

Some building owners on very thin ice

By Douglas Sams
STAFF WRITER

The financial noose is expected to tighten on some Atlanta building owners and their lenders, as rising vacancy, falling rents and declining values hit commercial real estate.

Atlanta is not alone.

The **Federal Reserve** met Aug. 11 and Aug. 12 to discuss how a struggling commercial real estate market could slow the U.S. economic recovery.

"Now that weaker housing markets and deteriorating economic conditions have, in fact, impaired the quality of [commercial real estate] loans at many banking organizations, we are monitoring carefully the effect that declining collateral values may have on [commercial real estate] exposures," Fed Governor Daniel K. Tarullo testified before the U.S. Senate on Aug. 4.

Giant property owners are defaulting on loans in other cities.

On Aug. 10, Los Angeles-based Maguire Properties Inc. returned seven office buildings to lenders.

In Atlanta, commercial real estate observers are concerned about the combination of a poor job market and rising office vacancy.

Parts of the city such as Midtown, where Daniel Corp. and Selig Enterprises Inc. are developing the 38-story 1075 Peachtree, may reach at least 25 percent vacancy next year.

Other big hurdles ahead also include the continuing decline in building values and a wave of debt maturities during the next three years.

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BYRON E. SMALL

Bank of America Plaza: Bentley-Forbes bought it at the top of the market in 2006, paying \$436 million.

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Many buildings were bought at top prices during the boom.

But commercial property values are down at least 20 percent across Atlanta. In some cases, the value of a building is less than the original loan amount.

"I am very concerned about the values of commercial properties in Atlanta and virtually everywhere," said Burt Manning, **Fulton County's** chief appraiser. "The signs may be showing there is some stability in the economy, but there are also signs, because of the lack of available financing, that commercial values will continue to decline."

The dearth of financing coincides with \$165 billion in commercial mortgages set to mature this year, said the mortgage research firm **First American Corelogic**.

"A whole bunch of people a lot smarter than me are going to face some pretty big challenges," said longtime Atlanta developer Bob Voyles. "I think we're all in for lean times."

Voyles, founder of **Seven Oaks Co.**, decided last year he would shelve plans for Riverwood 200, a 15-story office building slated to become part of a \$300 million mixed-use project near Cumberland Mall.

Voyles shifted his company's strategy to focus more on asset management and acquisitions. He is searching for investment partners to buy distressed commercial property.

Observers are closely watching the future of two signature Atlanta buildings that may struggle to stabilize future cash flow and values.

Bank of America Plaza, which rises 55 stories above the city at North Avenue

and Peachtree Street, is about 87 percent occupied with big tenants that include **Bank of America Corp.** and law firm **Troutman Sanders LLP**.

Unlike many commercial real estate owners, near-term debt maturity is not an immediate problem for the tower's owner, **BentleyForbes Group Inc.**

JPMorgan Chase & Co. originated a \$363 million loan in 2006 backed by Bank of America Plaza, according to real estate market research firm **Databank Inc.**

The loan matures in 2016.

But, the potential trouble for BentleyForbes lies in the price it paid for Bank of America Plaza and whether it can generate enough cash flow at the tower in the next few years if vacancy climbs and the poor job market weakens demand for office space.

Bank of America, which leases more than 150,000 square feet in the tower, recently scouted new office towers in Buckhead. Its lease at Bank of America Plaza expires in 2012.

BentleyForbes bought the building from Cousins Properties Inc. at the top of the market in 2006. It paid \$436 million, or about \$348 a square foot.

Fulton County now values the building at \$397 million.

Cushman & Wakefield, the firm marketing and leasing the iconic tower, said Bank of America Plaza's occupancy is outperforming the Midtown market's average of 77 percent occupancy. Strong interest from corporate tenants may push Bank of America occupancy over 90 percent.

