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Synthetic Or 'True' Leases: Business As Usual?

Gil Sandler

Midway through the first year of operating under new accounting rules, the synthetic lease has not died of atrophy, according to the author of this article, Gil Sandler. Mr. Sandler also points out, however, that the synthetic lease also has not yet been—and is unlikely to be—resurrected as the most efficient means for corporate America to finance real estate.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, entitled "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This followed many months of debate, public comment, and acrimony about varying approaches to improving the transparency of unintelligible financial statements. In order to avoid unduly impacting the real estate and equipment leasing and securitization industries, the FASB dropped its key distinction between special-purpose entities, or "SPEs," used as lessors and financing conduits, required to be consolidated by its controlling entities, and substantial operating entities, or "SOEs," which could remain independent. The result was a new variable-interest entity, or "VIE."

The VIE retains some of the SPE's key attributes, but reflects a broader universe of determinative factors. Stated simply, a VIE lacks sufficient financial independence to be able to absorb anticipated risks of the enterprise without assistance from other entities such as lessees, lenders or investors whose interests may vary in kinds and degrees of relative seniority and subordination.¹ Once the ownership entity has been diagnosed as a VIE, it must be consolidated with its "primary beneficiary."² That party is whichever

holder of a variable interest is expected to absorb the majority of losses or receive the majority of residual benefits, or both.

The VIE And The Synthetic—A Mixed Marriage

In the traditional synthetic lease, the lessee has issued a residual value guarantee, or RVG, and received a purchase option at a price enabling it to retain substantially all of the residual gain in the value of the leased asset. The synthetic lessee may also provide a financial guarantee of a portion of the lessor's debt. Since the RVG is historically a first-loss position, shielding the lessor from any risk in the decline in value of the leased asset, the synthetic lessee would clearly become the primary beneficiary if the lessor were classified as a VIE, and the accounts of the VIE lessor would be consolidated with the lessee.

By way of background, the primary purposes of the synthetic lease structure are twofold: first, to finance large capital investments in real estate or equipment without swelling the company's balance sheet with debt and corresponding assets by leasing them from a friendly lessor on favorable terms roughly equivalent to the company's lowest-cost financing rate; and second, to minimize the cost of using the asset by charging to the profit and loss statement only the barest rental expense for the lessor's non-amortizing debt service. Notably omitted from the lessee's balance

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sheet is the recourse debt, while the lessee's P&L similarly excludes both the normal depreciation charge and the amortization component of the lessor's debt that would normally be included in the rent. Since tax analysis of real estate transactions tends to be more oriented to economic interests, synthetic lease are sometimes called "tax retention" leases. This is primarily because the high level of lessee risk in its first-loss RVG, coupled with the ability to repurchase the asset at amortized cost, vests the lessee with both risk and reward. In the synthetic, non-amortizing financing structure, tax ownership provides the added benefit of enabling the lessee to deduct both interest and depreciation. This can be significantly greater than the rent expense—which is usually interest only—charged against earnings under generally accepted accounting principles (GAAP).

Why Public Companies Prefer Synthetics— The Numbers Work

Here's a simplified example³ illustrating the GAAP and tax advantages of the synthetic lease, as compared to a conventional developer or real estate investor lease, or "true lease." The lease and financing assumptions are as follows:

MegaCorp, aka "MC," is a \$40 billion gross revenue multinational manufacturer of chemical and petroleum products, with \$5 billion of property, plant, and equipment (PPE) in manufacturing facilities around the world. MC owns this PPE, and for accounting purposes, depreciates the heavy installed long-lived equipment, along with the real property, over a 30-year schedule. They also use another \$2 billion of corporate headquarters and regional office properties, as well as warehouse and distribution centers. However, because MC's geographic needs and business models change about every 10 years, and these properties tend generally to hold their value, MC had the option of owning or leasing them, and in the latter case, which form of lease. MC has long-term senior debt ratings of "BBB+" (S&P)/"Baa1" (Moody's), and has paid LIBOR plus 75-100 bps on its short-term borrowings from banks, and L plus 125 bps on term loans.⁴ Its 10-year senior bullet notes are usually priced at a spread of 175-200 bps over the 10-year Treasury yield.

