Sale and Leaseback: An Appraisal in the South African Real Estate Market

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Declaration

I affirm that this Research Report is my own, unassisted work. It is submitted in partial fulfilment of the degree of Master of Science in the field of Property Development and Management at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other institution of higher education.

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Abstract

Studies on sale and leaseback as a real estate financing method in the South African real estate market have not been undertaken, therefore, the benefits of sale and leaseback in the South African real estate market cannot be quantified or illustrated.

The purpose of this research is to undertake an appraisal of sale and leaseback in the South African real estate market. The study sought to achieve this by undertaking an investigation of sale and leaseback as a source of financing corporate real estate; identifying the main motives in part-taking in a sale and leaseback in the South African real estate market; and lastly to determine which asset classes drive sale and leasebacks in the South African real estate market.

The rationale behind this is that since the 2008 financial crisis, there has been scrutiny on the real estate market globally, including South Africa in that financial institutions, investors, property owners and landlord have had to be creative and consider other forms of real estate finance as capital has been constrained, and lending criterion has become stricter, and also most economies have fallen on tough economic times, necessitating innovative ways real estate finance. Historically, and based on the secondary data, sale and leaseback has been used as an alternative to traditional forms of real estate finance for firms in Europa and the United State of America for different motivations, and across real estate asset classes. In the South African real estate market, this is not the case.

An extensive review of secondary data was conducted, followed by a survey questionnaire which was mailed to 30 individuals who operate in the real estate and financial service sector in Sandton, Johannesburg.

Acknowledgements

I would like to thank my supervisor for the continued patience and guidance. I would also like to give gratitude to Investec Property for the opportunity to complete my degree. And lastly, my Mother for the continued support and encouragement.

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List of Abbreviations

SLB	Sale and Leaseback
REIT	Real Estate Investment Trust
UK	United Kingdom
SPV	Special Purpose Vehicle
PLC	Publicly Listed Company
CMBS	Commercial Mortgage Backed Securities
FTSE	Financial Times Stock Exchange

1 Introduction

1.1 Background to the Study

The purpose of this review paper is to discuss sale and leasebacks as a form of funding corporate real estate. The scope of review revolves around the meaning, criteria and advantages of sale and leaseback transactions. This paper is shaped around Thontteh (2013), however, it also reviews literature from around the world and reports on the various research methodologies utilized by contributing authors to the topic.

As investors are in dire need for finance for real estate, it is becoming more important for investors to have a better understanding of sale and leaseback as a form of financing Thontteh (2013). Ling (2011) states “that a sale and leaseback is a special financing technique that is used in some markets. It’s often used between large investors and large manufacturing firms.” The traditional sale and leaseback trade takes place where a property owner offers their property to a potential buyer with the primary condition of occupying that building Wells and Whitby (2012).

Bryan (2004) reports on the evolution of sale and leasebacks as a structured finance tool in America to respond creatively to corporate economic needs. Ling (2011) reported “that sale and leasebacks are enjoying a new wave of popularity among some corporate occupiers. In real estate, sale and leaseback transactions allow the seller to get instant access to working capital while saving money on taxes at the same time. The seller would sell its commercial property according to market value and then immediately leaseback the property. The transaction involves only two parties instead of three. It gives the seller access to capital for other investments, while still being able to use the leased property. The true value of property to an occupier lies in using them, not owning them. That is why sale and leaseback is becoming an increasingly popular form of financing.” Asson (2002) reported that “when a company needed more capital to use in its business – particularly during times of high rates of interest on borrowing–a sale and leaseback was often seen as a way of accessing cheap cash.” The other stated rationale was usually that companies were not in the business of property ownership. The majority of studies focus around the use and understanding of sale and leaseback transaction has been solely based on American and European data with no study examining sale and leaseback as an alternative mode of finance for the South African real estate market. There is an opportunity to correct this by investigating whether South African real estate stakeholders are aware and understand sale and leasebacks as an alternative mode of real estate finance.

The research might also give insight on real estate asset classes that are most suitable for sale and leaseback, specific motivations in the South Africa real estate market.

1.2 Substantiation of the Problem

From an African perspective, the few studies that exist, mainly focus on the Nigerian real estate market. Thontteh 2013) explored perceptions of sale and leaseback transactions in Nigeria; it revealed that in Nigeria, 70% of real estate practitioners do not understand sale and leaseback transactions as an alternative model of real estate financing. A study of this nature has never been done in the South African real estate market, notwithstanding the fact that the South African real estate market is the biggest and most sophisticated on the continent.

1.3 Problem Statement

The majority of studies that have focused on sale and leasebacks have been solely been based on American and European data with no study examining sale and leasebacks as an alternative form of financing for the South African real estate market. From an African perspective, the few studies that exist mainly focus on the Nigerian real estate market. Thontteh (2013) explored perceptions of sale and leaseback transactions in Nigeria and Okal (2010) investigated strategies for commercial real estate development finance in Kenya.

A study focusing on the South African real estate market has not bee attempted. Current studies that exist are mainly focused on the agricultual industry, (Chirwa et al. 2015) conducted an assessment of settlement models for engagement of communities in forest land under claim in Jessievale and Roburna communities in Mpumalanga, South Africa where he discussed sale and leaseback as a model, Makhathini (2010) focused on Mondi's sale and leaseback model in South Africa as a land acquisition model.

As investors are in dire need for finance for real estate, it is becoming more important for investors to have a better understanding of sale and leaseback as a form of financing (Thontteh 2013). The research problem in the study is that there are no studies on sale and leasebacks in the South African real estate market, therefore, the benefits of sale and leaseback in South Africa cannot be quantified and/or illustrated.

1.4 Primary Research Question

The primary research question emanates from the need to do an appraisal of sale and leasebacks in the South African real estate market.

1.5 Secondary Research Questions

From the primary question, the secondary research questions are identified as:

- Which asset classes drive sale and leaseback in South Africa;
- Is sale and leaseback an alternative to traditional methods of real estate finance

- Is there a motivation to part-take in sale and leaseback transactions

1.6 Research Aim

The aim of this research is to do an appraisal of sale and leasebacks in the South African real estate market.

1.7 Research objective

The study aims to provide three objectives.

- Investigation of sale and leaseback as a source of financing corporate real estate in South Africa
- To identify the main motives in part-taking in a sale and leaseback in South Africa
- To determine which asset classes drive sale and leasebacks in the South African property market.

Redman, et al. (2002) state "that the majority of the funds to acquire real estate assets for production, distribution and headquarters activities were generated from operating cashflows rather than external sources of financning. Tradtional leasing was a common method to acquire real estate assets. The benefit of this was that corporate managers could have flexibilty, creating anf off-balance sheet funding and leverageing off of the tax-breaks."

Tipping and Bullard (2007) highlighted that "extracting operational reat estate from normal operating activities was preferred by most businesses, especially in the UK. Numerous motives drive this thought line. The differing motives and perceptions of corporations have culminated in the adoptions of a number of corporate real estate strategies. Gronlund et al." (2004) state "that corporations may need to make money available from assets for investments in central operations. Discarding of low-returning property investments and spending of cash in central operations has the potential to improve return on cash. Executive management may intend to expand corporation's capital structure. Through the sale of assets, and sponsoring the funds to the property liability market, the vendor would have to explore new opportunities of finances."

Lausevic (2014) asserts that “sale and leaseback model is predominantly applied in great value real estate such as corporate headquarters, leisure accommodation and warehouses which are being traded to the leasing entity, thereafter utilized through on a rental basis for a considerable period of time.”

1.8 Hypotheses

The understanding, and impact of Sale and leaseback in the South African real estate market has not been assessed or quantified.

1.9 Limitations

The study focused on the South African real estate market and some of the synthesized articles were fairly dated.

