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AIC to buy \$350M of real estate

Company seeks commercial buildings in Texas

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Bad times in the economy have translated to good times for AIC Ventures LP.

The Austin-based investment fund manager, which acquires commercial real estate central to a business's operations and enters into a long-term lease with that company, doubled its transactions in 2008 and plans to move forward with a new fund and another \$350 million in commercial real estate acquisitions in 2009.

The company is on track to double its acquisitions from \$170 million in 2007 to more than \$300 million this year, says David Steinwedell, a managing partner with AIC. Steinwedell says AIC plans to acquire about 30 assets for its eighth fund in 2009 from middle-market companies, a market that has increasingly turned to sale-leasebacks as a form of capital. It already has started raising money for the next fund.

"Sale-leasebacks have been around and utilized by Fortune 500 companies for a long time," Steinwedell says. "It's a tool in their arsenal they've been able to use. A lot of middle-market companies, which we define as having revenues from \$5 million to \$50 million, are really just learning this is a viable alternative for them."

As credit has tightened up, he says, companies' ability to borrow has diminished. Learning that real estate is an asset that can mean instant capital can be like finding spare dollar bills in a pocket, and many companies are using those assets as the economy's gloom stretches out.

That was true for Oracle Packaging, a manufacturer of flexible and specialty paperboard packaging that sold two manufacturing buildings in Winston-Salem, N.C., to AIC this summer.

Hank Bird, vice president of Oracle, says the company was initially reluctant to consider a sale-leaseback transaction, but refinancing the property proved difficult for the company.

"What it enabled us to do was specifically reinvest about \$8 million back into our company in working capital, and that at the time was quintessential for us," Bird says of Oracle's sale-leaseback agreement with AIC.

While the economic downturn did mean a slowdown for AIC earlier this year, in terms of finding and acquiring properties, Steinwedell says companies have gotten past psychological benchmarks like the election and now are looking for capital to grow their companies.

Steinwedell declines to disclose the company's revenue.

Locally, AIC hasn't made any new acquisitions in 2008. Steinwedell says AIC has been searching the Dallas, Austin and San Antonio markets but hasn't found the type of properties it wants in its portfolio. That's something he hopes to change; Texas has a relatively strong economy, and Central Texas assets would add diversity and strength to AIC's portfolio.

The company tries to diversify its portfolios geographically and in terms of the types of companies it acquires properties from. AIC will continue to look for a range of office and industrial properties for its eighth fund in 2009, Steinwedell says.

Kyle Parks, a partner at Austin accounting firm Maxwell Locke & Ritter LLP, says sale-leasebacks have tax benefits, can get debt associated with a property off the seller's balance sheet and take the administrative hassle of a property off a company's hands.

Steinwedell says AIC has seen many of its competitors move to the sidelines, and he attributes AIC's staying power to better access to capital and lines of credit.

That could change eventually. Parks says in the current credit-restricted environment, more companies will continue to seek alternative financing mechanisms such as sale-leasebacks.

Courtesy of JB Goodwin