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The Charlotte Observer

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Sales of Charlotte towers heat up

Upturn seen as sign that worst may be over for commercial real estate

By **KERRY SINGE**
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With last week's sale of NASCAR Plaza and rumored sale of an office tower at 525 N. Tryon St. later this fall, Charlotte's uptown is set to post a record year for office building sales.

By the end of the year, Charlotte's uptown office market could boast a sales volume of more than \$553 million, according to data compiled by CBRE Group Inc. and sources close to the transactions. This would beat the previous high from 2007, when roughly \$500 million in uptown

properties traded hands. The increased sales activity reflects growing optimism in Charlotte's economic prospects, increased competition for properties in larger cities, and a belief that Charlotte's commercial real estate market has truly bottomed out, experts say.

Ryan Clutter, executive vice president with the investment properties/institutional group for CBRE, said his experience shows other similarly sized cities aren't seeing the same sales activity in their downtowns.

"I think it says Charlotte continues to be very attractive for investors. It's a very strong secondary market that has proven its resiliency in the wake of the financial

INSIDE
A comparison of building sales between 2007 and 2012. **2D**

crisis," said Clutter, who has been involved in many of the deals. "It says (investors) are really bullish on the market."

The recovery remains far from complete. Bank of America Corp. continues to pare jobs, and the area's 9.1 percent unemployment rate - while lower than last year - remains higher than the national average.

Still, analysts point to this year's uptown sales as positive signs. Particularly noteworthy is the sale of NASCAR Plaza for \$100 million, a property that just two



2010 CHARLOTTE OBSERVER FILE PHOTO

The NASCAR Plaza, which sold for \$100 million, saw its fortunes change after Chiquita moved its headquarters there.



JUSTIN SULLIVAN - GETTY

Customers inspect the iPhone 5 at a San Francisco Apple Store in September. Verizon and AT&T have introduced shared data plans that allow a household to connect up to 10 devices. Shared data pricing means consumers have to pay more to use more data.

As cell plans shift, know your limits

HOLIDAY SALES ARE COOL, BUT TRACKING DATA USAGE IS KEY - ESPECIALLY AS FAMILIES INCREASINGLY SHARE IT

By **MARK DAVIS**
Kansas City Star

Working up a holiday shopping list? New cellphone, iPad Mini, Netflix subscription - check, check, check. Now don't forget the wireless plan that makes all those family gifts work on the move. Pricing has changed dramatically since last year.

Phone calls and text messages come in unlimited quantities in the latest featured deals from the big four wireless phone companies - Verizon, AT&T, Sprint and T-Mobile USA.

The competition lies in data.

"Data" means the stuff consumers increasingly gobble up as they use wireless devices to browse the Internet, download or update apps, play online games and watch videos. Consumers have gotten used to buying a data plan for each device.

Now, however, the wireless industry has split.

Sprint and T-Mobile continue to pitch their offer of unlimited data plans for cellphones and other devices such as tablets.

Verizon and AT&T have introduced shared data plans.

These allow a household to connect up to 10 devices - phones, tablets, hot-spots - to one pool of data that they share.

The key: It is a limited pool. Shared data pricing means consumers have to pay more to use more data. It's just like the traditional cellphone plans that charged more for more minutes of voice time.

Shoppers now need to know how much data they use and which of their family devices use more of it.

"I use a tremendous amount of data, so I've elected not to enter into the

shared data plan," said Sam Hayes, who is keeping his unlimited AT&T data plan on the job at G.W. Van Keppel Co., a Kansas City, Kan.-based construction equipment company. "Several of our people are in one, but I am not."

AT&T said 2 million customers turned to its Mobile Share plan in the first five weeks it was available. A third of them bought the biggest monthly pools of data AT&T is offering.

It may be those early adopters were heavy users of data-devouring features. Or they may not want to risk going over the limit; about 15 percent had unlimited plans previously.

"Most people buy more data than they need. They don't use all that data," said Steve Baker, vice president of industry analysis at NPD Group, a market research company.

At some point, they might. Shared data pricing essentially puts a meter on using wireless data. Naturally, the companies are looking for ways wireless customers can consume more data.

Verizon eyes home thermostats, security cameras and medical monitoring bracelets that could one day connect to its wireless

SEE **DATA PLANS**, 2D

Q&A

For small business, tax changes raise anxiety level

By **JOYCE M. ROSENBERG**

Associated Press

Taxes and uncertainty.

Those words sum up one of the biggest worries facing small business owners. With the scheduled expiration on Dec. 31 of tax cuts enacted during the Bush administration, many people who run small companies don't know how much they'll be paying in tax in 2013. And many say that's why they have put off plans to hire and expand.

