Raising capital from real estate: Is now the time to sell?
Companies continue to place intense scrutiny on the financial impact of their real estate. In the first of JLL’s reports on this subject, the Five Golden Rules provided a framework for decision making and identified solutions that companies can apply to deliver operational advantages and maximise shareholder value.1

The second in this series of reports underlines that real estate is firmly in the spotlight. Unprecedented levels of equity are targeting European real estate, fuelling investment activity and providing a once in a cycle opportunity for occupiers of property to raise capital or dispose of unwanted problems at attractive pricing. Against this backdrop, companies with owned assets should be asking themselves, if now is the time to sell?

JLL’s latest Global Corporate Real Estate Trends report, reveals 40% of survey respondents reported increasing demands from senior leadership to raise capital through the real estate portfolio2. Senior leadership have been quick to take advantage of favourable market conditions. 2014 saw the highest number of corporate disposals in seven years. Activity has been witnessed across all sectors and asset types. With interest rates currently at record lows and a wall of money targeting good quality product, the market opportunity to raise capital from real estate is clear.

For some organisations ‘selling the family silver’ still presents a huge psychological barrier. Cash rich companies with ready access to corporate debt at attractive rates are unlikely to sell off core properties to raise capital at a higher cost. However, companies are increasingly looking at ways of utilising their portfolio as an alternative source of capital to equity and debt, at a relatively low cost, with the additional benefit that currently, before the new lease accounting proposals come in, it can be structured off balance sheet. The marketplace has evolved with a range of solutions, beyond the sale and leaseback, that are available to companies keen to benefit from disposal.

Why should you consider selling?

<table>
<thead>
<tr>
<th>RAISE CAPITAL</th>
<th>FLEXIBILITY</th>
<th>EXIT STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allows capital to be recycled back into the business to support growth and expansion</td>
<td>It can be used to improve financial flexibility for the business and unlock value for shareholders</td>
<td>Disposals can unlock the hidden value in real estate assets as part of a planned exit</td>
</tr>
</tbody>
</table>

1 JLL, The Financial Impact of Real Estate: Five Golden Rules
2 JLL, Global CRE Trends – Elevate to Excellence
Robust investment activity

A wealth of equity is supporting a robust real estate investment market driving capital value growth and yield compression across markets and asset classes. European prime yields across all major sectors continued to trend down in the first quarter of 2015 and are now at their lowest point since 2007/08. Faced with historically high real estate values, companies have the opportunity to exploit the best market conditions for disposal in over seven years.

2014 witnessed a surge in global real estate investment. Q4 2014 was the strongest quarter on record across all three regions with US$230 billion invested, 31% ahead of Q3 2014. This brought full year 2014 volumes to US$710 billion, a 20% increase on 2013 with transaction activity only ever exceeding this level in the peak of 2007.
This momentum has continued into Q1 2015 with global direct real estate investment volumes totaling US$155 billion, up 9% on a year ago. The improvement in fundraising in recent quarters means that fund managers now have large amounts of capital available to make new investments. At the end of Q1 2015, closed-end private real estate funds held $223 billion in capital raised but not yet invested. With abundant equity, availability of debt and the continued low interest rate environment, global real estate investment volumes are expected to continue to rise in 2015.

Capital raised by Private Real Estate Funds but not yet invested (US$ billions)

Source: Preqin, 2015
Investment activity will continue to be fuelled by a range of factors. On the one hand there is a greater propensity to save and a greater proportion of these savings are expected to target real estate. On the other hand, activity has and will continue to be driven by the rise of private equity with evidence of strong inflows into real estate funds. Demand from investors will encourage companies to consider raising capital through real estate disposals.

Rise of global savings
The quantum of capital available for investment continues to grow as additional new sources emerge. An important driver has been the growth in global savings. Gross domestic savings are forecast to increase from US$8 trillion in 2004 to US$37 trillion in 2022. Much of this will be driven by China, accounting for almost 40% of global savings by 2022.4

Global savings to increase to $37 trillion by 2022

What is driving activity?

