



**Cloud on the Horizon: Government Debt Reduction  
and the Atlanta  
Commercial Real Estate Market**

**AN ABTV INDUSTRY WATCH REPORT**

**JULY 2011**



**ANDERSON BAUMAN TOURTELLOT VOS**

**GREENSBORO CHARLOTTE ATLANTA JACKSONVILLE RICHMOND**

**CORPORATE HEADQUARTERS**

230 North Elm St., Suite 1650 Greensboro, NC 27402 p. 336.275.9110

*[www.abtv.com](http://www.abtv.com)*

The Atlanta office market freefall has slowed, at least for the short term. While the total office space vacancy rate for the metropolitan area is 20.28% (a 20-year record, according to Richard Bowers & Co.), the rate of increase in vacancy has slowed significantly.

Ultimately, the Atlanta office market is primarily dependent upon one driving force: Jobs.

The continuation of a market-based moratorium on new office product, plus the hope that new jobs will return, result in optimism for tightening of the market. However, there is at least one area of significant exposure, the impact of which is unknown at this time.

The White House has mandated reduction of real estate-related costs to the Government, and legislation is underway that would liquidate certain owned assets and consolidate or renegotiate leased assets. According to the General Services Administration (GSA), the U.S. Government owns or leases at least 8 million square feet of office space in the Atlanta region. Consequently, the Atlanta market could see a significant impact precipitated solely by Government-related actions.

## **How the Atlanta Region Is Trending**

As the U.S. economic deterioration gained steam in 2007, the Atlanta region suffered from the convergence of two factors that exacerbated the impact of the downturn, particularly for the commercial office real estate market: an increase in the available labor force from approximately 2.5 million workers in 2004 to approximately 2.74 million in 2008 (240,000 people), and an increase in total office space from approximately 127 million square feet in 2004 to about 135 million square feet in 2010 (8 million square feet). As the overall economy fell, and the employment and office markets spiraled downward, Atlanta's employment base and office space development peaked.

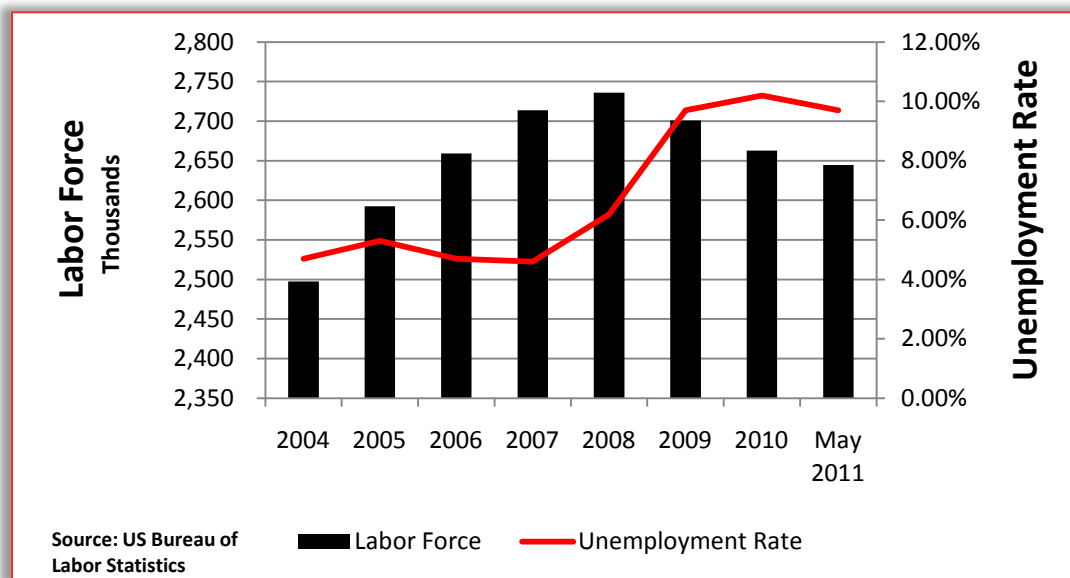


Atlanta's employment base is primarily dependent on service-related industries. When employers began contracting or shutting down completely, the number of individuals joining the ranks of the unemployed swelled. Likewise, the amount of office space that was vacated increased significantly. The numbers tell the story: at the end of 2007, unemployment for the Atlanta region was 4.7% and office vacancy was 15.5%. By the end of 2010, unemployment was 10.2% and office vacancy was 19.9%.

