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## Investors Are Prowling For Sale-Leaseback Deals

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By **SHEILA MUTO**  
Special to RealEstateJournal.com

When the economy soured, many cash-strapped companies that owned the real estate they occupied made the move to sell off some or all of their properties and lease them back from the new owner, taking advantage of falling rental rates and investor demand for real estate amid low interest rates and a shaky stock market.

But even now that the economy appears on the mend, interest rates are inching higher and the stock market has rebounded, companies appear to be stepping up their efforts to sell off real estate and become renters. Meanwhile, investment firms are increasingly on the prowl for these so-called sale-leaseback deals.

"In the last seven weeks, we've seen an increase" in the number of companies looking to sell off and lease back their real estate, says Jeff Hayden, managing director of Los Angeles-based Asset Funding Group LLC, a firm started earlier this year to invest in sale-leaseback transactions, focusing primarily on the assets of companies with sub-investment grade or unrated credit. "Some companies were being kept alive [during the economic downturn] by low interest rates, but that's like shifting deck chairs on the Titanic. Once interest rates go up, they have to face the music, so many are looking to do sale-leasebacks," he says.

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Asset Funding Group is looking to purchase \$150 million in sale-leaseback transactions this year. Right now, Mr. Hayden is working on three sale-leaseback deals, two of which are under contract, totaling about \$22 million.

W.P. Carey & Co., a New York-based real-estate investment firm that specializes in sale-leaseback transactions primarily with investment-grade credit tenants, announced a few months ago that it expects its sale-leaseback investment volume for the first half of this year to exceed last year's volume of \$300 million during the same period, even though the firm's investment volume during the first quarter of 2004 totaled about \$65 million, down sharply from \$272 million during the first quarter of 2003.

"There are more on the market today than ever," says Jeff Rosenblum, acquisitions asset manager for Time Equities Inc., a real-estate investment and brokerage company based in New York. Like Asset Funding Group, Time Equities focuses on doing sale-leaseback deals with companies that have sub-investment grade or unrated credit. "The sellers' balance sheets are weaker than ever," says Mr. Rosenblum. Nine months ago, "I typically would get about one prospective sale-leaseback a month. Today, I'm looking at five to 10 a month. What's driving these companies more today is they want to invest in their business to grow in this better business environment, and they don't have the cash."

When looking for sale-leaseback deals, Mr. Hayden says that beyond assessing a company and evaluating its real-estate holdings, he has been paying close attention to a company's pension liabilities. Last year, while working for a different real-estate investment firm, he considered purchasing a restaurant chain's properties. "We were about to sign deal with them," he says, but found that the company had a pension plan that was underfunded by \$50 million, outweighing the value of the company, which was estimated at about \$30 million. Needless to say, Mr. Hayden didn't proceed with that deal.

In addition to those criteria, Mr. Hayden is looking to buy properties that are "integral" to a company or that house a company's principal business unit, which could help ensure that the company will remain a long-term tenant in the space at a market-rate price. He says he also considers alternate tenants or uses for the property in the event that the company relinquishes the space.

In fact, those were some of the things Time Equities' Mr. Rosenblum considered when his company closed on a sale-leaseback transaction with New York-based upscale fabric maker Scalamandre earlier this year. Time Equities purchased Scalamandre's 110,000-square-foot office and manufacturing facility in Long Island City for \$7.1 million. Scalamandre is leasing back the classic, loft-style building, which was

built in the 1920s, but over the next few years it will occupy as little as 20,000 square feet as it moves much of its operation from New York, says Mr. Rosenblum.

Even though Scalamandre will sharply scale back its presence in the building, the deal "was very attractive to us," says Mr. Rosenblum. Time Equities paid about \$65 per square foot for the property in a market where comparable property sells for \$85 to \$100 per square foot. If there's no commercial demand for the space, the property may be converted to residential lofts, as many nearby properties have been, but there are no current plans to do so. Without even marketing the property, Mr. Rosenblum says he has already received several offers from tenants interested in renting 10,000 to 30,000 square feet of space.

"I'm on the hunt for more of these transactions than ever before," Mr. Rosenblum adds, but "finding the right one is always the issue."

*-- Ms. Muto is a national real-estate writer for The Wall Street Journal. Her "Bricks & Mortar" column appears most Wednesdays exclusively on RealEstateJournal. She is based in the Journal's San Francisco bureau.*

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