

Setting The Record Straight On the Sale and Leaseback of California State Office Buildings

California's fiscal crisis requires the state to reassess its role in real estate and look for ways to generate immediate revenue and reduce future costs.

Q: Why sell these buildings? Isn't owning real estate always better than renting?

A: Most corporations and state governments are not in the business of investing and managing a real estate portfolio. State government is in the business of providing public services, not playing the market. To get out of the real estate business, the State is selling 7.3M sq ft of office and will lease it back, reducing our costs and taxpayer expense. Presently, critical programs are being cut because of the state's fiscal crisis, and this model will ensure that hundreds of millions of dollars are generated for the General Fund and hundreds of millions more will be saved by paying off bond debt now. Those funds will go a long way in ensuring that vital public programs are saved.

Q: Isn't selling these buildings just a short term stop gap for the budget problems?

A: By selling the properties, the state taps equity revenue today to shore up the state budget; locks in predictable long-term lease rates that are at the bottom of the market cycle; and sheds some of the risk associated with owning and operating property like this. The Legislature, the public, and the Governor have all been clear – anything the state can do to look inward to find savings and reduce expenditures is going to help the state through the budget crisis.

Q: Given current market conditions, won't the state be selling these properties at significantly discounted prices?

A: Not at all. Capital investors today are demanding safe, stable, leased properties. The timing of this sale is favorable, as there is currently a supply and demand imbalance in the market, with limited supply of the stable, fully-leased, prime office buildings which investors are seeking. In some cases, bidding wars are breaking out for product that is available. The state is determined to obtain high value prices for these properties.

Q: Aren't sale leasebacks just a gimmick that passes more costs and debt onto the next administrations?

A. The sale and leaseback of the state's 11 office properties will generate one-time revenues in excess of \$2 billion. Any financial expert will tell you that one-time revenues should always be used to pay down debt – which is exactly what more than \$1 billion of these funds will do. That's just common fiscal sense so that the state saves hundreds of millions in interest for the next two decades. That's not passing on debt, that's saving taxpayers millions on bond debt payments the state no longer has to make.