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Leasebacks rise for cash-strapped companies

BY JOHN GOLDEN
jgolden@westfairinc.com

The revenue-squeezing recession and frozen credit markets are leading more companies to sell and lease back their buildings as an alternative way to raise needed capital, according to real estate developers in Westchester.

The sale-and-leaseback deal "has been around as long as business has been around," Edward Lashins, chairman of Lashins Development Corp., a diversified real estate management and development company in Armonk, said last week. Current economic conditions, which have banks in "gridlock" and companies concerned about their balance sheets, are bringing that business practice back in vogue, he said.

The Lashins company recently completed its first leaseback transaction with the purchase of a 6,000-square-foot Calico Corners home furnishings and design store in Cherry Hill, N.J. The company, which recently launched its sale-leaseback program, is looking to acquire and lease back more commercial properties in Westchester and Fairfield County, Conn., from sellers who want to stay on as long-term tenants.

"We feel this is an ideal time for this type of activity," Lashins said. "It's very ripe in this economic climate. We're in very difficult economic times. Companies are looking for money and this is an easy way to get it."

"A lot of companies that need money don't want to put debt on their balance sheet. This is a way for them to raise cash because the alternative is to borrow money, either secured or unsecured...It might be more expensive for them to borrow money rather than to sell their building and lease it back."

Westrock Development L.L.C. in Yonkers, has done sale-leaseback deals for about 10 years, said Robert Friedland, company founder and chairman. "It's really been accelerating in these times," starting about six months ago, he said. "We're seeing it all over" the tristate area.

Westrock currently is doing two such deals for 36,000-square-foot and 38,000-square-foot properties, including one in Westchester, Friedland said. Of companies looking to sell their buildings and lease back for 10 years or more, "The ones that we're dealing with are probably around \$20 million a year" in revenue, he said.

Friedland said companies turning to sale-leaseback transactions either need money for expansion or are having financial trouble "and they can't access easy capital, whatever the reason is." In Westchester, all companies with which Westrock has worked "have been in some form of difficulty. It's companies that can't get financing on their own."

"We're finding that in this particular market it is an ideal time for someone who is looking to do that," Friedland said. "It actually serves a vital need at this moment in time. It's really an ideal way

for a tenant that needs money to stay undisturbed at a location that they're in and raise cash to pay off debt."

Westrock also will buy a partial ownership interest in a property, Friedland said. In one such deal, a company with a \$3.5 million building needed \$1.2 million to pay off debt. Westrock put a \$1.2 mortgage on the property and took a 30 percent ownership position. "It's really more common to do it for all" of the property, "but there are variations on the theme," he said.

If the developer buys a property at a lower price than its full market value, "the

lower the rental would be to the seller, the leaseback tenant," Friedland said.

"It has to be a realistic price with the prospect that the money will solve the problem" for the seller, he said. "If the money is not going to solve the problem, I the buyer am taking a big risk. These are companies that are generally struggling and yet need money in order to survive. So we're taking a calculated risk on the tenant. If the company goes under, we end up with the property and no tenant."

Developers are willing to take that risk in this economy. "We're actively looking for

more situations like this," Friedland said.

"I think like any good transaction, it works well for both parties," Lashins said.

Developers said the upswing in sale-leaseback deals likely will end as the economy rebounds.

"As the economic climate improves, companies will be generating more cash flow from their operations, so they won't be as inclined to do it," Lashins said.

"As the companies grow stronger, it will certainly slow the pace of it," Friedland said.