MC is seeking to buy or lease a new corporate HQ with 5 buildings totaling about one million square feet of space. MegaDeveloper, or MD, is a major national developer that controls the perfect site, a 100-acre campus adjacent to an established corporate park off Interstate 200, and offers to sell it to MC for \$40 million, or do a "build to suit" and lease it to MC for 10 years with purchase and renewal options. MD will also build it for sale to MC, or its designee, for about \$160 million.

As indicated, the property cost consists of \$40,000,000 to acquire the land and \$160,000,000 to

construct it. The building and improvements are assumed to be depreciable under GAAP over a 30-year period, while the tax depreciation schedule is assumed to be 39 years.

MC's lead bank, MegaBank, or MB, has a multi-asset leasing company, MBL, which has hundreds of properties leased to MB's corporate clients in both synthetic and leveraged leases. MB offers to finance the entire HQ project through a synthetic lease. MC's Treasury group analyzes the proposals and shows MC's CFO and CEO this simple analysis.

(A) *The Synthetic Lease:* MB proposes to fund the entire \$200 million required for the HQ. They will arrange for a syndicated loan to MBL for \$180 million at L + 125 bps (MC's prevailing term loan rate), and invest \$20 million at LIBOR + 250 (approximately two times the senior loan rate), swapped to fixed rate for 10 years at the 10-year Treasury rate plus 50 bps. Both of these floating rate LIBOR loans will be swapped for 10 years. With a swap spread estimated at the 10-year T (3.25 percent⁵) + 50 bps, this would produce a debt rate of 5.00⁶ percent and an equity rate of 6.25 percent.⁷

No amortization is typically required for well-located, newer corporate office, industrial or retail properties, since the equity and the debt are both protected by the lessee's first-loss "residual value guarantee," or RVG.⁸ Thus, the rent would be \$10,250,000 annually over the 10-year lease term, or a rent constant of 5.125 percent.⁹

At the end of the term, MC must either exercise its purchase option at the "unamortized lease investment balance," or ULIB, arrange for a sale of the property at a price that will repay the ULIB, refinance that amount, or pay up to \$180 million in "contingent rent" for the privilege of walking away. This RVG effectively guarantees that MC will buy the HQ or find some way to repay the bank financing—even if the property value drops—before it is forced to pay this contingent rent and end up with no property to use or sell.

Although MC is a highly-regarded member of the Fortune 500, and has over \$1.5 billion of bank lines to support its commercial paper and seasonal borrowing programs, the synthetic lease will be aggregated by participating banks with their other credit exposures.¹⁰

From an economic viewpoint, MC intends to retain its HQ for the foreseeable future, and would, if necessary, exercise its purchase option at the end of the 10-year lease term at \$200 million, the ULIB at that time. Its net cost of leasing or lessee IRR, is 5.125 percent.

(B) *The Developer Lease:* MD has a joint venture with MegaLife, a large insurance company, to invest in large "build-to-suit" properties for lease to major companies. While the debt and equity components may vary, a fairly typical financing mix might be 25 percent equity contributed by ML, and a 10-year non-recourse mortgage from an ML affiliate or another life insur-

Synthetic Or 'True' Leases: Business As Usual?

ance company for 75 percent of appraised fair market value. The equity would be seeking a current return in the range of 8.25¹¹ percent, or about 200 to 250 bps higher than corresponding investment-grade corporate note or bond rates of the same tenor. The mortgage rate would range from 175 to 225 bps over the 10-year Treasury yield, depending on the nature of the property, the lease and the amortization schedule.

For this property, which is reasonably well-located adjacent to an office park on the outskirts of a medium-size Midwestern city like Kansas City,¹² ML offers a mortgage loan at T + 200 bps, or 5.25¹³ percent with a 30-year amortization schedule. That schedule reduces the \$150 million mortgage to \$122,480,000 over the 10-year term.

ML is seeking an internal rate of return on real estate equity investments in the range of 12 percent to

15 percent.¹⁴ Since its current return from distributions is only 8.5¹⁵ percent, the shortfall must be made up by a sale of the property at a price above the unamortized mortgage balloon. ML expects that the HQ will have a fair market value at the end of the 10-year lease term of about \$125 million, adjusted for improvement costs. ML is aware of MC's other options and is willing to make the investment at the lower end of its target. Thus, the purchase option offered to MC is at \$220 million or 105 percent of original cost. At this price, exercise of the purchase option would provide an IRR of 12.4 percent, resulting in a lessee IRR or cost to MC, of 7.44¹⁶ percent.