According to the Georgia Department of Labor, the May 2011 unemployment rate for the Atlanta region was 9.7%. The May rate is an improvement over the 2010 rate, but it reflects 2,000 service-related jobs that were lost for the month. While the office vacancy rate is still very high at 20.28%, no new product has come into the market since early 2010, so the vacant space should gradually be absorbed.

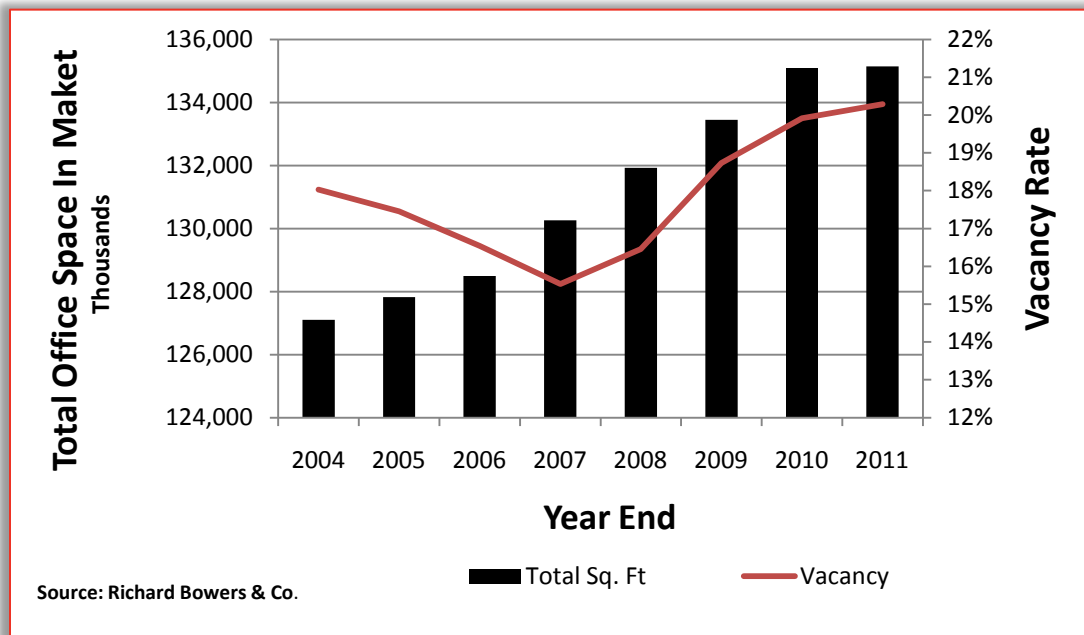
Figures 1 and 2 below indicate that vacancy and unemployment rates may be stabilizing.

**Figure 1**  
**ATLANTA REGION:**  
**LABOR FORCE & UNEMPLOYMENT RATES**  
**JANUARY 1, 2004 - MAY 31, 2011**



*While unemployment improved from May 2010 to May 2011, suggesting stabilization is occurring, the greater Atlanta region lost 2,000 jobs between April and May 2011.*

*Figure 2*  
**ATLANTA REGION:  
 SQUARE FEET OF OFFICE SPACE & VACANCY RATE**



*As the economy declined in 2007, additional office space was delivered to the Atlanta market, and vacancy rates soared.*

## Recent Activity by Submarket

The Atlanta region is generally categorized into two primary real estate submarkets: Urban and Suburban. Richard Bowers and Company further breaks down the submarkets into 16 areas as reflected in Figure 3 on the following page.



