

Crescent files for Chapter 11 relief

The real estate meltdown brought about a stark reversal for Duke Energy's once shining developer of high-end properties.

By Bruce Henderson

khall@charlotteobserver.com

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Crescent Resources, the debt-ridden developer of some of Charlotte's marquee communities, filed for bankruptcy protection Wednesday and replaced its chief executive.

The filing marked a stunning fall in fortunes for a company that a decade ago was one of Duke Energy's most profitable subsidiaries. Crescent listed more than \$1 billion in both assets and debt in Chapter 11 petitions filed in Austin, Texas.

The company said it and 120 subsidiaries will seek protection from as many as 10,000 creditors. The 30 largest unsecured creditors are owed about \$26.3 million, according to the court documents. Bank of America is the biggest with a claim of \$13.6 million.

Crescent, known for luxury waterfront communities such as The Sanctuary on Lake Wylie, said the filing will allow it to reduce debt as it restructures its capital. A group of its existing lenders agreed to loan \$110 million to help Crescent continue to operate as it reorganizes.

Duke Energy, which owns 49 percent of Crescent in a joint venture with Morgan Stanley Real Estate Funds, was not among those lenders. Duke has taken \$263 million in losses from Crescent since last year.

Chief executive Art Fields, who had been with the company about 20 years, has retired but will work as an adviser to the company, Crescent said. Fields, who bought a 2 percent interest in the company from Duke in 2006, couldn't be reached. Andrew Hede, brought in six weeks ago to help Crescent restructure, became CEO.

Crescent's products have ranged from upscale communities to shopping centers to industrial parks. It's now developing 41 residential communities and owns 70,000 acres of raw land.

But when the real estate bubble burst in states such as Florida, Crescent faced slumping prices, slow sales and \$1.4 billion in debt.

"Crescent is no different from any other real estate companies out there, the downturn has impacted them like everyone else," Hede, the new chief executive, said in an interview. "I don't think this is something where others turned left and Crescent turned right."

Hede said he doesn't expect significant changes in Crescent's operations, and suggested that the infusion of capital will give it an edge over competitors.

Portfolio in 10 states

Local experts say it's too soon to know what impact the bankruptcy will have in the Charlotte region, but they don't expect far-reaching changes.

Crescent's diverse portfolio, spread across 10 states in the Southeast and Southwest, is diverse enough to blunt the filing's effects on neighboring properties, said real estate analyst Frank Warren of Warren & Associates.

"They do about everything, so their fingers touch just about every land use there is," Warren said. "There could be some impacts felt in all sectors. But even though they are large, I don't think their assets are concentrated enough to have a profound impact on values."

Commercial real estate, however, could get worse before it gets better, said broker John Culbertson of Charlotte's Cardinal Real Estate Partners.

"I don't think there's a boardroom in a real estate company anywhere in the country that isn't dealing with unprecedented financial pressure, and I suspect there'll be other bankruptcies," Culbertson said. "These guys were very good at what they did, and they certainly were among the best. I think it goes to show that it (bankruptcy) could happen to any real estate company."

Waiting out tough times

Chapter 11 filings give businesses protection from creditors as they reorganize. They allow businesses to retain control of their operations under the oversight of a bankruptcy court.

Under bankruptcy protection, Crescent could reject existing and pending contracts, including leases or warranties on new homes, if the court agrees it would be better for creditors. That's the option Chrysler used when terminating some of its franchises during its recent bankruptcy.

Law professor Susan Hauser said the ability to reject contracts is "one of the more useful tools" a developer has under bankruptcy protection, especially if the company wants to streamline operations.

Companies seek bankruptcy protection to wait out tough economic times, she added, something that might be helpful for a struggling real estate company in today's slow market.

"One thing bankruptcy does that's useful for a business in this situation is it creates some space, gives a little bit of time and insulation to let the business hold in place while things recover," said Hauser, an assistant law professor at N.C. Central University. "That would be my sense of what could be happening with a large real estate developer, particularly one that was able to negotiate financing from its existing lenders."

Davis Cable, executive director of the Charlotte-based Catawba Lands Conservancy, said he hopes Crescent's contract to sell 589 acres on Lake Norman to Catawba County won't be affected by the bankruptcy filing. The group helped win a state grant, also imperiled by state budget cuts, for the purchase.

Crescent looms large in the Carolinas not only as a developer but as a source of conservation land. The company has sold 65,000 acres for conservation in the past decade.

"If you had to identify a (land) portfolio of very great size and important conservation value, I would say Crescent's is unprecedented on both counts," Cable said.

Upscale developments

Duke created Crescent in 1969 to manage its surplus land along the Catawba River, transferring title to 300,000 acres. By the 1990s, Crescent had become a prominent developer. Duke sold a 49-percent share to Morgan Stanley in 2006.

For the 12 months ending last September, Crescent said it owned four of the Charlotte area's top six selling neighborhoods where home sales averaged more than \$500,000.

But the company reported a net loss of \$420 million on \$407 million in revenue last year as it liquidated properties in Arizona, Florida and Texas, three states hit hard by the real estate meltdown.

Restructuring its debt last June left it with a \$50 million payment due by the end of 2009, \$75 million in 2010 and \$100 million in 2011, with the rest of a \$1.2 billion loan due in 2012.

Rating agency Standard & Poor's lowered Crescent's corporate credit and bank loan ratings in April to noninvestment grade or "junk" status.

Hede said Crescent's business model, and assets, remain solid.

"We will continue to evolve as the market evolves," he said, "and it's obviously a changing market."

Bloomberg News and staff researcher Marion Paynter contributed.