CUSHMAN & WAKEFIELD

Occupier Monetization
IN THE TIME OF COVID-19

CORPORATION LIQUIDITY NEEDS DURING COVID-19

The impact of COVID-19 has caused uncertainty for many companies. As earnings pressures and liquidity needs have increased, corporations are focused on drawing down on credit lines, renegotiating debt terms and accessing government assistance through federal programs.

The next step for many will be to evaluate their owned real estate portfolio to determine if it's an avenue for increased liquidity. And for many, it's a viable source as the companies that make up the S&P 500 own approximately $800 billion of real estate assets. These assets are mostly single tenant in nature, but they represent different product types such as retail, office and industrial. This real estate was most likely acquired for a strategic reason, whether via an M&A, because of the uniqueness of the asset itself, or because the asset represented the best use of funds at the time of the investment decision due to the company's weighted average cost of capital.

Now, however, many companies will likely begin to reevaluate their real estate holdings to determine the benefit and risks of extracting value in the current market environment. Single tenant asset valuations are unique because the valuation is a combination of the local market and the underlying financials of the company occupying the real estate. Companies with longer term leases that maintain good financials will benefit from higher real estate valuations.

THE EXISTING MARKET ENVIRONMENT FOR SINGLE TENANT ASSETS

Currently, the debt and investor market for real estate is challenging. However, for single tenant assets with good credit tenants and/or good underlying real estate, there is a buyer demand. Although investors are selective and cautious on what transactions they consider, they have the cash to fund what makes sense to them. As the debt markets become clearer, it is likely the single tenant occupied market will quickly become a favored class due to the long-term 100% occupied nature of the real estate.

MONETIZATION ALTERNATIVES

When companies evaluate monetization opportunities, they need to weigh several factors to determine whether it will be accretive to their unique situation. These include operational and financial implications as well as the state of the current capital markets. Further, companies need to weigh both the amount and timing of the funds, plus the commitments that will be required to access funds.

There are a variety of monetization strategies to consider. Each structure varies in terms of cost of capital, amount of accessible funds and flexibility. No one structure fits every company. Many corporations may decide a combination of each structure will be best depending on the operational strategic plan for each particular asset.

TOP CONSIDERATIONS
when evaluating monetization alternatives during COVID-19 crisis:

OPERATIONAL CONSIDERATIONS

- Flexibility
- Business life cycle stage
- Infrastructure requirements

FINANCIAL CONSIDERATIONS

- Need for cash
- Weighted Average Cost of Capital (WACC)
- Credit rating
- P&L impact
- Income tax impact

CAPITAL MARKETS CONSIDERATIONS

- Speed to complete the transaction
- Surety of execution
- Functional obsolescence of real estate
- Reserve capacity for future liquidity
- Exit plan

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*LIST IS NOT ALL-INCLUSIVE

SOLUTION	PROS	CONS	CONSIDERATIONS
Sale-Leaseback	• Proceeds equal to 100% of occupied value • Can include purchase option or renewal options for long term control • Upfront P&L gain if basis is below value	• Execution can be slower, requires more steps • Longer the lease term, the greater the lease liability	• Lease term • WACC • Renewal options • Purchase option availability
Financing	• Maintain long term control • Can be short term (i.e. bridge until company stabilizes)	• Proceeds will be determined based on percentage of dark value • Uncertainty regarding availability and pricing in current environment	• Term • Acceptable rate • Limited lender field in today's environment • Cross-collateralization
Sell Fee Interest, Retain Leasehold	• Sale of leased fee potential represents cheaper cost than traditional financing in today's market	• May limit ability to finance leasehold in near term	• Rent / Increases / Resets • Purchase option availability • Impact on leasehold financeability
Joint Venture Equity	• Sale of equity interest caters to real estate investors • Can negotiate flexibility around control, governance, liquidity • Can structure as common or preferred	• Likely results in less control and operational flexibility for company going forward	• Economics • Governance / Control / Liquidity
Vacant Sale	• Liquidity received from obsolete facilities	• Requires shutdown of operations or consolidation into other facilities	• Consolidation issues • Loss of upside for assets with development potential • Timing required to consolidate; however, short term sale leaseback may improve valuation

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