

Can your business use up to \$175,000 in working capital in 7 days or less?



Reed Business Information.

INDUSTRIAL

Distribution

SEARCH Search Tips

Search for:

in:

All of Industrial Distribution



GO!

[ADVERTISING] [BACK ISSUES] [ID STORE] [EMARKETPLACE] [CONTACT US] [FREE SUBSCRIPTION]

ONLINE SPECIALS

[Free print subscription to Industrial Distribution](#)



[Print-friendly version](#)



[Email this story to a friend](#)



Home
Industry News
Big 50
Annual Survey
Free Subscription
Free eNewsletter
Newsletter Sample
Keough's Korner Blog
Talk Back to Us
Share Your Knowledge
RSS Feed
Current Issue
Calendar
Associations
Resource Center

Sale/Leasebacks: funding your expansion

By Chad Adams

Industrial Distribution November 2, 2005

What is your corporate real estate strategy? Do you have an answer?

Too many companies do not ask this question because people often assume that companies should always own their real estate in order to maintain complete control of their property.

This is a fine way to think, except that it can limit rapid expansion and can hamper the growth of your operations and ultimately your bottom line.

What if someone created a program that would allow companies to tap into the millions of dollars that are locked up in "bricks and mortar" in their facilities, allow them to maintain complete control of their property, and provide numerous tax and financial advantages?

That program is here. Firms around the country are using sale/leasebacks to compete, grow and prosper.

A sale/leaseback is a financial strategy that provides an opportunity to raise cash and improve your balance sheet. A sale/leaseback takes place when a business sells real estate it already owns to a third party for fair market value (the "sale"), and then immediately enters into a long-term net lease and continues to occupy the property (the "leaseback").

If the transaction is structured as a triple net lease, the tenant continues to be responsible for maintenance, utilities and insurance and therefore retains control of the property. You are paid fair market value for your property providing cash to expand operations, pay down existing debt, create liquidity and/or substantially improve your balance sheet and financial ratios.

A sale/leaseback essentially provides 100 percent financing to the business owner. A company looking to build a new facility does not have to tie up cash, in the form of a typical "down payment," of 25 percent or more, required by commercial banks.

Further, the entire lease payment is tax deductible as compared to a traditional mortgage, where only the interest portion of the loan payment is deductible. If a company already owns its real estate, it can "unlock" the equity in the property and turn that equity into cash.

The original purchase price of a building, its cost, net of accumulated depreciation, is shown on the balance sheet. For example, a property that was purchased for \$3 million 10 years ago, is shown at a net book value of \$2.25 million on the balance sheet but may have a current market value of \$7 million. A sale/leaseback on that property would replace the \$2.25 million asset on the balance sheet with an asset of \$7 million in cash.

Some firms that specialize in sale/leasebacks can not only handle typical deals, but also can structure transactions in a customized manner to meet the particular needs of its clients.

Some ways to customize a transaction include: using variable rents to meet tenant cash flow needs; forward purchase commitments or development participation for new construction; lease structures to



CHANNELS

Please click for focused news & features

Construction
Sales & Marketing
Distribution Management
Abrasives & Cutting Tools
Bearings & Power Transmission
Distribution Technology
Electrical Equip. & Supplies
Electronic Equip. & Supplies
Facility Maintenance & Janitorial Supplies
Fasteners & Adhesives
Fluid Power
Hand Tools
Hose & Accessories & Industrial Rubber
Machine Tools & Accessories
Material Handling
MRO Lubricants, Solvents & Chemicals
Pipe, Valves & Fittings

& Tubing
Power Tools
Safety & Security Equip.
Welding Equip. & Supplies

maximize tax results; and continued family ownership in the property to help achieve estate planning goals.



Click here to view



Target Market Report Archive

Case study: rapid industrial expansion

A regional distribution company was quickly gaining traction in its market but needed to grow nationally to achieve its financial goals. Faced with the challenge of building multiple industrial facilities without a war chest of cash, this company turned to a real estate investment firm for help. The real estate investment firm acquired 12 locations in five states over four years through sale/leaseback transactions.

At the end of each calendar year, this company would sell and leaseback the facilities they had developed that year. These dollars were then used the following year to develop the next round of facilities. For four years, this company used this financing method to grow its business and enabled it to compete on a national level.

This allowed the company to keep the real estate and associated long-term debt off of its balance sheet by structuring the transactions as operating leases. By doing so, they were relegated to disclosure in the footnotes of the audited financial statements.

The sale/leaseback transactions provided this regional business with the tools to grow its business and established it as a prime acquisition candidate.

Are you making your real estate work for you? Does it make more sense to sell and leaseback some of your properties and deploy that capital into more productive areas of your core business?

In tight economic times, companies need to be flexible and be able to find ways to continue their financial growth and physical expansion. A sale/leaseback can be an important tool in your growth and help you stay ahead of your competition.

Chad Adams is director of project development for Century Equities, Inc. He specializes in sale/leaseback transactions and can be contacted at cadams@centuryequities.com

© 2005, Reed Business Information, a division of Reed Elsevier Inc. All Rights Reserved.

[Free print subscription to Industrial Distribution](#) 

[Print-friendly version](#) 

[Email this story to a friend](#) 

The Search is Over.

- > Post jobs easily.
- > Hear from qualified local candidates instantly.

POST A JOB NOW! 



monster

Quarterly Energy Flash Report
Click here to download! 



[home](#) | [about us](#) | [register/log in](#) | [ad info](#) | [free subscription](#)

Industrial Distribution

© 2005 [Reed Business Information](#), a division of [Reed Elsevier Inc.](#) All rights reserved. Use of this web site is subject to its [Terms and Conditions of Use](#). View our [Privacy Policy](#).