Alternative Financing Options of Corporate Real Estate

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Stockholm 2015
Abstract

Corporate real estate is land and property used by companies whose core business is not real estate. To buy corporate real estate is capital intensive, the most common financing method is and has historically been lending from banks and credit institutions. However after the latest financial crisis in 2008 the risk premium banks require has increased, implying a higher cost of lending for companies. Because of this other financing methods have become more interesting. This study is researching when and if the alternative methods sale and leaseback, issuing corporate bonds, issuing new equity or creating a real estate investment trust are viable options to lending from banks and credit institutions. The result shows that none of the financing methods can be said to be the single optimum one but in Sweden all except real estate investment trust are good options under certain circumstances. The choice of financing method is not only affected by the cost directly associated with the financing but also how the company’s capital structure would be affected and which signals are sent to its investors.
Examensarbete

Titel: Alternativa finansieringsmöjligheter av företagsfastigheter
Författare: Frida Olsson
Institution: Institutionen för Fastigheter och Byggande
Examensarbete nummer: Nr. 354
Handledare: Svante Mandell
Nyckelord: Företagsfastigheter, Sale and Leaseback, Företagsobligationer, Emittera nya aktier, fastighetsfonder

Sammanfattning

Acknowledgement

This thesis was written during the spring of 2015 as the final part of the master programme Real Estate and Construction Management at the Royal Institute of Technology, Stockholm.

I would like to thank my supervisor Svante Mandell at the Royal Institute of Technology for his engagement, valuable guidance and support throughout the work with this thesis.

Lastly I would like to thank my family and friends for their support during the work with this thesis.

Stockholm, May 2015
Frida Olsson
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1. Introduction

Corporate real estate refers to land and property, owned by companies that are not mainly in the real estate business, nonetheless from economic theory these companies see real estate as a factor of production (Kim Hiang & Nappi-Choulet, 2008). Property experts assume that property is in the forefront of each company’s mind and even though property often is the second largest cost after labour the reality is often another (Edwards & Ellison, 2004). The development is however going towards a higher level of importance for corporate real estate which is turning into the “fifth corporate resource” after capital, people, technology and information (Kim Hiang & Nappi-Choulet, 2008). The trend in corporate real estate has developed with changes in business operations from the business environment, where the paradigm shift highlights the changes coming from information communication technology and the global market competition (Ali, et al., 2008). Haynes & Nunnington (2010) write that the business environment is constantly changing and the rate of change is increasing. In order to succeed or in the worst case even survive, companies need to be responsive and flexible to adapt to these changes. This also applies for the companies’ corporate real estate.

Companies can choose to own or lease their corporate real estate. To own corporate real estate is capital intensive and therefore the decision affects the company’s capital structure. The way companies choose their property portfolio is shown in the company’s financial statements. The ownership of real estate assets is shown in the balance sheet at book value, whilst leased properties can be seen in the income statement as an operating expense (Ali, et al., 2008).

The reasons why a company needs capital to buy corporate real estate can be several, it can be a start-up company that needs its first premises, a company that is growing and needs a larger space, a change in the business that makes the company require different properties compared to the current, etc. This together with the overall business means that the situation and conditions are different for companies that need capital for corporate real estate.

To be able to develop a new or an existing corporate real estate portfolio, a lot of capital is required if the company decides to own the properties. The most common way for Swedish non-financial companies to finance themselves is through lending from bank and credit institutions where 70 percent of their financing comes from. However the banks and credit institutions’ willingness to lend and the margin on the lending is dependent on the market and was heavily affected by the latest financial crisis 2008 which made other ways of financing of more interest (Finansinspektionen, 2013).

During the latest financial crisis 2008 it was shown that the old regulatory framework Basel II did not identify banking risks adequately. Therefore Basel III has been implemented step by step from 2013, the implementation will be completed 2019. The implementation of Basel III will require the banks to hold more capital of better quality
than before and new requirements regarding the banks’ liquidity will be imposed (Sveriges Riksbank, 2011). Since Basel III sets higher requirements on the banks, the requirements on the borrowers are also increasing which can make alternative ways of financing more favourable and is therefore going to be studied in more depth.

1.1. Purpose
The changes in the bank industry have increased the demand for alternatives to bank lending to finance corporate real estate. This research will look into some of them to study if, and under what circumstances, they are good options. The purpose of this study is to answer the research question: Of these alternatives to bank lending, when and under what circumstances are they good options?

1.1.1. Research objectives
The research objectives to answer this question are:

- What are the costs of these alternatives compared to bank lending?
- Under what circumstances are these alternatives good or bad options?
- How are these alternatives affecting the company’s capital structure?

1.2. Constrains
This research is limited to non-financial companies that want to raise capital for corporate real estate in Sweden.

1.3. Research approach and method
This study has a qualitative approach. The identification and information gathering of the different financing options are made by a literature review of scientific articles and available literature within the area of the study. The aim is to gather a greater understanding of the different financing methods. This study uses secondary data. The possible alternative ways for companies to finance their corporate real estate are evaluated and analysed. To be able to evaluate how the different alternatives work in reality and not only in theory, companies that have used alternative financing are studied, compared and analysed. Affected financial statements, key ratios and share prices, before and after the raise of capital are compared for an improved understanding of how the different alternatives work and affect companies. Articles and press releases from companies that have used different alternatives to bank lending are used to find other aspect of the pros and cons with them.
2. Background

Traditionally bank lending has been the large share of companies’ debt financing in Sweden. Swedish companies are lending from both Swedish and foreign banks and credit institutions. In connection with the economic uncertainties 2008 the credit terms for non-financial companies were reduced. This was shown when foreign credit institutions left Sweden (Barr, 2011) and through the increase in interest rate on the companies’ loans from the banks, compared to the general interest rate level. This mostly affected smaller businesses (Finansinspektionen, 2013). Figure 1 shows bank and credit institutions large share of the Swedish companies’ debt financing. Lending from bank and credit institutions stands for around 70 percent of the financing of non-financial Swedish companies. The fact that the credit institutions willingness to lend was significantly decreased during the latest financial crisis has made other financial alternatives worth considering (Finansinspektionen, 2013). This can be seen in Figure 1, which shows the change in the proportions of different kind of debt financing of Swedish corporations and the decrease in proportion from credit institutions. It can also be seen that the total value of the loans is increasing again, as the market recovers and bank and credit institutions are more willing to lend.

