

## SALE-LEASEBACK STAYING STEADY

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As real estate deals go, sale-leasebacks tend toward the vanilla. They might involve a collection of office buildings tenanted by doctors and dentists, or nondescript warehouses near nondescript Interstate exchanges, or a portfolio of 50,000-square-foot strip centers in secondary and tertiary markets. All stable, perhaps, but none too sexy.

These days, however, when raising the scratch to invest in some fancier flavors of real estate is harder than it used to be, vanilla is looking pretty good.

In fact, sale-leasebacks may end up being a star among transaction types this year, at least as much as this year's tepid property markets will allow it. "The whole investment pie is going to be smaller this year, without a doubt," says Kenneth Ruby, managing director of Jones Lang LaSalle's Capital Markets Group. "But I also think that sale-leaseback as a percentage of all investment transactions is going to go up."

Some players in the market are positively optimistic about their prospects for the rest of this year and beyond, which at the moment is as rare as a cat with wings. "I'd say we're going to do more deals this year than last," says Paul M. Domb, vice president of asset acquisition of Miami-based United Trust Fund Inc., which does little else besides sale-leasebacks. "At recent industry events, such as MBA [in February in Florida], I heard a fair amount of pessimism about sale-leasebacks, but I don't see it on the ground."

Sale-leasebacks already command a respectable, if not enormous, slice of all investment transactions. In its January/February Global Capital Trends, Real Capital Analytics pegged total sale-leasebacks worldwide at about \$56 billion, out of corporate property sales of \$88 billion globally and total real estate investment sales of \$1.04 trillion. Sale-leasebacks thus represent a shade over 5 percent of all investment sales, according to RCAs data.

There's long been interest in sale-leasebacks, but in light of current market conditions, both sellers and buyers now have even stronger incentives to pursue them. On the seller's side, monetizing real estate assets can be an effective way to pump up revenues at a time when revenues are relatively weak – which would be now, and even more so if the country actually slides further into recession. Also, many companies are still feeling the hangover from pre-crunch easy-money acquisitions. Selling real estate would be a way to pay some of that debt down at a time when it's hard to refinance.

As for buyers, sale-leasebacks can represent a solid investment precisely when purveyors of both equity and debt are demanding solidity. Buying a portfolio of Walgreen's or CVS locations with long-term leaseback provisions, for instance, is in some ways like buying a bond. The return is going to be there, and capital is looking for exactly that kind of safe haven in these skittish times.

Some of that capital has very deep pockets, indeed. Since net lease investment is a relatively capital-intensive business, it helps to have well-capitalized partners. United Trust Funds, for example, has a joint venture with GE Real Estate Capital, though not all of its deals are done through the JV.

"We specialized in sale-leasebacks long before the relationship with GE, but it does give us the ability to do more and larger deals," says Fred Berliner, director of acquisitions with UTF. "If there's

a \$150 million deal and a \$250 million deal on the table more or less at the same time, we don't have to choose. With GE as a partner, we can do both."

Two kinds of properties, starting with bank branches, will probably be strong sale-leaseback candidates this year. Since last year, Citibank has been leading the way in this market subset by selling off some of its real estate other financial companies are following suit in the face of writedowns and other money-sucking problems as they are forced to buy back bad mortgages. Of course, sale-leaseback investors need to be careful not to buy properties from banks completely crippled by the subprime meltdown. The best sale-leaseback candidates among banks would be those hurting only enough such as Citi to want to access some of the revenue offered by sale-leasebacks, not to cause an implosion.

Medical office buildings will also continue to command a lot of attention – and fetch good prices – in the sale-leaseback world. Two reasons: first, the healthcare sector of the economy is going to continue being a gold mine, whatever health insurance reforms (if any) might be dreamed up by the next US administration and Congress. Second, doctors and dentists are famously sticky tenants.

The sale-leaseback market is also no longer confined to the United States. Only a few years ago, sale-leaseback specialists complained of the reticence of European companies in particular to part with the real estate on which their operations sat.

That reticence seems to be evaporating. The US did not, in fact, represent the largest sale-leaseback volume in 2007. According to Real Capital Analytics, Europe led the world in this kind of deal last year with volume of over \$27 billion, roughly twice that in the US. All together, about 10 percent of the office, industrial and retail properties that sold last year in Europe, Asia and Africa involved a leaseback, while the percentage was closer to 5 percent in the United States.

Europe looks to continue its affinity for the sale-leaseback, too. Just after the New Year, Banco Santander, the largest bank in Spain, decided to sell its headquarters building in Madrid to London-based Propinvest for \$2.8 billion, and then lease it back for 40 years, a classic big-ticket sale-leaseback, even if the term is somewhat longer than the usual 10 or 20 years.

A number of US real estate investors have jumped to the international sale-leaseback arena as well. For example, ProLogis has long invested that way in markets in Asia and Europe WP Carey is active in places such as Finland, France, Germany and Poland and Kimco Realty – best known as a retail specialist – now owns a solid stock of industrial properties in Mexico that are leased to manufacturing concerns.

"It's a good market to be in now, resource-rich and with an expanding middle class," says Kimco vice chairman and chief investment officer David Henry of the REIT's interest in the country (where it is also developing shopping centers at a rapid clip). "We're doing as much as we can there."