Since ML is relying solely on the collateral value of the property, and its suitability for sale or re-lease to another company, ML does not require an RVG or corporate covenants.

The rent schedule would be as follows:

<u>Synthetic Lease</u>			<u>Developer Lease</u>		
<u>Year</u>	<u>Rent</u>	<u>Rent %¹⁷</u>	<u>Year</u>	<u>Rent</u>	<u>Rent %¹⁸</u>
1	\$10,250,000	5.125%	1	\$14,162,000	7.081%
2	10,250,000	5.125%	2	14,162,000	7.081%
3	10,250,000	5.125%	3	14,162,000	7.081%
4	10,250,000	5.125%	4	14,162,000	7.081%
5	10,250,000	5.125%	5	14,162,000	7.081%
6	10,250,000	5.125%	6	14,162,000	7.081%
7	10,250,000	5.125%	7	14,162,000	7.081%
8	10,250,000	5.125%	8	14,162,000	7.081%
9	10,250,000	5.125%	9	14,162,000	7.081%
10	10,250,000	5.125%	10	14,162,000	7.081%

* All amounts rounded to nearest thousand

Now the GAAP comparison:

<u>Synthetic Lease</u>		<u>Developer Lease</u>	
<u>Year</u>	<u>GAAP Rent¹⁹</u>	<u>Year</u>	<u>GAAP Rent²⁰</u>
1	\$10,250,000	1	\$14,163,000
2	10,250,000	2	14,163,000
3	10,250,000	3	14,163,000
4	10,250,000	4	14,163,000
5	10,250,000	5	14,163,000
6	10,250,000	6	14,163,000
7	10,250,000	7	14,163,000
8	10,250,000	8	14,163,000
9	10,250,000	9	14,163,000
10	10,250,000	10	14,163,000

* All amounts rounded to nearest thousand

Finally, the tax analysis:

<u>Synthetic Lease</u>				<u>Developer Lease</u>	
Year	Interest Expense ²¹	Depreciation	Total Deductions	Year	Rent Expense ²²
1	\$9,000,000	\$4,103,000	\$13,103,000	1	\$14,163,000
2	9,000,000	4,103,000	13,103,000	2	14,163,000
3	9,000,000	4,103,000	13,103,000	3	14,163,000
4	9,000,000	4,103,000	13,103,000	4	14,163,000
5	9,000,000	4,103,000	13,103,000	5	14,163,000
6	9,000,000	4,103,000	13,103,000	6	14,163,000
7	9,000,000	4,103,000	13,103,000	7	14,163,000
8	9,000,000	4,103,000	13,103,000	8	14,163,000
9	9,000,000	4,103,000	13,103,000	9	14,163,000
10	9,000,000	4,103,000	13,103,000	10	14,163,000

* All amounts rounded to nearest thousand.

It should come as no surprise that, from every angle or perspective, the synthetic lease wins hands down, and MC decides, after consulting with its investor relations consultants, that its future financial statements can still appear “transparent” with proper disclosure of both contingent liabilities and potential future GAAP impacts.

There were, however, some caveats that were the subject of considerable internal debate within MC’s Treasury group and the CEO’s planning team. MC had to be willing to put its full credit on the lease obligation and retain responsibility for the HQ’s value after 10 years, through its RVG. Then, MC had to enter into a finance lease with covenants and provision for repricing of its credit facilities, but they decided that a credit decline would have much bigger impacts throughout the company, and an extra 50-100 bps of interest embedded in the rent would be a relatively minor event.²³ MC also noted that the extra \$200 million of bank credit used in the synthetic could affect some banks’ future capacity, but it was assured by MB that the wide syndication among banks with unused capacity would eliminate this issue.

MC’s CFO and CEO had noted that one major competitor had bitten the bullet and repurchased its synthetic leased properties, swelling its balance sheet with real estate and debt—all in the name of “transparency.” MC’s real estate analyst noted that many of the competitor’s properties repurchased were special purpose in nature, including some plants in foreign, less-developed countries, and unlikely to retain their values. Thus, in that case, a current repurchase might merely be avoiding future asset impairment charges.²⁴ Also, the competitor’s credit lines had recently tightened due to a rating downgrade, so its synthetic lease facilities were about to be re-priced by 100 bps or more. By contrast, the HQ’s and other office and industrial properties planned by MC were more generic in use, nature and location, and were

expected to retain their values, at least for the next 10 years. When MC pondered adding another \$200 million of real estate assets and debt—and perhaps another \$500 million in future property needs—they decided to lease. Unless the numbers are revised to reflect the potential impact of FIN 46,²⁵ and to a lesser extent, FIN 45,²⁶ this decision appears soundly based.