![Figure 1, Swedish Corporations outstanding debt financing in billions, where MFI is short for monetary financial institutions and group loans is intercompany loans (Bonthron, 2014).](image)

2.1. Basel III

During the latest financial crisis 2008 it was apparent that the Basel II, the at the time current regulatory framework for banks, did not identify the banks’ risks adequately. Therefore the Basel committee developed Basel III. The purpose of Basel III is to strengthen the banks abilities to survive losses and decrease the probability of forthcoming financial crises. The main difference with Basel III compared to Basel II is that the banks will be required to hold more capital of better quality (Sveriges Riksbank, 2011). This implies that the banks will be more resistant but it also indicates a higher cost, a cost that has to be borne by someone. The alternatives are either a lower return for the shareholders or a higher price for the customers (Finansinspektionen, 2013).
2.2. Base Rate
The Swedish base rate is today historically low at a level of negative 0.25 percent. At the Swedish central bank’s (Sveriges Riksbank) most recent monetary policy meeting in April, 2015 it was concluded that the inflation is still low, below the goal of two percent. However the expansionary monetary policy that the Swedish central banks is operating has a positive impact, the inflation has begun to rise. The long-term expectations of the inflation is low and an increase in the base rate is not expected before the second half of 2016 when the inflation is expected to reach the goal of two percent (Sveriges Riksbank, 2015a). The historical base rate and the expected future base rate is visualised in Figure 2.

![Figure 2, The Swedish base rate in percent with uncertainty bands (Sveriges Riksbank, 2015a).](image)

2.3. Risk premium
The base rate is not the rate that Swedish banks are lending money to. Primarily, banks borrow from each other. The rate that banks lend from each over a term of three months is in Sweden named Stibor (Finansinspektionen, 2013). Stibor is slightly higher than the base rate, the difference compensates the banks for the risks that they are taking when they are lending to each other. When a bank lends to their customers they firstly have the rate of Stibor, added to Stibor is a risk premium that adds up to the interest rate loan takers are paying. The interest rate that companies pay on their loans is not the same, entrepreneurs are not a homogenous group and therefore they differ as loan takers. Generally, it can be said that lending to smaller companies is seen more risky for the banks and therefore a difference between the interest rate a smaller company pays compared to a larger can be expected. Some companies lend larger amounts and hence get a volume discount (Finansinspektionen, 2013). The base rate was low right after the crisis despite this it was expensive for companies to borrow money. The banks margin on
lending, the risk premium was affected by the financial crisis (Finansinspektionen, 2013). This is visible in Figure 3 where the difference between Stibor, three month and the interest rate non-financial companies are lending from bank to can be seen. Before the latest financial crisis 2008 the premium decreased and became almost nothing. After the financial crisis the premium increased and it is now larger than before.

Figure 3, Interest rate for non-financial companies when lending and Stibor, 3 month (Statistcisci Sweden, 2015; Sveriges Riksbank, 2015b)
3. Theory
3.1. Capital structure
To buy corporate real estate is capital intensive and the decision to lease or own is affecting the company’s capital structure. Much of the existing literature implies that the capital supply is perfectly elastic and that the capital structure is exclusively dependent of the companies’ demand of debt. However, more recent studies have suggested that the capital structure is significantly affected by supply conditions and capital market segmentation. As an example companies with a credit rating have significantly higher debt to equity ratios compared to companies without. It also differs in the cost and conditions of debt, a higher level of collateral implies a lower cost and that a saleable collateral such as real estate leads to debt with long time to maturity (Graham & Leary, 2011). The choice of capital structure is also dependent of market timing which means that comparable firms in an industry might end up with different nonetheless optimal capital structures depending on the market conditions when they sought their funding (Baker & Wurgler, 2002).

3.1.1. Modigliani and Miller’s propositions
Modigliani and Miller’s propositions can be applied to the choice of owning or leasing corporate real estate. They state in their first proposition from 1958 that the total market value of a firm in a perfect market is independent of the firm’s capital structure. Instead the market value comes from the total cash flows generated by the firm’s assets (Modigliani & Miller, 1958).

Equation 1, Modigliani and Miller’s first proposition:

\[ V^L = V^U \]

In Equation 1 \( V^L \) is the leverage value of the firm, \( V^U \) is the value without leverage. The second proposition from the same time tells that a higher debt to equity ratio gives a higher cost of capital on the levered equity (Berk & DeMarzo, 2011).

Equation 2, Modigliani and Miller’s second proposition:

\[ r_E = r_U + \frac{D}{E} (r_U - r_D) \]

In Equation 2, \( D \) is short for debt, \( E \) for equity, \( U \) is unlevered and \( r \) for return. The reality is however another, there exist no perfect markets so the capital structure affects the company’s value. There exist two famous models that explain how companies decide upon their capital structure, the trade-off theory and the pecking order theory.
3.1.2. The trade-off theory
When Modigliani and Miller’s assumptions of a perfect market are removed there can be tax incentives that make debt beneficial. Interest paid on debt reduces company’s taxable income and creates a tax shield which increases the value of the company. However, debt also increases the probability of a bankruptcy therefore the trade-off theory reflects the capital structure as a trade-off between the tax shield of debt and the expected bankruptcy cost (Baker & Gerald, 2011a).

Equation 3, Value of a firm in a non-perfect market (Berk & DeMarzo, 2011):

\[ V^L = V^U + PV(\text{Interest Tax Shield}) - PV(\text{Bankruptcy Costs}) \]

In Equation 3 PV is short for present value. The level of debt that gives the highest firm value in Equation 3 gives according to the trade-off theory the optimal capital structure (Berk & DeMarzo, 2011). Equation 3 is Modigliani and Millers first proposition with taxes.

Equation 4, Cost of capital of levered equity (Berk & DeMarzo, 2011):

\[ r_E = r_U + \frac{D}{E}(r_U - r_D)(1 - \tau_C) \]

Equation 4 shows Modigliani and Miller’s second proposition with taxes. \( \tau_C \), is the current company tax rate. The tax rate affects the required return for a company that is partly financed with debt. A higher tax rate gives a lower cost of equity. With a constant tax rate the higher the debt to equity ratio, the higher the cost of the equity becomes. To finance with leverage therefore requires a higher return than to finance totally unleveraged.