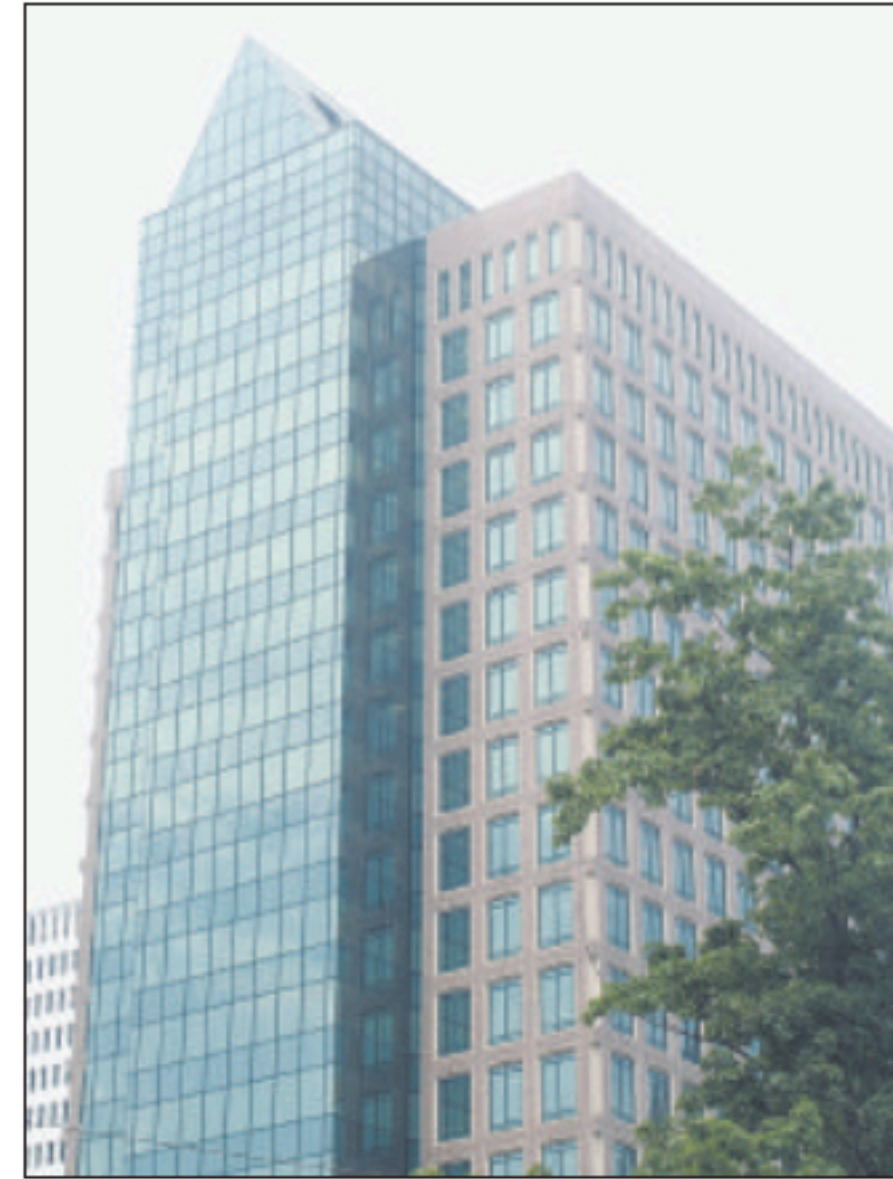
"Bank of America Plaza has positive cash flow and no major rollover for three years,"

and Peachtree Street, is about 87 percent occupied with big tenants that include **Bank of America Corp.** and law firm **Troutman Sanders LLP**.



Voyles

Seven Oaks Co.



FILE/JOANN VITELLI

Campanile: A \$98 million loan originated by Wells Fargo comes due in November 2010. The building is valued at \$93 million.

Lisa Dunavin, a senior director with Cushman & Wakefield, said in an e-mailed statement. "... The loan, which is a matter of public record, is a fixed long-term debt structure which does not mature for [at least] seven years and includes escrowed dollars for future capital costs associated with leasing."

Dunavin went on to say, "the impact of current falling market conditions to value is an issue for all investors of real estate who make acquisitions during an up-cycle whether residential or commercial. The consequences are dictated by the length of the recession and the debt structure of individual assets. As you can see ... BentleyForbes and Bank of America Plaza are better positioned than most at this point in this particular down-cycle of the commercial real estate markets."

Another Midtown tower, Campanile Plaza, also faces challenges, observers said.

Transwestern bought Campanile from AT&T Inc. in 2007 for \$98 million, or \$223 a square foot.

Transwestern faces high vacancy and near-term debt maturity.

The 20-story tower remains 75 percent vacant. A \$98 million loan originated by Wells Fargo comes due in November 2010, according to Databank.

The building is valued at \$93 million, according to Fulton County.

Transwestern says Campanile's fortunes may soon change, as the building is on the short list of up to five "high-end, high-credit tenants with very recognizable names."

"Together, those companies that have put Campanile Plaza on their short-list total 300,000 square feet, which puts us in a nice position," Transwestern spokesman Rob Stuart said.

Atlanta's distressed commercial real estate properties include the 20-story Phipps Tower, according to research firm Real Capital Analytics Inc.

Phipps Tower's development partner, Crescent Resources LLC, is reorganizing under Chapter 11 bankruptcy protection.

Three Ravinia Drive, the tallest building outside the Perimeter, was recently pulled off the market after its owners couldn't find a buyer.

The 31-story building is owned by Birmingham, Ala.-based Colonial Properties Trust (NYSE: CLP) and New York's DRA Advisors LLC.

The companies had two loans maturing this year on Three Ravinia, including a \$95 million senior note with MetLife Inc. (NYSE: MET).

Colonial and DRA recently received an extension until 2010.

Reach Sams at dsams@bizjournals.com.