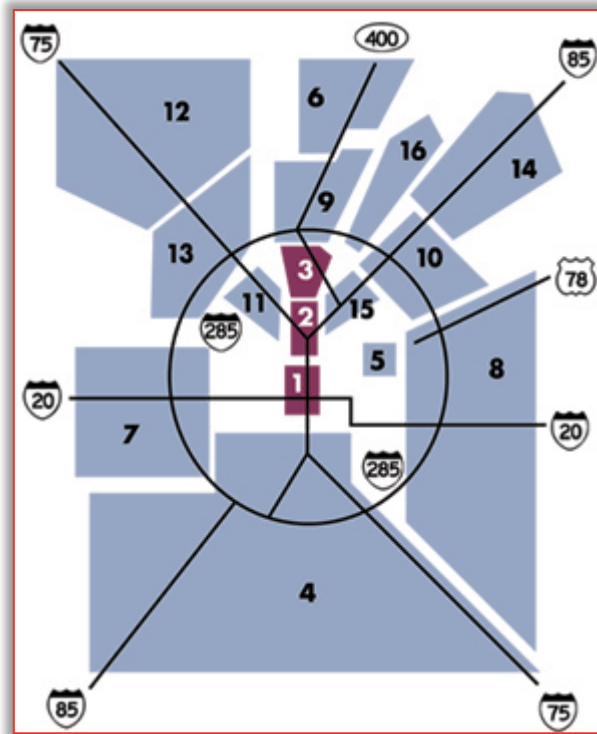
**Figure 3**  
**LOCATION MAP BY SUBMARKET FOR THE ATLANTA REGION**

**Urban Corridor Submarkets**

1. Downtown
2. Midtown
3. Buckhead/Lenox

**Suburban Submarkets**

4. Airport / South
5. Decatur
6. GA-400 North
7. I-20W/Greenbriar
8. I-285 E / Stone Mountain
9. I-285 / GA-400
10. I-285 / I-85 / Northlake
11. I-75 Corridor
12. I-75N/Marietta/Johnson Ferry
13. I-75 / I-285
14. NE Expressway-North
15. NE Expressway-South
16. Peachtree Corners



Source: Richard Bowers & Co.

Figure 4 on the following page reflects data for each of the submarkets for the first quarter 2011, during which 179,399 square feet in net negative absorption was experienced. This compares unfavorably to the 262,282 square feet in net negative absorption for the entire year of 2010.

Much of the positive absorption was through cannibalization from other markets. The Buckhead submarket lured tenants from the Downtown, Midtown and I-285/GA-400 (Perimeter Center) markets through “flight to quality” enticements—newer buildings at lower rental rates and attractive tenant improvement allowances.

In spite of the loss in occupancy, Q1 2011 average rental rates in the Downtown market generally held steady at \$21.00 per square foot, a reduction of only \$0.26 from the Q4 2010 rate of \$21.26. For the same period, the average rental rate in the Buckhead market dropped \$1.05 per foot, indicating the incentives used to gain positive absorption in Q1 2011. The remaining submarkets saw little change from the prior period.



*Figure 4*  
**ATLANTA REGION:**  
**OFFICE TOTALS BY SUBMARKET**  
**FIRST QUARTER 2011**  
**(SQ. FT. IN THOUSANDS)**

	Total Sq Ft	Vacant Sq Ft	Vacancy Rate	2011 Absorption through March	2010 Full Year Absorption	2011 Average Rental Rate	Q4 2010 Average Rental Rate
<b>Urban</b>							
Downtown	16,846	3,246	19.27%	(110)	26	\$ 21.00	\$ 21.26
Midtown	14,981	3,702	24.71%	(179)	(190)	\$ 25.72	\$ 25.64
Buckhead/Lenox	<u>15,274</u>	<u>3,872</u>	<u>25.35%</u>	<u>290</u>	<u>202</u>	\$ 25.18	\$ 26.23
<b>Urban Totals</b>	<b>47,100</b>	<b>10,820</b>	<b>22.97%</b>	<b>2</b>	<b>38</b>	<b>\$ 23.86</b>	<b>\$ 24.27</b>
<b>Suburban</b>							
Airport/South	3,240	879	27.14%	(41)	54	\$ 16.46	\$ 16.65
Decatur	1,143	221	19.33%	1	(32)	\$ 19.85	\$ 19.83
GA-400 North	15,788	2,547	16.14%	221	(27)	\$ 19.28	\$ 19.28
I-20W/Greenbriar	321	106	32.97%	(2)	(18)	\$ 13.01	\$ 13.14
I-285/GA-400	22,303	4,203	18.84%	(300)	(9)	\$ 21.71	\$ 21.87
I-285/I-85/Northlake	4,260	657	15.42%	(15)	(64)	\$ 17.29	\$ 17.21
I-285E/Stone Mtn	321	41	12.88%	0	2	\$ 13.69	\$ 13.69
I-75 Corridor	1,127	49	4.39%	0	9	\$ 21.77	\$ 21.77
I-75/I-285	18,857	3,640	19.30%	39	(207)	\$ 20.36	\$ 20.37
I-75N/Marietta/Johnson Ferry	3,170	731	23.07%	(62)	31	\$ 18.50	\$ 18.51
NE Expressway-North	4,761	1,228	25.79%	(16)	(54)	\$ 18.21	\$ 18.23
NE Expressway-South	4,663	482	10.34%	(22)	85	\$ 18.30	\$ 18.50
Peachtree Corners	<u>8,087</u>	<u>1,808</u>	<u>22.36%</u>	<u>16</u>	<u>(71)</u>	<u>\$ 16.62</u>	<u>\$ 16.68</u>
<b>Suburban Totals</b>	<b>88,040</b>	<b>16,593</b>	<b>18.85%</b>	<b>(181)</b>	<b>(300)</b>	<b>\$ 19.64</b>	<b>\$ 19.60</b>
<b>Total/Wgt. Averages</b>	<b><u>135,140</u></b>	<b><u>27,413</u></b>	<b><u>20.28%</u></b>	<b><u>(179)</u></b>	<b><u>(262)</u></b>	<b>\$ 21.05</b>	<b>\$ 21.23</b>