<table>
<thead>
<tr>
<th>Pension Fund allocations to Real Estate 2014</th>
<th>Additional investment required to reach same 11% allocation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>JapanGovt PF, NBIM, UK auto- enrolment DC PFs, NPS, US Public PFs, Calpers, P7 PF sector*, Europe's 10 Largest PF RE investors, CPPIB</td>
<td>$125bn, $78bn, $38bn, $29bn, $248bn, $8bn, $687bn 11%, 12%</td>
</tr>
</tbody>
</table>

Source: Tower Watson, IPD, Calpers, NBOM, NPS, CPPIB, ONS, Business Monitor MQ5, Cass Business School, IPF

* P7 are the 7 largest PF countries: Australia, Canada, Japan, Netherlands, Switzerland, UK and US.
* IHS Global Insight Note: Gross national savings calculated as gross national income less total consumption (plus net transfers).
Increased allocations to real estate
An increasing amount of savings are being invested in pension funds and or sovereign wealth funds which are likely to increase exposure to cross-border real estate as they seek diversification and higher returns, and as changes in legislation make this possible. Although there are several routes to obtaining real estate exposure, the impact on the direct real estate investment market will be significant.

At the same time, existing investors are increasing their weighting to real estate. In Europe, the 10 largest pension funds allocate 11% to real estate. If other large pension funds followed suit, increasing their current allocations to 11%, the additional investment this would generate would be substantial.

Rise of private equity
Whereas pension funds are often willing to invest directly on core assets, they typically invest indirectly when it comes to higher return real estate strategies. Private equity funds turn out to be the major winners in this trend. 2014 was another strong year for fundraising with $91 billion raised, nearly matching the record in 2013. Several of the biggest names in the industry raised large offerings, with Blackstone Group closing the largest ever solely Europe-focused fund. The increased fire power of private equity funds is evident in the strong increase in acquisitions of direct real estate with investment in 2014 reaching €24 billion in Europe, more than double 2013.

Increased volatility across other investment classes
With a weak euro and relatively attractive yields, Europe remains a hot spot for international capital. Investors remain attracted for two main reasons. Firstly, the economic recovery in the US has already been priced in and competition is high. Secondly, in Asia Pacific, yields are already very low and growth is beginning to slow in China. At the same time, investors in these two regions have access to cheap capital and are looking to Europe for its relative value. Contrary to bond yields which have turned negative and equity markets trading near all-time highs, real estate in Europe has not yet reached prior records and in some cases trades below previous peaks with leverage way below 2007 levels. This makes real estate very attractive for those investors looking for yield and secure income streams.

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1 Preqin Global Real Estate Report, 2015 (Total for closed ended funds)
2 JLL, 2015
Why should you consider selling?

With unprecedented levels of equity targeting European real estate, companies are faced with a once in a cycle opportunity to raise capital or dispose of unwanted problems at historically high values. Companies with owned assets should be asking themselves if now is the time to sell? There are a range of benefits associated with disposal.

Disposal can benefit your business

**RAISE CAPITAL**
- Provides an alternative source of capital to equity/debt at a relatively low cost
- Allows capital to be recycled into the business to support growth and expansion

**FLEXIBILITY**
- Companies can exploit the market for partial or short term sale and leaseback to improve flexibility and unlock value for shareholders
- Aids corporate restructuring and facilitates operational reorganisation of portfolios

**EXIT STRATEGY**
- Take advantage of market conditions by selling vacant properties and unlocking the hidden value in assets as part of a planned exit

Business is growing
Companies are in a position of financial strength. Since the global financial crisis they have deleveraged and as a result, built up substantial cash reserves and are looking to grow. The 1000 largest non-financial companies in the world held near record cash reserves of $3.1 trillion as of H1 2014.7

Companies are in a strong position to pursue acquisition growth strategies through M&A activity. Global M&A volumes reached €1.9 trillion in 2014, up 22% y-o-y. 2015 has already witnessed a strong start with over €288 billion in completed deals recorded.8 M&A activity often creates churn within portfolios and can encourage disposal.

Credit conditions remain attractive particularly for larger corporates. The balance of respondents to the Deloitte CFO Survey — which covers large companies — reporting the cost of credit to be ‘cheap’ increased to over 80% in 2014, the highest level since 2007. But not all businesses are operating from such a strong financial position. Many companies remain cautious as they continue to grapple with legacy issues. In a recent CFO survey respondents showed a reduction in risk appetite, with only 51% of CFOs saying now is a good time to be taking more risk onto their balance sheets, down from 72% only six months ago.9