1.10 Assumptions

The following assumptions have been made:

- This distribution is a normal distribution;
- The data are uncorrelated over time;
- Data are independent; and
- Data have a linear relationship

Nearly all academic research relies on the assumption of normality that is all outcomes from the sample will exhibit a bell-curve normal distribution. If they don’t, then the assumption of normality isn’t met. We make the assumption of linearity to ensure no data deficiency in the data and also to ensure that there are no outliers. We assume no correlation, so that the data remains unbiased and consistent. We assume that the data are independent so that we don’t introduce bias into the study. Garson (2012) reported that “independent observations are assumed by most statistical procedures, and that a normal distribution is assumed by many statistical procedures. Lastly, testing for nonlinearity is necessary because correlation, regeresion, and other members of the general linear model (GLM) assume linearity.”

2 Literature Review

2.1 Introduction to the literature review

This chapter provides a theoretical overview of sale and leaseback transactions around the world. The literature review will focus on three aspects; asset classes in sale and leaseback transactions, motivations around the use of sale and leasebacks and the risks associated with sale and leasebacks.

As investors are in dire need for finance for real estate, it is becoming more important for investors to have a better understanding of sale and leaseback as a form of financing (Thontteh 2013). Ling (2011) states “that a sale and leaseback is a special financing technique that is used in some markets. It’s often used between large investors and large manufacturing firms. The normative sale and leaseback transaction is one in which the owner of a property sells that property to a third party and simultaneously takes a lease on that property from the third party.” Wells and Whitby (2012) stated that “sale and leaseback transaction is an alternative to traditional finance in which the owner of a real estate asset contracts to sell the asset and then simultaneously leases from the buyer.” Bryan (2004) reports on the “evolution of sale and leasebacks as a structured finance tool in America to respond creatively to corporate economic needs.”

Ling (2011) reported “that sale and leasebacks are enjoying a new wave of popularity among some corporate occupiers. In real estate, sale and leaseback transactions allow the seller to get instant access to working capital while saving money on taxes at the same time. The seller would sell its commercial property according to market value and then immediately leaseback the property. The transaction involves only two parties instead of three. It gives the seller access to capital of other investments, while still being able to use the leased property. The true value of property to an occupier lies in using them, not owning them. That is why sale and leaseback is becoming an increasingly popular form of financing.” Asson (2002) reported “that when a company needed more capital to use in its business–particularly during times of high rates of interest on borrowing–a sale and leaseback was often seen as a way of accessing cheap cash. The other stated rationale was usually that companies were not in the business of property ownership.”

2.2 Methodology of literature review

(a) Asset Classes in Sale and Leasebacks

Lausevic (2014) asserts “that sale and leaseback model is frequently used in great value real estate such as corporate headquarters, leisure accommodation and warehouses which are being transferred to the letting entity, thereafter, utilized through lease contract for a considerable period of time. In this way, the risk of ownership is moved to the buyer, while all the economic benefit from the utilization of the said property is retained through the lease contract.” Tipping and Bullard (2007) state “that the sale and leaseback model can be drawn back in the UK to the late 1920s and 1930s. Usually, it was used as a means to facilitate the buyout of family-owned supermarket businesses. Every so often the capital released from the sale and leaseback of a supermarket premises raised sufficient capital to pay for both the premises and the business.” Tipping and Bullard (2007) state that “traditionally, many large UK companies have amassed large portfolios of freehold real estate. The property was either acquired through organic growth over a considerable period of time or through a merger and takeover of existing businesses”. Tipping and Bullard (2007), further add that “in the UK, there has been a growing trend for leading British companies to separate ownership of their operational real estate from their principal trading activities.”

Bryan (2004), highlights that “while corporations need to lower their costs, they are now more than ever very aware of how quickly their needs can change because of factors beyond their control. The company might grow rapidly through an acquisition or new product line, or conversely might need to lay off a large portion of its workforce as a result of its economic needs. In fact corporations do have to recognize that each real estate asset has three completely different personalities; it’s a balance sheet financial asset; it’s a market asset, and its business asset.” Corporate real estate strategy informs what real estate asset a company acquires, leases or operates from. Its important to review the literature to understand which real estate asset classes are most popular in the use of the sale and leaseback model.

Retail: Sale and leaseback is used by firms to raise cash. “The resurgence of the sale and leaseback model in UK came with it by the variety chain store Woolworths. Between 1987 and 1991, Woolworths disposed of 121 of its premises by sale and leaseback. This was followed by Boots, the high street healthcare product chain, which applied the model to 50 of its freehold premises between 1988 and 1991. Other recent sale and leaseback transactions comprising larger portfolios in the UK retail industry were Debenhams' 495-million euro sale to British Land in March 2005, Tesco's 366-million and 270-million euro sale to Consensus Business Group and Morley Fund Management, respectively in March and November 2005." Earlier Asson, (2002) stated that, "retailer Marks & Spencer transacted a 300-million sale and leaseback on part if its portfolio. Hordijk, et al., (2010) highlighted that in the Netherlands, between 2008 and 2010, 15 retail sale and leaseback transcations had been concluded, though no value was specified." Konzum, a retail trading chain store in Croatia occupies more than 700 outlets, holds about 25% of retail stores in its books, whilst the rest is via lease contract. Devaney and Lizieri (2004) highlighted that "J Sainbury's a sold 26 properties from their portfolio to Highbury special puprose vehicle (SPV), the funds (567-million pounds) were reinvested into the business."

Office: numerous financial institutions in Europe have adopted sale and leaseback as a means to raise cash for their operations. Morris (2006) states that between 2006 and 2008, Barclays had a global portfolio of over 5000 properties and was approximately 35-million square meters in size, consisting of mainly offices and retail with core and non-core operations. Barclays undertook a sale and leaseback programme in the UK and Spain across 2006 and 2008. The bank raise 1.1-billion pounds in sales proceeds over that period and was the largest property sales programme the group has ever executed across its occupational estate. Barclays sold its 15 prime branches to Prudential for 85-million pounds through sale and leaseback terms and 24 of its branches to Flodrive for 67-million pounds. Goldman Sachs sold 280-million pounds of its portfolio to Trishman Speyer in June, 2005. Hordijk, et al., (2010) highlighted that in the Netherlands, between 2008 and 2010, 137 office sale and leaseback transcations had been concluded, though no value was specified.

Okal (2010), states that sale and leaseback transactions are not common in Kenya. One recent example is of the recent sale of Stanbank House on Moi Avenue, Nairobi by Standard Chartered Bank to a private investor while the bank retained the occupation of the ground floor under a lease from the new owner. This was a procondition of the sale and was made part of the sale agreeement.

Industrial: Lausevic (2014) highlights that in 2011, Mercedes Benz disposed of its Spanish HQ to a well-known company, Mapfre Inmeubles, Hordijk, et al., (2010) highlighted that in the Netherlands, between 2008 and 2010, one hundred industrial sale and leaseback transcations had been concluded, though no value was specified.

Hotels: Lausevic (2014) highlights that MWB Group Holdings PLC, sold in Scotland, to the first official real estate fund in the UK, Aviva Investors Property Trust in 2004.

Whittaker (2008) states that "the earliest sale and leaseback deals in the UK was done by Friendly Hotels plc (now Comfort Hotels Europe plc) in order to reduce the debt in preference shares at maturity." During 2002, American hotel group, Hilton International raised about 300-million pounds through the acquistion of Scandic hotels, the purpose of this sale and leaseback transaction was to allow for expansion. Thistle hotel intended to improve value to shareholders and issue some capital to its biggest entity owner, BIL Investments Inc of Singapore. Travelodge Ltd participated in a 400-million pound sale and leaseback in 2004 in order repay cash to its mother firm, the special purpose Permira, relating to its restructuring strategy to obtain value from an acquisition.

