

## LEVERAGING A REAL ESTATE SALE-LEASEBACK TO RAISE CAPITAL

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*“A sale-leaseback can more efficiently use a company’s assets as a financing tool.”*

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Most companies are not in the business of owning real estate but need the utility of land and buildings to produce their products or services. A sale-leaseback enables a company to reduce its investment in these non-core business assets (the land & building) and liberate the cash in exchange for executing a lease and paying rent. In a sense, a sale-leaseback separates the “asset value” from the “asset’s utility value” in a company’s real estate investment.

### What is a Sale-Leaseback?

A real estate sale-leaseback is a transaction in which the owner-occupant sells the land and building used in its business operations to an investor and then simultaneously leases the property back from the investor on lease terms agreed to concurrent with the real estate sale transaction. Typically, this will be a long-term investment for the investor so the seller is able to negotiate directly with the investor a mutually agreeable and clear set of lease terms.

Sale-leasebacks have become more popular in recent years as a financing alternative so companies can avoid the high debt interest rates and dilution (ownership) requirements typically found in other types of debt structures.

### Capital for Growth

A sale-leaseback gives the seller the opportunity to turn a non-earning asset into growth capital. The company can then save the available bank financing for business investments, acquisitions and growth opportunities in the future.

If properly structured as an “operating lease,” the balance sheet liabilities would not include short- or long-term debt associated with the real estate asset. Thus, certain financial ratios, such as the debt-to-equity-ratio, the current-ratio, and the return-on-assets-ratio are actually improved. Because Generally Accepted Accounting Principles (GAAP) omits this transaction from the bal-

ance sheet, the borrowing capacity of the seller/lessee may be increased.

### Packaging a Business for Sale

Often a savvy business owner who is contemplating selling his company can benefit by taking the real estate out of the company sales transaction and, by doing so, maximize the value of the real estate and increase the overall gross sale proceeds. If the real estate is left in the transaction the full value is seldom realized, as the EBITDA (or cash flow) multiple often does not value the company’s real estate at its true fair market value.

The sale-leaseback is also becoming more common at the point at which a company is being sold as part of the exit planning for a majority business owner. Business transitions (with all its complications) to the next generation family members or to the current management team can be facilitated with a real estate sale-leaseback, because it provides the exiting owner some retirement money for living expenses and to pay taxes on the ownership exit.

### Conclusion

A sale-leaseback transaction represents another alternative that middle market companies can use to raise capital and finance future operations and growth.

Properly structured, a sale-leaseback can more efficiently use a company’s assets as a financing tool. It is important to work with an experienced team of attorneys, tax professionals, investment bankers, and wealth managers to structure a deal that meets the company’s specific circumstances. It is also important to find the right investors that will provide a market price for the real estate and negotiate a market lease with the seller.

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Rob Hill, a Partner for Net Lease Holdings (NLH), has 15 years of corporate finance and investment banking experience. NLH, a sale-leaseback fund based in Ladue, MO, acquires commercial real estate investments of \$1 - \$10 million.

*“The greatest good you can do for another is not just to share your riches, but to reveal to him his own .” - Benjamin Disraeli*