Eastern Europe – an attractive market for sale-and-leaseback

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Zwar beginnt sich die Realwirtschaft von der Finanzmarktkrise zu erholen, trotzdem beklagen Unternehmen vielfach einen aus ihrer Sicht mangelnden Finanzierungswillen der Banken. Als ein Ausweg wählen immer mehr den direkten Zugang zum Kapitalmarkt durch die Emission eigener Anleihen. Doch auch über Sale-and-Leaseback können die Unternehmen Investitionskapital aus ihren Firmenimmobilien mobilisieren. Machten davon zuletzt vor allem deutsche Automobilzulieferer Gebrauch, so ist dieses Finanzierungsmodell auch in Osteuropa zunehmend gefragt, wie der Autor erklärt. (Red.)

Asset-based borrowing has long been a prevalent form of financing for corporations with significant corporate real estate holdings as well as for private equity firms and management groups looking to finance the acquisition of these kinds of companies. This type of borrowing continues to be a viable source of funding for companies that have a strong management and a solid business strategy.

Corporate sale-and-leaseback

Long-term corporate sale-and-leaseback is a form of asset-based financing that allows companies to access the market value embedded in the real estate assets and convert it into a liquid source of capital that can be used to retire existing debt, fund operating costs, support expansion strategies or some combination of all three. The basic premise of sale-and-leaseback is that a corporation sells its real estate to an investor who then leases it back to the company on a long term basis – thereby allowing the company to retain operational control of the property.

In contemplating a sale-and-leaseback, the seller/tenant needs to look at the financial structure of the buyer, its track record in the industry, the objectives and reliability of the buyer's capital sources as well as the buyer's understanding of the selling company's industry, business and operations. For a corporate property owner to enter into a long-term transaction with a speculative buyer looking for a short-term gain is a recipe for disaster.

Long-term assets should be financed by investment firms with shareholders whose objectives are to generate steady income and ensure capital preservation over the longer term. Although one source of funding for current sale-and-leaseback transactions private funds whose institutional investors are looking for market driven shorter-term gains, another source is income-orientated REITs that invest in sale-and-leasebacks structured for individual retail investors who are committed to a longer-term investment strategy. Because of their objectives, income-orientated REITs tend to be a more complementary source for long-term financing.

Because risk management works both ways when it comes to sale-and-leaseback transactions, a company that 'sells' a key operating facility needs to know that, in addition to having compatible long-term objectives, the buyer is capable of closing the transaction on a timely basis. The buyer's ability to structure a transaction within sale-and-leaseback contractual parameters while addressing the specific operating and financial requirements of the company is also a critical factor for the seller/tenant.

Lastly, the buyer must also have the financial expertise to determine independently that the company's operations will support the rental obligations to the buyer and also generate a profit for the company.

The buyer needs to determine the strength of the seller/tenant's current and projected financial position as well as its current and planned business/operating strategy. The capabilities of its management team, the health of the company's industry and its position within the industry should also be key components of the buyer's analysis.

The European investment policy

The European commercial property sale-and-leaseback market is not homo-geneous – maturity varies by country. The W. P. Carey model is not driven by any particular economic sector or location – the company is a "patient" investor that is willing and able to look at risk in the context of sustainable businesses that can weather the vagaries of short-term economic and business cycles.

W. P. Carey is looking at transactions on a pan-European basis with no specific mandate for an individual country. Over the past twelve years the com-

Sale-and-leaseback deals in Central and Eastern Europe

Ponzan, Poland
August 2010; W. P. Carey provided built-to-suit financing that will fund 100 percent of the construction and related development costs for a logistics facility to be developed by Panettoni Europe and leased by Neuca SA

Agrokor, Croatia
April 2010; W. P. Carey acquired two office and logistics facilities in Zagreb, Croatia. The transaction is the company's first in Croatia and was for a total consideration of 77 million euros (101 million US-dollars).

OBI, Poland
October 2009; W. P. Carey entered into a sale-and-leaseback transaction with the OBI Group totaling approximately ten million euros (15 million US-dollars).

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Agrokor facilities in Croatia

pany has built up a European portfolio valued at three billion euros across 16 separate countries. For example there has recently been a high level of activity in Eastern Europe which W. P. Carey sees as particularly attractive over the next twelve to 18 months for a number of reasons.

Because of the general economic malaise spurred by Greece and additional concerns regarding deficits and debt levels throughout Europe many investors and lenders have been hesitant to enter these markets. As a result opportunistic investments twents in assets and companies with strong core businesses were possible. The combination of the company's long-term investment horizon and the fact that typically investments are conservatively leveraged at 50 to 60 percent levels means that it can achieve the long term income objectives of its investors and secure attractive financing for these investments. Although in the short term continued global economic volatility must be anticipated, in the longer term a basic investment strategy of investing in critical assets of companies positioned well within their industries will serve investors well.

In comparison with the US and Western Europe, because Eastern and Central Europe have restrictive zoning laws together with lengthy government approval processes and the longer lead times they imply for the development of competitive properties, long term investments in these areas will remain particularly attractive.