

Southern Discomfort: London Bear Raid On U.S. Southern Real Estate

Richard Hambro, chairman of Hambro America Inc., the U.S. branch of the leading London merchant bank, informed a reporter recently that Hambro America pulled out of its real estate holdings in the South as of two or three months ago, selling off its last shopping center complex to a company from the Far East. Perhaps Hambro America knew something about the future of the Southern real estate market that no one else did.

BANKING

During February, there was accumulating evidence that the City of London and its U.S. allies were setting the stage for a politically-motivated "bear raid" on the market. News that a group of banks led by Morgan Guaranty of New York was about to foreclose on \$80.8 million of construction loans to Omni International, a two-year old "megastructure" in downtown Atlanta in mid-February was followed by the announcement on Feb. 27 by Citizens and Southern, the largest bank in the city, of substantial write-downs of non-accruing real estate loans and of the resignation of its chairman.

These events coincided with a renewed investigation into former head of the Office of Management and Budget Bert Lance, this time by the Security and Exchange Commission for his alleged involvement in a secret takeover attempt of a Washington-based bank holding company. This latter affair leaves little doubt that the recent spotlight on three-year old troubles in the southern real estate market are part of a political attack on Carter's remaining ties to the so-called Atlanta Mafia.

Citizens and Southern announced that it would charge an additional \$15 billion against its 1977 earnings, \$10 billion for non-accruing real estate loans and \$5 billion for additional loan loss provisions—an adjustment which could result in a 1977 loss of about \$4.6 million. The bank had previously announced that it was omitting its first-quarter dividend. The write-downs of the bank's real estate loans followed an auditing of the bank's books by the Comptroller of the Currency. Various bank analysts think that Comptroller John Heimann forced the bank to take the write-downs at this time and pushed Richard Kattel into resignation. In Atlanta, the write-down of

Citizens and Southern's real estate loans were not unexpected, and viewed as the final phase of the 1973-1974 depression in the Atlanta real estate market.

Kattel's resignation was unexpected and is likely to have repercussions throughout Atlanta. The 41 year-old chairman of the bank, who is still chairman of Citizens and Southern Realty Investors, a REIT that the bank advises, had also been president of the Chamber of Commerce and was a big booster of Atlanta as a new growth center in the early 1970s. In resigning as head of Citizens and Southern, Mr. Kattel said he had "misjudged" the severity of the real estate recession several times and thus endangered the bank's "credibility."

The legal counsel for the bank is Alston, Miller, and Gaines, the law firm of Export-Import Bank Chairman John Moore, another Atlantan who has recently come under attack by Rep. Clarence Long (D-Maryland) for his aggressive stance on Exim lending.

The plight of Omni International's foreclosure is a case of pure "black propaganda." Reports in the *Wall Street Journal* and *New York Times* that Omni's loans had been foreclosed were factually incorrect, as were attempts to paint the "megastructure" as desolate. Stephen A. Brown, the president of Omni, said in an interview in mid-February that he was very surprised when Morgan Guaranty filed notice last month, because the vacancy rate and basic economics of the project have vastly improved over the last two years. Omni's loans have not been foreclosed yet, though the *Wall Street Journal* and the *New York Times* gave the impression that the project was about to be auctioned off within days. Omni is currently in discussions with its first and second mortgagees over renewing its financing. At the time of the interview Mr. Brown said that even if its present creditors were not to renew the financing, the project could obtain loans from local banks who are anxious to put out money.

The standard view is that the Southern real estate market is finally recovering from its earlier depression. A few more blows to investor confidence like those of last month, and the situation could suddenly reverse itself. With Morgan Guaranty setting the tone for the general calling in of real estate loans in the area, the Southern real estate bubble could be pricked at any time, threatening the whole U.S. economy.