



June 1, 2020

TO: Anthony Portantino, Chair, Sen. Appropriations Cmte
Vice Chair and Members, Senate Judiciary Cmte

FR: California Business Properties Association
AIR Commercial Real Estate
Associated General Contractors of California
Building Owners and Managers Assn of CA
California Business Roundtable
California Bankers Assn
California Mortgage Bankers Assn
California Land Title Assn
California Builders Alliance
California Downtown Assn
California Hotel & Lodging Association
California New Car Dealers Association
California Retailers Association
California Taxpayers Association
L.A. Area Chamber of Commerce
NAIOP of California
Western Manufactured Housing Communities Assn
Western Electrical Contractors Association Inc.

International Council of Shopping Centers
Bay Area Council
Orange County Business Council
United Chamber Advocacy Network
Institute of Real Estate Management
Family Business Association of California
L.A. County Business Federation (BizFed)
Nareit
The Assn of Ca Life and Health Insurance Co
Bay Area Builders Exchange
Central Coast Builders Association
Chico Builders Association
Placer County Contractors Assn & Builders Ex.
Sacramento Regional Builders Exchange
Shasta Builders' Exchange
Valley Contractors Exchange
Ventura County Contractors Association

RE: SB 939 (Wiener) Negates Real Estate Contracts - OPPOSE
As Amended May 29, 2020 – Set in Appropriation June 8, 2020

The above-named groups regretfully oppose SB 939 (Wiener). While we agree with the author that COVID-19 economic impacts have been severe due to the State mandated shelter-in-place order, the bill forces commercial space lessors to provide rent-free space for an extended time and will create a worse long-term economic disaster resulting in a slower recovery, less revenue for cities and counties, reduced return on public employee retirement funds, and create significant cost on the state's General Fund in the current budget year.

SB 939 (Weiner) turns basic economics upside-down by mandating that all in-state commercial renters be allowed to pay no rent for an extended and indeterminate amount of time; above and beyond that the bill also creates a new special class of commercial renter giving them the right to unilaterally nullify lease contracts.

In addition to the underlying constitutional concerns discussed in Judiciary Committee, there are inevitable and lasting financial impacts that will result from the wholesale cancellation of commercial leases and rents. State and local government revenues will be further slashed, including property taxes, business license taxes, sales taxes, and income taxes.

With respect to direct state costs, the state of California owns a large portfolio of commercial buildings, which in addition to housing state employees, also includes private tenants who would be able to take advantage of SB 939 and subsequently saddle the state with potentially significant carrying costs. Additionally, our state's pension funds such as CalSTRS and CalPERS hold hundreds of millions of dollars in commercial real estate investments and such investment returns will decline with the passage of SB 939.

The notification provisions alone will cost property owners millions of dollars statewide and will directly impact the state's General Fund this budget year, as SB 939 requires all property owners to send out notifications to all tenants. This is an unusual business practice in real estate and would trigger significant cost for all entities that lease property due to the way notifications have to be delivered. This provision applies to every state property that is under lease and would be a direct cost.

We strongly believe that these direct costs are more than enough to exceed the Senate Appropriations Committee threshold of fiscal impacts for the bill to go to the Senate Appropriations Suspense File and held there.

SB 939 attempts to shift all debt and costs from commercial real estate contracts from one business to another business, or to the local/state government, depending on who owns the property. All industries and businesses are hurting due to compliance with the state's COVID-19 shelter in place orders. As an example, the California shopping center industry alone has seen:

- * \$3.5 billion in lost rent revenue (resulting in less tax revenue for communities)
- * 1.4 million lost jobs
- * \$12.2 billion in lost sales

And despite the notion that commercial real estate is all large corporations, according to the SBA nearly **41,000 real estate companies in the California Shopping Center industry alone have fewer than 20 employees.**

It must be noted that the state and federal governments have passed several programs to help business renters, while the property owners so far have not seen any direct help. This bill adds to that unfair imbalance, while creating other long-term economic problems.

The second section of SB 939 creates a new protected class of private business (bar/restaurant/place of entertainment) who get to unilaterally abrogate a currently valid lease. During normal times, these types of businesses are high risk ventures with a 60% to 80% failure rate. SB 939 uses the COVID-19 pandemic and resulting government shut-down-orders to try to change the hard realities of running these private sector dynamics. This will have far-reaching negative consequences on the State's economy and revenues.

The Senate and Assembly leadership have recently acknowledged that the state has an important role to play in helping **BOTH** tenants and property owners recover from the economic impacts of this pandemic. Unfortunately, the proposed amendments to SB 939 do not accomplish this goal and only benefit leasees at the expense of lessors.

That is why we urge the Legislature to support proposals like the Senate Democratic Caucuses renter/landlord stabilization proposal that is part of their economic recovery package. Specifically, it would provide renters with rent relief and landlords would be held harmless with tax credits equal to the amount of lost rents.

For these reasons we respectfully **OPPOSE SB 939** and urge you to send it to the **Suspense File** due to its significant **direct and indirect costs** to the State.

Rex Hime, California Business Properties Association
James V. Camp, NAIOP of California
Herb Tyson, International Council of Shopping Centers
Dave Foley, Building Owners and Managers California
Rob Lapsley, California Business Roundtable
Tim Murphy, California Builder's Alliance
Kevin Gould, California Bankers Association
Jason Bryant, California Downtown Association
Susan DeMars, California Mortgage Bankers Association
Damon Conklin, Sacramento County Building Exchange
Craig Page, California Land Title Association
Lucy Dunn, Orange County Business Council
Tim Hayes, AIR Commercial Real Estate
Kate Leyden, Chico Builders Association
Chrisie Cromeenes, Central Coast Builders Association
Daylean Atkin, Ventura County Contractors Association
Amy Rohrer, Valley Contractors Exchange
Steve McCarthy, California Retailers Association
Scott Leary, Bay Area Builders Exchange
Chad Scott, Shasta Builders Exchange
Jeff Henry, Placer County Contractors' Association
Dara Bernstein, Nareit
David Butler, UCAN
Peter Blocker, CalTax
Matt Regan, Bay Area Council
Tracy Hernandez, BizFed
Jeff Hickox, IREM
John Caldwell, California Hotel & Lodging Association
Robert Rivinius, Family Business Association of California
Chris Wysocki, Western Manufactured Housing Communities Association
Cliff Costa, CA New Car Dealers Association
Matthew Powers, The Association of California Life and Health Insurance Companies
Felipe Fuentes, Associated General Contractors of California
Maria S. Salinas, Los Angeles Area Chamber of Commerce
Richard Markuson, Western Electrical Contractors Association Inc.