assetmonetization

Credit Tenant Loan (CTL) Financing

Credit Tenant Loan (CTL) financing is an effective alternative for financing in today's commercial real estate market. For higher-credit entities, CTL financing offers one of the most liquid and aggressive forms of debt for asset monetization. While traditional real estate loans are written against the value of the real estate, CTL loans rely on the credit quality of the tenant and the structure of the lease to establish the cost of borrowing. CTL financing constitutes an estimated $5 to $10 billion per year in transaction value.

Two Basic Criteria for CTL Financing

1. Companies (lessees) must have investment-grade credit or equivalent. For unrated entities, most CTL lenders will require a private rating through a recognized ratings agency or from the National Association of Insurance Commissioners (NAIC), with results achieving a designation of not less than NAIC 2. It may also be possible to get a transaction rated (as opposed to the credit entity) to access CTL financing.
2. A lease structured for a specified, non-cancellable period. A fully net, or bondable, lease allows for up to a 1.0x coverage; a lease with lessor responsibilities will require a greater coverage ratio and may require additional reserves.

CTL Financing Overview

A CTL loan is a credit-based debt instrument that can assume little, if any, real estate risk. This requires that CTL loans be fully amortizing and coterminous with the lease. There are a few methods by which balloons can be structured to increase proceeds or reduce the required rent covering debt service. These include residual value insurance and various forms of mezzanine or A2 notes. Opportunities for these applications are made by exception. A more recent technique is use of a put/call feature that improves economics, but may place a potential refinancing or take-out of the balloon on the lessee.

CTL Financing can be based on any length of lease, but the need for amortization means better economics are achieved through longer terms of lease. For this reason, leases supporting CTL loans are often for terms of 15 years or more.

The rate on a CTL loan is comprised of three components:

- the underlying index
- the corporate credit spread
- the CTL spread

The underlying index is typically the average life interpolated U.S. Treasury rate. The corporate credit spread mirrors where bonds attributable to the lessee would trade in the open market under a comparable tenor. The CTL spread is the small premium associated with the lease financing structure to compensate for the indirectness to the credit (via a lease), the limited liquidity of the loan, and the risk of lease cancellation in the event of bankruptcy. The loan is non-recourse to the borrower, as the rental payments are assigned to the CTL lender as a condition of the loan and the asset is pledged as collateral in the form of a first lien.

A CTL loan uses a lease as the vehicle for financing. Loan proceeds are generated from the discounted value of the net income stream from the lease.

Advantages of CTL Financing

- Leverages credit strength of a company to achieve rates close to the lessee's corporate cost of borrowing over a matching tenor
- Non-recourse to the borrower/lessor
- Interest rates are typically fixed for extended periods equal to lease term
- Debt service coverage ratios as low as 1.0x
- No maximum loan-to-value (can be over 100% of costs), and unconstrained by tradition valuation methodologies
- Generally requires no financial or operating covenants typical of corporate finance instruments
- Loan proceeds can be used for construction on build-to-suit projects and can accommodate equipment or other items not typically capitalized in traditional forms of real estate funding

Applications for CTL Financing

CTL financing is a form of debt and not a solution unto itself. Our CBRE Corporate Capital Markets team is experienced using CTL financing to create a full range of reporting outcomes for operating leases, finance leases, or financings for existing or to-be-constructed properties

CTL financing has many advantages over conventional mortgages and other forms traditional real estate financing in applications where strong credit and lease structure combine. CTL financing can provide an attractive source of debt for various forms of real estate monetization with broad application for corporate users, state and local governments, hospitals, utilities, colleges and universities, and other strong credit entities.

Corporate Capital Markets provides capital markets advisory and execution expertise for planned or existing single-tenant assets on behalf of corporate occupiers, developers and owners.

For More Information Contact:

Jeffrey W. Shell
Vice Chairman
CBRE Corporate Capital Markets
o. 313.417.2100 | c. 313.510.1891
jeffrey.shell@cbre.com