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Cash-Hungry Companies Turn to Leaseback Deals

By TERRY PRISTIN

A few years ago, AT&T became an active player in the real estate market — not as a buyer but as a seller. The telecommunications giant sold its office towers in a number of cities, including Dallas, Cleveland and Chicago, but has continued to occupy and control these buildings.

Taking advantage of a healthy market for so-called sale-leaseback transactions allowed the company to free as much as $1.5 billion, according to one broker's estimate. Among the properties sold were the 42-story office tower at 909 Chestnut Street in St. Louis and the 47-story building at 675 West Peachtree Street in Atlanta, which AT&T had acquired in its merger with BellSouth.

The sale-leasebacks were "part of a strategy to get out of the real estate business, which is not a core business or interest of our company," said an AT&T spokesman, Fletcher Cook.

Large corporations are usually loath to say much about the process of transforming themselves from owners to tenants, and often the transactions are not even made public. Mr. Cook would not estimate how much real estate AT&T had sold in recent years.

But brokers say that AT&T's timing was good. Like all forms of real estate investment, the sale-leaseback market flourished in mid-decade but has all but stalled in recent months as financing has dried up.

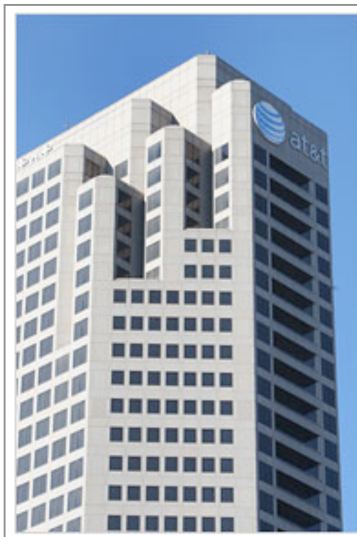
Sale-leaseback deals of industrial, office and retail properties last year totaled $7.3 billion, compared with $15 billion in 2007, according to Real Capital Analytics, a New York research firm that tracks sales of $2.5 million or more. In the last quarter of the year, only $514 million in sale-leasebacks were recorded.

The pool of buyers has diminished as some of the more active participants, including GE Real Estate, IStar Financial, First Industrial Realty Trust and Lexington Corporate Properties Trust, have been sidelined by financial difficulties.

For troubled companies, sale-leasebacks provide an alternative means of financing that can be used to pay down debt. The seller can free up the entire value of the property rather than just 50 percent or 60 percent, the maximum loan-to-value that would be allowed today. In addition to rent, the seller continues to pay taxes, and utility and maintenance costs.

Marilynn K. Yee/The New York Times

Deutsche Bank sold its headquarters on Wall Street, left, to the Paramount Group in 2007 in a $1.2 billion, 15-year deal.



Peter Newcomb for The New York Times

AT&T completed sale-leasebacks on several of its buildings, including its 42-story tower in St. Louis.

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Many investors insist that the seller's credit be rated investment grade. "There are deals you could have done in 2007 that you just can't do today," said Sidney Domb, the president of United Trust Fund, a Miami company that (in a joint venture with GE Real Estate) owns the corporate headquarters for Belk department stores in Charlotte, N.C.

Some companies, however, are willing to take on riskier deals, but they expect to be compensated accordingly. "Investors are much more cognizant of the differences in credit than they were a year or a year and a half ago," said Brian H. Scott, who manages the sale-leaseback group at CB Richard Ellis, a commercial real estate company. "There has been a repricing of risk."

Last week, The New York Times Company confirmed that it was in advanced negotiations with one leader in the sale-leaseback industry, W. P. Carey & Company of New York, to sell 19 floors of its new headquarters building on Eighth Avenue in Midtown Manhattan for an undisclosed price. (The Times Company had said it was seeking a price of up to $225 million.)

Under the terms of the deal, the Times Company, which owns 58 percent of the 52-story building, would continue to occupy and manage its space for the 10-year life of the lease. On Friday, Moody's Investors Service downgraded the company's unsecured senior bonds, taking the same step that Standard & Poor's took in October.

Neither W. P. Carey nor the Times Company would comment on their negotiations.

Michael M. Rotchford, an executive vice president at Cushman & Wakefield who is advising the Times Company on the sale-leaseback, also declined to talk about the pending deal.

Popular in the 1970s and 1980s, sale-leasebacks lost their appeal for a while when certain tax advantages were eliminated. But as the demand for real estate intensified in the middle of this decade, the market for sale-leasebacks caught fire, said David W. Cobb, chief executive of BentleyForbes, a Los Angeles real estate investment company that used to focus only on such transactions.

But it broadened its business to include buildings with several tenants in 2005 because of the growing risk that it saw in sale-leasebacks. "The terms of the deals had swung heavily toward the tenants versus the landlord," Mr. Cobb said. Sellers were able to insist on greater flexibility, including shorter lease terms and the opportunity to give up some of their space if their business contracted, he said.

These days, however, buyers enjoy the upper hand. Unlike the proposed 10-year lease for the headquarters of the Times Company, the normal lease term now is 20 years, said Gerald J. Levin, who leads the sale-leaseback practice at Mesirow Financial, a company based in Chicago.

The New York Times deal would be unusual in other respects. Sale-leasebacks are rare in New York because most building have multiple tenants. In 2007, however, Deutsche Bank sold its 47-story headquarters building at 60 Wall Street to the Paramount Group for nearly $1.2 billion in a 15-year leaseback arrangement. (The bank also financed the deal.)

Gordon J. Whiting, a managing director at Angelo, Gordon & Company of New York, which recently acquired the headquarters and distribution center for Conney Safety Products in Madison, Wis., said owners of Manhattan real estate do not want to miss out on the likelihood that their building will increase in value over time. "They haven't wanted to sell them because they think they're giving up that appreciation," Mr. Whiting said.

Another unusual feature of the proposed agreement with W. P. Carey would give the Times Company the right to buy back the space for a predetermined price. That would mean the lease would be listed on the company's balance sheet as a liability, rather than as an off-balance sheet transaction that does not add to its debt, leaseback specialists said. Many companies seek sale-leasebacks to improve their balance sheet.

For W. P. Carey, a 35-year-old public company that also operates four nontraded real estate investment funds — marketed to the public by financial advisers — the deal with the Times Company would offer not only a stable rental stream but also a chance to capture a negotiated increase in the property's value. The company says its annual returns since 1979 have averaged 11.56 percent.

In its most recent annual report, W. P. Carey described its investment philosophy: "We seek to invest in properties that are strategically important to the operations of the tenant company, so that even if that company has some financial difficulty, it needs to keep the lights on in our buildings to run its business." ■