3.1.3. The pecking order theory
The pecking order hypothesis was presented by Stewart Myers in 1984 and shows that different forms of financing is of different degrees sensitive to asymmetric information of the company associated with the financing. Asymmetric information implies that the management of the company knows more than eventual investors and lenders. Companies rank the different forms of financing according to their sensitivity. Internal funding has the highest ranking, after comes debt and last comes equity (Helwege & Liang, 1996). This means that if a company needs external financing and are following the pecking order theory they would choose debt financing over issuing equity due to the lower information cost associated with issuing debt (Murray & Vidhan, 2003). Further an equity issue is by the stock market seen as evidence that the managers think their firm is overvalued and therefore treated as bad news that leads to downward pressure on equity values (Burton, et al., 1999; Myers & Majluf, 1984).
3.2. Corporate governance
How a company is controlled, owned and the rights and responsibilities of different stakeholders is not always obvious. As the ownership and control of a company is mostly separated, corporate governance’s task is to arbitrate in the conflict that can occur as a result of the separation. Corporate governance is the system of controls, regulations and incentives that are designed to prevent fraud from occurring (Berk & DeMarzo, 2011). It is proven that corporate governance matters, not only because of the fact that the market rewards good corporate governance, it punishes bad. Corporate governance is extra important for companies in countries with poor shareholder protection, better corporate governance will likely increase the value of the firm and also increase the interest in the firm from outside investors (Neal & Cochran, 2008). Sweden is a country with high governance standards but even here it can be seen that corporate governance matters. Firms with poor governance are valued lower (Neal & Cochran, 2008; Giannetti & Simonov, 2006).

3.2.1. Corporate governance and financing
Debt and equity are mainly treated as alternative governance structures not as alternative financial instruments. The difference between them is that debt governance mainly works out of rules while a greater discretion is allowed with equity governance. Since Modigliani and Miller came with their two propositions in 1958, regarding capital structure and cost of capital financial, economists have developed them and the assumptions of a perfect market from a corporate governance perspective (Williamson, 1988). That debt can be used as signalling is one of the leading theories. A firm with brighter prospects can have a higher debt to equity ratio since it signals good prospects and incentives. For a firm with duller prospects the effect is the opposite, their debt to equity ratio must be lower since their probability of bankruptcy will be higher and that is assumed to be costly for the management (Ross, 1977). Another one is the theory about resources constraints; when equity rather than debt is used the owner’s incentives are diluted since monitoring is costly but then again a company cannot be fully financed with debt because of the cost of bankruptcy (Williamson, 1988; Stiglitz, 1974; Jensen & Clifford, 1985). The third leading argument is the one about bonding and debt, where management and stock holders bond over the desire of avoiding bankruptcy when the company is financed by debt (Williamson, 1988; Grossman & Hart, 1982; Jensen, 1983).

Williamson further states that despite these arguments, when capital is interchangeable there exist no suggestion that debt or equity is better suited for some project than others. Corporate finance and corporate governance seem to have much in common with the pecking order theory but there are also some differences, the most important one is the condition of asset specificity in corporate governance that does not exist in the pecking order theory. Williamson (1988) concludes that when a project has assets that are highly redeployable debt is a well suited governance structure, equity is used when the assets are less redeployable.
4. Financing Opportunities

The fact that companies have the opportunity to finance their business in different ways also gives them the opportunity to finance their corporate real estate in different ways. Companies can finance themselves through equity, internal funds or through different kinds of debt financing. Examples of debt financing is lending from both Swedish and foreign banks and credit institutions and corporate bonds (Finansinspektionen, 2013). Companies that already own real estate can have even more alternatives to choose from as they can use their existing properties to raise capital for further investments and developments.

Below follows an introduction to four different financing alternatives that companies can use when they need to raise capital for corporate real estate. The purpose is to describe how the alternatives can be used, in which situation they can be used and which type of companies benefit from which alternatives.

4.1. Sale and leaseback

Sale and leaseback is an alternative only available to companies that already own real estate. The lower the loan to value ratio is the larger the capital gain is and of course the higher the price obtained in the transaction the more capital is raised when the transaction cost is removed. Adams & Clarke (1996) describe a typical sale and leaseback as a transaction where a company sells a property to another party and then immediately leases the newly sold property back from the new owner. When a company performs a sale and leaseback the sold real estate is removed from the fixed assets and instead a rent is added as a liability, an operating expense (Haynes & Nunnington, 2010). A sale and leaseback can be either operational or financial. In an operational sale and leaseback the property related risk is transferred to the new owner. In a financial sale and leaseback the property related risk is not transferred to the new owner. The financial lease payments are often sufficient to amortise the property price over term, implying long leases. Financial leases can include a buy-back option (Grönlund, et al., 2008). A financial lease with this option gives the seller the right but not the obligation to buy back the property and by that take part of a potential future appreciation.

The reputation of this method of raising capital has lately improved, in the past it was seen as a method only used as a last resort. The option to use this was only an alternative for companies that did not have a choice, distressed and marginal companies (Brant, 2004). Grönlund, et al., (2008) state that a positive impact of the firm’s value, in Europe, after a sale and leaseback announcement is an effect of releasing hidden values in the company. Further, they find, as expected that a sale and leaseback on average has a positive effect on the firm’s value. The positive effect is especially seen for companies with high price sale and leaseback transaction compared to company value.
4.1.1. Owning or leasing corporate real estate
Before performing a sale and leaseback a company must consider if the benefits from receiving net cash from selling and removing the asset from the balance sheet outperforms the rent that has to be paid, the loss of depreciation and residual value (Baker & Gerald, 2011b). This implies that to raise capital through a sale and leaseback is also a question about owning or leasing corporate real estate and not only about if a sufficient amount of capital can be raised. Park (2011) argues that the decision of owning or leasing should not only depend on financial conditions but also on how corporate strategy, locational analysis, and real estate economics are affected. To own or to lease has both advantages and disadvantages, it is up to each company to decide if they want to use their property as an asset which can accumulate capital growth and be used as collateral for debt. This however locks up the capital in the property and the company does not have the possibility to use the capital for development of their core business. A company can on the other hand consider that they need to be flexible and responsive and therefore use their capital in the core business instead of as a long term asset in the balance sheet (Haynes & Nunnington, 2010).

Some cultural and business aspects:
To own property provides stability, gives a higher control of the property, the possibility to adapt and manage the property and at the same time brand the company. A lease, especially a short term lease and leases with break clauses, gives the occupier the opportunity to adapt to changing business cycles and company specific events. Leasing also promotes a more efficient use of the property than owning since the expenses when leasing are treated as costs. When comparing with leasing in a multi let building it is easier to adapt an owned building, on the other hand leasing has benefits in form of possibilities to collaborate and network with other business. Services provided by the landlord such as reception, meeting rooms, etc. might be provided by the landlord to a lower price than if everybody purchased them individually (Haynes & Nunnington, 2010). A landlord can benefit from economies of scale in management and therefore be able to provide these services at a lower price. The argument of leasing because of the above mentioned lower costs can be weakened due to the opportunity to outsource management (Lind & Lundström, 2010).