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7 Deloitte M&A Index Q4 2014
8 Thomson Reuters (as at 26/5/15)
9 Deloitte CFO Survey Q1 2015
Companies continue to face intense pressure to optimise costs, deliver value to shareholders and maintain a healthy balance sheet. Leadership is increasingly looking to real estate to satisfy these pressures whether through optimising costs or generating meaningful cash through the disposal of assets. The dominant pressure from senior leadership is around reducing the operating expense of the portfolio with 77% of respondents in our Global CRE Trends survey witnessing increasing demand. This is also accompanied by significant pressure to deliver increasing portfolio flexibility.10

Companies that are financially strong and have cash reserves or access to corporate debt at very low rates may not want to sell off their real estate to raise capital at a potentially higher cost. Others, particularly food retailers and hotel operators, have taken a different view and have actively recycled capital from core properties in their portfolio, often to invest in new locations or expand existing locations to grow their business. Companies need to strike the right balance between owning versus leasing properties. Whatever the decision, companies need to build in flexibility in line with the changing demands and priorities of the business.

63% of CFOs rate the level of uncertainty facing their business as above normal or higher 11

10 JLL, Global CRE Trends - Elevate to Excellence
11 Deloitte, CFO Survey Q1 2015
European Corporate disposals reach an eight year high

In the US more companies tend to lease rather than own real estate, but in Europe the reverse is typically true. This practice has come under increased scrutiny from shareholders keen to improve their return on capital. Since 2012 the number of companies disposing of real estate assets in Europe has been on the increase, coinciding with a period of rising values.

2014 saw the highest number of corporate disposals in eight years, with over 350 deals recorded. By the end of 2014, corporates had disposed of €14.6 billion in real estate, still some way off the volume of activity in 2008 but almost double compared to 2009 when the appetite for transactional activity faded in the wake of the GFC. This momentum is expected to continue in 2015 as companies take advantage of abundant equity and a continued low interest rate environment.

Who are the sellers?

Traditional office and industrial occupiers dominated corporate disposal activity in 2014, accounting for 38% of disposals. This includes a range of companies from a diverse sector base including Pharmaceuticals, Telecoms, Energy, Manufacturing and IT. This was followed by Hotel operators (27%) and Retailers (16%). These splits are broadly in line with activity over the previous two years – however Retailers have declined as a proportion of total volumes since 2008 when they accounted for 35% of activity. This can in part be explained by a number of particularly large retail deals in 2008 - The Karstadt portfolio in Germany was sold for €2.2 billion and UK supermarket chain Tesco, disposed of multiple assets all in excess of €100 million.

Corporate disposals reach highest point since 2007\textsuperscript{12}

European Corporate Disposals

Source: JLL, 2015 (Note: Excludes deals under US$5 million)

European corporate disposals 2014 – by vendor type

Source: JLL, 2015 (Note: Excludes deals under US$5 million)

Number of corporate disposals in Europe over 2014 compared with 2007-2014.

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\textsuperscript{12}Number of corporate disposals in Europe over 2014 compared with 2007-2014.
Media and telecoms companies are a key source of activity

Within the traditional office and industrial occupier segment, media and telecoms companies were responsible for a number of notable disposals in 2014. However activity has been widespread across sectors and asset types.

Recent Corporate Disposals

- In the largest corporate disposal of 2014, mobile phone operator SFR’s HQ complex in Paris, was sold for €680 million
- British Telecom sold its surplus Nine Elms site in London for €117 million. The site which has planning permission will be transformed into a residential tower
- Nordic media group Sanoma, sold their Helsinki office HQ to Deka Immobilien Investment via a sale and leaseback (€176 million). The proceeds of the sale will be used to pay off existing debt and improve financial flexibility
- 2014 saw pharmaceuticals company AstraZeneca dispose of Alderley Park in Manchester as part of plans to establish a new R&D centre and corporate headquarters in Cambridge, in 2016
- Retail group Metro AG, have also been active. In 2013 they disposed of a number of retail properties across Germany. More recently the group took advantage of attractive pricing in the office market by negotiating a 15 year sale and leaseback of part of their office HQ in Dusseldorf for €200 million

Disposals are widespread incorporating a range of sectors and asset types

European corporate disposals by asset class

Source: JLL, 2015 (Note: Excludes deals under US$5 million)

What are they selling?
Companies disposed of a wide range of assets in 2014, with the five largest deals spread across a mix of asset classes. Offices were the most dominant accounting for 38% of disposals in 2014. This was followed by Hotels (24%), Industrial (16%) and Retail (12%).

