Box 6

FINANCIAL STABILITY IMPLICATIONS OF THE INCREASE IN PROPERTY SALE AND LEASEBACK ACTIVITY

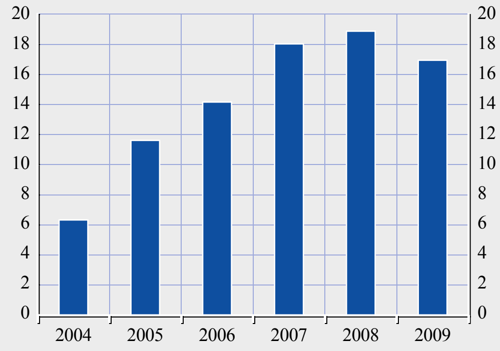
Over the past decade, an increasing number of companies have engaged in the "sale and leaseback" of their property, such as office buildings or retail space. Under a sale and leaseback agreement, a company sells a property to a professional property investor and leases it back, with the aim of raising capital. In the past, companies often saw ownership of their own property as a sign of strength. However, in the last decade, the stigma attached to selling off "the family silver" lessened, and sale and leaseback activity became increasingly popular. The market was also fuelled by some prominent examples of sale and leaseback activity in Europe in recent years.

Occupier sales in Europe grew from €7 billion in 2004 to €46 billion in 2007, before declining again in 2008 and 2009, together with total investment activity. At the same time, the share of occupier sales in total commercial property investment volumes increased from about 6% in 2004 to around 18% in recent years (see Chart A). However, the share in total investment activity varied widely across countries. In 2008 and 2009, when investment volumes in commercial property markets were comparatively low, some large corporate disposals in Italy and Spain accounted for a large share of overall commercial property investment activity (see Chart B).

Sale and leaseback can be an effective and cheap way for companies to raise capital, especially during periods when property prices are high and other sources of finance expensive. For financial stability analysis of the commercial property sector, it is important to understand and monitor sale and leaseback activity since it now accounts for, on average, almost 20% of total

Chart A Commercial property occupier sales in Europe as a share of total investment

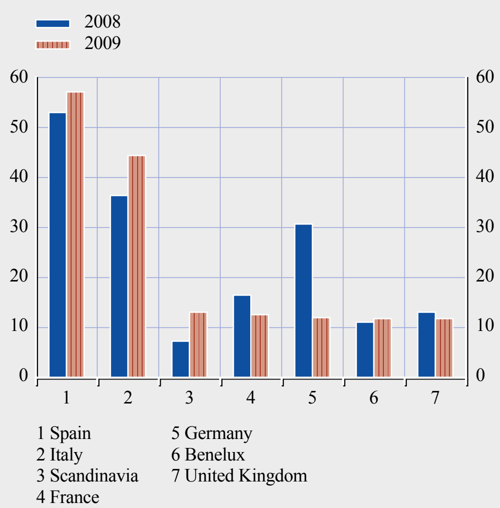
(2004 – 2009; percentage of total investment volumes)



Source: CB Richard Ellis.

Chart B Commercial property occupier sales in selected European countries and regions

(2008 – 2009; percentage of total investment volumes)



Source: CB Richard Ellis.

investment volumes and is much higher in some countries. It is likely that the number of sale and leaseback deals by companies will continue in the period ahead, owing to the relatively high cost of issuing debt for many corporations.

Spreading commercial property risks to professional property investors via sale and leaseback deals can contribute to financial stability by providing a good source of finance for the sellers and an attractive investment, with often longer leases, for the buyer. This is, nevertheless, likely to depend on the extent to which transactions are fuelled by leverage and it also creates linkages between property investors and the selling companies, through which financial difficulties can then spread.