

w e s t v i r g i n i a

EXECUTIVE

CONSTRUCTION TRADES 2005

The Greenbrier Sporting Club Sets the Standard

► Cover Home Built by
Agsten Construction &
Sunset Structures

Transition of A Legacy: Pray Construction

POST-STD
Postage
PAID
97-0007-40150
Permit No. 231

***** ECRL0T ** C-055

11120 P0005

DANNY ADERHOLT

08170

CENTURY EQUITIES

48 14TH ST STE 200

WHEELING WV 26003-3431

CONTRIBUTING WRITERS



Chad Adams

Mr. Chad Adams is director of project development for Century Equities, Inc. He specializes in sale/leasebacks and is actively structuring transactions to meet the goals of his clients. Century Equities currently owns property in 13 states and owns seven commercial properties in West Virginia. If your company owns its real estate and you

would like to see the impact a sale/leaseback could have on your company's financial statements, contact Mr. Adams at 304/252-5411 or via E-mail at cadams@centuryequities.com.

Joseph Bird

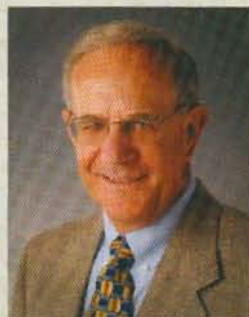
Mr. Joseph Bird is a vice president with Chapman Technical Group, an engineering and architectural firm with offices in St. Albans and Buckhannon. He has served as project manager for many projects throughout the state, including the site and civil engineering design for Beckley Federal Courthouse and the Seneca Rocks Visitors Center. Bird is involved in numerous community activities and serves on the board of directors of the St. Albans Renaissance Group, a West Virginia Main Street organization.

He has written architectural columns for the *Sunday Gazette-Mail* as well as for the *Construction Equipment Guide* and the *West Virginia Executive*. He has also won awards for his fiction writing. His first novel, *Counsel of the Ungodly*, won first place in the 2004 West Virginia Writers competition. He may be reached at jbird@chaptech.com.

Bob Bliss

Mr. Bob Bliss has had a prestigious career serving as both vice president of the National Merit Scholarship Corporation and later the president of Morris Harvey College, now the University of Charleston. Using his business expertise, he later amassed two companies with combined annual revenues of \$28 million. He also started a business and education consulting company serving clients throughout the Eastern United States. Mr. Bliss is currently the president of National Institute of Technology in Cross Lanes.

Mr. Bliss is married to Susan Christian Bliss and has three grown daughters. He is an avid golfer and holder of a commercial pilot's license. He may be contacted at RBliss@cci.edu.



Michael A. Criniti, A.V.P.

Mr. Michael A. Criniti, A.V.P., is an Investment Portfolio Manager with FifthThird Bank's Investment Advisors Division in Huntington. He has worked in the investment industry since 1985 and currently manages institutional and individual investment portfolios for Fifth Third's Ohio Valley affiliate. Michael may be reached at 304/691-6632 or 800/767-7958.

Patrick Gregg

Mr. Patrick Gregg is special projects manager for the West Virginia High Technology Consortium (WVHTC) Foundation. Gregg came to the WVHTC Foundation in 2002 with a vast communications background in the public relations and media arenas. His experience ranges from being an award-winning journalist with Thomson Newspapers to serving on a national communications team for a Fortune 5 client. Patrick also serves as the statewide administrator for the Fast-Trac program, an entrepreneurial education/professional development program of the Kauffman Foundation of Kansas City administered by the WVHTC Foundation in West Virginia. Mr. Gregg lives in Morgantown with his wife, Aly Goodwin Gregg. He may be contacted at 304/366-2577 or via E-mail at plgregg@wvhtf.org.



William H. Hilborn, Jr.

Mr. William H. Hilborn, Jr. has been involved in the construction field since 1968 and has been involved with the bidding process since 1973. He has served as senior estimator or vice president of estimating for four construction companies and is currently the vice president of engineering for Kanawha Stone Company, Inc. He has been very active in the Contractor's Association of West Virginia and is currently the vice president of that organization. He has also been involved in various task forces with the CAWV and the Division of Highways reviewing and implementing the various phases of electronic bidding. He may be contacted at bill.hilborn@kanawhastone.com.

Tony Mazelon

Mr. Tony Mazelon is a former Venture Capital investor and is now a Chartered Wealth Advisor and Accredited Investment Fiduciary for Hilliard Lyons located in Charleston. He may be contacted at amazelon@hilliard.com.



Getting the Most Out of Corporate Real Estate

Chad Adams

West Virginia is an excellent place to do business and raise a family. The crime rate is low, the public schools compete nationally in quality ratings, and the cost of living is very affordable. West Virginians take pride in our hardworking, determined and extremely loyal labor force. We appreciate companies who locate here, and we want them to prosper. To remain competitive, companies need to be aware of the current financing methods and understand how their competitors are leveraging their corporate assets to achieve growth. But, are West Virginia companies getting the most from their corporate real estate?

What is your corporate real estate strategy? Too many companies do not ask this question because people often assume that companies should own their real estate in order to maintain complete control of their property. While that is a noble notion, the concept is archaic because it can limit rapid expansion, hinder growth of operations, and ultimately the bottom line.

There is a program available that allows companies to tap into the millions of dollars locked up in the "bricks and mortar" of their facilities while still maintaining complete control of their property. This program also provides numerous tax and financial advantages. Hundreds of firms throughout the country are using this sale/leaseback strategy to compete, grow and prosper.

The Basics

A sale/leaseback is a financial strategy that provides an opportunity for a business to raise cash and improve its balance sheet. A sale/leaseback occurs 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 main-

“
A sale/leaseback essentially provides 100 percent financing to the business owner.
”

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 and net of accumulated depreciation is shown on the balance sheet.