There are three key distinctions from general literature in the hotel indursty as to why hotels would participate in sale and leaseback transaction:

- Market pressures are putting strain on hotel groups
- More operational control
- The scrutiny and wide-range use of management contracts

Agriculture: Chirwa et al. (2015) states that, "the sale and leaseback agreement model was established by Mondi, a big corporate company involved in forestry in South Africa, to provide continuous access to land and management of trees for lease periods of at least 20 years." Mondi was the first forestry company in South Africa to successfully settle land claims without contestations under land reform. Under this model, the government acquired land from the rightful owners, or the claimant communities, and then Mondi negotiated lease agreements with the communities. In the agreement, the beneficiary communities are provided with technical opportunity and involved in management of the cultivated area on their claimed land as contractors. This is done under the supervision of the company's foresters who provide mentorship to the contractors who are the beneficiary communities. In addition, the communities are rewarded financially through the payment of annual rents consisting of 7% of the value of planted trees and 2% of the stumpage fee of harvested timber.

In general, it may be resolved that for all the corporations, the sale and leaseback model is a maintainable, proficient and viable manner of securing working capital, as only a few companies are not in requirement of cashflow for their daily business activities.

Other assets classes: Shell trading sold 180 of its petrol stations on a sale and leaseback basis, the deal raised some 300-million pounds but had no impact on the companies market cap of 46-billion pounds. Furthermore, the sale and leaseback was private and attracted little public comment.

(b) Sale and Leaseback Motivation

Releasing of cash: Gronlund et al. (2004) state that "firms may desire to discharge the equity from assets for core business activities. Discarding of low-returning real estate assets and spending it in main business activities may improve return on equity. Executive management may elect to diversify the company's capital structure. By selling off the assets, which are re-financed in the real estate debt market, the seller intends to access new avenues of financing." Asson (2002) contended that the main incentive behind corporate sale and leasebacks can be explained simply: capital.

When a firm requires cash in a tough financial environment, sale and leaseback are seen as a sensible option. The firm will still occupy the same premises as before the transaction. The distinction is now the firm has a rental obligation to meet and access to equity. Tipping and Bullard (2007) stated "that the release of capital is presently one of the main factors driving the sale and leaseback model in the UK", Tipping and Bullard (2007) identify capital recoupment as being a critical consideration in sale and leaseback transactions. The benefit is that a firm can improve its financial standing. Sometimes, only one of these two attractions can be met.

Kunofsky (2017) concurs that sale and leaseback allows a company flexibility within their captial structure to redeploy capital into it's core business, reduce long-term and short-term debt, make distributions and fund new developments or remodels. Kunofsky (2017) also adds that sale and leasebacks can be a prevalent piece of the capital structure in an acquisition of a company along with traditional bank debt, mezzanine debt and credit lines.

Tipping and Bullard (2007) assert that "the executives and shareholders of corporations are required to separate the operational and the property interests of those businesses. They must view real estate actvities separate from those of core business. In this way, capital can be released. With this view, executives and shareholders stop viewing real estate from a historic cost perspective. Merely establilshing an internal activity for these two components within a business permits them to align on the value of the property portfolio. The property can either be seen as a balance sheet item or it can disposed of to release cash that can be used elswhere by the business." Tipping and Bullard (2007) state that "apart from the possibility of capital release, the hiving-off of property can have an impact on a company's financial reporting and its earnings per share." Lasfer (2007) contended that "higher stock market valuations are synonymous with those companies that lease their property due to greater efficiencies. A further consideration is that the operating activities return a better yield than property on capital invested." Tipping and Bullard (2007).

Lease transformed to debt: Gronlund et al. (2004) emphasised that "many academics have recommended that the advantages of a sale and leaseback transaction are similar to that of a traditional lease. Consequently, the intentions should be consistent as that of leasing decisions. It is a broad view in finance that leasing is an ideal replacement for debt. The purchaser as a matter of course a lender and can be seen as transacted a secured loan that lease payments are fixed liabilities like other debt and that they dislodge debt and reduce debt volume." It should be noted that a contractual lease is, in theory, precisely comparable to debt only when the tenant is legally responsible for the risks inherent in the physical structure of the property and managing the property inspite of the contractual lease being a financial obligation. The main drive for a contractual lease has always been to remove real estate assets off-balance sheet, and not change how a business operates. Gronlund et al. (2004) highlight the "leasing choice using financial planning methods within a picture-perfect market structure and determine that no financial benefits amass from leasing. Furthermore, Stulz and Johnson (1985) state that if a contract lease of a property is regarded as a form of secured lending, it is expected that it would produce reasonable earnings on equity." Therefore, a constructive assessment result of a sale and leaseback may arise in a competitive market only if the economic conditions of the lessor and the lessee contrast one or the other, as real production operations would remain unaffected.

Devaney and Lizieri (2004) found that "since sale and leaseback is a debt liability, it will upsurge the gearing of the firm. The final capital structure, however, will contrast greatly, depending on the deployment of the capital raised up; to pay back debt, to buy back shares, or to invest in the operations of company. With advanced concluding gearing, cash owners require higher earnings to reimburse for superior instability and exposure to market risk. Bondholders will requisite to reflect the balance between possibly enhanced cash flow and the damage of guarentee for the capital once the financial gains have been implemented; alterations to defaulting and deliquency risk central to changes in prerequisite revenues and, hence in amounts."

Myers et al. (1976) established that "there can be tax advantages from leasing although the course of the tax effect relies on the particular asset use period and rates of depreciation and capitalization." Gronlund et al., (2004) argue that "if such gains exist, they are likely to be short-lived in a aggressive market. They proclaim that leasing requirements involving unique assets devoted to particular commitments, potential tax benefits are likely to be counterpoise by the business deal costs related with the contract lease." Myers et al (1976) asserted "that they were positive about the possibility of net benefits. The imperical inferences are that the pronouncement of such dealings can contribute to a optimistic valuation outcome, Miller and Upton (1976) stated that the equilibrium between contract lease or purchase is not the course rentals and interest payments are delt with for tax considerations as proposed, but that businesses are not generally able to take full advantage of some of the tax support that governmets bestow."

According to Lewis and Schallheim (1992), "the debt and contract leases are compliments of each other rather than replacement. They contend that leasing is a instrument for vending tax deductions; therefore it can encourage the lessee business to utilize more debt in its capital structure relative to a similar business that does not lease." They also exhibited that a competitive lessor who holds differentiated assortments of lease real estate and can request for lease payments that are effectually lesser than required by a loan of the same value. Allen et al. (1993) have "been able to present some proof that in leasing choices of corporate property, the lessee firm gathers positive non-standard returns." Gronlund et al., (2004) contended "that this is thought-provoking, because in the same breath, there is proof that the average non-standard return is closer to nought or even negative when business broadcast debt and equity transactions. If the contract lease and debt were faultless substitutes, we should witness similar market outcomes with the briadcasting of leasing and debt financing."

Bryan (2004) highlighted "that the bulk of debt in sale and leaseback transactions has been, and remains to be, straight mortgage debt. However, much of the growth in the sale and leaseback industry in the 1990s was driven by the development of commercial mortgage-backed securities (CMBS) debt markets. The CMBS market created larger pools of loans that allowed investors to aggregate and minimize risk compared with traditional lending in which each loan had to be underwritten separately. This new financial device created a larger world of potential lenders, thus increasing the supply of available loans. Pricing, therefore, lowered to encourage demand. While this new source of debt stimulated the sale and leaseback market, it also changed it. CMBS financing actually helped debt pricing to become more efficient. When Wall Street's financial engineers developed the legal and economic tools necessary to securitise streams of income, they then could treat these streams of income of mortgage payments on a basis comparable with direct corporate debt. The result of these developments was that lenders then had the ability to view a bondable lease from a tenant as equivalent to a direct debt obligation of the tenant. The ability to treat rent as equal to debt produced the following two important structural changes in sale and leasebacks. Both of these significantly lowered the core cost of financing of many sale and leaseback transactions for better-grade companies.

