taken by Congress, the Administration and the Federal Reserve to support short-term credit, such as overnight bank loans, money market funds, and commercial paper, as well as to facilitate issuance of asset-backed securities collateralized by student loans, auto loans, credit card loans and SBA-guaranteed loans. And, that is why President-elect Obama has strongly supported these policy steps.

In recent weeks, the paralysis of credit, which began in the short-term market, has coursed through the system and it now severely affects longer-term credit, especially secured and unsecured commercial real estate loans.

We know and understand the commercial real estate market best and therefore we can shed some light on the extent of the problem in our sector. In the midst of historically moderate vacancy rates, low loan delinquency rates and an abundance of well-performing, cash-flowing properties, credit available to commercial real estate is now in exceedingly short supply. For many borrowers, it simply is not available. This is a problem that potentially will affect $6 trillion of commercial real estate, which is financed in part through over $3 trillion of debt. Jobs, small businesses, retirement savings, and local government tax revenues are all at stake.

Together, banks and the commercial mortgage-backed securities (CMBS) market represent 75% of all outstanding commercial real estate loans. Banks report an historic level of tightening of credit standards. The banking system itself appears to be contracting as it books significant losses, consolidates in the midst of turmoil, and raises capital levels to the full extent expected by shareholders, boards of directors and regulators. The CMBS market has ceased to function with respect to new loans and existing loans trade at highly excessive spreads, telegraphing systemic dysfunction.

We estimate that over $400 billion of commercial real estate mortgages will come due through the end of 2009. Right now, we believe there is insufficient systemic capacity to refinance expiring, performing commercial real estate loans. In fact, the bonds of publicly traded real estate companies now trade at a level suggesting investors do not believe that sufficient credit will be available through the system to refinance over the next several years. Without leadership by the government through significant policy action, we believe jobs will be further threatened, the banking system will face additional pressures, and the savings of countless citizens will be unnecessarily lost or severely eroded.

Many steps are needed to address this issue, but the most significant and time-critical step would be for the Federal government, through combined action of the Treasury Department and the Federal Reserve, to extend and enhance the Term Asset-Backed Securities Loan Facility announced on November 25, 2008, to highly rated (for example, AAA) commercial real estate mortgage-backed securities collateralized by newly or recently originated commercial real estate mortgages. This facility would allow for the extension of new credit as well as assist in refinancing existing, performing loans held by banks or in CMBS pools. It also would facilitate sale or hypothecation of CMBS through traditional private sector sources. A variation of this approach also should be adopted to provide liquidity to unsecured commercial real estate loans through the investment-grade, corporate bond market.

In short, we are seriously concerned that, without effective price discovery and liquidity in the highest quality segment of the commercial real estate credit market, credit likely will remain frozen. Without adequate credit availability at an appropriate price level, we believe it will remain exceedingly difficult, if not impossible, for businesses and individuals to access equity for all types of commercial real estate investment.

We do believe that such a facility is permissible under existing law governing the Federal Reserve and the TARP program; that it would not be costly to the taxpayer in the end; and that it should be instituted as soon as possible since time is truly of the essence.

We sincerely appreciate your consideration of this urgent request and we are prepared to meet with you or your representatives to discuss this issue in greater detail at the earliest opportunity.

Sincerely,

The Real Estate Roundtable
American Land Title Association
American Resort Development Association
Appraisal Institute
Building Owners and Managers Association, International
International Council of Shopping Centers
Mortgage Bankers Association
National Apartment Association
National Association of Industrial and Office Properties
National Association of Real Estate Investment Managers
National Association of Real Estate Investment Trusts
National Multi Housing Council