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Keystone Strategies—*Understanding the credit crisis, its impact on your real estate, and ways to create opportunity*

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The crisis on wall street is affecting every business and every individual. Companies now more than ever need to increase flexibility while decreasing expenses in order to maintain profitability. Real estate expenses can greatly affect a company's performance and given they are typically fixed, how can a company actually take advantage of this unstable global economy?



Understand, qualify, and quantify the value of your tenancy

The credit value that any company brings to the real estate it occupies is one of the most important factors when negotiating a new lease, selling a business, or selling owned real estate. Yet, in most instances companies and their advisors do not understand their positions in the capital markets and how to appropriately leverage that position. Today, where the global economy continues to shift dramatically, your company's financial position and value change in parallel.

Restructuring your lease

The owner's debt and equity position in a building will determine how flexible they can be in terms of restructuring your lease. If the owner has lower leverage (i.e. more "cash" in a property), flexible loan covenants, or the ability to refinance, then you may be able to restructure your lease, lower your expenses, and extend your term. However, if the owner is not in a position to alter the cash flow on a building by changing the terms of your lease, the key will be to find a new source of capital that can readjust your terms. Again the first step in the process is to understand how much value your company brings to the building and then determine your current owner's financial objectives or constraints. With those pieces of the puzzle in hand, an opportunity to restructure a lease that will actually benefit all parties can be created.

Selling your owned real estate

If you are considering a sale-leaseback of your facility, again the first step is to understand how your credit will affect a new buyer's ability to finance the property. This will fundamentally affect the value, and number of potential buyers that can actually acquire the property. In addition, the terms of the lease itself including many nuances such as lease security, will absolutely determine the value of the asset. It is also critical in these instances to structure a lease which is as "credit worthy" as possible, but that also matches the business objectives of your company. You need to perform a cost benefit analysis which weighs the impact of the sale with the impact on the business and your objectives for the future.

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When is the appropriate time to create an opportunity?

In order to advise our clients when they have the greatest value, and leverage, Keystone Strategies looks at four key matrices. *The first obviously is the real estate market itself*, tracking the point at which your company has the greatest number of potential alternatives (whether or not you are actually moving). High vacancy and availability rates create competition, which typically drives rental rates down. *The second and third indicators are the owner's ability and need to act quotients*. There are instances when an owner may want to extend a tenant's lease, but cannot because their current lender will not allow them to alter the cash flow. There are also times when an owner may have very favorable debt on a property, and many not need to do anything. *The last indicator is to determine when the tenant's credit value is at its absolute highest*. When all these factors are in your favor, then you have the greatest opportunity.

Foreclosure, shifting debt, and its affect on tenants.

The most notable example of the instability and volatility in the current real estate market is manifested in the foreclosure sale of one of Boston's most significant real estate assets—the John Hancock Tower. However, as newsworthy as this story is, most do not realize what impact it will actually have on the tenants in the building.

Essentially, as long as your lease has protective covenants that will maintain its validity and protect your rights, foreclosure and/or the sale of the note can be beneficial for tenants who may be looking to restructure their leases. If the new owners and/or lenders have secured the property at a much lower financial basis than the previous owner, then there may be the ability to restructure a tenant's lease at more favorable financial terms as a means to stabilize the asset.

Keystone's value proposition.

Given that the capital markets continue to change daily, a company's real estate strategy needs to be proactive. In order to insure that you understand how the market turmoil affects your company, we in concert with our team of debt and equity specialists will help you determine when, and how, to create the leverage you need. Our goal is to help you both understand the implications the credit markets have on your company's real estate, and develop a strategy to enable you to capitalize upon it to increase profitability.

For more information on ways to help your company reduce its expenses, or increase the value of its owned real estate, please contact *Don Hause at Keystone Strategies directly at 617-848-8845 or email at dhause@keystonewengland.com*. In addition, for more information on the capital markets please call *Bob Clifford, our resource partner at Goedecke & Company at 617-790-9000 or rclifford@goedeckeco.com*