

Return to Sender

How to recycle your capital with a Sale / Leaseback.

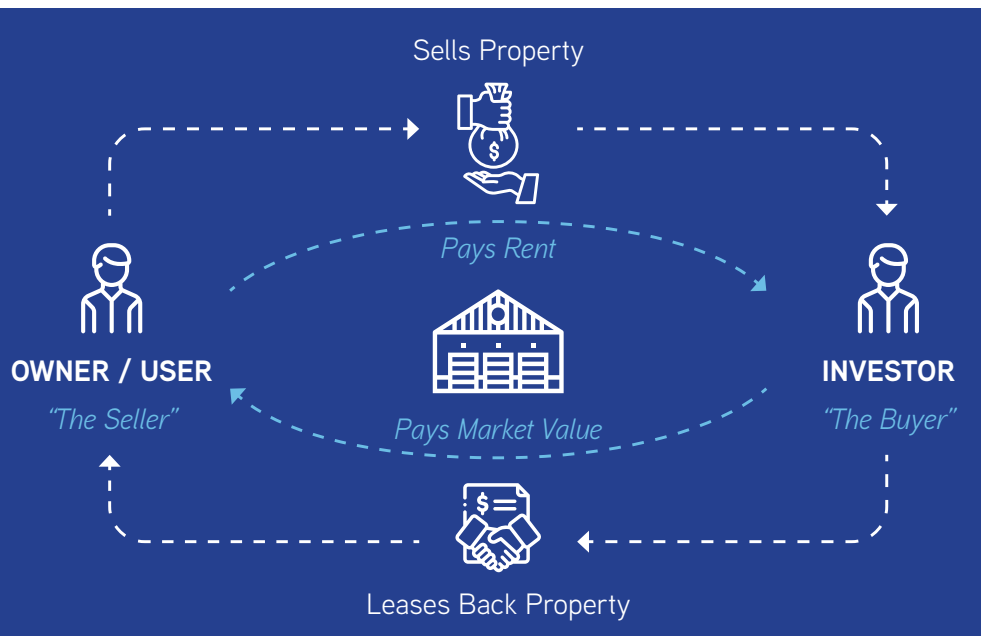


“ *The most important single central fact about a free market is that no exchange takes place unless both parties benefit.* ”

- Milton Friedman

What is a Sale / Leaseback?

A Sale/Leaseback is a bifurcated transaction in which two things happen: a) a business that owns its own real estate sells that property to an experienced investor and b) that business executes a long-term lease with the investor for the same space.



A win/win scenario: the owner/user provides long term durable cash-flow, the investor provides the owner/user with the market value of the property.

Single Tenant Property Drivers

Investor groups will value property occupied by a single tenant primarily based on the length of the lease and the creditworthiness of the tenant. Secondary value drivers are the structure of the lease and the strength of the underlying real estate.



Lease Term

- 10 to 20+ years remaining at the time of sale
- Tenant Tenure at the facility will be scrutinized
- "Stickiness" or likelihood of renewal is key



Tenant Credit

- S&P rated BBB- or Moody's rated Baa3 or better credit, also called investment grade
- Three years trailing financial statements showing a strong and growing revenue stream
- Efficient revenues and low levels of debt, Goodwill will be considered a long-term liability
- For sale/leasebacks: reinvestment of proceeds back into the company



Lease Structure

- Absolute Net lease is preferred, triple Net will increase bidder pool
- Rental rates in-line with the market with annual increases
- Tenant financial reporting, estoppel, and SNDA provisions are a must
- Lack of Tenant purchase or termination options
- Transparent renewal option terms



Bricks and Mortar

- Large and easily re-tenanted spaces are preferred
- Proximity to highways, residential areas, and retail corridors
- Lack of buildable development pads nearby
- The cost of deferred maintenance will be credited to the buyer at sale
- Restoration clauses in case Tenant vacates

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NOW IS THE TIME!

There has never been a better time to perform a Sale Leaseback for a variety of reasons:



Low Interest Rates

The Fed recently announced that they will be keeping interest rates at rock bottom through 2021 which will put upward pressure on pricing.



Tight Debt Markets

With traditional sources of debt drying up as lenders underwrite a riskier lending environment, businesses will have more trouble finding debt a viable way to finance purchases.



Immediate Access to Capital

With futures uncertain and volatility at a high point, companies with excess capital to spend on M&A activity, potentially purchasing competitors at a discount.

Reach out to the Colliers team for more information on the Sale Leaseback process & a complementary valuation.

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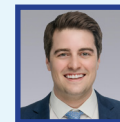
Mark Kolsrud, SIOR, CPM
Sr Executive Vice President
Direct 952 897 7790
mark.kolsrud@colliers.com



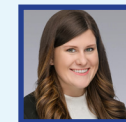
John McCarthy
Sr Vice President
Direct 952 897 7701
john.mccarthy@colliers.com



Peter Loehrer
Capital Markets Associate
Direct 612 799 9871
peter.loehrer@colliers.com



Pete Carbonneau
Capital Markets Associate
Direct 952 913 2807
peter.carbonneau@colliers.com



Lydia Paasch
Sr Property Marketing Strategist
Direct 952 374 5822
lydia.paasch@colliers.com

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