- Debt in sale and leaseback transactions can to be priced primarily on the basis of the tenant's credit rather than the real estate; and
- The structure allowed a much higher percentage of debt in the capital structure.

Thus, in a structure which utilises a bondable lease, not only can conventional mortgage debt be replaced with less expensive bond-type debt, but the capital structure can shift from the significant equity typically required to significantly less equity and greater debt."

Furthermore, sale and leaseback can be used by companies in financial difficulties. In many instances, the companies have exhausted all of their debt facilities. Thus, can be seen as a solution of last resort. Utilising a sale and leaseack deal in a troubled business means that the company could sell off a portion of its property portfolio to settle some debt, however, still have the benefit of occupying the premises.

Other motives for sale and back: firstly, firms may perhaps want to access capital locked in their assets so that they reinvest into their core business which may improve return on equity. Secondly, leasing makes improves the standing company's financial position and borrowing ability. Thirdly, businesses my want to differentiate their capital options. Fourthly, outsource their property ownership and management. This gives the opportunity to increase cost effectiveness and offer strategic leverage for the property consumer. Gronlund et al. (2004) state that "the motives stated previously may improve shareholder wealth.. Many of these motives increase shareholders wealth when the intrinsic property risk is shifted to the new owner. Sale and leaseback have the potential to ease due property taxes."

Capital constraints: Wells and Whitby (2012) noted the "existance of both purchased and leased assets within the same business and suggest that the net benefits withing the business are neither positive nor negative. There is a siginificant positive change to a lessee's equity value in sale and leasebacks, which is significant in direct leases." This suggests that the market values sale and leasebacks for the ability to unlock cash for other purposes. Wells and Whitby (2012) further hypothesized that "firms using sale and leasebacks are cash poor and face high cost of external financing creating capital constraints. A sale and leaseback transaction may represent an internal source of funding. According to the pecking order theory of capital structure, when a firm is constrained, internal funding may represent the least costly source of capital." In conjuction with capital needs, the propensity to initiate a sale and leaseback should be positively correlated to credit constraints.

1. Liquidity*:* Wells and Whitby (2012) state that a "sale and leaseback is unique in that it converts the equity in an asset into capital. Selling and leasing back assets that fail to meet internal hurdle rates enables corporations to enhance liquidity, expand operations, and invest in core businesses. The funds may also be used to pay down debt to improve the company's balance sheet or to reduce financial ditress costs. Sale and leasebacks provide avenues of financing to firms that may be credit-constrained." Qouting an article in the Wall Street Journal states, "in an environment where corporate financing has been hard to get, especially for smaller, credit-impaired companies, sale and leaseback transactions, an alternative form of financing that is tied to real property or equipment, have been gaining popularity."

(c) Risk/Constraints in Sale and Leaseback

Pink and Hudson (1988) highlighted that in "hospital sale and leaseback transactions, one of the hinderances is that hospitals must have a sufficient quantity of assets to entice investors." Consequently, sale and leaseback deals are limted to hospitals who meet this critera which is only big hospitals. In order for small hospitals to partake in sale and leaseback transactions, they had to wait to grow their equipment base. A second constraint that was highlighted was that hospitals being considered for sale and leaseback must also have quite modern healthcare assets and equipment. Asson (2002) stated that "in a market where the cost of debt is cheap, it would be hard to imagine that a company would look to a sale and leaseback to simply raise capital. When compared with traditional debt, a sale and leaseback is complex and sometimes expensive to assemble and execute. The use of the sale and leaseback mechanism can be the same as borrowing at limitless interest rate. This is because in order to entice an investor for them to take a long-term view in the property involved, the selling company has to commit to a log-term lease of probably 15 years or more but also upward looking rental assessments at regular intervals."

Sale and leasebacks regularly stipulate that the former owner of the property signs a fully repairing and maintenance lease, therefore the tenant is tied operationally and financially too to a particular property over a long period of time. This can have a detrimental effect on the business, as this rigidity can expose it to the often volatile economic and fast pace business environment. The property in question may not be sufficient for business needs in the future long before the business has retired the lease obligation. Tipping and Bullard (2007) state that the “majority of the sale and leaseack transactions in the UK have listed companies with solid covenants. The market has considered these safe investments with limited risk. Naturally, these string covenants have included FTSE 100 companies, financial institutions and national retailers. The high profile of these companies has instigated the fallacy that no sale and leaseback deal was subject to challenges or failure of collapse, this helped fuel high demand from investors.” Consequently, there have been some weaker companies that have been able to access capital and investors search for sale and leaseback deal. In the UK, since 2005, there have been some high profile casaulties which had recently disposed of their operating premises on a sale and leaseback basis. Resultantly, hundreds of premises were left vacant and with no rent revenue stream. Furthermore, a number of these properties were not maintained and left in apoor conditions. Through the sale and leaseback basis, many of these properties were over-rented, and moved away from the market, therefore, very difficult to let them at the historical asking rental. As a result some investors were negatively affected by this collapse.

Lausevic (2014) from a European perspective highlighted some additonal risks and drawbacks that sellers of property through a sale and leaseback should take into considerations;

1. The loss of flexibility: when you dispose of your property, you lose the flexibilty that being a property owner afforded you. Leaseback hinders the rights of the seller to transfer lease interest. Should the seller wish to make improvements on the property, he may find it difficult to obtain finance through a rental lease.
2. High rental cost: rental escalation or interest on rent is generally higher than what the tenant would be paying on traditional mortgate finance. The buyer takes up the additonal risk at 100% financing of the asset at market value. Additionally, the investment of the buyer on the rental revenue may be less liquid or marketeable than a traditional loan. Finally, costs attributed to negotitions may be high as it might a lot of

time and effort to get the buyer and the seller to find each other on terms of their requirements.

3. Not possible to lower rental costs: if the conditions in capital markets are favourable, the seller may find that he may not be able to adjust his rental as a result of the profitabilty that the buyer sees in the property lease. The buyer is also taking into consideration, the risk of the asset value declining during the period of the lease.
4. Embedded lessee*:* finally, the acquisition of the asset, the buyer has embedded a lessee, i.e the seller.

Lausevic (2014) highlighted some additonal risks and drawbacks that buyers of property through a sale and leaseback should take into consideration:

1. Possibility of insolvency (defaulting on liabilties): the greatest risk for the buyer, is the instance where the lessee/seller becomes insolvent in the selling. If the seller goes bankrupt, the buyer becomes a general creditor. In the case were the arrangement was charateristic of that of a classic loan, the buyer would have far more urgent recourse against the seller. In weak real estate market, couple with a defaulting tenant, the buyer may find it difficult to find a suitable buyer himself.
2. High administration costs: generally, a sale and leaseback has to be structured so that it meets the needs of both the buyer and the seller which may require more and higher administrative costs as opposed to the traditional debt funding arrangments.
3. Mandorory asset management: in most sale and leasebacks as mentioned before, the seller/lessor will sign a fully repairing and mminatenance lease for the duration of the lease.

