

# Sale & leaseback - an effective source of capital in not easy times



Author: SF / Juraj Pokorný | Published: 24.02.2009

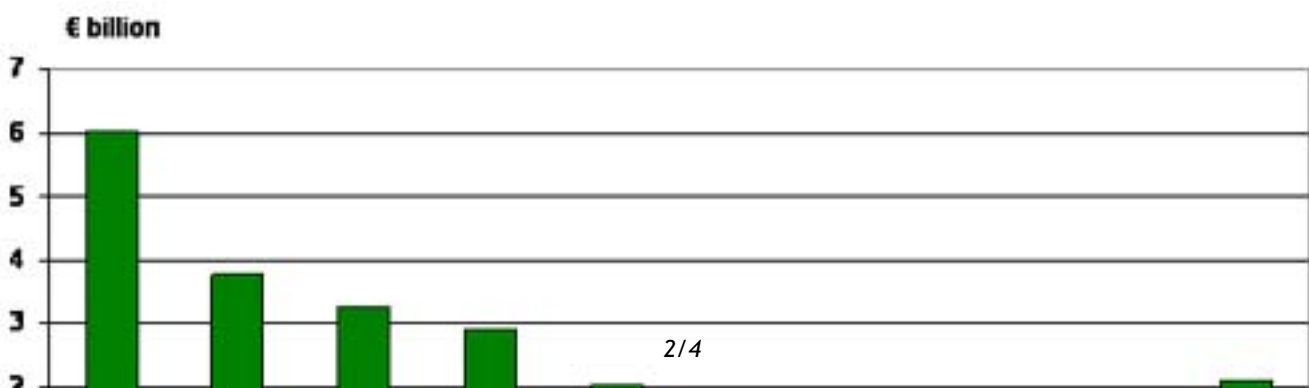
High potential of this specific kind of transaction, which is rising in Europe, results from the common fact: the entire value of buildings and lands under ownership of 43 the most important European financial institutions achieves astronomic 63 billions Euro. It is understandable that it makes developers and owners of administrative segment uncertain: because just the bank sector participated in the total volume of renting the most substantially till now. However, it does not give its own business ambitions up along with making financial operations, for their resentment.

## Besides cash a lot of other advantages

Irreversible standstill of European investment activities to commercial real estates, which also caught January statistic of the consulting company CB Richard Ellis Group (CBRE) in last quarter of 2008, forces however to act not only restrictively behaving banks, which themselves stay behind the shortage of liquidity. Weaker demand for renting stimulates growth of rents in office and wholesales sectors. Along with alternative financing through open funds it is just the sale and leaseback, by which any business subject owning a real estate can regenerate the height of cash capital and to „spark off business“ with knowledge of all risks or losses. After all, objects of such leasing need not to be a real estate exclusively - commonly it is also used to practice it with used cars.

The sale & leaseback is becoming still more spread way of the immediate increase of missing cashable reserves for their effective evaluation in the frame of own business (covering operational costs or other investments). The special kind of business relation is concerned, which offer various advantages to the business subject - from taking entire agenda over relating to administration and managing buildings, execution of technical maintenance to responsibility for its safe operation besides single profit in the form of obtaining financial means available for real estates. Minimizing administrative costs is also not negligible.

# Stavební fórum



## Activity is not dropping in spite of the market standstill

An agreement on the sale and leaseback contains the sale of real estate under ownership of a renter and consequently leaseback by the form of financial leasing from the renter side. CB Richard Ellis also registers increasing number of the sale & leaseback among European firms, which are forced to solve their liquidity by sell and leaseback of their own offices in regard to momentarily drying intake of financial credits. An interesting article in this relation appeared on the portal [www.bloomberg.com](http://www.bloomberg.com), where it is stated that in spite of investment standstill this kind of estate transaction kept high level of its activity in year 2008.

The biggest financial crisis since the Great Depression in year 1929 inspires many companies to appreciate possibility of the sale & leaseback like an effective support of its financing. Whereas in year 2007 the value of these transitions realized in Europe presented up to 46 billions Euro, last year it was only 22 billions Euro - however, they kept 19 percentage participation in the total balance of investment market (see the table).

## Rent turnover from renting estates between an owner and a renter (in billions €)

### | Year | Total | Percentage of all transactions | Private sector sells | Public sector sells

2005	18.6	11.8	17.0	1.6
2006	34.0	14.7	27.6	6.4
2007	45.9	18.6	39.1	6.9
2008	22.2	19.0	20.0	2.3

Source: CB Richard Ellis

### Favourites are Germany, Britain and Spanish

In year 2008 activity of the sale & leaseback was especially high in Britain, Spanish and in Italy, mainly in relation to transactions of a bank sector. But it achieved the biggest value in Germany sovereignty like in previous two years. Entirely about 600 big transactions of the sell and leaseback were realized in year 2008, which were executed in the whole spectrum of real estates, including offices, shops and industrial spaces. Average height of one realized trade was about 33 millions Euro.

Geographical layout of the sell and leaseback substantially spread during last years and it was recorded in 20 from 26 European countries. Three the biggest European markets - German, Great Britain and France - had 70-percentage participation in the total volume of this kind transactions two years ago. In year 2008 German, British and Spanish market created 50 percentages of the entire activity in the sale & leaseback together.

Several examples of European banks, which sold a part of their real estates in year 2008 to leaseback them:

- Intesa Sanpaolo and UniCredit - buildings (above 800 millions €)
- Caixa Galicia - Spanish Portfólio (250 millions €)
- BNP Parisbas - Avenue Kléber, Paris (250 millions €)
- Banco Popular - buildings in Madrid and Barcelona (127 millions €)

## Credit crisis motivates

John Wilson, the chief of the firm strategy of CBRE group for EMEA, remarks to it „ today the sells and leaseback is accepted a healthy and competitive source of capital on the estate market like. Balancing deficit of own capital for business activities gives possibility to create liquidity to companies in the frame of its own balance and also the way how to increase its action ability in regard to decreased reliability of banks.“

Looking to future it is probable that the model of „sale & leaseback“will create still more substantial part of European estate market. The credit crisis has substantial influence on motivation abilities of companies to obtain money for increasing its capital from other sources than from bank credits or company bonds. And just the sale of real estates of lower capital value can be one of the most achievable and the most effective way on the market currently.

Illustration photo - TriGranit Development Corporation

Graph: Volume of transactions „sale & leaseback“in year 2008 in Europe

Source: CB Richard Ellis

---

24.02.2009 09:51, SF / Juraj Pokorný