To own property is risky, if a company does not want to take the risk, selling and instead leasing is a risk shift where the property related risk is transferred. The new owner might be less risk averse, sees the risk in a different way or has the possibility to diversify the risk (Lind & Lundström, 2010; Benjamin, et al., 1998).
Some financial aspects:

Corporate real estate can as mentioned before gain or lose value but there are other financial aspects too. To own or lease affects the company’s financial statement and also the financial ratios. Leasing will make the balance sheet and financial ratios look better than when owning (Grönlund, et al., 2008). Return on assets (ROA) is an example of a financial ratio that will improve when removing an asset from the balance sheet and receiving net cash in a sale and leaseback transaction (Baker & Gerald, 2011b). Depending on the reason for the sale and leaseback and the use of the raised capital, other ratios, for example loan to value and interest coverage, will also improve.

A reason to own is the protection against inflation that the ownership gives. The cost of the occupancy excluding future fit outs and renovations is fixed at the purchase date but the lease rate will vary with the market (Golan, 1999). Costs are therefore more predictable when owning while lease payments are dependent on market conditions and are therefore harder to predict (Haynes & Nunnington, 2010). Different companies also have different access to the debt market and the cost of debt is as previously mentioned different for different companies depending on how risky they are considered to be. Different cost of debt implies different cost of owning if the debt market is the financing method.

There are more costs associated with owning a property, operational and management cost for example. Depending on who is running the management and how it is done these costs can differ. Companies that have real estate as their main business can have a comparative advantage since they know how to manage property in an efficient way which can be related to the expression “focusing on core business” and is in favour of leasing. Larger companies can be more efficient and thereby benefit from economies of scale in management but as discussed before this benefit can also be achieved by outsourcing the management. If the space is required only for a shorter time period the higher running cost of leasing can be beneficial compared to the transaction cost of buying and selling properties (Lind & Lundström, 2010; Benjamin, et al., 1998).

Tax incentives of a sale and leaseback

To own or lease corporate real estate affects the capital structure of the company and is often thought of as a Modigliani and Miller framework of the irrelevance of the financial structure of a company. When Modigliani and Miller’s assumptions of a perfect market are removed there can be tax incentives which can be the drive to see if a sale and leaseback is a good idea (Baker & Gerald, 2011b). The taxation rules differs between countries hence the tax shield effect of a sale and leaseback will differ between countries. Ezzell & Vora (2001) find support in their research for the tax saving hypothesis that states that leasing produces a value when valuable depreciation and interest tax deductions are transferred from low tax rate lessees to a high tax rate lessor. This implies that the total cost for the property after the sale and leaseback will be less with a higher tax shield assuming the same or similar cost of capital. If it is a financial sale and leaseback where
the previous owner only pays the new owner enough to amortise the property over time. Whether a lessee benefits financially from a sale and leaseback is dependent on if the difference in net present value of leasing instead of owning is positive. In the calculations of the net present value all cost associated with using the property either as a tenant or as an owner, meaning for example cost of purchasing, rent, debt and maintenance, should be included (Ezzell & Vora, 2001).

4.2. Corporate Bonds
Issuing corporate bonds is a method of raising capital that is not dependent on if the company already owns real estate. A corporate bond is a debt security, issued by a company. Compared to a government bond, a corporate bond has a higher credit risk. Government bonds are bonds issued by a government and have traditionally been considered as default free. The credit risk comes from the company’s risk of default and implies that an investor pays less for a corporate bond compared to a default-free government bond. A bond can be of two different types; a coupon bond, meaning that the issuer pays interest to the holder usually once or twice a year and also the face value at maturity, or a zero coupon bond that only pays the face value at maturity (Berk & DeMarzo, 2011). The price of buying a bond is decided by the yield to maturity. Berk & DeMarzo (2011) shows that the yield companies have to pay on their issued bonds is determined by:

- The risk-free rate
- The credit risk
- The time to maturity of the bond

It is most common to issue corporate bonds with duration of more than one year. A bond with duration less than one year is called a certificate (Finansinspektionen, 2013). The Swedish market for corporate bonds is growing, the outstanding volume, the number of issuers, the secondary market and the number of corporate bonds with a lower or no credit rating at all are increasing. The main volume of corporate bonds issued in Sweden by non-financial companies is by larger companies with a high credit rating, most of them in the automotive, real estate or construction industry. The trend is however showing that more and smaller players are entering the market. The increased supply has been met by an increased demand from different kinds of investors, mostly mutual funds. One explanation to the increased demand is that investors have been searching for higher risk investments to be able to get a higher return because of the low interest rate level (Bonthron, 2014). An explanation to the increased supply is that companies lately have been searching for alternatives to bank lending since bank lending became more expensive after the financial crisis 2008. The trend of using corporate bonds as a financing method is even more visible in the rest of Europe than in Sweden (Finansinspektionen, 2013). A Swedish company that chooses to issue corporate bonds can choose to issue in Sweden or abroad in a different currency. Scarcely half of the
4.2.1. Factors affecting the cost of issuing corporate bonds

More companies than before have been searching for financing in the securities market instead of lending from banks and credit institutions since they consider it has become more expensive to lend from them since the latest financial crisis in 2008 (Finansinspektionen, 2013). The interest rate that companies pay on their issued bonds depends on the three factors that determine the yield of the bond; the risk-free rate, the credit risk and the time to maturity of the bond but there are also administrative costs of issuing corporate bonds. The high administrative cost is one of the reasons why it is mainly medium to large size companies using this financing method (Finansinspektionen, 2013). This implies that it is more profitable to issue a higher total amount which makes the proportion of administrative costs smaller. The smallest issuances in the Swedish market have a value of around 250 to 500 million SEK (Barr, 2011).

4.3. Issuing new equity

This is an alternative for already listed companies that have done an initial public offering (IPO) and have shares outstanding. The alternative financing method is available to both companies that own real estate and companies that do not own. When a firm returns to the equity market to raise more capital and offers new shares for sale, this is called a seasoned equity offering (SEO) (Berk & DeMarzo, 2011). Issuing new equity does not increase the company's debt, in the balance sheet the proportion of equity is increased and the debt to equity ratio is lowered. There are three major types of offerings; fully marketed offers, rights offers and accelerated offers. A fully marketed offer is much like an IPO, the issuer negotiates with an investment bank who will market the offer, a rights offer offers new shares only to current shareholders and an accelerated offer is called...
accelerated because of the underwriting often is done within 48 hours and no roadshow is done (Ritter & Gao, 2010). A roadshow is when the senior management and the lead underwriters of the company in an IPO or a SEO travel around and promote the company, explaining the offer price to the underwrites’ largest customers, mostly institutional investors for example mutual- and pension funds (Berk & DeMarzo, 2011).