Source: Richard Bowers & Co.

*The absorption rate for 2011 through March was an unusually high negative 179,399 square feet.*

## What Will Become of Atlanta CRE?

The Atlanta commercial real estate (CRE) office market is largely dependent upon job creation. Because the market is significantly overbuilt (27.4 million square feet vacant), recovery will be a long process. According to Dennis Lockhart, President and Chief Executive Officer of the Federal Reserve Bank of Atlanta, recovery in the office market will lag behind other industries. However, he sees hopeful signs the nation is currently experiencing a “high quality recovery.” In his May 11, 2011, speech to the Counsel for Quality Growth in Atlanta, President Lockhart states, in part:

*...a high-quality recovery is one where major imbalances are being alleviated and economic resilience is accumulating. A high-quality recovery is sustainable, durable, and broad based. With such a recovery, the rate of unemployment should be shrinking materially.*

*By this definition, I would argue the current recovery is demonstrating clear evidence of improving quality. The recovery has been sustained now for over 22 months. Employment is now growing at a meaningful pace. There is evidence of improved economic performance across a variety of sectors—manufacturing, exports, business investment, and many components of the service economy. The savings rate is higher, and both households and business firms are deleveraging. Large corporations are cash rich, and their outlook is increasingly positive. The banking system is mending and better positioned to provide credit, the lifeblood of the economy.*

He goes on to say that, “...The recovery will progress, but it will not be robust until we work through the economy’s serious imbalances, including those in the real estate sector.”

## Government Real Estate in Atlanta: A Destabilizing Force?

According to the GSA, the U.S. Government owns or leases approximately 10.1 million square feet of office space in the state of Georgia. In the Atlanta region, approximately 4.6 million square feet is leased, and approximately 3.4 million square feet is owned, for a total of 8.0 million square feet that is controlled by the U.S. Government.

Legislation has been introduced into the U.S. House of Representatives that would form a board or commission with the mandate to significantly reduce the cost of leased and owned property to the U.S. Government. With about 2.2 million square feet in leases expiring from 2011 through 2015, and the potential for the Government to sell the owned property and lease it back at or below market rates, this legislation could have a significant impact on the office real estate market in the Atlanta region.



## The Government Mandate: Reduce Real Estate Costs

On May 25, 2011, the Civilian Property Realignment Act (the “CPRA”) passed by voice vote in the Subcommittee on Economic Development, Public Buildings, and Emergency Management. The purpose of the bill, introduced by Representative Jeff Denham (R-California), is to “...reduce the federal footprint and save taxpayers billions of dollars...” The CPRA will establish a civilian board or commission similar to the Base Realignment and Closure (“BRAC”) commission. The Bill would “...employ the use of a civilian BRAC process to address chronic management issues and waste as it relates to federal real property.”

Earlier in May 2011, the White House released a list of 14,000 excess properties, along with an interactive map that reflects the properties by location. The current map, and related list of excess properties, includes only 43 properties in the State of Georgia, five of which are within the Atlanta region. The Atlanta properties are all small structures, such as storage buildings, that are slated for demolition.