Offices accounted for €5.5 billion of disposals in 2014, up from €3.1 billion in 2013. Notable office disposals include the sale of the Metropolitan Police Service HQ in London for €469 million. The sale has paved the way for the Metropolitan police to move into new offices, with the proceeds being reinvested back into the police service and existing estate. Mining company Rio Tinto also took advantage of favourable pricing in London’s office market by agreeing a sale leaseback of its West End office for €332 million. The building was purchased at a yield of sub - 4% (compared to a 20 year prime average yield of 4.65% in the West End) demonstrating the attractiveness of pricing.

In the industrial market Volvo disposed of a portfolio of properties, largely in Gothenburg owned by the Volvo Group and leased to external tenants. The Volvo Group decided to sell the real estate as it has been deemed not strategic for them to continue as landlord and owner. The transaction also included properties in Denmark, Sweden and Finland, where the real estate to a large extent will be rented by companies in the Volvo Group.

Companies are taking advantage of rising real estate values
In the industrial market Volvo disposed of a portfolio of properties, largely in Gothenburg owned by the Volvo Group and leased to external tenants. The Volvo Group decided to sell the real estate as it has been deemed not strategic for them to continue as landlord and owner. The transaction also included properties in Denmark, Sweden and Finland, where the real estate to a large extent will be rented by companies in the Volvo Group.

Growth in the alternatives sector is fuelling disposals
Outside of the traditional sectors, there has been notable activity in the Healthcare market. In 2013, Spire healthcare concluded the sale & leaseback of 12 hospitals for €878 million. The proceeds of the deal, net of costs, have been reinvested in the company, reducing the net bank debt. More recently, the Priory Group raised capital through the sale and leaseback of 6 facilities in the UK. The proceeds of the sale will be reinvested in the business to pay down debt.

These transactions show the strength of the alternative sector, which includes hotels, healthcare and student housing and was the fastest growing sector in 2014 across the UK Capital Markets. These assets are being targeted by both private equity and traditional institutions for different reasons. Private equity funds view these non-core sectors as growth areas, with favourable demand/supply dynamics and demographics. The main attraction for traditional institutional investors is the stable long term income stream, typically with indexed or fixed uplifts in rents, which is essential given the specialist nature of the real estate. In the hotel market Whitbread are notable for their activity both as buyers and sellers. They have carried out a number of forward fundings, taking out long term leases on new locations whilst investing their own capital in London based sites to develop in the future.

16 The Priory Group http://www.priorygroup.com/investors/news
Where?
The UK, Germany and France continued to dominate in terms of the volume of corporate disposals, accounting for over 60% in 2014. This was higher than in previous years, driven by the UK, where corporate disposals reached a high of €5.7 billion, up 18% y-o-y and almost double the volume of deals achieved in 2008. Spain and the Nordics also featured strongly accounting for 18% of total corporate disposals in 2014.

Value & number of corporate disposals 2014

Activity continues to be dominated by the larger European economies including the UK, Germany & France

In Spain activity was driven by a number of hotel disposals whereas in the Nordics Industrial and Office assets made up the majority of deals. The largest transaction in Europe involved the aforementioned sale of SFR’s HQ in Paris. However the UK dominated when it came to larger deals in 2014 with more than 10 deals over €100 million.

Source: JLL (Note: Excludes deals under US$5 million)
Demand from investors has fuelled innovation and there are a range of options available for companies considering disposal as a means of raising or recycling capital. Strip income, credit tenant leasing and property pension fund partnerships mean there are more options to consider besides the sale and leaseback.

Companies considering taking capital out of owned assets should take into account prevailing financial and real estate markets as well as the proposed changes to lease accounting. It is essential to evaluate options in the context of the wider real estate and financial strategy.

The model of monetising core assets and recycling capital elsewhere in the business, is intended to enhance value for shareholders. Fundamental to success is the need for companies to ensure the highest value and cheapest cost of capital.

Whatever the choice; the lowest cost of capital is available to investment grade companies prepared to sign long leases with RPI uplifts. There is overwhelming demand for this type of product, especially from annuity funds seeking to match assets to pension fund liabilities. The pricing is particularly keen for properties where the residual value risk is low, like large supermarkets or prime office buildings; but not all properties fit that bill.

Sale & leaseback

Strong investor demand has driven sale and leaseback activity across Europe. Food retailers, in particular, have actively recycled capital from core properties to satisfy their appetite for funds to extend and develop new stores or to release capital to satisfy shareholders.

Properties are sold to a landlord in return for the company taking an occupational lease. This usually involves a long term commitment (20+ years) with pricing driven by the lease term, covenant and real estate characteristics. Deals are typically structured off balance sheet but this needs reviewing in light of the lease accounting changes.

