

The Wall Street Journal Europe

October 23, 2002

THE WALL STREET JOURNAL EUROPE.

Politics & Economy

U.S. Corporations Are Selling Real Estate to Lift Balance Sheets

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10/23/2002

The Wall Street Journal Europe

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Companies such as AT&T Corp., Citigroup Inc. and MetLife Inc. are cashing out of some of their real-estate holdings, looking to bolster balance sheets and seeing a flood of institutional investors seeking real-estate assets.

Corporations sold 95 properties in the U.S. with sales volume totaling \$2.35 billion (2.41 billion euros) during the third quarter, up from 63 properties totaling \$98 million a year earlier, according to Real Capital Analytics Inc., a real-estate research firm based in New York. So far this year, corporations have sold 240 properties with sales volume totaling \$4.78 billion, up from 208 properties and sales volume of \$3.7 billion.

"The current economic climate is such that many corporations need cash infusions and are looking to obtain capital through various means," said John D. Lyons, executive managing director of Granite Partners LLC, a national real-estate investment-banking company based in New York. "Real estate is certainly one of those places where they look to achieve these results."

Last week, Citigroup cited the sale of its headquarters building in New York as a factor that helped the financial-services company post a 23% rise in net income for the third quarter. Its stock rose 13% on the day of the earnings report.

The transaction -- in which Boston Properties Inc., a real-estate investment trust, paid \$1.06 billion, or \$631 a square foot, to buy Citigroup's 41-story headquarters in midtown Manhattan -- was closed relatively quickly and just days before the end of the third quarter. Citigroup booked the \$323 million after-tax gain from the sale in the company's proprietary investment portfolio, which posted a loss of \$123 million. Officials said that without the real-estate sale, earnings would have been reduced by about six cents a share.

High prices are one reason New York insurer MetLife is marketing \$2 billion of real-estate assets consisting of between 15 and 21 properties throughout the U.S. The assets, mostly high-quality office space but also hotels, apartment buildings and a parking lot, are wholly owned investments of MetLife, meaning the company doesn't occupy space in them.

"We think real estate represents a very attractive asset class, and we view this as an opportunistic play to test this demand," says Brian J. Fox, national marketing director at MetLife.

Publisher McGraw-Hill Cos. is considering marketing its 45% stake in the 50-story midtown Manhattan tower that bears its name, according to people familiar with the situation. McGraw-Hill officials declined to comment. Some brokers estimate the

stake could command more than \$700 million.

Real-estate investments used to be considered a necessary piece of a company's infrastructure, as important as capital and people. But owning real estate can be a drag on a company's balance sheet because of the cost of depreciation -- or the gradual decrease in the property's value -- and the cost of the interest expense on any debt used to finance the property, according to Janice Stanton of real-estate services firm Cushman & Wakefield Inc. in New York.

A recent informal survey by **CoreNet Global**, an association of corporate real-estate executives, of its members found that on average 53% of 1,900 companies lease their real estate, compared with 47% owning. "That would have been the reverse a few years ago," says a spokesman for CoreNet, based in Atlanta.

Some companies are selling and moving out as they consolidate operations to cut costs. AT&T sold its 1.3-million-square-foot headquarters building in Basking Ridge, New Jersey, for \$200 million to Pharmacia Corp. in July. An AT&T spokeswoman described the move as part of a companywide cost-reduction effort. Proceeds from the sale are being booked to AT&T's third-quarter earnings, she said. Analysts say the gain on the sale will be small relative to AT&T's size and should have a minimal impact on earnings.

Other corporate real-estate sellers this year include Lucent Technologies Inc. and Raytheon Co. A Lucent spokesman said the company has generally reinvested proceeds from these sales into other areas of its business. A Raytheon spokeswoman said some proceeds from the sale of its headquarters, a deal expected to close in the fourth quarter, will be used to pay for new, smaller headquarters, which it will lease, not own.

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Paul Beckett contributed to this article.