## Sell or Lease?

### Assets that Are Owned

The current list of excess Government-owned properties slated for demolition or disposal located in Georgia and Atlanta will have no impact on local real estate markets. Only if the list is expanded to include a larger quantity of office buildings would the local real estate markets be affected.

From the standpoint of investment grade office buildings, the facilities owned by the Government would, in all likelihood, achieve very high prices if they were sold in the open market. If the Government is truly seeking ways to generate revenue and reduce costs, it should strongly consider selling certain assets and leasing them back from the purchasers. Because the leasing market is weak, the Government could realize the proverbial “best of both worlds:” selling assets at high prices while signing long-term leases in those same assets at very attractive lease rates.



## Assets that Are Leased

Leased space will have a significant impact on local markets. The U.S. Government leases almost 4.7 million square feet of office space in the Atlanta region, of which more than 2.2 million square feet in leases will be expiring through the end of 2015 (see Figure 5 below). While the aggregate amount is a relatively small percentage of the total 135 million square feet of office space in the market, the impact to specific submarkets could be significant. Figure 6 on the following page reflects the annual lease expiration for each submarket.

*Figure 5*  
**ATLANTA REGION:  
ANNUAL SQUARE FOOTAGE OF EXPIRING LEASES  
FOR SPACE OCCUPIED BY THE U.S. GOVERNMENT**

Year	Square Feet	Cumulative Expiring Leases
2011	266,206	266,206
2012	820,814	1,087,020
2013	454,892	1,541,912
2014	488,961	2,030,873
2015	196,927	2,227,800
2016	130,932	2,358,732
2017	385,481	2,744,213
2018	29,529	2,773,742
2019	141,517	2,915,259
2020	176,361	3,091,620
2021	112,033	3,203,653
2022	80,007	3,283,660
2023	1,194,254	4,477,914
2024	90,245	4,568,159
2025	9,897	4,578,056
2026	61,636	4,639,692
2027		4,639,692
2028	44,932	4,684,624
<b>Total</b>	<b>4,684,624</b>	

Source: General Services Administration (GSA)

*Of the approximately 4.7 million square feet of commercial real estate leased by the U.S. Government in the Atlanta region, almost half of these leases are expiring in the next five years.*



*Figure 6*  
**ATLANTA REGION:**  
**ANNUAL SQUARE FOOTAGE OF EXPIRING LEASES, BY SUBMARKET,**  
**FOR SPACE OCCUPIED BY THE U.S. GOVERNMENT**  
*(IN THOUSANDS)*

Year	Downtown	Midtown	Airport/ South	I-285/ GA 400	I-285/ I-85/ Northlake	I-285E/ Stone Mtn	I-75/I- 285	I-75N/ Marietta/ Johnson Ferry	NE Expwy- North	NE Expwy- South	P'tree Corners	Total
2011	23		56	63	5		18			19	81	266
2012	110		28		33	22	5	19		545	60	821
2013			217		7	10	4			216		455
2014	8		68		202		33	10	19	148		489
2015	10		23					27	6	126	6	197
2016	52		47							32		131
2017	87	44				3				251		385
2018		12	5				5		7			30
2019	114		8				19					142
2020	7						30			140		176
2021			31				4			77		112
2022	80											80
2023	1,194											1,194
2024	90											90
2025							10					10
2026									62			62
2027												0
2028			45									45
<b>Total</b>	<b>1,774</b>	<b>57</b>	<b>528</b>	<b>63</b>	<b>248</b>	<b>35</b>	<b>129</b>	<b>56</b>	<b>94</b>	<b>1,555</b>	<b>146</b>	<b>4,685</b>

Source: General Services Administration (GSA)

*The three markets that could see the greatest impact as Government leases expire through 2015 are Airport/South, I-285/I-85/Northlake, and NE Expressway South.*

With a 27.14% vacancy rate at the end of Q1 2011, the Airport/South market has the highest vacancy rate in the region and is clearly suffering. Total office space is 3.2 million square feet, of which 2.3 million was occupied at the end of Q1 2011. Government leases totaling about 392,000 are expiring through 2015, representing approximately 12% of the total market and almost 17% of the currently occupied space (see Figure 7 on page 12).