Ling (2011) found seven disadvantages of sale and leaseback transactions in the Malaysian real estate market from the perspective of investor:

1. Fixed rentals do not necessarily escalate with capital growth.
2. Investors are tied into the credit standing and business management ability of the seller/lessee
3. Some deals have very specialist operations
   1. There are lower yields
   2. Mandatory property maintenancy

3. Required property management strategy
4. Higher administrative cost

Ling (2002) found seven disadvantages of sale and leaseback transactions in the Malaysian real estate market from the perspective of corporations:

1. There is a higher cost of financing
2. There are serious financial challeges as a result of high fixed rental
3. Loss of flexibility on the property
4. Relinquishes the benefit of appreciation in the value of the real estate

Kazova and Dun (2014) state that sale and leaseback "are risky because in some jurisdictions they can be considered illegal with respect to fiscal services. Also, in order for the sale and leaseback to be recognized, calculations in valuaing the property asset must be made with real money and not promissory notes and other formal methods of payment." Carr (2018) states that there are numerous risks being undertaken by a seller and buyer in a sale and leaseback which need to be scrutinzed carefully in light of an investment being made to acquire the property and the rental yield being received under the lease.

Firstly, as mentioned before, there is the possibility that during the term of the sale and leaseback, the seller/lessee may go bankrupt or otheriwise default payment of the rent and performance of its other obligations. Secondly, contract documents may restrict the use of the property by the buyer-landlord after the expiration of the term of the leaseback, which may reduce the property's resale or re-tenanting value. Thirdly, while the buyer-lessor may demand rental payment at all costs, the leaseback documents may contain provisions providing for a rental reduction or rental holiday upon the occurrence of certain events. Lastly, the sale and leaseback contract documents might not be drafted to look out for the interests of the seller/lessee in the instance that some expenses arise with respect to the property during the leaseback term. The consequence of these expenses is that they may undercut the rental return.

2.3 Key Findings of the Literature Review

The majority of studies focused on sale and leasebacks have been solely based on American and European data with no study examining sale and leasebacks as an alternative form of financing for the South African real estate market. From an African perspective, the few studies that exist mainly focus on the Nigerian real estate market. Thontteh (2013) explored perceptions of sale and leaseback transactions in Nigeria and Okal (2010) investigated strategies for commercial real estate development finace in Kenya.

What can be concluded from the studies done conducted in the different geographies is that in the more advanced real estate estate markets of the United States of America, the UK, and Germany, the use of Sale and leasebacks has been extensive and varied, owing to it's flexibility and ability to generate cash for both owner and tenant. From a Kenyan and Nigerian perspective, the use of sale and leaseback is fairly infant and there isnt a lot data available to discern it suitability in the respective real estate markets, and as an effective alternative to traditional forms of real estate finance.

3 Research Design

The objective of this study is to do an appraisal of sale and leasebacks in the South African property industry. For this study, a questionnaire will be used in order to gather in-depth information that will help determine the understanding and familiarity of sale and leasebacks in the South African real estate market and enable the researcher to understand trends around sale and leasebacks in South Africa.

3.1. Research philosophy and approach

Positivism, a survey will enable obtaining of data about views at one point in time through questionnaires.

3.2. Methodology

A questionnaire will be mailed to 30 individuals who operate in the property industry and financial services in Sandton, South Africa. Sandton has been selected because it is the financial capital and the economic hub of South Africa The survey instrument will be set up into three sections with three sections each, as follows:

- Real estate asset classes that drive sale and leasebacks in the South Africa property market;
- Sale and leasebacks as a source of financing; and
- The main motivations in part-taking in sale and leaseback transactions.

3.3. Research methods

A variety of contributors in the literature have used qualitative and quantitative approaches to their research. Hordijk et al (2010) made use of a straight mathematical calculation and a unique database in their study in investigating ten year transactions of sale and leaseback in the Netherlands. Devaney and Lizieri (2004) in their research utilized two broad models, an event study methodology and a single index analysis. Whittaker (2008) employed dialogues with practicing professionals, in hotel operators and owners in adopting sale and leaseback in the

UK hotel market. Redman et al (2002) used a Likert-type questionnaire relating to the factors that executives consider in determining which financing tools they use to generate the necessary funds for business operations. Thontehh (2013) in his study made use of a survey questionnaire. Wainright (2002) utilized theoretical discussions and literature review in off-balance sheet property ownership structure.

(a) Advantages of those studies are:

Hordijk et al (2010) cited that the straight mathematical calculation was the only possible approach at the initial stage of the research. Devaney and Lizieri (2004) said that for most businesses, the sectors directories bid better heights of explanation than did the total stock market directory. Event studies undertake that data leaks into the marketplace in progress of the pronouncement and that the market processes the data swiftly, varying prices as fitting.

Whitaker (2008) motivated that although his research was investigative and theoretical, investigative a moderately undamaged subject through the views of a series of older contributors, it was valuable to understand that the participants had involvement in almost 90% of the value of the UK-based transactions since 1997, and thus provide a representative sample of the knowledge available. Redman et al (2002) achieved a response rate of 30% in their mail survey which often ranges from 5% to 10%. Thontehh (2013) motivated that the questionnaire approach was used to elicit information on practitioners' awareness, understanding and usage of and sale-leaseback. Wainright (2002) motivated that the use of case studies would discuss the many techniques in off-balance sheet property ownership structure used to release capital.

(b) Disadvantages of those studies

Hordijk et al (2010) cited that the review of the data covered less than ten years, and therefore that data was manually supplemented with sale and leaseback transactions from the end of the 1990s. The choice of the method that could be applied to analyse the data after the plausibility check was sharply restricted by the small number of observations and the wide distribution over the years and the location. Devaney and Lizieri (2004) identified that during the internet chaos, shares performed better than future anticipated growth in the ICT sectors. Resultantly, the traditional single index model sometime fails to give an adequate explaination

Whitaker (2008) highlights that the research drawn upon a limited amount of academic literature in the UK. Another limitation was that the author relied on industry related secondary sources rather than academic articles. Redman et al (2002) state that the response rate for questionnaires is often in the range of 5% to 10%. Thontehh (2013) used a systematic random sampling technique was adopted in the sample selection, as the Nigerian property market is largely unaccounted for. Wainright (2002) cited that the only issue with the methodology was that many of the figures provided in company reports and accounts were historic and may have been wildly optimistic, thus overstating the position.

In this study a survey questionnaire will be use because it is basic to devise, and the relative ease in soliciting information due to the straight-forwardedness of the survey questionnaire questions.

3.4. Population and Sampling

The selection of the respondents was based on the convenient sampling size of 30, based on the following criteria-Whittaker (2008):

- Management professionals who are directly involved in real estate transaction deals at a strategic level to provide an appropriate level of expertise and knowledge;
- Have participated in real estate transactions involving the following real estate classes:
    - Retail
    - Industrial
    - Office
- Representatives of listed real estate investment trusts, real estate development firms, and unlisted real estate firms.

The respondents are based in the economic hub of Johannesburg, South Africa. The period of data collection is 2008–2018. There is no emphasis of value, however, with the firms that the respondents represent, the assumption is that the real estate transactions are of a significant nature.

3.5. Development of the Research Instrument

These research questions are drawn from:

- Sale and leaseback, asset ousourcing and capital market impacts by Devaney and Lizieri (2004)
- Ten years of sale-and-leaseback transactions in The Netherlands by Hordijk et al (2010)
- Corporate real estate financing methods: A statistical study of corporations' choices by Redman et al (2002)
- An Appraisal of Sale-Leaseback Transaction in Nigeria Property Market by Thontteh (2013)
- Off balance sheet property ownership structures: Releasing capital from opertaional portfolios through divestment by Wainright (2000)

Section A: Sectors That Drive Sale and Leasebacks in the South Africa

3.5.1.1 Which real estate class has your firm recently acquired/disposed of through a sale and leaseback transaction?

Industrial

Office

Retail

Other, please specify

3.5.1.2 In your opinion which real estate asset class is most suitable for a sale and leaseback transaction?

Industrial

Office

Retail

Other, please specify

3.5.1.3 In your opinion, would your firm adopt a sale and leaseback funding structure with respect to their operational real estate, in these following real estate classes?

