



# The Sale Leaseback

Sale-Leasebacks are not a new concept in the market; however, in today's economic climate businesses are looking for solutions to unlock capital and increase cash flow. The Sale-Leaseback is one of these solutions.

## What is a Sale-Leaseback

A transaction where the current owner of a property sells the property and then leases it back from the new buyer.

Sale-leasebacks are often utilized to:

1. Unlock the Value of Real Estate
2. Improve the Balance sheet
3. Realize tax benefits.

### Unlock the Value of Real Estate

- Provides seller with cash (particularly important if the seller is unable to borrow)
- Frees up capital for other investment opportunities while allowing the owner to retain possession and use of the property
- Can be a substitute for external financing without the negative aspects of taking on more debt

### Improve the Balance Sheet

- Generally, sale-leasebacks are structured as off-balance sheet operating leases.
- Following the sale, the seller's balance sheet no longer reflects a large illiquid asset carried at a below-market value.
- The proceeds from a sale-leaseback can be used to reduce debt.

### Tax Benefits

- Following the sale, the seller will be a tenant and if the lease qualifies as an operating lease, the entire rental fee is tax deductible
- A Sale-Leaseback moves assets off the seller's balance sheet

## Frequently Asked Questions

1. What impact will a Sale-Leaseback have on our earnings per share?
2. How will a Sale-Leaseback impact our financial ratios?
3. What impact will the length of our lease have on the building value?
4. How does the implied cost of a Sale-Leaseback compare to alternative debt structures?

## Recent Sale-Leasebacks in the Market

Property: Appliance Recycling Centers HQ  
 Buyer: TCF National Bank  
 Seller: Appliance Centers of America Inc.  
 Sale Price: \$4,700,000  
 Sale Date: September 2009

Property: Phillips Eco-Enterprise Center  
 Buyer: Wellington Management  
 Seller: Green Institute  
 Sale Price: \$5,100,000  
 Sale Date: May 2009

Property: Environments Inc. HQ  
 Buyer: Investors Real Estate Trust  
 Seller: Environments Inc.  
 Sale Price: \$4,000,000  
 Sale Date: January 2009

## Keys to Success

Before executing a Sale-Leaseback a seller should meet with an experienced commercial real estate advisor. CB Richard Ellis is the market leader in sale-leasebacks and can provide further details regarding these complex transactions.



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