Onward And Upward: The Synthetic Or Something Like It

In the post-Enron era, rating agencies, analysts and even major investors have begun to exalt transparency in financial reporting and punish obfuscation. This has temporarily slowed the usually hyperactive financial engineers from devising antidotes to the loss of such an efficient structure as the synthetic. In the interim, however, some preferred synthetic lessors have found relatively easy ways to continue doing business as usual, especially in rollovers of existing synthetic leases, and acquisitions of leased properties from SPEs which would now become VIEs.

A sizable portion of the many billions of dollars worth of leased real estate has been owned and leased by multi-asset leasing companies owned and fully financed by major banks.²⁷ These lessors have used various combinations of equity and debt, most often borrowed on a recourse basis from their affiliated banks or bank CP conduits, to build large lease portfolios and capital bases. Most of these lessors issue separate financial statements and consolidate with their bank holding companies. While the SOE exemption in earlier exposure drafts was superseded by the final version of FIN 46, just enough of this concept has survived in the form of voting interest entities or “VOEs,” which, almost by definition, have the independent financial resources to escape the dragnet of VIE analysis. These VOE lessors are able to avoid most of the structuring issues emanating from FIN 46 and

capture synthetic rollovers from other VIE lessors.²⁸ New synthetic business has, nonetheless, been limited by both the recession and general negative aura surrounding complex off-balance-sheet financing.

Non-VIE Lessors

This avoidance of VIE classification has been achieved without the infusion of 10 percent or more minimum equity into each lease transaction under FIN 46²⁹ required to establish the financial independence necessary for a lessor entity to avoid becoming a VIE. Higher amounts may be required, and lesser amounts may be proven to be sufficient.³⁰ Non-VIE lessors need not concern themselves with levels and types of equity or debt, and can obtain all of the traditional lender/investor protections of the synthetic structure—such as the RVG and lessee guarantee of lessor's debt. Apparently, some bank leasing companies holding real estate and equipment in synthetic and leveraged leases have accumulated—or borrowed on a recourse basis from their banks—enough capital to be independently creditworthy VOEs not requiring the financial support of lenders or lessees.

Other lessors can rely on the multi-asset lease pool exception where no single leased asset accounts for more than 50 percent of the fair value of the lease pool.³¹ Combining separate leased assets, or "silos," into a larger pool does not avoid separate VIE classification of each silo and consolidation by the primary beneficiary if the asset is the only source of payment of related debt or similar interest—essentially non-recourse financing.³² This criteria seems to be satisfied whenever the lessor has not financed the leased asset with more than 95 percent of non-recourse debt—i.e., has contributed equity or borrowed on a recourse basis at least five percent of the purchase price.

Not quite business as usual, perhaps, but the synthetic lives to enable major banks to service their creditworthy corporate customers, and earn still higher spreads on their "equity" contributions to property purchases.

VIE Lessors

However, the world is somewhat different for other smaller or independent leasing companies, and for banks that have previously avoided accumulating or consolidating leased assets. Unless they become or merge with a VOE, their synthetic lessees will require significant restructuring. If a lessor cannot avoid becoming a VIE without contributing 10 percent equity, or more or less in certain cases, the synthetic lessee may be unable to achieve off-balance sheet classification with the usual first-loss RVG, and the usual purchase option at the lessor's "unamortized lease investment balance." FIN 46 requires equity to be "at risk" and its measure of sufficiency without subordinate financial support would seem clearly to require

that the equity not be protected by a first-loss RVG.³³ If this position is adopted—and thus far, no public analysis has been offered by either the FASB or any of the Big 4 accounting firms—bank-affiliated lessors who use VIEs will have to find other real estate equity sources at a higher cost, or charge more for the equity themselves.