Industrial

Office

Retail

Other, please specify

Section B: Sale and leasebacks as a source of financing

3.5.2.1 When your company acquires real estate that is used in its operations (warehousing, office space and storage facilities), what sources of funding does your firm use for acquisition and/or development purposes?

Mortgage loans secured by the acquired property

Sale and leaseback arrangement

Long-term leasing

Other, please specify.

3.5.2.2 Please rank the financing methods you would use to generate the necessary funds to acquire real estate for your company? (please rank 1–5 with 1 being the most important and 5 being the least important

Sale and leaseback arrangement

Sale of common stock

Mortgage loan

Sale of preferred shares

Joint ventures

3.5.2.3 Are you aware of sale and leaseback as a source of off-balance sheet funding for real estate?

Yes

No

3.5.3 Section C: The main motivations in part-taking in sale and leaseback transactions

3.5.3.1 Which is the most important motivation to part-take in a sale and leaseback transaction (please rank 1–5 with 1 being the most important and 5 being the least important)

Capital

Accounting

Taxation

Specialization

Flexibility

3.5.3.2 In your opinion, do you agree that sale and leaseback is an adequate substitute for traditional forms of finance?

3.5.3.3 In your opinion, would you consider part-taking in a sale leaseback transaction to diversify the company's capital structure and access new sources of financing?

Yes

No

3.6. Data collection Protocol

The survey questionnaire is distributed via email correspondence to the respondents and will be analysed using advanced excel.

3.7. Ethical Risks and Mitigation Strategy

All of the respondents are unknown to each, and there was no requirement from them to disclose their details before or after the questionnaire distribution and submission.

3.8. Validity and Reliability

(a) Validity

Validity mentions to the degree to which a size efficiently characterises the fundamental concept that it is thought to measure De Leeuw *et al.* (2008). It is the degree to which the tool processes what it is actually supposed to measure Leedy and Ormrod, (2010). This study incorporated the forms of validity, face and content, into the questionnaire. Singh (2007) assumes that validity tries to evaluate whether a degree of an idea actually measures that particular idea, which is the degree to which the idea measures the components it was intended to measure.

Face validity mentions to whether the tool of degree seems to be a sensible quota of its fundamental concept Bhattacherjee (2012). It signifies that the respondent can approximately understand that the technique is effective for investigating the question Greener (2008). It mentions to validity which creates the fact that the tool really reproduces the material of the ideas being researched Singh, (2007). To include face validity, the survey was compiled with acknowledgement of the features of the sample's aptitude to understand the questions to allow them the opportunity to complete the questionnaire. What it supposed is that the questionnaire is aligned to literature that it is based on. Singh (2007). The questionnaire was generated on the scholarly ideas of the study in scrutiny in the review of the literature.

(b) Reliability

Reliability is the extent to which the tool is laid in good foundation and reliable. Bhattacherjee, (2012). It is the reliability of the tool to distribute a certain unit provided that the body remains unchanged. Leedy and Ormrod, (2010). It suggests the matter of methods, relating to the aptitude of the tool to measure the same unit every time the instrument is used Singh (2007). Bhattacherjee (2012) makes a note that reliability confirms consistency but not accuracy De Leeuw *et al.* (2008) posit that reliability is a desirable attribute, however, reliable responses may not entirely be valid.

Kothari (2004) reflects three types of validity in his research, viz. content validity, criterion-related validity and construct validity. Where content validity involves the degree to which a tool makes provision coverage of the field being studied Kothari, (2004). Criterion-related validity refers to the researcher's ability to predict some estimates of the outcomes and construct validity is more abstract as it aims to confirm the predicted correlations with various theoretical propositions Kothari, (2004).

De Leeuw *et al*. (2008) indicates that researchers should create research that is see-through, this is to ensure that when the research is conducted that the same results are obtained and that the results are not misconstrued, Reliability was considered on this basis: stability—the researcher had to make sure that the instrument of measurement was stable over the period November 2018 to January 2019 (60 days). The tool of measurement created was stable enough to give the researcher the confidence that the unit measurement wouldn't fluctuate Singh, (2007).

3.9. Data Analysis

The survey questionnaire is distributed via email correspondence to the respondents. The data will be analysed on Microsoft Excel, using basic statistics. The results will be presented in a table depicting the occurrences by the respondents of the real estate classes that were selected by the respondents, and also depicting the relevant percentages.

The second table includes the following basic statistics:

- Standard deviations;

- Skewness;
- Kurtosis;
- Median; and
- Mean

4 Research Execution Plan

The study starting point of the research was to review a range of literature on the topic. The primary research aims to determine the current thinking of sale and leaseback in the South African real estate market. The complexity of the topic called for a structured questionnaire survey.

The data is collected through a questionnaire survey comprising of the following sections:

- Sectors that drive sale and leaseback transactions in the South African real estate market;
- Sale and leaseback as a source of financing; and
- The main motivations in part-taking in sale and leaseback transactions

The questionnaire survey was designed to elicit an appraisal of sale and leaseback in the South African real estate market-Thontehh (2013).

The selection of respondents was based on the convenient sampling size of 30, based on the following criteria-Whittaker (2008):

- Management professionals who are directly involved in real estate transaction deals at a strategic level to provide an appropriate level of expertise and knowledge;
- Have participated in real estate transactions involving the following real estate classes:
    - Retail
    - Industrial
    - Office
- Representatives of listed real estate investment trusts, real estate development firms, and unlisted real estate firms.

The respondents are based in the economic hub of Johannesburg, South Africa. The period of data collection is 2008–2018. There is no emphasis of value, or with the firms that the respondents represent, the assumption is that the real estate transactions are of a significant nature. The survey questionnaire is distributed via email correspondence to the respondents and will be analysed on Microsoft Excel. The results will be presented in a table depicting the occurrences by the respondents of the real estate classes that were selected by the respondents, and also depicting the relevant percentages.

The second table includes the following basic statistics:

- Standard deviations;
- Skewness;
- Kurtosis;
- Median; and
- Mean.

5 Data Analysis

5.1 Overview

Table: 5.1-Sale and Leaseback

	Description	Frequency	Percentage
Which real estate class has your firm recently acquired/disposed of through a sale and leaseback transaction?	Industrial	16	55.2
	Office	8	27.6
	Retail	5	17.2
In your opinion which real estate asset class is most suitable for a sale and leaseback transaction?	Industrial	21	70
	Office	6	20
	Retail	3	10
In your opinion, would your firm adopt a sale and leaseback funding structure with respect to their operational real estate, in these following real estate classes?	Industrial	18	62.1
	Office	10	34.5
	Retail	1	3.4
When your company acquires real estate that is used in its operations (warehousing, office space and storage facilities), what sources of funding does your firm use for acquisition and/or development purposes?	Long term leasing	7	23.3
	Mortgage loan	17	56.7
	Sale and lease	4	13.3
	Other	2	6.7
Are you aware of sale and leaseback as a source of off-balance sheet funding for real estate?	No	3	10
	Yes	27	90
In your opinion, do you agree that sale and leaseback is an adequate substitute	No	10	33.3
	Yes	20	66.7

for traditional forms of finance?			
In your opinion, would you consider part-taking in a sale leaseback transaction to diversify the company's capital structure and access new sources of financing?	No	3	10
	Yes	27	90

This chapter presents the analysis of the primary data which was collected from various respondents. The results presented were presented in a table depicting the frequencies of occurrences by the respondents of the real estate asset classes that were selected by the respondents, also depicted are the relevant percentages.

