

Sale-leasebacks likely to be 'good business' in near future

By MARILYN BOWDEN

Some owner-users of industrial properties are looking for sale-leaseback arrangements as a way to raise capital, but brokers say tough financing criteria and uncertainty about true market value can be major hurdles for potential buyers.

A sale leaseback – which frees funds for the seller and, because the property has a tenant and an income stream, is a relatively safe investment for the buyer – is likely to be “a good business for the next several months,” said Edward W. Easton, chairman of The Easton Group. “Sellers are much more motivated to do something like this now because it is one of the few methods of financing available to them.”

But there’s a gap, he said, between what buyers are asking and what sellers are willing to pay.

“Sellers are getting more realistic,” Mr. Easton said, “but buyers are getting more demanding because their capital has potential in other areas. So that

is one difficulty. Another is that in this economy, people are afraid to do anything at all.

“There’s \$14 trillion in liquidity funds that really doesn’t want to be there,” he said. “They would prefer to make an investment, but there is that fear.”

Paul N. Isenbergh, a senior vice president in the Global Logistics Group at Grubb & Ellis, said financing is very difficult to obtain today.

“Institutions can do it,” he said, “but they are being very cautious right now.”

He said many industrial real estate investment trusts have recently reduced their staffs significantly and have put some of their portfolios on the market.

“They are not normally sellers,” Mr. Isenbergh said, “but they are selling now to raise cash and improve their balance sheets. So many of the institutions that would typically be acquiring are on the sidelines right now.”

As for individual and private investors, he said, “unless they are flush with cash and can get a 60%-65% mortgage, they are



Photo by Maxine Usdan

Paul N. Isenbergh, of Grubb & Ellis, says some industrial investment trusts have started selling portfolios to improve their balance sheets.

out of the game.”

Buyers also have an understandable reluctance to gamble on a tenants’ viability in a changing market, said Walter Byrd, managing director at Transwestern.

“The ground is moving under everybody’s feet,” he said. “No one can get a handle on whether a tenant is going to be there two or three years down the road.

With that plus the difficulty in obtaining financing, it’s a bit of a challenge.”

Jose Juncadella, founder of Fairchild Partners, said there are institutions looking for sale-leaseback deals but they will be very choosy about the tenant.

“It has to be a B-plus or A credit type of company with good financial statements, not one that is in an industry in trouble,” he

said – companies such as tile distributors and home-furnishing firms that rely on the housing trade need not apply.

“Potential buyers are also looking for a good discount,” Mr. Juncadella said. “They are complaining that there is a disconnect between what the seller considers the price of a property to be and what they are willing to pay.”

To make a deal, Mr. Isenbergh said, “sellers will have to accept that prices are not as good as they were 10 months ago and cap rates on the lease are going to much higher because the risk is much greater these days.

“A single-tenant building has more risk than one with many tenants, so I think the cap rate will be 9%-12%. A year ago, really good-quality industrial properties were trading at 7%-8% cap. That’s a tremendous jump.”

But for sellers who can find buyers, Mr. Isenbergh said, “it’s a great way to raise cash and help their company be re-classifying their leasehold facility obligations.”