The uncertainty is compounded by the fact that the outcome of the presidential and congressional elections is far from clear. President Barack Obama and challenger Gov. Mitt Romney have different ideas about tax policy and it's hard to say whether Congress will act to stop the cuts from taking place.

Here are some questions and answers about the tax cuts and how their expiration may affect small businesses:

Q: Which scheduled tax increases are small business owners concerned about for the tax year that ends Dec. 31, 2013?

The change that's expected to affect owners the most is an increase in personal tax rates. The top rate will rise to 39.6 percent from 35 percent. That would affect single taxpayers with income of \$200,000 or more and households with income of \$250,000 or more.

Also expiring is the 15 percent rate on dividends. They will be taxed as ordinary income, which means business owners who receive dividends from

SEE **SMALL BUSINESS**, 2D

Coming Wednesday: Expanded small-business coverage

From retail shops to small manufacturers to Web design firms, small businesses power the economy. And on Wednesday, the Observer introduces expanded coverage of local small business, with a weekly two-page package of news, profiles and tips. "ShopTalk: Your Small Business Help Center" will run every Wednesday, and we think you'll turn to it again and again to learn how local entrepreneurs have solved a problem, met a challenge or carved a unique niche. You'll also find online extras, including a small-business blog, and we'll invite you to be part of the conversation.

Our small-business reporter is Charlotte native Caroline McMillan. Reach her at cmcmillan@charlotteobserver.com or 704-358-6045. Find her on Twitter @cbcmcmillan. And watch for our expanded coverage starting Wednesday.

— JOHN ARWOOD, BUSINESS EDITOR



I feel less guilty about listening to podcasts that I'm streaming on the way home as I drive.'

BUCK SOMMERKAMP

AT&T USER WHO HAS UPGRADED TO A SHARED DATA PLAN ALLOWING FOR 6 GIGABYTES MONTHLY



JEWEL SAMAD - AFP/GETTY

A man uses his smartphone on a Washington, D.C., bus in May. Companies heavily discount new devices' upfront prices and make that money back by collecting higher monthly bills.

DATA PLANS

[from ID] network. AT&T sees connected cars in the future.

New devices sway usage

It comes as no surprise to cellphone customers that monthly bills have been getting bigger over the years.

Most of the time, consumers have been paying more because they're buying more and not because prices have been going up.

Consumers, for example, agreed to pay more when they bought more minutes to talk or added phones for the kids to the family's monthly bill — and more room for teens to send text messages.

The advent of smartphones bumped up the bill again.

Phone companies heavily discount the upfront price that consumers pay for a new device. The phone companies make that money back by collecting a higher monthly bill under the two-year contract required to get a cheap price on the new phone.

Data looks like the next source of higher cellphone bills. Sprint Nextel, for example, already adds a \$10 a month

data surcharge for smartphones but not traditional "feature" phones.

Smartphones use more data. And data are what strain companies' network capacity.

Under shared data pricing plans, companies are starting to charge not by the minute but by the gigabyte. That's a big chunk of data.

Verizon estimates that one GB of data on its network would allow a customer to enjoy 250 emails, three hours of listening to music online and two hours of standard video (high-definition video uses more data).

How much data do you need?

"More" was Buck Sommerkamp's answer to that question, even though he had an unlimited data plan from AT&T.

Twice, the Lee's Summit, Mo., resident said, he used enough data during a month that AT&T "throttled" his data usage. He could still get data, but only at much slower speeds.

Reluctantly, Sommerkamp switched to a shared data plan and bought 6 gigabytes of data for each month. It's about twice as much data as he esti-

mates had triggered the throttling under his old plan. But it costs him only \$10 to \$15 more a month.

For that, he gets peace of mind. No throttling because he's paid for more data. "With a little more data to play with, I feel less guilty about listening to podcasts that I'm streaming on the way home as I drive," Sommerkamp said. "I feel less guilty about downloading a big, giant app."

One shopping strategy would be to buy as much data as you have been using each month. Your wireless carrier, or even your phone, can help you track this information.

Shared data plans charge a penalty for going over the amount you buy, but they also allow you to buy more data during the month without penalty. Of course, that means monitoring use, which not everyone wants to do.

Verizon, which was the first carrier to offer shared data pricing, said its average device used 2 GB of data a month. T-Mobile USA, which sells unlimited data plans, said its average smartphone user consumes less than 1 GB, but customers with the new Samsung Galaxy S III use 1.8 GB.

SMALL BUSINESS

[from ID] their companies will likely be paying much more tax on this income than they have since 2003.

Q: How do personal tax rate increases affect small business owners?