4.3.1. Common or preferred shares
A firm issuing new equity can choose to issue common or preferred shares. A preferred share often has a privileged dividend, priority in case of a bankruptcy and special voting rights, sometimes none (Berk & DeMarzo, 2011). Even though a preferred share can have priority before the common share in case of bankruptcy it is not sure that preferred shareholders can go out of the bankruptcy without losses. In common for them both is that in case of a bankruptcy the shareholders gets what is left after the firm has paid off all its creditors. Usually that is very little or nothing at all (Brown & Reilly, 2009).

4.3.2. The cost of a SEO
A SEO is not as costly as an IPO but is still expensive. The administrative cost is high. To perform a rights offer is cheaper than a public offer. On average the share price declines after a SEO announcement. This decline in price can often be a significant fraction of the newly raised capital. This is related to a theory called the Lemons principle by George Akerlof, the theory is concerning adverse selection and asymmetric information. It implies that what is offered has a lower value, is a “lemon”, otherwise it would not be offered. In a situation like this where the seller has access to more information than a buyer, the buyer will discount the price he is willing to pay (Berk & DeMarzo, 2011; Akerlof, 1970). This is consistent with the pecking order theory and the hypothesis that issuing equity is costly due to the cost of asymmetric information. Firms prefer to issue new equity when the information asymmetry is minimised since it has been shown that the negative share price reaction is smallest then. Therefore firms often issue new equity right after financial information releases and the market is most informed of the quality of the firm (Korajczy , et al., 1991). Lee, et al., (1996) found in their study that a SEO, as issuing of corporate bonds benefits from economies of scale. They also found that the direct cost of the proceeds is highest for a SEO compared to the alternatives compared in this study. Bank lending is the cheapest alternative, and issuing corporate bonds are in between.

Burton, et al., (1999) find in their research that in the UK which method is used for the SEO is of significance. The method used seems to be the main influence on the reaction of the market to the news of a SEO. When new equity is issued through a rights offer the view is that the market believes that the management sees an opportunity to maximize the gain for existing shareholders as the provided overvalued shares to a discounted price. This signal makes the share price decline. If a company on the other hand chooses to have a fully marketed offer or an accelerated offer investors believe that the share is overvalued. This is because a firm is concerned about protecting its current shareholders...
and therefore tends to only sell when the price is the actual or the firm is overvalued (Berk & DeMarzo, 2011).

4.1. Real estate investment trust
Before real estate investment trusts (REIT) an investor could only invest in real estate directly on the property market. With a REIT it is possible for an investor to invest in real estate from the securities market. A traditional REIT can hold real properties, mortgage assets or a combination of both and is essentially a closed-end fund (Chan, et al., 2002). A closed-end fund is a fund that after the initial public offering (IPO) trades at the secondary market where the price is decided by supply and demand. This means that the company does not continue to sell and repurchase shares after the IPO, the fund is closed (Brown & Reilly, 2009). In recent years, REIT have turned more to operating companies that manage their properties and provide their clients with property related services (Chan, et al., 2002). REIT in the U.S has the benefit that they do not have to pay corporate tax if they pay at least 90 percent of their taxable income to the holders of the REIT who pays individual tax (Parker, 2012). Sweden does not have the REIT legislation but similar to a REIT you can invest in a Swedish unlisted property fund. Unlisted in this case means debt-instrument and securities that are not traded on a regulated market (Skatteverket, 2015). These funds offer like a REIT a direct investment in the real estate market. The holders of a property fund have to pay tax twice on the same capital gain. First the fund has to pay tax on the capital gain, and then the investor has to pay tax on their capital gain (Johansson & Sellén, 2008). Indirect investment is possible in Sweden through shares in Swedish real estate companies, there is a large interest from the investors for this and several new companies are on their way to be listed (Grossman, 2014). There also exist mutual funds that invest in the real estate companies’ shares. The Swedish real estate companies should in theory be taxed twice since there is no REIT legislation but with the current tax regulations they can use a high level of debt and thereby avoid a large share of their tax obligations (Lindgren, 1998).

If a company that is not in the real estate business would sell its property to a REIT it could be a form of sale and leaseback. The property is sold to the REIT to raise the capital but the company immediately leases back the property from the REIT. Companies in countries with REIT legalisation can also chose to create a REIT to finance their corporate real estate.
5. Real life examples
The above mentioned alternatives of raising capital are of course not only available when raising capital for corporate real estate but also for other reasons as for example, the core business or repayment of debts. This research however focuses on the alternative from a perspective where the capital is needed for investment in new corporate real estate or development of existing. To show how the different financing alternatives can work in real life are some examples following below.

5.1. Sale and leaseback
5.1.1. Scandinavian Airlines (SAS)
Scandinavian Airlines (SAS) is the largest airline in Scandinavia with a third of the Scandinavian market. The destinations are within Europe, North America and Asia (SAS, 2014).

In 2012, SAS sold six properties to a price of 1 775 million SEK to Swedavia, at the time of the transaction SAS leased the properties back. The annual cost of the lease payments was for SAS to be neutral compared to the cost of the ownership. The transaction gave SAS a capital gain of 350 million SEK and a positive impact on the cash flow of 450 million SEK. In the press release that came out April 30, 2012, SAS said that this is a part of their saving strategy, 4Excellence. With 4Excellence SAS is focusing on their core business and at the same time releasing capital and strengthening their financial responsiveness (SAS, 2012a). Three days after the press release of the sale and leaseback SAS published their interim report for the first quarter of 2012. The report showed a negative result and that they with their 4Excellence program intended to introduce saving measures to a value of 5 billion SEK during the rest of 2012 and 2013. The situation was uncertain due to increasing fuel prices and the economy but SAS said in the report that results from 4Excellence would be shown later in 2012 (SAS, 2012b). In the interim report for January to June 2012 the first results from the 4Excellence program including the sale and leaseback can be seen. Table 1 show that from December 31, 2011 the tangible fixed assets had decreased and that was the case for the long-term liabilities. SAS used this sale and leaseback as an emergency measure to raise capital from assets and to show hidden value in the company and by that improving their key financial ratios.
The result from the sale and leaseback is hard to isolate in the share price but in Figure 4 SAS’s share price on Nasdaq OMX Stockholm exchange is shown. The share price dropped a lot after the announcements of the sale and leaseback but mostly due to the financial statements in the beginning of May 2012. After that the share price was low for a while before it began to increase again when the company was more stable and therefore enjoyed a larger confidence from investors. With SAS unstable year 2012 it is not possible to isolate the reactions from the sale and leaseback from other changes affecting the share price. However it can be concluded that the large amount of capital that could be raised from the sale and leaseback helped the company and its financial statements.