The largest block of expiring space is located at 1701 Columbia Avenue in College Park. The lease is for 217,313 square feet and is due to expire in September 2013. The building houses offices of the Federal Aviation Administration and other aviation-related governmental agencies, and while it is unlikely the tenant will relocate to another market, at the very least the Government will have the ability to negotiate for highly attractive lease renewals.

The year 2014 will be a big one for Government lease expiration in the I-285/I85/Northlake market. Approximately, 202,328 square feet in one lease of office space located on Flowers Road will expire. This area could also be classified as within the NE Expressway South, so the Government should evaluate consolidating this lease with leases in that market.

The NE Expressway South market is, generally, the I-85 corridor from the split with I-75 in Midtown, north to area just south of I-285 in Chamblee. At the end of Q1 2011, this submarket had the lowest vacancy rate in the region with 10.34%. The total market has just over 4.2 million square feet, so the 1.0 million square feet in about 19 different Government leases that are expiring through 2015 is significant. These leases equate to 22.6% of the market, or 25.2% of the occupied space.

Of the 19 leases that are expiring, there is not one lease that has a large square footage amount—they are all less than 200,000 square feet. It does not appear that the agencies located in this market are required to reside in this area, so the Government could absolutely achieve efficiencies by consolidating these leases and perhaps relocating to a different area.



*Figure 7*  
**ATLANTA REGION:**  
**OFFICE BUILDINGS OWNED OR LEASED BY THE U.S. GOVERNMENT BY**  
**SUBMARKET**  
*(SQ. FT. IN THOUSANDS)*

	Q1 2011 Total Sq Ft (Note 1)	Q1 2011 Vacant Sq Ft (Note 1)	Occupied Space	U.S. Gov. Owned Bldgs (Note 2)	U.S. Gov. Leased Space (Note 2)	Total U.S. Gov. Controlled Space	Percent of U.S. Gov. Controlled Space by Submarket	Leases Expiring 2011- 2015 (Note 1)	Percent of Total Market	Percent of Occupied Space
<b>Urban</b>										
Downtown	16,846	3,246	13,600	2,442	1,774	4,216	25.0%	150	0.89%	1.10%
Midtown	14,981	3,702	11,279		57	57	0.4%			
Buckhead/Lenox	<u>15,274</u>	<u>3,872</u>	<u>11,402</u>	-	-	-	<u>0.0%</u>	0		
<b>Urban Totals</b>	<b>47,100</b>	<b>10,820</b>	<b>36,280</b>	<b>2,442</b>	<b>1,831</b>	<b>4,273</b>	<b>9.1%</b>	<b>150</b>	0.32%	0.41%
<b>Suburban</b>										
Airport/South	3,240	879	2,360		528	528	16.3%	392	12.11%	16.62%
Decatur	1,143	221	922	182		182	16.0%		0.00%	0.00%
GA-400 North	15,788	2,547	13,240		0	0	0.0%		0.00%	0.00%
I-20W/Greenbriar	321	106	215			0	0.0%		0.00%	0.00%
I-285/GA-400	22,303	4,203	18,100		63	63	0.3%	63	0.28%	0.35%
I-285/I-85/ Northlake	4,260	657	3,603	732	248	979	23.0%	248	5.81%	6.87%
I-285E/Stone Mtn	321	41	280		35	35	10.9%	32	10.07%	11.56%
I-75 Corridor	1,127	49	1,078			0	0.0%		0.00%	0.00%
I-75/I-285	18,857	3,640	15,217		129	129	0.7%	61	0.32%	0.40%
I-75N/Marietta/ Johnson Ferry	3,170	731	2,439		56	56	1.8%	56	1.78%	2.32%
NE Expwy-North	4,761	1,228	3,533		94	94	2.0%	25	0.52%	0.71%
NE Expwy-South	4,663	482	4,181		1,555	1,555	33.3%	1,054	22.61%	25.22%
Peachtree Corners	<u>8,087</u>	<u>1,808</u>	<u>6,279</u>	-	<u>146</u>	<u>146</u>	1.8%	146	1.81%	2.32%
<b>Suburban Totals</b>	<b>88,040</b>	<b>16,593</b>	<b>71,447</b>	<b>914</b>	<b>2,854</b>	<b>3,768</b>	<b>4.3%</b>	<b>2,078</b>	2.36%	2.91%
<b>Total/Wgt. Averages</b>	<b><u>135,140</u></b>	<b><u>27,413</u></b>	<b><u>107,727</u></b>	<b><u>3,356</u></b>	<b><u>4,685</u></b>	<b><u>8,041</u></b>	<b><u>5.9%</u></b>	<b><u>2,228</u></b>	1.65%	2.07%

Note 1: Source - Richard Bowers & Co.

