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TOP STORY: Investors Say Appeal of SLB Stronger Than Ever

By Michelle Napoli

Princeton, NJ—While the commercial real estate investment market as a whole continues to face soft transaction volume in light of the country's liquidity crunch, sale-leaseback investors say they're seeing a healthy pipeline of deals. Indeed, the difficulty corporations are likely facing in getting other forms of financing is making the sale-leaseback that much more attractive, they say.

"Our pipeline's pretty robust at this point. I think there are a lot of companies out looking for alternative forms of financing as commercial banks and other lenders have tightened up their appetite for credit," says Peter Mavoides, president and CEO of Princeton, NJ-based **Sovereign Investment Co.** "Corporations are still healthy and growing for the most part, and their capital alternatives are somewhat limited during this credit crunch."

"I would anticipate this being a pretty active year for sale-leaseback transactions," Mavoides adds.

"Corporations are still expanding. Corporations are still running their businesses. Not all of corporate America is defaulting, and they have real estate needs," notes Shelby E.L. Pruett, co-founder and managing principal of Chicago-headquartered **Equity Capital Management LLC.** "It's now easier for them to access capital through sale-leasebacks than it is going to their banks. It works well for us."

Pruett says he expects the sale-leaseback market to remain strong this year, particularly for investment-grade deals in light of a flight to quality among many investors. "We have a number of acquisitions slated for '08 and think the middle to the latter part of the year we'll be making several purchases, so we think it will be a strong year," he says.

"I think it will be a difficult year for everybody given what's happening in the markets and what's continuing to happen in the capital markets" Pruett adds. "But because there's dislocation in the capital markets, we think that makes it even more appealing to be in the sale-leaseback space right now."

Competition for sale-leaseback acquisitions has not necessarily slackened, say some. "When capital was readily available there was certainly more competition at the margins, and those players I've seen go away or become uncompetitive, but from my perspective the guys we deal with and compete against on a day-in, day-out basis--they're still there, they have access to capital and they're still buying," says Mavoides. Pruett agrees, saying: "The same competition is out there."

And in terms of pricing, Pruett and others say they have yet to see much movement in cap rates on sale-leaseback deals. But adjustments are still likely to come. "For 2008, we're going to start to see a real cap rate adjustment on your normal flow of deals. With the credit crisis of the fall, we've seen it typically takes six months or so for the sellers' expectations on cap rates to really reflect the investors' cost of capital," says Chad Adams, VP of acquisitions at Wheeling, WV-based **Century Equities Inc.**

"I've started to see brokers who bring us deals and also sellers when we're starting to speak to them, are starting to understand more that they don't have a seven cap deal," says Adams. "Everybody thought for the last two years that no matter what their credit was like, they had a seven cap deal. We spend a lot of time adjusting the expectations of sellers to not steal a property but pay a fair cap rate."



Mavoides



Pruett