



Secretary to the Review Group on State Assets
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Re: The Review Group on State Assets and Liabilities: Sale & Leaseback Opportunities

We should welcome the opportunity to present to The Review Group, the possibilities available for the effective use of assets listed under the Interim List of Assets to be reviewed (section i) and their candidacy for real estate Sale and Leaseback (S&L) transactions. We believe that The Review Group could meet its objectives through the application of S&L to State-tenanted real estate assets which may belong to Commercial State Bodies, or indeed other public entities, such as ministries.

We are a London-based, expert business unit within BNP Paribas which has experience in advising, structuring, finding investors and executing the trades in this field. The team works closely with BNP Paribas' long-established Dublin Branch, headed by Andrew Hastings.

Why is S&L an attractive tool for the Irish State?

Our experience finds that the carrying value of real estate assets is far below the realisable market value of operating assets, when those assets are backed by a long-term lease. Transactions may be structured and marketed to suit the Irish State's specific objectives in terms of value, efficiency, tax and Eurostat accounting. S&L allows the State to unlock the full value of the real estate assets it uses which reduces the indebtedness of the State in an efficient way, while presenting an attractive investment for insurers and pension funds (including NPRF). S&L transactions can be executed in reasonable timeframes, to unlock the value, while retaining the operational use.

Accounting considerations: Whilst S&L can raise funds to reduce the budget deficit, the lease payments would represent an operating expense and so the liabilities should remain off balance sheet from an IFRS and Eurostat perspective. Our understanding is that forthcoming changes to the accounting regimes will bring the lease liabilities on balance sheet, but with a corresponding right-to-use asset, thus keeping reported State borrowing levels neutral (to be validated). The profit on sale will continue to be recognised up-front. Clearly, any transaction will need to be carefully structured to qualify for operating lease treatment and meet current and future Eurostat requirements.

BNP Paribas input to the Review Group's strategy: BNP Paribas has extensive and unique expertise in the use of strategic S&L transactions to improve the financial position of institutions, in addition to the underlying real estate aspects. We can facilitate The Review Group in the initial scoping and valuation work, in order to appraise the opportunity. Thereafter, BNP Paribas could



help with structuring advice on any transactions, as well as finding investors and executing the trades.

Appendix A, below, lists some examples of analogous S&L transactions that have occurred in the last 6 months in the corporate, financial institution and governmental sectors.

We place our expert resources at your disposal for an open discussion to explore this opportunity at your convenience.

Yours,

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APPENDIX A:

Some relevant examples of analogous S&L transactions that have occurred since March.

Vendor	Description	Source
Debenhams	Reported as speaking to potential investors over S&L deals for 9 of its 165 stores in the UK and Ireland, over a period of 25 years, to reduce corporate debt levels and finance acquisitions	New Statesman, 5 Aug 2010
Banco Sabadell	In March 2010, sold 378 branches and office buildings for €403m, representing a pre-tax capital gain of €265m, at an initial yield of 6.65%. Objective was to boost core regulatory capital levels	ABC.es, 26 March 2010
Monte dei Paschi	Selling €1.8bn of own-use real estate, with an estimated profit of €443m. MPS would reportedly retain a 30% stake in the portfolio with the rest split between Sansedoni (40%), Axa (20%) and Mediobanca (10%)	Reuters, 26 August 2010 Property EU, 19 May 2010
Qantas	Sold its 50,000sqm global HQ for A\$169m on a 10-yr S&L.	The Australian, 13 July 2010
Allied Irish Banks	Sold Grafton St branch for €28m on a 20-yr S&L to German fund manager GLL Real Estate, on a reported initial yield of some 6%.	Irish Times, 7 July 2010
Tesco	TPF3 (£950m) in July 2010 follows TPF2 (Sept 2009 £565m) and TPF1 (June 2009 £431m). Property includes UK stores and distribution centres.	Reuters, 29 June 2010
Diageo	Sold Napa Valley wineries on a 20-year S&L for \$269m	The Press Democrat, 24 June 2010
State of Arizona	In Jan 2010, sold \$735m of state buildings (prisons, archive buildings, legislature buildings etc). Further \$300m portfolio (schools, prisons etc) in June 2010. Securitised \$450m lottery revenues in May 2010. Initial yield of circa 4.25%	The Arizona Republic, 2 June 2010 and full details at: www.onlinemunis.com/Statement/upload/Arizona.COP.FOS.1.21.10.pdf





Marks & Spencer	Gifted £300m of property into pension fund to reduce deficit. £36m pa rental payments for 15 year	MSN.com, 13 May 2010
Barclays	Put 34 Spanish branches up for S&L in May 2010. Latest transaction in Barclays' extensive S&L programme	i-comparables.com, 6 May 2010
Caja Madrid	€108m S&L of the Las Rozas office building and data centre for 30years, creating a €48m capital gain. Follows Q1 transaction on 83 branches, which resulted in €55m capital gain. Capital is needed to boost solvency	Europapress.es, 18 May 2010
Center Parcs	Owner looking at listing the PropCo as a Jersey REIT	FT, 13 Aug 2010
Siemens	Sold office and business park in Munich to property investors on a 13+15year leaseback	Siemens.com, 9 March 2010
BBVA	Following the €1.15bn S&L of most of their Spanish assets (3 office buildings, 944 branches) in Sept 2009 at a yield of 7%, BBVA sold a further 5 office buildings and 153 branches to Deutsche's RREEF Europe, Area Property Partners and Europa Capital for €364m. The initial yield was 6.5% and the lease term was 20 years (offices) to 30 years (branches)	PropertyEU, 30 July 2010
<i>The above examples have been collated using the NetLeaseNews website. The original sources are given and BNP Paribas interpretation added.</i>		