Note 2: Source - General Service Administration (GSA)

*The U.S. Government controls a significant amount of office space in certain submarkets.*



## A Domino Effect

If the Government is truly serious about reducing costs related to real estate, it should sell a significant portion, if not all, of the owned portfolio. This would generate revenues to the Government coffers.

In conjunction with negotiating leases on the assets that are sold, the Government should also consolidate leases that are expiring in the next few years, and consolidate the space that is leased into fewer buildings. With a weak lease market, this is an opportune time to strongly negotiate for office space.

The U.S. Congress, with support from the White House, is pushing for the above cost reduction measures. Whether or not actions to implement these changes will occur is questionable, particularly since the Government's payroll continues to expand as its agencies increase.

While the above strategy will benefit the Government, it could adversely affect the office lease market, especially if the occupied space is significantly reduced or relocated between markets.

As reflected in Figure 8 on the following page, the state of Georgia contains the fifth largest amount of U.S. Government controlled real estate (by square feet) of the 56 states and territories, excluding Government-controlled space in the Washington D.C. region. The impact of the governmental mandate to Georgia, and the Atlanta region, will be one of the highest in the country. Hence, the Atlanta "domino" could be one of the first, and hardest, to fall.



**Figure 8**  
**TOTAL U.S. GOVERNMENT COMMERCIAL**  
**REAL ESTATE HOLDINGS BY STATE/TERRITORY**  
**(ORGANIZED BY AMOUNT OF SQUARE FEET BY STATE/TERRITORY)**

State/ Territory	Leased	Owned	Total	State/ Territory	Leased	Owned	Total
DC	20,929,725	30,899,847	51,829,572	NM	1,396,146	1,348,889	2,745,035
MD	15,968,078	13,281,926	29,250,004	OK	1,490,778	944,452	2,435,230
VA	24,466,847	4,528,305	28,995,152	KS	1,789,159	598,103	2,387,262
CA	11,213,104	14,342,785	25,555,889	MS	963,822	1,248,914	2,212,736
TX	10,500,936	10,843,867	21,344,803	NV	1,033,897	981,695	2,015,592
NY	5,873,355	11,009,396	16,882,751	AK	898,809	1,106,420	2,005,229
MO	6,151,310	9,609,232	15,760,542	AR	690,758	1,306,611	1,997,369
GA	6,283,277	4,539,448	10,822,725	NE	817,720	1,112,283	1,930,003
PA	5,222,960	5,490,763	10,713,723	SC	843,534	1,080,938	1,924,472
CO	4,602,553	6,017,703	10,620,256	WI	1,171,497	536,370	1,707,867
FL	6,682,829	3,816,395	10,499,224	MT	947,545	666,483	1,614,028
IL	3,839,939	5,986,015	9,825,954	PR	913,427	586,125	1,499,552
WA	2,912,346	5,425,230	8,337,576	CT	648,966	791,477	1,440,443
OH	3,127,414	4,256,082	7,383,496	IA	618,139	659,746	1,277,885
MI	3,097,081	3,040,947	6,138,028	HI	457,528	737,260	1,194,788
IN	1,848,486	4,033,348	5,881,834	VT	721,655	421,137	1,142,792
MA	1,817,026	3,890,084	5,707,110	ND	232,705	751,250	983,955
NJ	3,271,095	1,682,663	4,953,758	ID	654,635	326,989	981,624
TN	1,695,311	2,791,907	4,487,218	ME	341,549	592,456	934,005
AZ	2,305,428	1,790,370	4,095,798	SD	312,040	459,736	771,776
LA	1,785,496	2,279,141	4,064,637	NH	329,936	369,565	699,501
AL	2,704,124	1,236,062	3,940,186	RI	356,711	230,159	586,870
OR	1,503,142	2,221,328	3,724,470	WY	210,608	350,537	561,145
NC	2,404,312	1,306,809	3,711,121	DE	269,156	215,183	484,339
KY	1,880,936	1,716,118	3,597,054	VI	71,910	152,042	223,952
WV	1,782,204	1,752,752	3,534,956	GU	162,002		162,002
MN	1,069,774	1,863,666	2,933,440	MP	50,743		50,743
UT	1,507,770	1,271,016	2,778,786	AS	18,889		18,889