The analysis comprises of three sections:

- Sectors that drive sale and leasebacks in the South African real estate market;
- Sale and leaseback as a source of financing; and
- The main motivations in part-taking in sale and leaseback transactions

Section A: Sectors that drive sale and leaseback in the South African

On the question of recently/disposes real estate asset class, 55% of the respondents recently acquired industrial property through a sale and leaseback transaction. Out of the respondents, 70% of the respondents elected that the industrial real estate asset class being the most suitable with the retail real estate class being the least with only 10% of the respondents having selected this asset class. This means that the sale and leaseback model has become a mainstream financing approach for acquisition and holding of industrial real estate assets in South Africa. It can also be deduced that the findings reflect the trying economic times for tenants in as so far as access to debt and profitability resulting in weak balance sheets, and shrinking cash flows for firms. Hence, then the disposal of real estate industrial assets via sale leaseback support the operational use an industrial real estate asset, relieves the balance sheet and improves cashflow.

However, contrary to the findings, initially, in the UK, the sale and leaseback model has been adopted for supermarkets and high-street retailers Tipping & Bullard (2007). The contrast to the finding can be reflected by highlightng that the South African economy is mainly an export economy, thus industrail real estate assets are exchanged more frequently than other assets, secondly, indutrial assets were owner occupied before the mainstream of REITS, and lastly, in particular, in South Africam retail asset were either owned by pension funds and other conglomerates of diversified interests, however, more recemtly too are held in REIT portfolios. Most recently, In the UK sale and lease backs have been driven by the office and retail real estate class. This means that in South Africa, the initial stages of the sale and leaseback are driven by the industrial real estate class, and that when property owners, asset managers or property managers are contemplating disposing of an industrial asset, they would consider sale and leaseback as a once-off method of transaction or incorporate it into their capital structure. Lending institutions should also be more receptive to sale and leaseback when industrial real estate assets are involved.

On the preference of adopting a sale and leaseback as a funding structure, 62.1% of the respondent felt that the industrial real estate asset class had more preference for a sale and leaseback model as a funding structure, with the retail and the office real estate classes being the least suitable with 3.4% and 34.5% respectively. This means that sale and leaseback in the South African real estate market are preferred by asset managers and lending institutions when an industrial asset is involved, this also means that, out of the firms operating real estate assets, the industrial asset class that they least want to own, however, continue to operate from, hence the preference of sale and leaseback, Wainright (2002).

Section B: Sale and leaseback as a source of financing

The majority of the respondents indicated that traditional debt financing, comprising 56.7% of the respondents, long-term leasing, 23.3%, with 13.3% suggesting that their firms use sale and leaseback to acquire its operational real estate to acquire operational real estate. Out of the respondents, traditional mortgage debt finance was ranked as the most important method used to generate the necessary funds to acquire real estate. The sale and leaseback and joint venture method of financing were ranked second and third most important by the respondents, with the sale of common stock and preferred stock and preferred shares as the least important financing methods used to generate the necessary funds to acquire real estate.

The respondents were also asked about their awareness of sale and leaseback as a source of off-balance sheet funding for real estate, 90% of the respondents indicated that they were aware of sale and leaseback as a source of off-balance sheet funding for real estate and 10% indicated that they were not aware. This indicates that traditional debt finance occupies a high position in a firm's capital structure. From the data we can also deduce that managers rank traditional mortgage debt finance as the most important form of finance that they would exploit first to acquire operational real estate for their firms. Awareness of sale and leaseback in the South African real estate market is high, however, the frequency of use isn't as high. One of the reasons could be that there's is a negative perception about sale and leaseback. Redman, et al., (2002) stated that firms still prefer a combination of debt and equity with a focus on short and long term debt. Another finding that can be deduced from the findings is that the majority of sale and leaseback transactions might not be publicly reported, and quite possible that are a lot of private transactions as a result of South Africa's fragmented real estate market.

Section C: The main motivations in part-taking in sale and leaseback transactions

Regarding the most important motivation to part-take in a sale and leaseback transactions, the respondents ranked the unlocking of capital as the most important motivation. Specialization of operations, and accounting purposes were ranked as second and third most important, respectively, with flexibility and taxation purposes being the least important, respectively.

What can be deduced from the findings is that mortgage loans are still the mainstream method of real estate finance.

Redman, et al., (2002) reported that firms prefer external sources of finance. From the findings, it is clear that South Africa firms rarely use internal financing methods generated through the company's cashflow. The discussion point can be that the as much as the South African real estate market is the most sophisticated in Africa, by international standards, it has reached the levels of complexity that trigger innovative ways to part-take in real estate finance. The implication for real estate asset managers and firms is that capital is the main motivation to part-take in sale and leaseback which could be a symptom of a constrained debt market. Asson, (2002) states that sale and leaseback is viewed as method of accessing affordable cash for business operations, and that a firms occupational strategy needs an outsourcing solution to cater for the fluctiating requirement for operational real estate.

Of the respondents, 66.7% agreed that sale and lease is an adequate substitute for traditional forms of finance. The implication is that it can be an adequate substitute, especially during times when credit is constrained. At the same time, it gives an organization that ability to manage their debt, risks and remain in operations at its existing facility. For financial managers, sale and leaseback do not lock up acquisition costs or require mortgage security. For real estate purchasers, it means that they can obtain the property at a lower market price and secure future income in terms of lease. For businesses whose main operations aren't real estate driven, a sale and leaseback transaction can ensure capital allocation for the seller and regular cashflow for the purchaser. There's significant capital unlock off-balance sheet to fund other projects or investments that can generate a better return for the company.

33.3% of the respondents disagreed that sale and leaseback is an adequate substitute for traditional forms of finance. The perception is that sale and leaseback transaction are more expensive than traditional debt, and should rather be used for distressed companies needing capital or operational flexibility. The perception is that sale and leasebacks are more complicated. Redman, et al., (2002) cited that sale and leaseback ranked lower lower than long-term leasing, and debt mortgage as a result of its perception.

5.2 Modelling - Financing methods used to generate the necessary funds acquire real estate for company

Table: 5.2-Financing methods used to generate the necessary funds acquire real estate for company

	Standard Deviation	Skewness	Kurtosis	Average	Median
Sale and Leaseback	1.20	0.04	2.06	2.80	3.00
Sale of Common Stock	1.20	0.07	1.90	3.00	3.00
Mortgage	1.60	0.88	2.20	2.20	1.00
Sale of Shares	1.30	-0.64	2.25	3.70	4.00
Ventures	1.40	-0.05	1.73	3.10	3.00

All the responses in terms of sale and leaseback as a source of financing had a mean of 2.80, a median of 3.00 and a standard deviation of 1.20. The variable had a kurtosis of 2.06 and skewness of 0.04. The mean for sale of common stock had a value of 3.00, a median of 3.00 and a standard deviation of 1.20. The variable had a kurtosis of 1.90 and skewness of 0.07. All the responses in terms of mortgage loan as a source of financing had a mean of 2.20, a median of 1.00 and a standard deviation of 1.60. The variable had a kurtosis of 2.20 and skewness of 0.88. The sale of common shares had a mean of 3.70, a median of 4.00 and a standard deviation of 1.30. The variable had a kurtosis of 2.25 and skewness of -0.64. Joint ventures had a mean of 3.10, a median of 3.00, and standard deviation of 1.40. The variable had a kurtosis of 1.73 and skewness of -0.05. The implication is that firms still look to traditional forms of financing to acquire real estate for operational purposes and that the sale of shares and joint ventures are seldom considered as methods used to generate the necessary funds to acquire real estate. Redman, et al., (2002) found that companies rely on the top ranked methods to acquire real estate for their operations included operating cashflow, secured property mortgage loan and long-term leasing.