![Figure 4](image-url)
5.1.2. ICA Gruppen

ICA Gruppen has grocery retail as its core business. Included in the group is ICA real estate (ICA Gruppen, 2015). ICA real estate’s mission is to meet the demand for the right premises from the ICA group. This is possible through ownership, lease agreements and development (ICA Fastigheter, 2015).

ICA Gruppen uses sale and leaseback in their real estate strategy. Several news articles and press releases about when ICA real estate has sold its properties and then directly leased them back can be found. ICA Gruppen themselves has commented these actions as a method to raise capital that can be reinvested in further development of ICA’s property portfolio. ICA real estate sold September 16, 2014 ten retail premises to Ancore real estate for a price of 918 million SEK, the capital gain was 119 million SEK that could be used for ICA’s portfolio of retail premises. Ancore real estate is owned in common by Alecta and ICA real estate so even if ICA real estate sold the premises they will still have influence over them according to Lena Broberg CEO of ICA real estate (ICA Gruppen, 2014). Another example is when ICA on June 26, 2007 announced that they sold 28 of the retail premises and at the same time leased them back. This to gain 90 million SEK to be used to invest in new premises according to Bo Liffner the at the time current CEO of ICA real estate (Friköpenskap, 2007; ICA Gruppen, 2007).

The ICA Gruppen’s share price increased slightly directly after the first announcement in 2007 and declined and was stable directly after the announcement 2014. This can be seen in Figure 5. ICA Gruppen is a large corporate group so it is not possible to determine if the changes in the share price come from the announcements of one of the sale and leasebacks, other parts of the ICA Gruppen or the market as a whole. ICA Gruppen’s share price moves a lot in line with Axfood’s, another big grocery retailer, a lot of the movement in the share price seems to come from the industry. It can be seen that when ICA Gruppen is announcing a sale and leaseback the value of the company is not significantly affected up- or downwards.
5.2. Corporate bonds

5.2.1. PostNord

PostNord, more known as Posten in Sweden, was founded in 2009 through a merger of Posten AB and PostDanmark A/S. The ownership is divided 60/40 between the Swedish and Danish governments. The company provides mail services to households and business in Sweden and Denmark. The company also offers communication and logistic solutions within, to and from the Nordic countries (PostNord, 2015). PostNord acquired Green Cargo Logistics and all its corporate real estate for an estimated price of almost 700 million SEK in 2012 (Ekberg, 2012). When PostNord needed capital to finance themselves in 2012 they used corporate bonds. The reason they used corporate bonds stated in the press release was to finance the companies need to be flexible to the market conditions, and acquisitions. When they in June 2012 issued two billion SEK in corporate
bonds the final terms for one billion was a yield of 3.125 percent and one billion was the rate of Stibor plus 150 base points. (PostNord, 2012).

5.2.2. Vasakronan

Corporate bonds are a common way of financing for the real estate companies. Swedish real estate companies have issued corporate bonds to a value of 76 billion SEK. Vasakronan has issued 30 percent of the total and is the largest non-financial issuer with corporate bonds to a value of 23 billion SEK (Vasakronan, 2014). If including certificates the value is as high as 30 billion SEK. Vasakronan is Sweden’s largest real estate company. The company owns 185 properties that together have a market value of 92 billion SEK (Vasakronan, 2015a). Vasakronan was before owned by the government, today Vasakronan is owned by the first, second, third and fourth AP fonden. These buffer funds are a part of the Swedish pension system. The debt level of the company is in the balance sheet of 2014, 49 percent. Their goal is to be somewhere in the span of 45 to 60 percent. The external financing should according to the company be diversified between the capital- and bank market. 67 percent of the external financing is in form of corporate bonds and certificates, the remaining 33 percent is from the bank market (Vasakronan, 2015b). Several of other direct or indirect government owned companies can be found high in the list of companies that have issued corporate bonds. Many investors see the government ownership as a security and are accepting a lower yield which implies that these companies sometimes can get better credit terms than from bank and credit institutions (Fröjd, 2014; Landeman & Bergin, 2014). Vasakronan’s term for their latest issuance of corporate bonds was a yield of 1.46 percent yearly on a term of seven years (Vasakronan, 2015c).

5.3. Issuing new equity

5.3.1. Simris Alg

To find Swedish companies that have another core business than real estate and have issued new equity to finance their corporate real estate is hard. Simris Alg is however an example. At the time of their new issue they were not listed, the company is planning on listing at First North in 2015. Simris Alg is a pioneer company in their industry. The company grows algae and produces nutritional supplements and food from it. Simris Alg was founded in 2010 and has received attention and awards for their business in Sweden and also internationally (Simris Alg, 2015). In January 2015 the company performed a new issue that became oversubscribed and raised 11 million SEK. The company is going to use the raised capital to develop a new greenhouse to be able to expand their core business. Simris Alg has used this method before and the interest from investors is large, both from private and institutional investors.
5.3.2. Klövern

Klövern is one of Sweden’s largest listed real estate companies, the company is listed on Nasdaq OMX Stockholm exchange. Their property portfolio mainly consists of commercial properties and at the end of 2014 had a value of 30.2 billion SEK (Klövern, 2015a). Both the company’s common and preferred shares are listed on Nasdaq OMX Stockholm exchange. In the autumn 2014 Klövern chose to issue preferred shares. The company first offered shares to a value of 1 050 million SEK with the opportunity to extend the offer with 825 million SEK. The issuing cost for the first 1 050 million SEK was estimated to be 18 million SEK, if the offer was extended an additional cost of 6 million SEK was estimated. The reason the company chose to issue preferred shares is that they see opportunities to improve existing properties, make tenant improvements and new acquisitions and needs capital. For a good balance between debt and equity, preferred shares were chosen (Klövern, 2014a). The offer that was not a rights offer was popular, even though Klövern extended it 1 875 million SEK it became oversubscribed (Klövern, 2014b). After the issuance the votes in the company will be diluted by 0.7 percent and a 6.3 percent dilution of the share capital. The preferred shares have lower voting rights than the common share. The preferred shares however have priority compared to the common share to a dividend of ten SEK yearly per share (Klövern, 2014a). The press release about the seasoned equity offering came out November 6, 2014 (Klövern, 2014c). The day of the announcement the price of the common shares decreased with around 0.3 percent, after that the share seems to have performed well, see Figure 6. It is not possible to isolate the issuance of new equity from volatility in the share price dependent on the market but the share price does not seem to have been significantly affected by the announcement. In Figure 6 the performance of OMX Stockholm Real estate index also be found. It is apparent that Klövern’s share is more volatile but the overall trend of Klövern’s share price and the real estate index are the same.