	Leased	Owned	Total
<b>Grand Total</b>	<b>174,861,122</b>	<b>178,498,025</b>	<b>353,359,147</b>

Source: General Services Administration (GSA)

*Excluding U.S. Government-controlled space in the Washington, DC region (DC, MD, VA), Georgia has the fifth largest amount of Government-controlled holdings by square feet of the 56 states and U.S. territories.*



## The New Reality

The budgetary and monetary policies of the United States have never been under the pressure seen today. We are simply at the end of the road of borrowing and printing to repay the debt. The dollar faces further loss of value at best and at worst may lose its status as the world's reserve currency. The Government will take all measures necessary to make sure this doesn't happen including the consolidation actions discussed above. The Government cannot continue business as usual and will be forced to take substantive actions to reduce debt, increase revenue, and cut costs. The Atlanta office market will see some impact of this cutback within the next three years. For example, if the Government reduces its footprint in metro Atlanta by 25% over the next three years, it will take 1.2 million square feet of occupied space from the market. No matter how you spin it, this will exert downward pressure on lease rates and will further depress sale prices.

## Navigating the Crisis: What Stakeholders Should Do

### Investors

Should the Government decide to sell and leaseback property, investors may have to agree to shorter terms and higher purchase prices in return for a stable stream of rents. Having a living, breathing tenant is sure to spawn competitive bidding in the sale/leaseback process.

### Owners

Owners need to be prepared for a longer haul. Weak lease rates will continue and may worsen. Vacancy rates will continue to rise until the market begins to reach equilibrium. The resulting pressure on cash flow will create a need for improved communication with Lenders and unsecured creditors. The goal needs to be a complete exchange of information between the parties. Cost reduction actions, asset sales, and adverse business events all need to be communicated to the bank.

### Lenders

Loan to value ratios will rise as property values continue to fall. Debt service coverage ratios will fall as vacancy rates increase and as existing tenants renegotiate lower rates. These pressures on portfolios will require additional capital reserves. Any further Quantitative Easing (QE) by the Government would continue to cover these requirements, but QE-3 will be a stopgap and will not prevent the eventual commitment of additional reserves on distressed assets. Lenders have few choices here, and smaller banks may be put at risk if portfolios can't be liquidated near par value. Banks need to insist upon full disclosure from CRE customers in the form of cash flow projections and periodic updates on the specific issues facing each borrower. Full information leads to better portfolio management decisions and will buy time to investigate all options regarding asset disposition.



## Tenants

Tenants provide the underlying basis for credit facilities and can benefit by negotiating smaller footprints, lower rates, and deferred rents if times get really tough. In return for these concessions, the tenant should increase communications with owners to alert them to impending crises.

## The Cloud on the Horizon

The Atlanta office market, as well as Atlanta's job market, will slowly improve, but a cloud has appeared on the horizon. If the U.S. Government implements cost-saving measures, such as selling buildings in the open market, leasing back office space, and consolidating leased space into markets that have favorable lease rates, then the Atlanta office market will be detrimentally affected.

The Government has never been under such pressure to reduce debt and will take several actions this year and next to protect the dollar and the U.S. credit standing. If the Government vacates or consolidates 25% of its occupied space, the Atlanta office market may have to wait another three to five years before the start of a recovery.

---

**This report was produced by Anderson Bauman Tourtellot Vos (ABTV), a turnaround management firm headquartered in Greensboro, NC, in collaboration with Bona Allen, a Principal with Montgomery Financial Services, specializing in financial management consulting in commercial and hospitality real estate, construction, renewable energy production, and other industries.**

**For questions or more information about this report, contact:**

**John Connor  
Principal  
Anderson Bauman Tourtellot Vos & Co.  
7620 Brigham Drive  
Dunwoody, GA 30350  
phone: 678.580.1180  
e-mail: jconnor@abtv.com**