Sale and leasebacks involve a low level of complexity and risk, but for “BBB” rated companies or better it is worth considering other options that may offer benefits in terms of higher values and different levels of control and flexibility.

### Case Study: Sale & leaseback

<table>
<thead>
<tr>
<th>Company / Property name</th>
<th>The Co-operative Group, One Angel Square, Manchester</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>c. 30,600 sq m</td>
</tr>
<tr>
<td>Capital raised</td>
<td>c. €167 million</td>
</tr>
<tr>
<td>Purpose</td>
<td>The Co-operative Group developed their HQ building in Manchester which was completed in 2012 and subsequently sold to a joint venture between an Asian Investor and RREEF on behalf of its German open-ended real estate fund. It is one of the most sustainable buildings in Europe with a BREEAM rating of ‘Outstanding’. The property is occupied by the Co-operative Group on an index linked lease with an option to extend the lease beyond 25 years.</td>
</tr>
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<table>
<thead>
<tr>
<th>Company name</th>
<th>Confidential Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>c. 238,000 sq m</td>
</tr>
<tr>
<td>Capital raised</td>
<td>c. €1.6 billion</td>
</tr>
<tr>
<td>Purpose</td>
<td>A major UK retailer has concluded over 37 transactions over the last 5 years, raising a total of €1.6 billion spread across a portfolio of 238,000 sq m. The retailer has proactively bought in leases where there is opportunity to further extend and develop, whilst disposing of assets which are core but where development potential is more limited.</td>
</tr>
</tbody>
</table>
In the current market, institutional, fixed income and annuity investors are seeking to acquire annuity style and indexed income investments, where the property is leased for medium / long terms at an indexed rental income. Strip income involves an investor paying a lump sum upfront to acquire the rental income derived from a lease. The lease would be for a period of between 25-40 years at which point upon expiry, the freehold would revert to the tenant for a nominal sum (£1). The interest in the asset is retained and provided the lease is indexed (RPI or CPI), the investor has a bond style investment from which they are able to strip out the income.

For capital adequacy purposes strip income investments are now treated as a bond investment rather than real estate. This means that for regulated investors less capital has to be set aside and accordingly keener pricing is able to be paid for a strip style investment. This has worked particularly well for non-tax paying entities such as universities and hospitals that are also less sensitive about the lease potentially being treated as a finance lease and remaining on balance sheet.

Credit Tenant Leasing
Securitisation takes the strip income model a stage further by using the lease income stream to create a bond. A special purpose vehicle is created which issues the bonds, the proceeds of which flow through to the company disposing of the asset. The bonds are repaid from the income stream from the long indexed lease to the occupier, fully amortising over the lease term and secured on the asset.
The bonds attract fixed income investors more interested in the quality of the income stream rather than the real estate itself. This can provide very competitive pricing which is usually at a small margin (typically 75 – 150 basis points) over comparable length bonds for the same company. This can often be at a cheaper cost of capital than a typical sale and leaseback plus it can work for real estate that has no conventional market.

Securitisation issues have typically been carried out for large transactions, in excess of £100 million where the bonds are publicly traded instruments. However, a private placement market exists of “fixed-income” investors, especially US and UK Pension Funds and Insurance Companies, who are just as willing to invest in smaller unlisted/unrated transactions.

These type of transactions don’t come without complications. To support the issuance of bonds, the leases must be “bondable” - whereby the rent is paid come “hell or high water” and the lease is non-assignable. So, the company disposing of the asset takes on more risk than is typical under a normal lease - although this can be managed by taking out insurance.

By tapping into fixed income investor appetite, companies looking to raise capital from their real estate are more likely to achieve the highest sales proceeds and the lowest cost of capital, making it a realistic alternative to corporate debt - especially if it is structured off balance sheet.

This market is just beginning to emerge in Europe but is already well established in the US, with growing appetite from investors. JLL has been involved in structuring the first two credit tenant leases in the UK.

Property Pension Fund Partnerships
With so many company pension funds in deficit a property pension fund partnership is a tax efficient way of helping to plug the deficit whilst retaining control of the property.

The property is put into a partnership vehicle in which both the company and pension fund have an interest, a lease is set up between the company and the partnership and the pension fund’s share of the income is used to help reduce the deficit. There are some complex valuation and structuring issues to overcome but it is an innovative way for corporate occupiers to make the capital tied up in property work harder. This has been pioneered by retailers in the UK, including Marks and Spencer, Kingfisher and John Lewis.