Most small businesses are what's known as "pass-through" or "flow-through" companies. That means the company itself doesn't pay taxes on what it makes. Owners report the income on their personal tax returns. These companies include sole proprietorships, partnerships and what are called S corporations (named for a provision of the federal tax code). The income is taxed according to the owner's tax rate. So single business owners with income of \$200,000 or more and those whose households have income of \$250,000 or more will see their taxes rise next year. There are no exact numbers on how many small businesses are pass-through companies, but the National Federation of Independent Business estimates that 75 percent of small businesses are in that category.

Q: How many small business owners would be subject to the highest rate?

No one has exact figures, but the number appears to be in the mid-single percentages. The staff of the congressional Joint Committee on Taxation estimates that next year, 940,000 taxpayers with profitable businesses will have tax rates of 36 percent to 39.6 percent. That represents 3.5 percent of the total number of taxpayers with profitable businesses.

Another estimate comes from a survey by the lobbying group Small Business Majority. Five percent of the small business owners who participated in the survey said their household income was \$250,000 or more.

Q: What about large companies?

Large companies pay their own income taxes, and owners then pay tax on any dividends they receive. This form of taxation is used by what are called C corporations. Those companies include large companies, like General Motors Co. and Apple Inc., but they also include small businesses. The top tax rate on C corporations is scheduled to drop to 28 percent next year from 35 percent in 2012.

Q: If a company can avoid the higher personal tax rate by organizing as a C corporation, why not do that?

It's important to remember that C corporations have "double taxation" — on the company's income and the dividends paid to the owners. And corporations are subject to more regulation than other types of companies. Owners need to comply with the laws of the states where a company is incorporated. Turning a company into any type of corporation means legal fees. And over the long run it might make sense not to change a company's structure.

"Tax rates can change year after year," says Charles Massimo, CEO of CJM Wealth Management, a financial

advisory firm based in Melville, N.Y. He says owners need to choose a structure for their company based on their long-term needs.

Q: Can Congress do something about this?

In theory, yes. Congress is in recess until after the election. When lawmakers reconvene they can consider stopping the increase or approving a smaller tax hike. However, there's a wide division between the political parties. Romney and the Republicans who control the House oppose the higher tax rates and say a higher tax bill will prevent small business owners from hiring. Obama and the Democrats who control the Senate believe a higher tax on the wealthiest people will help reduce the government's soaring budget deficit.

Congress doesn't have to act by Dec. 31. Lawmakers can pass legislation at any point during 2013 — or even after the year ends. However, a prolonged debate in Congress would extend the uncertainty for business owners.

Q: How is this uncertainty affecting business owners' decisions?

Uncertainty about taxes has been one reason why many owners have been reluctant to take on new employees, according to surveys by the National Federation of Independent Business. "It's a major reason why people are not hiring now," says Jim Moniz, CEO of Northeast Wealth Management, a Braintree, Mass.-based financial advisory firm that counts small business owners among its clients.

Moniz says many of his clients who operate small companies have called him seeking advice about how to plan amid the uncertainty over taxes.

Q: Should owners make business decisions based on tax policy?

Financial advisers are sticking to the advice they have long given small business clients: Taxes should be just one consideration in a business decision.

"Don't let the tax tail wag the dog," says Jeffrey Berdahl, a certified public accountant with RLB Accountants, an Allentown, Pa., accounting firm whose clients include small businesses. "If you need to hire someone for your business, you need to do it."

Owners should talk to accountants and financial advisers before making big decisions, says Massimo, of CJM management. "A business owner should base decisions on the company's ability to make profits and revenue and the needs of their business," he says.

Q: If nothing is done to stop the expiration, what can a small business owner do to prepare for higher taxes?

Owners need to determine if there are ways to improve their profits, says Moniz of Northeast Wealth Management. Although higher taxes will hurt, having a higher income will mean there's money available to help the business grow.

"Businesses need to become much more efficient and make sure that the people they have are as productive as possible," Moniz says.

TOWERS

[from ID] years ago epitomized the abrupt economic downturn and the resulting uncertainty. The tower's developer had defaulted on the loan and went bankrupt, the property failed to lease up, and its lenders fought among themselves, ultimately unloading the project at a discount.

"It's huge," veteran real estate appraiser Fitzhugh Stout said of the sale, announced last week. "I think people feel things are bottoming out and there's positive movement underway."

Big turnaround

Walker Collier, a partner at Trinity Capital, said Charlotte's uptown office space is becoming tight, a far cry from four years ago when three new office towers came out of the ground to face a faltering economy. "The wheels fell off," Collier said. "There was lots of space available without any demand." In 2008, when uptown was sprouting new commercial projects, the office vacancy rate was 2.5 percent. By 2010, the vacancy rate had jumped to 12.7 percent. Uptown's vacancy rate was 14.1 percent as of the second quarter of this year.

