Commercial RealEstate Direct

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Closure of Law School Puts Charlotte, N.C., Office Loan at Risk

The Charlotte School of Law's closure last month has increased the likelihood that the $120 million CMBS loan against Charlotte Plaza will default.

Meanwhile, Morningstar Credit Ratings has pegged the property's value at $118.4 million. So investors in the two CMBS deals that hold pieces of the loan wouldn't take too heavy a hit in the event of a default and ultimate resolution.

The school last month lost its license to operate in North Carolina, forcing it to shut its doors. It had occupied nearly 250,000 sf, or 40 percent of the 632,171-sf Charlotte Plaza office building at 201 South College St. in Charlotte, N.C.

A $70 million piece of the loan is securitized through LStar Capital Finance, 2017-5, and a $50 million piece is in LSTAR Commercial Mortgage Trust, 2016-4. The loan was put on a servicer watchlist in April, five months after the American Bar Association put the for-profit law school on a two-year probationary period because graduates bar-exam passage rates were low, among other reasons. The school subsequently lost its certification from the U.S. Department of Education, preventing its students from receiving federal loans and ultimately resulting in its shuttering.

Charlotte Plaza sits in the city's Uptown area, which, according to Reis Inc., has a 12.4 percent class-A vacancy rate. Asking rents average $30.57/sf, which compares with the $24/sf that the Charlotte school was paying.

Morningstar, in a CMBS alert, noted that the school is obligated to continue paying rent through 2026, when its lease matures, but added that it might be able to terminate its agreement. It said that if that were the case and the property's owner, a venture of Rabina Properties and JFR Global Investments, was able to re-lease its space, cash flow could increase from its current level of $10.9 million.

The school, meanwhile, had been looking to sublease a big chunk of its space.

The Rabina/JFR venture had purchased the 27-story building two years ago for $160 million from Hines Sumisei U.S. Core Fund. The venture was slated to launch a $14 million renovation, according to a report in the Charlotte Business Journal.