

Sale-Leaseback Sticker Shock

By [DAVID A. GRAHAM](#)

NEW YORK -- Demand for corporate sale-leaseback real-estate transactions is picking up across the U.S. as companies seek a fast way to raise cash to ride out the recession. But a scarcity of buyers and low bids mean fewer deals are actually getting done.

Sale-leaseback transactions -- where a company sells its office building, plant or other property and then leases it back from the new owner -- is an alternative form of financing that some companies turn to when traditional financing, such as bank loans, are harder to obtain. During the first five months of this year, the value of U.S. sale-leaseback transactions declined to \$853 million, compared with nearly \$3 billion in the year-earlier period, according to Real Capital Analytics, which tracks deals greater than \$5 million.



Part of the drop in transaction value reflects lower real-estate values, but the biggest issue is that buyers and sellers are so far apart on price that many transactions fizzle when sellers walk away. Just 63 deals were completed between January and May, compared with 174 in the first five months of 2008, according to Real Capital Analytics.

"It's the pricing," says David Steinwedell, a managing partner of AIC Ventures in Austin, Texas, which buys properties via sale-leaseback transactions. "There's some sticker shock for sellers, the same as there is with houses right now."

AIC, which specializes in properties owned by manufacturers with low investment-grade credit ratings, expects \$5 billion in potential deals to cross his desk this year, up from \$3 billion in 2008. In addition, Mr. Steinwedell says many of the companies seeking to sell properties to AIC are healthier and in more stable industries than those in the past.

That, of course, is great news for AIC and other buyers, which say they are seeing the best bargains since the early 2000s. "It's a fantastic time to be in the market," says Mr. Steinwedell, who expects to purchase about \$300 million in property this year. With so many transactions on the market, "we're able to be highly selective in both markets and companies themselves."

Shelby Pruet, managing principal of Chicago-based private-equity company Equity Capital Management, which focuses on acquiring office buildings from companies with investment-grade credit ratings, says his firm is doing deals that "couldn't have been done in terms of pricing and terms" a few years ago.

In one of the largest sale-leasebacks this year, [New York Times](#) Co. in March raised \$225 million for debt relief by completing a sale-leaseback with New York sale-leaseback firm [W.P. Carey](#) & Co. for 21 floors of its 52-floor headquarters building in Manhattan.

The terms of deal stunned some would-be sellers who thought the price was unusually low. W.P. Carey paid around \$300 a square foot. In comparison, the mean price for comparable Class-A office real estate in New York was an average \$839 a square foot last year and \$434 a square foot in the first quarter of 2009, according to Reis Inc., a real-estate-research firm. W.P. Carey said the New York Times deal carried an unusually deep discount because the deal gives the company an option to buy back the space for \$250 million at the end of the leaseback in 2019.

Meanwhile, the number of buyers has fallen sharply due to the credit crunch. And with fewer bidders, there is less competition to drive up prices. "For people expecting pricing and leverage levels to revert, I don't think that's a realistic expectation," says Benjamin Harris, W.P. Carey's head of domestic investments.

Two of the largest participants in sale-leaseback financing last year, [iStar Financial](#) Inc. and [First Industrial Realty Trust](#), have been sidelined by their own financial problems. First Industrial Realty Trust has decided not to seek new deals this year in order to retain capital, according to a spokesman. IStar didn't respond to requests for comment.

That leaves just two or three large firms, including W.P. Carey and Angelo, Gordon & Co., along with smaller companies such as AIC, Equity Capital and Mesirow Financial.

The dearth of buyers is making it difficult for companies like Atlanta-based furniture retailer Havertys to get the prices for which they had originally hoped.

[Haverty Furniture](#) Cos. Chief Financial Officer Dennis Fink said Havertys began marketing one of its stores in July but saw a potential deal grind to a temporary halt amid worries about the economy. By the time the sale was completed, they sold an approximately 45,000-square-foot store at a prime location in Charlotte, N.C., for \$6.8 million in February. "We had somewhat higher expectations" in July, Mr. Fink says. He wouldn't disclose what it cost Havertys to build the store -- the land was bought for about \$2 million in 2000 -- but said the deal brought a modest profit.

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