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## Schools look to non-traditional funding tools

Lease-back deals help make projects affordable

San Francisco Business Times - by [Blanca Torres](#)

With state and local governments feeling their budgets squeezed, public entities are looking for creative ways to finance capital projects, such as a long-standing, but little known deal structure called the lease-back.

A lease-back deal typically involves an entity selling a piece of property to a buyer that will then lease the property back to the former owner.

The State of California is using lease-back deals to generate \$660 million in revenue it needs to help close its budget deficit. Last fall, the state put up for sale 11 buildings that it will continue to occupy for another 20 years.

For its new neuroscience building in Mission Bay, the University of California, San Francisco, used the lease-back deal structure with a twist. The medical school already owned the land where for the \$200 million project, but didn't have the cash up-front for the development costs.

The school set up a deal in which it has leased the land to a nonprofit organization that is subleasing the site to a partnership of **Edgemoor Real Estate Services** and **McCarthy Cook & Co.** The partnership will develop the building and then lease it to UCSF.

"We've seen the lease, lease-back as a way for government entities to acquire assets in a more cost-effective and efficient time frame," said Geoff Stricker, managing director with Edgemoor, which is based in Bethesda, Md., and has about a decade of experience in public-private partnerships. "Now there is more interest in alternative deal structures, absolutely."

The neuroscience building's development team hired Clark Construction to design and build the 237,000-square-foot project, which broke ground in mid-April and will take two years to complete.

Stricker said hiring a private developer to build and lease the building gives UCSF a better guarantee the project will be done on time, and the risk is shifted to the developer.

For investors, lease-back deals bring a steady source of cashflow, said Kevin Shannon, vice chairman with **CB Richard Ellis**, who is a lead broker on the state building portfolio sale.

"During the boom time, in 2006 and 2007, investors in the market wanted deals with high spikes in rent and the more stable, long-term cashflow deals were considered boring," Shannon said. "Now, a lease-back deal can provide the long-term cashflow that investors are looking for. The yield is lower, but the risk is lower as well."

In his experience, about one in ten building sales deals involve lease-backs. They may become more common for government entities as they look for ways to generate cash quickly.

"The state wants to get out of the volatile real estate market and have more predictability for the state budget," said Eric Lamoureux, spokesman for the state's Department of General Services. The state sale is expected to bring in about \$2 billion that will be used to retire debt on the buildings and leave a profit of \$660 million.

For private companies, the motivation to do a lease-back deal can also involve raising cash to invest in other parts of the business.

At the end of 2008, **Citibank** wanted to take its money out of its real estate and put it into loans, so it sold 14 Bay Area branches in lease-back deals for \$45.8 million.

"It's a good way to tap cash and monetize assets to get proceeds that can be put elsewhere," Shannon said.

### How lease-backs work

Lease-back arrangements allow property owners to free up capital tied up in real estate so they can use the money elsewhere. A lease-back or sale lease-back is a deal in which one entity sells a property to another with the intention of leasing back the property after the sale is complete.

A lease, lease-back is a deal in which an entity leases a piece of property to a developer who develops it and leases it back to the owner of the land, as in the case of the [University of California-San Francisco](#) neuroscience building.

Some examples:

UCSF: The school leased land to a nonprofit organization that receives bond money raised for the project. The nonprofit subleases the land to Edgemoor Real Estate Services and McCarthy Cook & Co., which will build, operate and lease the neurosciences building to UCSF.

State of California Department of General Services: The state is selling 11 state-owned buildings to raise revenue. Bids for the portfolio have come in at more than \$2 billion, which would help generate around \$660 million to shore up the state's budget deficit. CB Richard Ellis has been marketing the properties.

Citibank: The bank wanted to take its money out of real estate, so it sold 14 Bay Area branches in lease-back deals in 2009.



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