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Bank Failure Fallout Reaches Commercial Real Estate Owners

Several REITs Face Write-Offs and Risk From Dealings With Silicon Valley Bank, Signature Bank

Signature Bank, the operator of this branch in Brooklyn, New York, leased office space in Manhattan from Empire State Realty Trust. (Getty Images)

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The financial fallout from two high-profile bank failures includes the commercial real estate industry, with property owners across the United States reporting exposure to potential losses.

At least four real estate investment trusts this week said they face risk because of their dealings with Silicon Valley Bank or its parent, SVB Financial Group: Cousins Properties, Alexandria Real Estate Equities, Paramount Group and Hudson Pacific Properties. A fifth REIT, Empire State Realty Trust, said Signature Bank is its second-largest tenant.

The REITs' exposure ranges from office leases and letters of credit to investments in high-tech companies.

Regulators closed Silicon Valley Bank on March 10 after a run on deposits from its customers, which include a large number of technology companies. Signature Bank was closed on March 12 after a wave of withdrawals from customers worried about the bank's ties to cryptocurrencies.

Cousins Properties, based in Atlanta, said it has $2 million in exposure to Silicon Valley Bank through its lease of 205,000 square feet at an office park Cousins owns in Tempe, Arizona. The Atlanta-based REIT said it will write off the net assets associated with the lease at Hayden Ferry Lakeside if the bank's holding company files for bankruptcy.

Cousins said it holds $11.7 million in letters of credit for leases at other properties issued by Silicon Valley Bank. Cousins will replace the Silicon Valley Bank-issued letters with documents from other financial institutions.

Alexandria Real Estate

Alexandria Real Estate Equities, based in Pasadena, California, reported that Silicon Valley Bank was current through March on its 32,152-square-foot lease at a Boston office it owns. The lease generated $1.7 million of annualized rent in 2022, or less than 1% of its total rental revenue. Alexandria did not disclose the specific address of the Boston property.

Alexandria has additional exposure to Silicon Valley Bank. The REIT held $108.3 million in security deposits from some office tenants that were issued as letters of credit

through the bank. Alexandria said it will replace those letters with new documents from other financial institutions.

Alexandria may also be indirectly exposed to Silicon Valley Bank's failure through its investments. The company manages a portfolio of more than $1 billion of venture capital investments in life science, agricultural technology and technology industry companies. Some of those companies "may have banking relationships or other business relationships with SVB," the REIT said in a regulatory filing issued Monday.

Silicon Valley Bank in January recognized the REIT's Alexandria Venture Investments subsidiary as the "most active corporate investor in biopharma" by new deal volume in 2021 and 2022. Silicon Valley Bank noted the award in its publication "Healthcare Investments and Exits: Annual Report 2022."

Alexandria said in the regulatory filing that it has no bank accounts or loans to or from Silicon Valley Bank.

Paramount Group, based in New York, listed Silicon Valley Bank's SVB Securities subsidiary as a "key tenant" in its property at 1301 Avenue of the Americas, along with 10 other tenants including Credit Agricole and the law firm Norton Rose Fulbright. The entire building generated $130 million in annualized rent in 2022.

Hudson Pacific Properties

Hudson Pacific Properties in Los Angeles said in a regulatory filing that some tenants and venture investments "may have banking relationships or other business relationships with SVB." It also said that 11 of its 900 tenants, covering 2% of its leased office space, have letters of credit issued by Silicon Valley Bank. It did not provide the total value of those letters of credit.

Empire State Realty Trust, based in New York, identified Signature Bank as its second-largest tenant measured by lease revenue, as of Dec. 31. The bank leased office space at two Empire State properties in New York — 1333 Broadway and 1400 Broadway. The

bank's leases covered 308,207 square feet, or 3.2% of the REIT's total rentable office portfolio, and generated $18.2 million of annualized rent in 2022.

Empire State has not provided details on its anticipated fallout from Signature Bank's failure and payment of the outstanding leases.

TMG Partners, a privately held real estate developer based in San Francisco, owns 3003 Tasman Drive in Santa Clara, California, where Silicon Valley Bank maintained its headquarters, according to CoStar data. Michael Covarrubias, chairman and CEO of TMG, did not immediately respond to a request for comment from CoStar News.

Other commercial real estate companies have also reported financial ties to the failed banks.

Sonder Holdings, a hospitality technology company, said in a regulatory filing it had $22 million in deposit and operating cash accounts at Silicon Valley Bank as of March 9 and a $60 million credit facility from the bank. Sonder has utilized $13 million from the credit facility as letters of credit.

"We continue to actively monitor the evolving situation with SVB and will take appropriate actions as needed," Sonder said in the filing.

Latch Inc., which makes electronic locks and security products for buildings, said Monday it has $3.1 million in deposits at Silicon Valley Bank, representing less than 2% of its total cash. Latch's customer base largely consists of multifamily building owners and developers.