This infusion of true equity capital would undoubtedly increase not only the cash-on-cash return component of the rent, but require a higher purchase option price to increase the equity's IRR above the cash return. Alternatively, or in addition, the synthetic structure will have to be modified to permit amortization sufficient to return all or portion of the "at risk" equity over a longer term than the usual five-year synthetic lease. Thus, we can expect to see some synthetic or quasi-synthetic leases for seven, 10 and even 15 years with embedded RVGs. This will impact the economic, GAAP,³⁴ tax and bankruptcy analysis.³⁵ As the rents increase to cover some limited amortization and equity returns, and purchase option comes closer to prospective market values, the lessee is no longer the sole or primary party at risk or the sole or primary beneficiary.

Once GAAP and tax treatment are aligned—which is said to be one of the FASB's objectives—it may not be much of a stretch to move to a long-term credit-tenant lease ("CTL") structure, with some modifications. If substantial amortization over a 20-year term is permitted by the economics of the financing, it may no longer be necessary to rely on a lessee RVG, and at the 35-40 percent balloon level, residual value insurance becomes available, if necessary. The tax objections to amortization of long-term leases³⁶ can be overcome by moving much of the large-property synthetic product into the pension fund institutional equity market,³⁷ and by expanding the Sec. 1031 exchange³⁸ market into this arena as well. This expansion could involve the syndication of large portfolios of industrial properties or interests in larger corporate headquarters properties, all of which were the bane of the synthetic lease boom.

The future awaits development and refinement of these many alternatives to synthetics.³⁹

POSTSCRIPT: In late July 2003, JP Morgan Chase and Citigroup reached a widely publicized \$300,000,000 settlement with the SEC, the NY Attorney General and the NYC District Attorney of charges that they aided and abetted Enron's fraudulent use of offshore SPEs to fabricate cash flow and earnings with disguised loans to offshore SPEs. While the cease and desist orders against Citigroup and injunction against JPM are not binding on other participants, they portend internal procedural changes and send a clear message to other professionals that they can be liable for known or reasonably foreseeable use by clients of structured transactions intended to deceive investors—even if technically in compliance with tax

or accounting rules or interpretations. This, in combination with the federal Sarbanes-Oxley imposition of statutory liability, underscores the importance of proper disclosure of structured lease transactions in financial reports and the approval process on both ends of synthetics and similar finance-lease transactions.

¹ See the FASB Summary preceding FIN 46 Paragraphs 5 and 6 of FIN 46.

² See the FASB Summary and Paragraphs 14 and 15 of FIN 46.

³ Although the typical synthetic term is five years, for simplicity, the example assumes a 10-year synthetic lease term with traditional bank loan covenants, financed with renewable short-term facilities, and a 10-year developer or true lease. As a long-time favored corporate client of the bank, MB is willing to take some longer-term risk on MC's credit, with the protection of pricing matrices and strong covenants.

⁴ MC had historically maintained ratings in the solid "A" range, but suffered downgrades in the past two years due to revenue declines and lower profit margins, buffered somewhat by reduced interest expense. Its LIBOR loan margins gradually increased from 35 bps to 75 bps, subject to utilization, while five-year term loan spreads increased from 50-100 bps. The 10-year commitment used in this example reflects an additional premium.

⁵ Treasury yields are as of June 25, 2003.

⁶ All interest rates, equity returns, debt service constants and rent assumptions are predicated on market rates as of June 25, 2003. While LIBOR has remained fairly constant, prevailing market rates for bonds and commercial mortgages soared in the weeks following the Federal Reserve's 25 bps rate cut and the ensuing sell-off in the Treasury market. Despite rate variations, the illustrations shown herein continue to reflect comparative rate and rent differentials.

⁷ See Note 6.

⁸ MBL is a multi-asset leasing company meeting the criteria outlined in Paragraphs 12 and 13 of FIN 46. Thus, it is treated as a VOE, and not required to have minimum equity at risk before invoking the RVG.

⁹ See Note 6.

¹⁰ This aggregation can become a serious issue for companies with more limited bank credit access, often pushing them into leasing properties at much higher rent levels under true leases.

¹¹ See Note 6.

¹² The mortgage rate might be 25-50 bps lower for new property in the heart of the central business district of a major or actively growing city.

¹³ See Note 6.

¹⁴ Developers using their own funds, as well as smaller and more risk-oriented institutional investors often require indicative returns in the 18 percent to 25 percent.

¹⁵ See Note 6.