Collier said more sales were to be expected this year because commercial loans tend to have five-year

terms, and many loans were funded in 2006 and 2007. Bank of America Corp. also contributed to the dealmaking, putting two properties, Fifth Third Center and Hearst Tower, up for sale as part of a broader strategy to strengthen its balance sheet.

Still, overall market conditions are improving, Collier said.

Collier helped transform NASCAR Plaza, which less than two years ago was a troubled project that was only 37 percent leased, into a trophy tower that captured the relocating headquarters of banana giant Chiquita Brands International.

Located at South Caldwell and East Stonewall streets, the shiny new building had become a symbol of the faltering economy. The lack of tenants was obvious after night fell, with the tower becoming a "see-through building," as industry insiders call it, because onlookers could see through the glass facade because of the lack of office partitions and furniture.

Collier said he got a call in June 2010 from the property's lenders, Regions Bank and Wells Fargo & Co., asking if he and his firm were interested in the property. Trinity's sister company, Trinity Capital Advisors, had developed a competitive office tower at the same time, Ally Center, and was

	BUILDING	SALES PRICES (in millions)
2007	129 W. Trade	\$19.925
	Charlotte Plaza	\$175.5
	The Carillon	\$138
	200 S. Tryon	\$39
2012	BB&T Center	\$117
	Fifth Third Center	\$163
	Hearst Tower	\$250
	NASCAR Plaza	\$100
Expected to close this year	525 N. Tryon	Estimated to be around \$40
Expected to close this year	Wake Forest University Charlotte Center	Unknown

SOURCE: CBRE Group and brokers familiar with the transactions

familiar with the market's nuances.

Despite "a lot of uncertainty with the banks and the real estate markets and real estate valuations," Collier said, Trinity Capital Advisors bought the debt, partnering with Rubenstein Partners, a real estate fund manager.

The new owners immediately pumped money into the project and added a fitness center.

"Once a building has a reputation of being in financial distress, leasing slows down," Collier said. "We made it widely known we closed in all cash and were very well capitalized to pay brokers and for tenant improvements. That quickly

turned the reputation of the building."

The group lowered asking rents to \$22 a square foot from \$30 a square foot, which it was able to do because it bought the debt for an undisclosed discount.

The new owners billed the tower as "the best suburban office building that is located in downtown," highlighting the property's lower than average rent in uptown and proximity to Interstate 277, South Boulevard and south Charlotte.

The building started leasing, nabbing online footwear retailer Heels.com, which recently expanded to a full floor from a half. Then its major coup: At the end of last year, Chiquita an-

nounced it was leaving its longtime home in Ohio and taking more than 130,000 square feet, or six floors. More recently, Chiquita has been cutting jobs as it seeks to reverse years of falling revenue and profits, but has promised it will still hit the Charlotte target of bringing some 400 jobs.

Less than two years after taking over the building, Trinity announced last week that it was selling it to Parkway Properties Inc., an Orlando real estate investment trust. Parkway had made an unsolicited bid for the property, which is now 87 percent occupied, according to Trinity. Parkway also bought uptown's Hearst Tower for \$250 million earlier this year and has said it is optimistic about Charlotte's recovery.

"Usually an investor expects a deal like this to take five years," Collier said. "We were very pleased with how it played out."

Market to strengthen

At least two more office buildings are expected to close this year, say sources familiar with the deals.

Parkway Properties is expected to close on 525 N. Tryon St. for around \$40 million, sources say. Of the building's 430,000 square feet, roughly 118,000 is available for lease. That building wasn't on the market.

And the Wake Forest University Charlotte Center

building at North College and East Fifth streets is expected to be sold this year, sources say. The five-story building, which is being sold by Bank of America, was formerly known as the International Trade Center. Brokers say properties in investors' traditional top picks — New York, San Francisco and Miami, for example — have become too expensive. So investors are turning more to smaller cities, particularly Charlotte, where they see growth potential.

Collier said Trinity is also in the hunt for new projects to buy, including in uptown. His colleague, senior leasing agent Rhea Greene, said the office market overall is improving. Lease activity has been picking up and she expects to see rent concessions subside. She also said that tenants are no longer as fearful that uptown's banks will downsize significantly.

Stout said investors can find good values in Charlotte. The owner of NASCAR Plaza, for example, will be able to raise rents as it leases up the remaining space, he said.

"Demand for office space just stopped, we saw rental concessions and property values dropped 15 to 30 percent generally," he said. "Finally, we're starting to see some activity. I think it's Charlotte's time."

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