![Figure 6, Klövern's relative performance after the announcement of the issuance of new equity 2014 compared to the performance of OMX Stockholm Real estate index (Klövern, 2015b).](image-url)

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That the financing method affects the capital structure is shown by the Klövern’s debt to equity ratio. In the end of 2013 Klövern had a debt to equity ratio of 65 percent, in the end of 2014 it had decreased to 60 percent (Klövern, 2015c).

5.4. REIT
Since no REIT legislation exists in Sweden there is no REIT. A company can choose to sell its property to a listed real estate company and investors can thereafter invest indirectly in the property from the securities market from shares or mutual funds. A company can also choose to create an unlisted property fund with its properties. Today there exists several unlisted property funds in Sweden, for example Svenska bostadsfonden, Niam and Mengus (Svenska Bostadsfonden, 2015), (Niam, 2015) and (Mengus, 2014)). In common for these property funds is that real estate is their core business, none of them are created to finance a company in another business real estate portfolio.
6. Discussion

6.1. Signalling

When a company chooses its financing method it sends signals to its investors. The pecking order theory ranks financing methods depending on their asymmetric information cost. The level of asymmetric information seems to be highly correlated with the cost of financing. Issuing new equity is more costly than issuing corporate bonds. That is in line with the pecking order theory since issuing corporate bonds is a form of debt financing while issuing new equity is not. For the lowest asymmetric information cost companies shall issue equity when the quality of the company is most open, after the financial statements are published. A market with asymmetric information is related to the theory of the Market of lemons and adverse selection. Investors do not fully know if the prospects of the shares they are buying are good or bad so the price they are willing to pay is related to the proportion of “lemons” in the market. For a company that offers shares with less good prospects (lemons) this is good but for a company that has good prospects asymmetric information is costly since this financing method is signalling that their product is of less quality and the company is therefore forced to pay a price for all the “lemons” in the market. Less SEOs with good prospects will be on the market.

The underlying asset seems to be of relevance to the choice of the financing method. This study is about financing corporate real estate. Corporate real estate is an asset that can be used as collateral when financing with debt and therefore a lower financing cost can be obtained. When it comes to corporate bonds it can be seen that a large share of the market comes from real estate companies, one example is Vasakronan. These real estate companies have a high level of collateral that makes their cost of bankruptcy lower than other companies without collaterals. Their properties can be sold to give investors their money back in case of default. Collaterals and secured bonds are signalling a lower risk of default and therefore companies that can offer this get a lower yield to maturity. The credit rating is also signalling the company’s probability to pay back the debt and is also contributing to a lower yield to maturity, this can be seen with the example of PostNord that has issued a lot of corporate bonds and is seen as an investment grade company. The same with Vasakronan. Both PostNord currently owned by the government and Vasakronan a former government owned company seem to benefit when issuing corporate bonds because the companies’ probability of default is by investors seemed to be very low. That upcoming companies like Simiris Alg uses the stock market to finance their business instead of corporates bonds or bank lending can probably be explained by the investors’ view of their risk of default. If a company like this would seek financing through the debt market the risk premium would be high and the financing would be expensive. When using the share market investors can make high risk investments in the company, a high risk investment has a higher risk of losses but also a chance of a higher return.
A sale and leaseback is also a good alternative when there is inherent values in the company’s real estate, sometimes even hidden that realised becomes capital that has a lower cost of capital in a new project. SAS and ICA Gruppen are two companies that have used the inherent value in their corporate real estate and sale and leaseback for two different reasons. ICA is using sale and leaseback to raise capital and develop their property portfolio. This is signalling that they are on the right track and want more. SAS used sale and leaseback as an emergency measure, a few days after SAS announced the transaction the publicised financial statements, showing a large loss. The share price plummeted and SAS announced a savings package called 4Excellnce. This sale and leaseback signalled crisis but also a willingness to turn around the situation, together with the capital gained from it and 4Excellnce SAS showed much better results in the next financial statement and the share price increased.

6.2. Costs
Other methods than bank lending to raise capital have in common that they have a high administrative cost. To issue equity often has a percentage fee from the underwriter on the issued capital, added to that are other fees, for examples legal fees and auditing fees. SEOs are more expensive than issuing bonds. If only ranking the alternatives depending on their transaction and administrative costs debt is preferable if that is available and a SEO is ranked as number two. When financing with bank lending or corporate bonds an interest rate has to be paid. When financing through a SEO there is no interest rate that has to be paid but there are shareholders that require dividend. When issuing new equity in a SEO the company is already managing equity compared to when issuing in an IPO. To manage equity is costly for the company, since the company is already managing its equity the increase from an SEO would probably be small. The dividend can however be much more costly after an SEO. The earnings have to be divided upon a large number of investors, the earnings therefore have to be larger. The dividend can especially be more expensive if preferred shares are issued.

The market for alternative financing methods is growing in Sweden, so is also the market for corporate bonds. It has been growing faster in Europe than in Sweden and there should therefore be room for further growth in Sweden. For companies with a good credit rating and a good reason for issuing corporate bonds this alternative can be a really good one with a cost that sometimes is lower than the cost of bank lending. Vasakronan and PostNord are both examples of companies that have issued corporate bonds with a low yield to maturity, this due to much collateral, their ownership and high credit rating. Vasakronan’s latest issuance of corporate bonds has a yield of 1.46 percent. The interest rate level in Sweden is low today but a yield of 1.46 percent implies a low risk premium and that their investors see them as a secure investment. As a comparison at the same day as Vasakronan’s latest issuance the yield of a Swedish government bond with similar time to maturity was 0.383 percent (Sveriges Riksbank, 2015c). The risk premium added for Vasakronan is therefore slightly higher than one percent.
In Sweden, corporate real estate however is not that expensive. All these alternatives to bank lending benefit from economies of scale. The large amounts that are regularly issued by different Swedish companies seem to be high compared to the price of corporate real estate. Issuing corporate bonds or new equity can raise capital for more than just a corporate real estate. The real estate companies often use these methods of financing but they are purchasing property portfolios. To find companies that have raise capital with these methods with the only purpose to raise capital for corporate real estate is difficult. Due to the high transaction and administrative costs the alternative methods of financing might be used as a method to finance corporate real estate in combination with something else. When a lot of capital is raised at the same time the percentage of costs gets smaller and the finance alternative gets more cost-effective. The same rules can be applied for a sale and leaseback transaction that also has a transaction- and administrative cost and therefore also benefits from economics of scale. When the property has gained more value more capital can be raised and the percentage cost of the transaction gets smaller. The total cost for the property can after the sale and leaseback, with help from tax incentives become lower than before. When using sale and leaseback the lease payments usually differs depending on if it is an operational or financial transaction. In an operational sale and leaseback where the rent usually is more than just sufficient to amortise the property over term, the old owner should be aware of possible increases in rent that can make it more expensive.