Other Creative Solutions
There are a number of other creative solutions for companies considering raising capital from their real estate. Property funds have been particularly attractive with retailers and banks across Europe and have worked successfully in Italy and France for Unicredit, Metro and Casino amongst others. Real Estate Partnerships provide an alternative option where an investor invests in a corporate’s occupational portfolio taking on core properties on long term commitments and providing flexibility on other elements of the portfolio. It is also still possible to secure commercial mortgage debt against properties in Europe – the so called OpCo/PropCo structure. This provides flexibility with negotiable loan terms providing a cost effective and flexible option whilst still retaining ownership of the asset.

Each of the options outlined here involve different potential investors, terms, pricing and complexity as illustrated in the table overleaf.
# Summary of key options

<table>
<thead>
<tr>
<th>Sale &amp; Leaseback</th>
<th>Strip Income</th>
<th>Credit Tenant Lease</th>
<th>Property Pension Fund Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investor / Lender Pool</strong></td>
<td>Sovereign wealth annuity funds, property companies, private equity</td>
<td>Annuity Funds</td>
<td>US and UK fixed income investors</td>
</tr>
<tr>
<td><strong>Term of Commitment</strong></td>
<td>Varies – 3 – 25 years, partial to whole leaseback</td>
<td>25 years +</td>
<td>20 years +</td>
</tr>
<tr>
<td><strong>Capital Raised</strong></td>
<td>100% Market Value</td>
<td>90% +</td>
<td>90%</td>
</tr>
<tr>
<td><strong>Pricing Basis</strong></td>
<td>Driven by term, covenant and real estate</td>
<td>Gilt rate plus covenant and illiquidity margin</td>
<td>Gilt rate plus covenant and illiquidity margin</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td>Off</td>
<td>On</td>
<td>On/Off – depends on structure</td>
</tr>
<tr>
<td><strong>Execution Complexity</strong></td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td><strong>Market Appetite</strong></td>
<td>Strong</td>
<td>Medium</td>
<td>High</td>
</tr>
</tbody>
</table>

- Market based
- Corporate’s own Pension Fund
- N/A – used to fund pension liabilities

**Note:** Market terms depend on Pension Fund.
Conclusions

Raising capital from core real estate assets may not suit all companies. However, faced with a once in a cycle opportunity to raise capital or dispose of unwanted problems at historically high values, now is the time to rethink own versus lease strategies.

It is clear that we are currently in a buoyant real estate market where there is wall of capital available to acquire a range of assets. There is appetite for assets on long leases, to those on more flexible terms with partial or short term leasebacks as well as vacant properties which require redevelopment or repositioning. This presents a great opportunity for companies with owned real estate to consider the options.

Given the current market and with lease accounting changes imminent, now is the time to review the corporate real estate portfolio, assess how well it meets business and financial goals and develop an own versus lease strategy. It is a great way of connecting with senior leadership and creating the framework for the property portfolio.

There are three key steps:

- **#1 Operational review**
  What is core and what is not, what could be vacated or relocated or is only needed short term.

- **#2 Market review**
  What is the real value of your estate - both on a vacant possession value basis but also on a sale and leaseback basis on a variety of different terms.

- **#3 Develop a strategy**
  Which option creates the most value, the lowest cost of capital and the most appropriate level of flexibility for your portfolio and can be executed in the market.

Companies frequently complement their own versus lease strategy with a financial model to support their decision making process. This provides the tool to communicate and involve all the key business stakeholders including tax, treasury and finance in an important strategic and financial decision. The model looks at the own versus lease decision – not just from the market viewpoint – but from the financial impact on the business. It includes the fundamental economic and market data such as: upfront costs, rental levels, rental growth, residual values, and discount rates and analyses the decision in cash and accounting terms. This can put real estate teams at the heart of decision making.

There are a range of innovative solutions that the market is providing to enable organisations to answer their real estate problems. The current market is compelling because it is such a stark contrast to the market of five or six years ago when there was no appetite for vacant properties or flexible leases and when sale and leasebacks were carried out at an extremely high cost of capital. With continued strong demand from real estate investors and companies themselves looking to raise capital, now is the time to take advantage of the market to create the portfolio that meets future business needs.
To find out more about how to raise capital from your real estate or to discuss any of the areas outlined in this report please contact one of our JLL experts:

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