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Turn Your Building into Cash with Sale/Leasebacks

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The question of funding public and private sector projects is often a challenging one, given the current fiscal environment, but a powerful tool is often overlooked: Sale/Leasebacks.

In the public sector, Sale/Leasebacks are situations in which a municipality or other government entity transfers a property it owns through a sale for cash and simultaneously executes a lease on the same property. Sale/Leasebacks are both a financial and real estate transaction that allow a community, county, or state government to capitalize on its creditworthiness.

Why Communities Use Them

Sale/Leasebacks allow a community to productively use the capital that would otherwise remain locked up in its real estate assets. If a community believes it could better use the capital tied up in a city hall building or other properties for improvements to the community or for other financial obligations, Sale/ Leasebacks could be extremely helpful.

Often communities are surprised to discover that the value of their real estate equity and cash from Sale/ Leasebacks can be used to finance new public facilities, make improvements to existing ones, or upgrade community infrastructure. Sale/Leasebacks have also proven effective in bridging budget gaps and increasing bond ratings and capacity. Notably, the capital from Sale/Leasebacks can be used in any way the community wishes. In today's economy, this flexibility can be critical.

How Sale/Leasebacks Work

By way of example, let's say a county requires funding for the renovation of a county building and courthouse of approximately 100,000 square feet. A Sale/Leaseback transaction to obtain funds needed for the municipal improvements includes the following steps:

• The county would sell the property to a financial institution for more than its value would be without a county lease.
• The county would sign a 30-year lease with the financial institution in exchange for the cash payments.
• The entire financing process would be concluded within 60 - 120 days at minimal cost and risk.
• The financial institution would collect the rent specified in the agreement while the county would gain budgetary stability with established rent costs for 30 years.
• The county would use the proceeds from the sale to make renovations to the county building and courthouse and use any residual amount for other county expenses / improvements or investment purposes.

Sale/Leasebacks vs. Bond Financing

Traditionally, communities raise funds by issuing bonds. Sale/Leasebacks are not intended as a replacement for issuing bonds but as an alternative to be used when and where appropriate. As is the case with bond financing where the community must pay off the bond, the community must make lease payments in a Sale/Leaseback transaction.

The county could, in the above example, invest a portion of the money it received from the sale of the county building and courthouse. The income from this investment could then be used to reduce rental payments.

Sale/Leasebacks also have other advantages over bond financing because they:
• Eliminate the cost of an election and advertising.
• Avoid the risk of voter disapproval of the referendum.
• Replace the repayment of bonds and fluctuating interest rates with predictable monthly payments.
• Sidestep the slow bond issuance process with its various overhead and hidden costs.
• Circumvent complex trustee, compliance and insurance fees.
• Provide uninterrupted possession of a property with a leasehold interest.

Unlocking Corporate Assets

For decades, Fortune 500 corporations have used Sale/Leasebacks as a financing vehicle for a variety of reasons.
Corporate executives have long viewed the sale and subsequent leaseback of their facilities as a means of accomplishing specific financial objectives.

This process allows the corporation to sell brick, mortar, and dirt for a price in excess of their unleased value. If a company wishes to show increased productivity, Sale/ Leasebacks could be very helpful. Many corporations measure their productivity by calculating a return on assets. Sale/Leasebacks also potentially allow the corporation to reduce the assets shown on their balance sheet. Consequently, the corporation’s rate of return (earnings divided by assets) increases if the assets decline.

Another corporate purpose for Sale/Leasebacks may be to avoid a takeover by another corporation. A prime motivator in certain takeovers is the unrealized value of a corporation’s real estate, which is often estimated at 30 percent of the net worth of American corporations. Sale/Leasebacks may diminish the appeal of a takeover.
For some corporations, the objective for Sale/Leasebacks is simply to show increased earnings, which is accomplished by converting equity in the form of buildings with little or no debt into cash that may be needed for business expansion or other purposes. Sale/Leasebacks provide an opportunity to raise cash while maintaining operating control of the property as if the property were still owned by the corporation.

Conclusion

Sale/Leasebacks may not be the proper or right financing solution for all public or private sector entities, especially those that have encountered credit problems or experienced a major decline in business.

To determine if Sale/Leasebacks are a feasible or optimal option, it is essential to engage the assistance of experienced real estate negotiators with no conflict of interest to work with your real estate, legal, and financial departments or consultants. Such a team, like the one established within ITRA Global, will be utilized for an initial evaluation and subsequent negotiation of the property purchase contract and long-term lease.

ITRA Global affiliates maintain a national network of institutional investors, family trusts, and individual investors who are Sale/Leaseback buyers. Engaging a specialist to guide the process will ensure that the right buyer, one that is willing and able to pay the maximum price and provide the most flexible lease terms, is always found.

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