Innovative approach to sale, leasebacks can reap BEE rewards

Focusing on the acquisition of assets that have large public-sector tenancies has been the traditional approach to BEE property investment.

According to Lyndon Kan and Andrew Glencross, the duo who head up Divergent, the property arm of Bravura, an independent investment banking and advisory firm, while this was a viable approach a decade ago, when there was an abundance of good stock, in today's market this strategy has become stale. A much more exciting opportunity, they say, lies in investigating the potential for sale and lease-back agreements which can bolster companies' balance sheets, and simultaneously, reap BEE rewards.

The notion of leveraging sale and lease-back agreements to improve a BEE rating is innovative, yet simple, explains Kan. "One of the ways to improve a company's BEE scorecard is to increase BEE procurement spend. And one of the main expenses for a company is rental. It would, therefore, make sense for a company to explore the notion of selling their property to a BEE-compliant company, and then to rent back the property through a long-term lease agreement. This would improve the company's procurement profile."

Large corporations with 'lazy' assets

Kan says that, anecdotally, thinking about sale and leasebacks in the context of BEE is only now beginning to gain traction in the market. "Talking to clients and peers, we see that this has not necessarily been top-of-mind, but upon consideration, becomes a compelling prospect. The commercial point of view is that these assets are non-core."

Companies that could particularly benefit from this approach are large corporations that have ‘lazy’ assets on their books, says Kan. “These entities don’t need to raise capital, as they are not concerned with a financial transaction. But from a corporate social responsibility perspective, and in terms of JSE requirements, it is important to increase BEE points as much as possible. If they were to sell these ‘lazy’ assets to a level one BEE concern, they would improve their procurement profile.”

Another type of company that could successfully use this strategy are those multinationals with very little, or no, BEE profile, yet as providers of necessary equipment or services to public companies, would critically need to increase the BEE rating of their South African operation.

Conditions not always favourable

Glencross highlights a further BEE consideration for sales and leasebacks. Conditions might not always be favourable. He relates an example where a strongly BEE compliant company mandated a property broker to sell their portfolio. What wasn’t fully considered was that by selling the portfolio, the company’s procurement spend would be allocated to entities with non-BEE status, ultimately weakening its own BEE status. “So it works both ways,” says Glencross. “The bottom line is that there is benefit in considering the implications of any sale and leaseback agreement from a number of angles, in the context of BEE.”

Kan cautions, however, that while there is a great competitive advantage in having, for example, a level one BEE partner, the focus should always be on quality assets: “The winning formula is a good quality asset that happens to be owned by a black-owned and controlled firm. Interestingly, we are seeing that BEE funds are, in fact, moving in this direction.”