¹⁶ See Note 6.

¹⁷ See Note 6.

¹⁸ See Note 6.

¹⁹ Excludes any GAAP charge for MC's RVG. Although FIN 45 would suggest the need to charge the P&L for an amortized cost of the fair value of the lessee's RVG, many lessors and accounting advisers seem comfortable with avoiding this charge if appraisal estimates of future value are sufficiently high to make the RVG an "out of the money" option, not required to be valued and charged. More conservative lessee auditors may require some P&L charge along the lines of the estimated cost of obtaining residual value insurance. This issue, like so many other FIN 45 and 46 applications, will require case-by-case analysis.

²⁰ See Note 6.

²¹ See Note 6.

²² See Note 6.

²³ A minor increase in its LIBOR borrowing spread would not erode the pricing advantage of the synthetic. Moreover, in the event of a covenant or ratio default, a rent increase would be relatively insignificant in the context of more limited credit access and higher pricing across the broad spectrum of its capital markets activities.

²⁴ Under FAS 121, companies must take a P&L charge for the reduction in fair value of impaired assets. This would be imposed when synthetic leased properties must be taken out by the company's purchase at original cost, while its fair asset value is less.

²⁵ As noted under "VIE Lessors," if synthetic lessors are required to place their equity at risk before invoking the RVG, they will require higher returns or amortization or both, thereby increasing the required rents.

²⁶ See Note 10 and the discussion under "VIE Lessors."

²⁷ The synthetic lease market alone had been estimated at more than \$100 billion before the Enron meltdown.

²⁸ Among the many major companies choosing to retain their synthetic leases are AT&T, General Motors Corporation and Toys 'R' Us—the latter having entered into a synthetic lease for its new HQ shortly before the Enron implosion.

²⁹ 10 percent is rebuttably presumed to be the bare minimum of equity—though not in itself a safe harbor. See Paragraphs 9 and 10 of FIN 46.

³⁰ Paragraph 54 of FAS 66 specifies the minimum equity down payment required to obtain sale treatment for certain types of real estate. 10 percent is listed as the normal down payment for properties leased to credit tenants.

³¹ See FIN 46, Paragraph 12.

³² See FIN 46, Paragraph 13.

³³ This is in marked contrast to EITF 90-15, requiring minimum equity of three percent to avoid SPE consolidation and EITF 96-21, defining certain circumstances as not allowing the equity to be or remain "at risk." Although equity loans were then required to be on a recourse basis from an entity with sufficient net capital to repay the loan, the use of first-loss RVGs to protect the equity was not prohibited.

³⁴ Under FIN 45, Residual Value Guarantees are required to be charged at "fair value" as both a liability and an expense. Thus, a first, or even second, loss position for the lessee's RVG would likely require a charge for an estimated third-party charge for residual value insurance, which would then be amortized over the lease term.

³⁵ The bankruptcy courts' support for the usual synthetic

lease acknowledgement that the lease is not a "true lease" subject to disaffirmance or rejection under Sec. 365 of the Code may be less clear for finance-type leases more closely resembling real estate investments.

³⁶ Taxable real estate investors realize phantom income in a full-amortization lease after the cumulative sum of depreciation and declining interest expense no longer shield rental income. The crossover point is usually seven to 10 years into a 20-year lease, though it can be deferred by reduced or deferred amortization, and multiple refinancings.

³⁷ Tax-exempt pension funds have no concern for phantom income, and public pension funds can utilize leverage as well as REITs and private investors. Private pension fund investors usually invest on an equity basis.

³⁸ Private investors in this market usually purchase indi-

vidual properties like food and drug stores, and "white box" retail outlets, in the \$500,000 to \$5,000,000 range, and exchange them for other "like-kind" properties before the "crossover" point to avoid a taxable gain on sale. Their returns—currently in the 7.25 percent to 9 percent range for CTL lease deals in the "AA" to "BBB-" credit range can continue virtually indefinitely. Typically, however, these properties have very low purchase option prices, making sizable profits upon expiration of lease terms unlikely.

³⁹ The author's firm has devised various hybrid lease-financing structures, aptly named COLTSsm (Corporate Operating lease Term Securities), COLTS CTLsm and COLTS LTSsm (Long-Term Synthetic), which do not require consolidation by the lessee under FIN 46, and retain their character as operating leases.