Marcus & Millichap

Sale-Leaseback Transactions

What Is a Sale-Leaseback?

In a sale-leaseback transaction, an owner/user elects to monetize its corporate real estate facility and structure a new, long-term lease on the property to an outside investor. In exchange, the company, through the sale of the facility, receives capital to grow and revitalize its business. The transaction has many benefits to the company, now tenant, as detailed below.

Benefits of a Sale-Leaseback Transaction

- **100 Percent Financing**—Sale-leaseback proceeds are equal to 100 percent of property value, in context to a loan, which only funds 65 percent to 75 percent of value.
- **Improved Balance Sheet**—By selling the real estate, the company is converting a long-term nonliquid asset into working capital. In addition, a mortgage appears on the balance sheet as a liability, while an operating lease does not.
- **Off-Balance Sheet Transaction**—No obligations are shown on the balance sheet, as sale-leaseback transactions receive operating lease treatment.
- **Improved Income Statement**—The real estate sale can reduce the negative impact of depreciation and interest on income statements.
- **Access to Capital**—The sale-leaseback capital received from the transaction can be deployed in core operations that yield higher returns than appreciation of real estate.
- **Debt Reduction**—The proceeds also can be used to pay down existing debt and eliminate future refinancing risk.
- **Better Access to Long-Term Capital Markets**—With an improved balance sheet and income statement, a company can improve its credit status and have better access to a variety of capital sources.
- **Tax Benefits**—By leasing its facility, a company can write off its entire rent payment, rather than only the interest portion of a mortgage payment.
- **Maintain Control**—The lease agreement is structured so that the tenant maintains full operating control over the space it occupies because it is designed to mirror ownership.

A Case Study

Firm XYZ owned its property for 15 years. The company acquired the property for $20 million with a senior mortgage that has amortized down to an approximate $10 million debt balance. The market value of the property is $30 million. By completing a sale-leaseback, the owner received $30 million in proceeds, which it used to reinvest in the company and pay down the $10 million debt. This removed the liability from its balance sheet. Firm XYZ signed a long-term lease that gave it flexibility and control over the use of its space and presented a stable real estate operating cost. The bottom-line benefit of a sale-leaseback transaction is that it allows a firm to convert the equity value of its real estate into cash, without disrupting its operation. Sale-leaseback transactions make sense from a capital-reinvestment, tax, balance sheet and cost-of-capital perspective.