A comparison between the different financing alternatives should be done. If the investment has a positive net present value with an alternative financing method, the alternative method is an option. If all alternatives have a positive net present value then the methods’ net present value and also the internal rate of return can be compared. Even if bank lending is an alternative and debt most likely is the favourable one, the net present value and internal rate of return of the different financing alternative should be compared. The time following the financial crisis 2008 showed that there are reasons to compare bank lending with other alternatives and bank lending is not always the most favourable.

6.3. Capital Structure

The method chosen to raise capital has an impact on the company’s capital structure. The choice of financing alternative shall therefore always be made with consideration to the trade-off between increased tax shield and increased cost of bankruptcy. To issue corporate bonds has the same effect on the company’s financial structure as bank lending, it increases the company’s debt to equity ratio. This increases the value of the company in line with Equation 3 as long as the value of the tax shield is increasing more than the cost of bankruptcy. The cost of bankruptcy gets higher when the level of debt gets higher. However if the capital raised from the issuance of corporate bonds only is used to buy corporate real estate, the real estate can be used as a collateral to secure the bond. In case of bankruptcy the collateral can be sold and the investors get their money so the cost of bankruptcy should not increase that much, rather decrease.
To issue equity will decrease the company’s debt to equity share and might be a good alternative when the debt to equity ratio is higher than optimum. This would give a better trade-off between debt and equity in line with Equation 3. At the same time when the debt level is lower, corporate bonds give an increased tax shield that raises the value of the company.

A sale and leaseback that raises capital will decrease the company’s debt to equity ratio if the capital is used to amortise on existing debt. This could also be used as a method to decrease the debt level when the bankruptcy cost is too high. The example with SAS shows this, SAS sold some of their corporate real estate, the capital raised from that transaction was used to repay the debts, decreased the probability of bankruptcy and also gave a capital gain that could be used for the core business.

6.4. Owning or leasing
The alternative financing methods in this research are all except the sale and leaseback implying that the company has made the decision to own its corporate real estate. One question in a sale and leaseback is if enough capital can be raised in the transaction but it is also a question of how the transfer from owning to leasing will affect the company, its possibilities to develop, brand themselves and its flexibility. This implies that it is not only the direct cost that affects the sale and leaseback decision when comparing the cost of capital of financing through a sale and leaseback and other methods these factors should be included.

6.5. The total
It is visible from the study that is not an easy choice. The graphs in Figure 7 try to show the findings of this research in a figure. In cost are administrative and transaction costs, cost of the risk of investors’ changed willingness to invest in the company, cost of bankruptcy and all other costs that can be associated with the financing method. In this study it is shown that the methods used are much dependent on the companies’ preconditions, as for example the level of debt, the credit rating and of course the market timing. This implies that the cost of using the same method differs from company to company. Figure 7 shows this by including an interval for the cost of the methods. Issuing new equity mostly seems to have the highest total cost. It is expensive in the beginning but benefits from economies of scale and therefore the percentage price decreases. Corporate bonds are not as expensive as issuing new equity but also benefits from economies of scale due to the high administration costs. When a too high debt to equity ratio is obtained the price of corporate bonds increases due to the increased bankruptcy cost. The same can be seen for bank lending. Sale and leaseback also benefits from economies of scale and seems to be a good financing method, however the corporate real estate sold must have gained a lot in value if the method is going to be an alternative. The main conclusion is that even though debt at first seems like the most favourable alternative since corporate real estate is a collateral that can contribute to a low interest rate, there are situations where other alternatives are more preferable.
REIT:s are not even considered as an alternative since Sweden lacks the REIT legalisation and converting a company’s whole property portfolio to a unlisted real estate fund seems to require it to be a part of the core business.

6.6. Further Research

It would be interesting to see a study evaluating the use of the financing method in relation to the market conditions in more depth. Since financing with corporate bonds is a growing market it would be interesting to see an evaluation in a couple of years when the bonds have come to maturity to see how it worked, if companies chose to use the same financing method again and how the market has developed. It would also be interesting to see a study of companies that have issued junk bonds, bonds with a lower or no-credit rating that are demanded right now by the investors due to the low interest rate level, in a couple of years when the interest rate level has changed. This study could also be done for real estate companies.
7. Conclusion

Table 2 shows some probable main characteristics of a situation a company that is searching financing for corporate real estate can be described with. An X in Table 2 shows the most likely suitable financing method in that situation but then again the choice is not that easy and needs to be further researched.

<table>
<thead>
<tr>
<th>Table 2, Different company situations and most likely suitable financing options of corporate real estate</th>
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<tbody>
<tr>
<td>High debt to equity ratio</td>
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<tr>
<td>Low debt to equity ratio</td>
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<tr>
<td>High credit rating</td>
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<td>Low or no credit rating</td>
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<tr>
<td>Owning real estate that has gained value</td>
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<td>Bright prospects</td>
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<td>Bad prospects</td>
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<td>Large amount of capital needed</td>
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<td>Smaller amount of capital needed</td>
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None of the alternative financing methods can be said to be the single optimal one when it comes to financing corporate real estate. It is visible from this research that it is not only the direct cost of the financing methods that affects the decision, there are also other factors affecting the decision. The choice of financing method is much about what signals the company wants to send and are sending, the decision also affects the capital structure and the value of the company. For a company the total financing must be diversified. When financing corporate real estate the financing option that is best for one single project might not be the best in combination with the other ones the company already uses. The capital structure is affected, the capital structure in its turn affects the cost of bankruptcy and the tax shield.
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