A property that was purchased for \$5 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.

Proper Lease Structure

tenance, utilities and insurance, therefore, retains control of the property. Companies are paid fair market value for their property, which provides cash to expand operations, pay down existing debt, create liquidity and/or substantially improve balance sheet and financial ratios.

When structuring a sale/leaseback transaction, most financial professionals prefer that the transaction be treated in the financial statements as an "operating lease" as opposed to a "capital lease." Seasoned real estate investment firms should guide you through the accounting requirements in order to ensure that the transaction qualifies and takes advantage of the

**OFFICE FOR
LEASEBACK**

favorable tax treatment associated with an operating lease. Generally Accepted Accounting Principles (GAAP) governs the distinction between these two types of leases as outlined in Financial Accounting Standards Board (FASB) statement No. 13 as amended.

There are five basic tests that a sale/leaseback transaction must pass in order to qualify as an operating lease. The following questions are answered by examining the terms of the lease agreement, with an answer of "no" to all required, for the lease to be considered as an operating lease.

- ▼ Does the lease transfer ownership of the real estate from the landlord to the tenant?
- ▼ Does the lease provide for a bargain purchase option less than fair market value?
- ▼ Does the beginning of the lease term fall within the last 25 percent of the total estimated economic life of the real estate?
- ▼ Is the lease term, excluding renewal options, greater than 75 percent of the estimated economic life of the real estate?
- ▼ Is the present value of the minimum lease payments greater than or equal to 90 percent of the fair market value of the real estate?

When a sale/leaseback is structured as a capital lease, both the real estate asset and the associated debt are added to the balance sheet. Only the building portion of the real estate asset (not land) is depreciated, usually over 40 years, and deducted as an expense from the income statement. Also, only the interest portion of cash payments to the lender is treated as an expense on the income statement.

However, when the transaction is structured as an operating lease, the real estate asset and the associated debt are omitted from the balance sheet. Footnote disclosure of future minimum rental payments in the aggregate and for each of the five succeeding fiscal years is required. The full rental payments are treated as an expense throughout the term of the lease.

Customized to Meet Your Goals

Some firms, which specialize in sale/leasebacks, cannot only handle typical deals but can also customize the transactions to meet the particular needs of its clients. These firms are experienced in transactions and work to maximize the client's benefits by understanding the company's goals, and they use creative solutions to meet them. 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 maximize tax results, and nonstandard lease periods to meet

“
A sale/leaseback is a financial strategy that provides an opportunity to raise cash and improve balance sheets.
”

a tenant's need to use a building for a limited time.

In family-owned businesses, the real estate is often viewed as a crucial part of the business because it has been passed down from generation to generation. Families find it very difficult to consider selling their real estate to an "outsider." Century Equities Inc., a real estate investment firm located in West Virginia, has structured a method to have continued family ownership in the property to help achieve estate-planning goals while allowing the company to realize the benefit of unlocking the capital in their real estate. The family should be able to make more money investing dollars into its core business than it would make on the appreciation of its real estate.

**SALE/
LEASEBACK**

BUY

LEASE

Case Study I: Rapid Retail Expansion

A West Virginia retail 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 stores without a large sum of cash, this company turned to a real estate investment firm for guidance. The real estate investment firm acquired 36 locations in 10 states over four years through sale/leaseback transactions. At the end of each calendar year, this company would sell and leaseback the stores they had developed that year. These dollars were then used the following year to develop the next round of stores. For four years, this company used this financing method to grow its business, which enabled it to compete on a national level.

This important relationship with the real estate investment firm 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 necessary tools to expand its business and establish it as a prime acquisition candidate.

Case Study II: Build to Suit with a Spin

A publicly traded textile giant wanted a custom-built facility on the Mexican border but did not want to tie up capital in construction. After identifying the site, the textile company partnered with a real estate investment firm to make it happen in this "build-to-suit with a spin." The real estate investment firm funded construction with the security of having an executed long-term lease in place with the textile company.

The textile company did not have to invest any money or go through the arduous

process of finding construction funding. It was able to dictate the specifications for its new facility and have the comfort of being in control of the property by signing a long-term net lease. Although this transaction was not a pure sale/leaseback, the concept and the result is essentially the same—the textile company realized the value of having a lease payment versus increased debt.

Case Study III: Creation of Much Needed Capital

A privately owned logistics company currently leases the majority of the 70-plus facilities that it operates; it only owns a handful of properties. In order to ac-

commodate a customer demand, the logistics company had to build a facility for this customer on short lead-time. It did not have time to locate and partner with a real estate investment firm, as it had to get the facility up and operating. Understanding that they had millions of dollars in the building after construction and they needed to "free up" that capital, the logistics company completed a sale/leaseback with Century Equities, Inc. To minimize risk, the logistics company

leased the facility back on a seven-year net lease to match the seven-year contract it had with this customer. If the customer renews the contract, the logistics company will also renew its lease. This provided the much-needed capital that allowed the company to better leverage their corporate strengths and minimize debt.

“
Full rental
payments are
treated as
an expense
throughout
the term of
the lease.
”



Evaluation

More and more companies are using sale/leasebacks as a cost effective and efficient alternative to traditional debt in funding the costs of expansion, acquisition and construction of new facilities. Evaluate your core business goals and direction of your company. Decide whether owning real estate is of primary importance or can the dollars tied up in "bricks and mortar" be better spent elsewhere. Prepare a summary of your current situation, including preliminary information on your company and your current real estate holdings. Finally, contact an experienced real estate investment company to review your property and your goals.

In tight economic times, West Virginia 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 your company stay ahead of the competition. ■