Free up cash, separate your business and real estate

GUEST VIEW

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Following our article last month, "Tips for successfully navigating a lease," we continue coverage of commercial real estate with regard to the advantages of a "Sale-and-Leaseback" consideration for those business owners who own their building and are seeking to free up cash.

A "sale leaseback" is a financing method that provides an opportunity to raise cash for your business. It occurs when a business sells the real estate it owns to a third party at fair market value ('the sale'), simultaneously enters into a long-term ('net lease') and continues to occupy the property the ('leaseback'). A net lease includes expenses such as real estate taxes, insurance, maintenance, repairs and utilities.

Alternatively, in the case of a business owner identifying an existing building that it needs to utilize, a sale leaseback provides that a third party purchase said property and immediately enter into a long-term lease for the business owner to occupy the property. The lease term and rental rate are generally based on the new investor/landlord's financing expenses, the market rate of return (based on the initial cash investment) and the lessee's credit score.

Ask yourself "is real estate strategically important to your operations." If not, why own it? By completing a sale/leaseback you can unlock the value in your real estate and increase your cash on hand that can be used to grow your core business. You will be paid full market value for your property, which in turn will provide cash to expand your operations or pay down existing debt. The use of money is for you to choose.

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The reasons and advantages of a sale-leaseback are diverse, yet the most recognized are:

- By separating the real estate from the business, it simplifies and provides more focus. Having the focus of the business on the business and not real estate, it frees the owner from concerns of real estate market variations.
- A sale / leaseback can significantly improve the balance sheet by eliminating debt and improving the cash position.
- The advantages for an investor/landlord are obvious in that they have a secure, long-term lease from a known business. This substantially reduces the risks associated with owning commercial real estate.

At the end of the lease period, make sure you have the option to renew the lease on the existing facility, purchase the existing facility back or move the business activity out of the existing facility and end the relationship.

It doesn't hurt to be prudent and include into the contract the first right of refusal to reacquire the property at an agreed upon appraisal methodology. Your situation may change at some point in the future and you may want to regain ownership.

As always, we highly recommend you weigh your options and obtain the advice of a professional, in the form of a seasoned commercial realtor and/or business intermediary/broker.

We cannot emphasize enough the importance of engaging the advice and services of an attorney and a Certified Public Accountant during the process and before finalizing any transaction. For a referral to a professional in your area, contact me.

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