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More Sale/leasebacks Enter Office Market

Sale/leaseback providers see opportunities as corporations look to shed their real estate holdings to bolster their bottom lines and outsource property management, leasing and other chores associated with owning a property. These capital providers tend to prefer large portfolio transactions, but look for them to compete for deals by doing things like offering partial sale/leasebacks, or buying a group of properties that sport varying lease terms. Among the sale/leaseback companies on the hunt to buy property from corporate America are **Patriot Equities**, **GMAC Commercial Holding Capital Corp.**, and **American Financial Realty Trust**.

One of the selling tools for sale/leaseback plays is to offer the seller 100% of an asset's value versus the 75% to 80% LTV the property would qualify for through a refi. One of the forces driving interest in corporate property is that this potential business is valued from \$200B to \$300B, a lot of real estate considering the current scramble by speculators to find solid deals. In some cases, these sale/leaseback providers are also hooking up with established property managers to run the buildings, yet another vein of income.

American Financial is especially focused on the financial sector, including offices, with a new initiative to target community banks and thrifts. It offers substitution and relocation rights that allow banks to use the company's entire real estate platform, which covers 330 markets throughout the United States. American Financial owns and manages its assets primarily through triple net and bond leases. It will do partial sale/leasebacks and buy vacant bank branches as well. Levered returns are generally higher than 10%. Deal size

is from \$500T to \$750M. American Financial has completed about \$700M worth of deals in 2005.

GMAC has an appetite for corporate office buildings, with a preference for portfolio deals worth \$10M to \$50M per property. It will also do one-offs worth \$10M to \$30M. One of the considerations in evaluating a potential deal is analyzing the business' earnings and determining whether or not it has a compelling reason for doing this type of deal. GMAC recently did a \$52.1M sale/leaseback for a portfolio of free-standing drug stores. Each was structured with a 20-year, triple-net lease. GMAC has acquired more than \$300M in assets in 2005 and looks to acquire \$500M in 2006.

Patriot Equities is a relatively new entrant in the sale/leaseback landscape and looks to do \$300M in deals in 2006. It sees the opportunity to buy from corporations disposing of surplus and legacy assets from their growth strategies. Patriot Equities will consider most property types, although it's primarily interested in office and industrial. It will also buy properties even though they're leased for shorter terms than the traditional 10 or 15 years. This provides flexibility to companies who don't want to sign on the dotted line for a long-term rental. It will consider assets that are fully leased, partially leased or even empty. Patriot Equities sees itself as a one-stop shop, able to handle a variety of property types because it has a smorgasbord of return scenarios. For core-plus, it looks for a return in the low teens; for value-added, mid to high teens; and for an opportunity play, 18% or higher. Deal sizes start at \$50M.