

"Sale-and-Leasebacks Gain Favor"

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As competition for prime commercial real estate intensifies, investors are looking increasingly to sale-leaseback arrangements, whereby well-heeled investment groups purchase property and immediately lease it back to the seller. The purchaser benefits not only from acquiring the property, but typically garners a steady long-term cash flow through a long-term lease. The sellers, typically banks, retailers, or other businesses, free up capital that they can funnel back into their core business without having to relocate.

One notable sale-leaseback deal came in 2004 when Bank of America sold 7.3 million square feet of real estate from its branches for \$535 million and promptly leased back 4.5 million square feet. "After several large acquisitions, we had multiple office configurations that were a management distraction," said Bank of America's Terry Francisco. Sale-leasebacks are not without their risks, particularly the credit risk of taking on a tenant. Nevertheless, investors and businesses in other countries have begun adopting sale-leasebacks with increasing frequency. GE Real Estate Iberia, a division of General Electric, recently acquired 44 retail properties in Spain for \$95 million, and Barclays is selling roughly 150 properties in the United Kingdom with plans to lease them back for 15 years. "It's a good way for us to manage our business and it seemed a good time to sell because there is a lot of interest in U.K. property," said Barclays' Michael O'Toole.

Sale-leaseback deals typically net initial yields of 6 percent to 8 percent, though higher-risk properties can bring yield of around 15 percent. Even Japanese businesses, which have long preferred to own their own properties, are beginning to adopt sale-leaseback arrangements. In one significant transaction, IBM sold its Japanese headquarters to Sumitomo Realty & Development for \$376 million and then took a three-year lease last year.