Table: 5.3-Motivation to part-take in a sale and lease and back transaction

	Standard Deviation	Skewness	Kurtosis	Average	Median
Capital	6.88	1.67	2.82	5.40	3.00
Accounting	3.13	0.61	0.00	5.40	6.00
Taxation	2.70	-1.34	2.02	5.40	6.00
Specialization	4.22	0.17	-0.55	5.40	4.00
Flexibility	1.67	-0.51	-0.61	5.40	5.00

Capital had a mean of 1.60, a median of 1.00 and a standard deviation of 0.80. The skewness and kurtosis of the variable were 1.37 and 3.92, respectively. Accounting had a mean of 3.10, a median of 3.00 and a standard deviation of 1.10. The skewness and kurtosis of the variable were 0.03 and 2.41, respectively. Taxation had a mean of 3.40, a median of 4.00 and a standard deviation of 1.20. The skewness and kurtosis of the variable were -0.17 and 1.83, respectively. Specialization had a mean of 4.00, a median of 4.00 and a standard deviation of 1.10. The skewness and kurtosis of the variable were -0.65 and 2.13, respectively.

5.2 Response Analysis

The survey contained questions where respondents could choose a number of relevant responses. The most efficient way to provide as many columns as there are alternatives. The second technique was to find the maximum number of ticks from anyone and then have this number of columns, entering the codes for ticked responses, one per column. This is referred to as multiple response data. This is a valuable method if the question examines respondents to put the alternatives in order of importance, because the first column can give the most significant reason.

5.3 Demographic Analysis and Validity

The finite population correction. To introduce this concept, Hoyle first introduced the sampling fraction, f = *n*/*N*, where *n* is the sample size and *N* is the population size. If f = 1, then there is a census. In that case there is no sampling error, though there could be error from other sources. When the value of f is not 1 but approaches 1, the proportion of the population from which there are data has increased, and the sampling error in estimating the population parameter is less than it would be with fewer observations Kirkendall and White (2018)

5.4 Analysis as per Objectives

The outcomes of the survey were compared with the review of past research as per Chapter 2. An examination of consistency of the results from the data and the findings of past research gave a good indication of whether or not the objectives were met or not.

5.5 Conclusion to Analysis

The analysis was fairly rudimentary, this owing to the straightforwadedness of the survey. The respondents had a clear understanding of the survey, and the sample was adequate enough to be extrapolated to be a true representation of the population. The demographic analysis gave a sound indication of the sample's ability to representative of the population

6 Conclusions, Recommendations and Further Work

6.1 Summary

The primary attempt of the research was to understand the status of sale and leaseback as an alternative form of real estate finance in order to achieve this, there was a need to focus on the South African real estate market. The majority of the previous research focused on the American and European real estate markets in examining sale and leaseback as an alternative form of real estate finance. The significance of the research was to assist decision-makers in corporate real estate to understand other forms of real estate funding for their real estate needs.

6.2 Conclusions

(a) Asset classes that drive sale and leaseback

The main findings of the research were that the sale and leaseback funding method is driven by the industrial real estate asset class from an acquisition/disposal transaction timeline, an industrial real estate asset is the most traded asset class, which also supports the findings from the research that the industrial asset class is the most suitable real estate asset class for a sale and leaseback transaction. An evaluation of this can be drawn with the literature when in most cases, the volume of sale and leaseback transactions from the rest of the world were driven by massive portfolios of a singular real estate class i.e. retail, office . The findings from the research differ and do not align with other research findings, where Tipping and Bullard (2007) stated that in the UK, many firms have amassed large portfolios of freehold real estate, and that there had been growing trend of leading UK companies to separate ownership of their operational real estate from their operations. The possible explanation is that South African real estate market is firstly, the sale and leaseback usage in South Africa is not diverse, rather singular. This can be attributed to that fact that most of the big firms who operate in the South African real estate market are international firms who are headquartered outside South Africa, and have their real estate footprint distributed across the globe, as such have a global real estate strategy which deternines their real estate needs in that geography. Hence, in South Africa which has a strong distribution network from its harbours and north of its border as a gateway to Africa. This further explains why an industrial asset class would drive sale and leaseback in South African real estate market.

(b) Sale and leaseback as a source of financing

The main point from the research were that traditional debt financing is the primary method when firms are considering real estate acquisitions for their real estate needs in South Africa. An evaluation of this finding is that the capital structure of most firms is fairly rigid, and outside of their operational cashflows, there isn't much flexibility. These findings are aligned with other researcher's findings. Asson (2002) cited that in a market where the cost if debt is cheap, it would be hard to imagine that a firm would look to a sale and leaseback. Further, traditional debt is not complex, and easy to assemble and implement. The possible implication is that firms have healthy operating cashflows which enable them to use a combination of debt and equity as a source of financing to acquire real estate, and the debt market in South Africa isnt highl such that firms would operate outside debt and equity funding. However, this may not continue for longer, as that rating agencies are monitoring South Africa's fiscus, owing to governance and political risk, further downgrade, may lead to higher borrowing cost which will negtaively affect firms' capital structure and decision making. Firms would need to review their capital structure and be flexible enough to explore alternative methods of funding real estate acquisitions.

(c) The main objective in part-taking in sale and leaseback

Unlocking capital was the main finding in part-taking in sale and leaseback transaction. Specialization of operations, flexibility, taxation and accounting purposes were secondary to the unlocking of capital. The findings are aligned and are consistent with previous research. Tipping and Bullard, (2007) stated that the release of capital is presently one of the primary factors driving sale and leaseback in the UK. Gronlund et al. (2004) stated that companies may want to release capital from their real estate assets. These findings can be intepreted as consistent with the current state of the South African economy which is experiencing slow growth as demand for goods has subdued. This has put pressure on firms' operational cashflows, suggesting that firms still have a need for their real estate, however, do not require to own. As such, the release of capital from their real estate portfolio is one of the ways firms boost their cashflow concerns. Another intepretation that can be made is that when firms are in need to release capital from their real estate, it is most likely it will be its industrial assets.

In conclusion of the hypothesis which sought to quantify and assess the understanding and impact in the South African real estate market, the South African real estate market and its practitioners have a fairly good understanding of sale and leaseback as a method of financing. The impact across the real estate market cannot be assessed to legitimately classify sale and leaseback as a widely used method in the South African real estate market. As such, it cannot be said that sale and leaseback have had a significant impact in the South African real estate market as alternative form of finance.

6.3 Contribution of study

The implication of the study is that the South African real estate market, though it is widely aware of sale and leaseback as an alternative form of real estate finance, it is not a viable option on a property-by-property basis but rather a portfolio approach with a singular real estate class. Sale and leaseback isn't viewed as an alternative form of finance, and it is unlikely that the perception of use will change in the near future in the open-market. South African firm are driven by their own ability to fund their real estate, failing which, debt and equity or full debt becomes the firm's capital structure. Sale and leaseback become can only be a serious option in a market where debt is expensive and access to cash is limited, neither of which are currently the case in the South African real estate market.

6.4 Limitations

The study focused on South African Real Estate market. Some synthesized articles are fairly old, over and above this, there were also time constraints.

6.5 Recommendations

(a) Recommendations to practice

The practical applications for fund managers, real estate investors and chief financial officers is to closely evaluate their capital structure, as sale and leaseback has significant benefits that can help the business in tough times. Decision makers need to be creative and flexible in that, creativity suggests that there is always a suitable funding method (traditional method) for real estate acquisition, however, flexibility, suggests that there is more than one answer. This is the realm of sale and leaseback.

(b) Recommendations to Body of Knowledge

Area of further research exists in investigating how sale and leasebacks can effectively be used in other real estate asset classes, namely, retail and office. Added to this, there exists an opportunity in understanding why the South African real estate market doesn’t see sale and leaseback as an alternative form of real estate finance , domestically as the research findings suggest.

6.6 Further Work

There is space for the further work from a South African real estate perspective:

- Sale and leaseback as a South African real estate model;
- The financial drivers and implications of sale and leaseback of real estate assets; and
- Sale and leaseback of real estate assets and operational efficiency

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