

# THE WALL STREET JOURNAL.

© 1986 Dow Jones & Company, Inc. All Rights Reserved.

Wednesday, July 16, 1986

## Asbestos Fireproofing Hinders Sales of Some Office Buildings

By Robert Guenther

Staff Reporter of The Wall Street Journal

**A**SBESTOS IS A DIRTY WORD in the real estate business. The presence of asbestos fireproofing in many high-rise office buildings — most of them completed between 1950 and 1970 — is scaring off buyers, depressing sales prices and leaving owners confused about whether to remove the material, encapsulate it or ignore it for now.

Although it has been well known for years that asbestos fireproofing can be a health hazard when it is disturbed and particles of it are inhaled, only in the last year has the problem captured the attention of commercial real estate owners and tenants in a big way. Owner confusion over what to do stems from the fact that there is no federal standard for acceptable levels of asbestos in office buildings. Though Congress appears headed toward standard setting, what happens in the meantime is the question. As a result, even sales of buildings where tests have shown asbestos hasn't gotten into the air are being affected.

One transaction where asbestos fireproofing has become an issue involves the 15-year-old Atlantic Richfield Plaza, a 2.5 million-square-foot complex in downtown Los Angeles which is being sold by Atlantic Richfield Co., Bank of America and General Electric Co.'s RCA Corp. subsidiary. Some real estate executives say a sales agreement probably would have been signed already were it not for the asbestos issue. As in other transactions, the issue is whether the sales price should reflect the cost of asbestos removal even though monitoring hasn't detected any abnormal levels of asbestos in the building's air. By one estimate, the cost of containing or removing asbestos from the complex could knock between \$30 million and \$50 million off its \$600 million or more price tag.

**T**HOMAS LAVIN, a managing director in First Boston Corp.'s real estate arm and one of those handling the sale of Arco Plaza, says: "The asbestos issue is fairly important in determining who bids and the prices that are bid. The smarter buyers view it as a dollars-and-cents issue, while with the others it's an emotional issue."

Adds John Cushman of Cushman Realty, who represents a buyer interested in Arco Plaza: "Asbestos will be an issue — either real or perceived — in any investment decision. And I stress the word 'perceived,' because many buildings with asbestos don't require removal. But it will clearly be used as a negotiating weapon by buyers."

Integrated Resources Inc.'s recent purchase of 666 Fifth Avenue in New York from the Crown family demonstrates how asbestos can affect prices. In that building, the presence of asbestos is fairly limited. Nevertheless, Integrated got a \$20 million credit — the equivalent of about one year's net operating income — from the seller for its removal;

that credit brought the price down to \$300 million. Richard Ader, senior vice president for acquisitions at Integrated, says, "There has to be some discount (for buildings with asbestos). I can't quantify it, but these buildings are more difficult to finance."

**B**ANK OF NEW ENGLAND'S recent lawsuit against Prudential Life Insurance Co. shows just how prickly an issue asbestos can become for tenants as well as owners. The bank is a tenant in a Boston building that was owned by Prudential but has since been sold to Integrated Resources. During remodeling, the bank discovered asbestos fireproofing on the building's steel girders and floor slabs. Though the asbestos didn't pose a health risk to workers at the time, the bank wanted the material removed. Prudential agreed to it — but at the bank's expense. Maintaining that removal is the landlord's responsibility, the bank is suing Prudential for \$477,000 and Integrated Resources for \$1.5 million in connection with the removal costs. Prudential says that under the lease, the removal is clearly the tenant's expense.

Merle Atkins, an appraiser with Marshall and Stevens Inc., Philadelphia, notes that many leases are written in such a way that capital costs such as asbestos removal costs can be passed on to tenants, though few tenants realize it.

**S**EVERAL FACTORS are adding to the confusion over what to do about asbestos. One is whether encapsulation or removal of the asbestos is the best strategy. Some say it is better to cover the asbestos if it is in good condition, because disturbing it might release particles into the air. Others maintain that encapsulation merely postpones dealing with the asbestos issue until the material degrades. A further complication is the fact that cost estimates for removal vary widely — anywhere from \$10 a square foot to \$30 a square foot. Moreover, the problem of liability insurance has cut the ranks of qualified contractors, and since asbestos is regarded as a hazardous waste, disposal is difficult.

One last headache regarding asbestos lies in the fact that there are asbestos standards for industrial settings, even though none exist for office buildings. Legislation is pending in Congress that would establish acceptable levels in offices; meantime, many owners are following the standards set for brake manufacturing plants.

Until the issue is clarified, some major investors and lenders refuse to consider buildings having asbestos. Others, like Equitable Life Assurance Society's real estate arm, are tackling the issue on a case-by-case basis. Richard Dolson of Equitable says, "We haven't done that much removal, though we may do some encapsulation or enclosure of a machine room in the Bank of Boston building. We try to make the best judgment and proceed from there."

