The Financial Advantages of the Sale-Leaseback

Leaders in every industry perform sale-leaseback transactions to unlock the value of real estate, improve the balance sheet and realize tax benefits. Since sale-leaseback transactions also retain control of prime locations, industry experts now see a rush toward leased properties and sale-leaseback transactions that include entire portfolios. Consider the options and carefully choose your technology to gain a competitive advantage.
1 Introduction

Fortune 500® companies see large financial gains from sale-leasebacks as corporate real estate vice presidents convert from owned to leased properties. A recent CoreNet study finds that, “6% of property would shift from owned to leased property over the next five years” and that, “52% of companies’ property is owned rather than leased... that’s $72 billion out of $1.2 trillion worth of real estate being sold and leased-back in the commercial real estate market during the next five years.”

Although the sale-leaseback is nothing new, there is trend in the market known as the “portfolio sale-leaseback,” which delivers strong financial gains for companies in every industry. Instead of a single property, companies now lease back entire portfolios. One of the key drivers and advantages of portfolio sale-leasebacks is flexibility. Corporate Real Estate divisions are interested in sale-leasebacks to unlock the equity in their real estate portfolio and increase cash flow. They are negotiating favorable terms in their leases like extended lease dates or early termination rights.

A key difference between an individual property sale-leaseback and a portfolio sale-leaseback is that the portfolio requires a different level of expertise and information than a typical real estate transaction. CoreNet holds that, “it’s much more like a capital markets transaction than a real estate transaction and requires that level of expertise.”

TRIRIGA Real Estate™ delivers the tools and information to analyze portfolios and perform what-if-analysis to determine both the financial and functional gains of portfolio sale-leasebacks. Through transaction management and scenario planning, corporate real estate divisions have the tools to select the right properties and portions of their portfolios. As a result, by using TRIRIGA Real Estate, one of TRIRIGA’s customers saved over $180 million and has the flexibility of long lease terms to maintain key market locations.

2 Mechanics of the Sale-Leaseback

Simply put, a real estate sale-leaseback is when a business sells its commercial property and then instantly leases it back from the buyer. Organizations sell real estate in this fashion for a variety of reasons, which may include accessing equity and capital for re-investment while retaining possession and use of the property. Many sale-leaseback agreements are long-term, typically 15 to 20 years, often with renewal options. The base rent can be tied to different factors, such as a percentage of the purchase price, and escalation terms can be linked to “moving targets” such as the Consumer Price Index (CPI) or revenues. One of the great benefits of the sale-leaseback is that it improves the balance sheet while retaining control of the property.

Another advantage is potential income tax savings. Organizations with leases can write-off the full payment each month, as opposed to organizations with standard loans and interest-only write-offs. Organizations and companies with sale-leasebacks also:

- **Enhance Financial Ratios**: Sale-leasebacks improve many financial ratios, most notably return on asset ratios and debt-to-equity ratios.

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• **Improve the Bottom Line:** The proceeds from sale-leasebacks are included in the profit and loss statement.

• **Improve the Balance Sheet:** The proceeds from a sale-leaseback transaction can reduce debt.

• **Elevate Operations:** Organizations that focus sale-leaseback proceeds into operations may see dramatic improvements in operations efficiency.

• **Report Profitability:** Companies that convert non-earning assets into investment capital often show improved profitability.

• **Focus on the Core Mission:** Sale-leaseback transactions allow the owner to focus on the core mission rather than the real estate portfolio or facilities operations.

When organizations complete a sale-leaseback transaction, they have guaranteed the full, current market value of the property. Another benefit is that the seller in a sale-leaseback transaction may negotiate a long-term lease for commercial property, often up to 25 years, which can lower monthly payments dramatically and unleash operating capital. In short, sale-leasebacks unlock the value of real estate.

3 **TRIRIGA® Refines the Sale-Leaseback**

TRIRIGA Real Estate delivers financial modeling tools, intuitive analysis and projections for sale-leaseback transactions. For example, with TRIRIGA Real Estate, customers track business plans with high-level summaries of portfolio metrics, accurate forecasts and consolidated goals to improve performance. TRIRIGA Real Estate is configured from an executive, strategic view to increase revenue, help orchestrate mergers and acquisitions and lower costs.

TRIRIGA's customers also deploy transaction plans that clarify the approach to specific goals, such as “reduce real estate depreciation costs by 3 percent.” Transaction plans are initiated from approved transaction requests, by the real estate group’s pro-active management of the portfolio or from real estate programs defined by executives. In the event of multiple requirements, the weighting or importance of each requirement is recorded and tracked in the transaction plan. TRIRIGA's transaction management does not stop at the deal.

Resulting activities surrounding the lease obligation are controlled with TRIRIGA's lease administration and accounting capabilities. For lease administration, TRIRIGA calculates index-based lease payment adjustments, such as the Consumer Price Index (CPI). Customers also create adjustments for future payments, including an adjustment for a landlord credit or re-negotiated terms. TRIRIGA automatically updates accrual amounts or user-defined adjustments. TRIRIGA also orchestrates real estate contract obligations, including real estate lease agreements, owned property agreements, space use agreements and service level agreements tied to landlords.

For advanced lease accounting, TRIRIGA sets internal department chargebacks against the contract payments defined in specified space use agreements. These allocations are defined by the amount of space allocated or by a fixed percentage. Customers also calculate and report on percentage of sales-rent-obligations based on clauses attached to the lease that define the reporting frequency of sales, percentage amount, break points and related terms. TRIRIGA controls costs and performs reconciliations related to Operating Expenses (OPEX) and Common Area Maintenance (CAM) by defining the auditable services of a real estate lease. TRIRIGA also follows lease accounting requirements set forth in FASB 13, FASB 143 and FASB 146.
For each sale-leaseback transaction, TRIRIGA delivers best practice procedures, tasks and data fields specific to the type of deal or transaction. From the inputs of lease rates, interest rates, prices, terms and other financials, TRIRIGA calculates cash flows, net present values, rates of return and other financial analyses.

TRIRIGA’s scenarios also render multiple options often required to succeed. For example, to expand into a market, should your organization lease two locations and purchase one or simply purchase one large facility? Executives can compare and evaluate how various scenarios affect the bottom-line and how they satisfy the business unit or client’s requirements.

With TRIRIGA’s financial modeling and scenario planning features, users capture the specific terms of the sale and resulting lease details. These terms can be combined into scenarios to perform side-by-side analysis of the deal economics. All project details can be managed with TRIRIGA’s critical path scheduling to ensure proper execution and project communications. TRIRIGA’s Document Manager captures critical deal documentation centrally in the project.

4 Conclusion

As sale-leasebacks and portfolio sales expand throughout every major industry, TRIRIGA offers top-ranked solutions to help organizations reinvest for success, improve the balance sheet, control facilities operations, take advantage of tax benefits and focus on their core mission. Through real estate business plans, TRIRIGA refines strategies with accurate portfolio metrics, forecasts and realistic goals to improve performance. TRIRIGA delivers lease administration through a broad range of channels, including CPI payments, adjustments and user-defined processes to control real estate obligations. TRIRIGA also captures lease information for federal guidelines and regulations.

With TRIRIGA Real Estate, which includes an intuitive portfolio, transaction management, advanced lease accounting, financial modeling and scenarios, TRIRIGA brings the right tools and the right experience. Unified by TRIRIGA’s industry-leading Momentum platform, applications share the same reliable and accurate data, the same intuitive user experience, the same process engine and the same process configuration system.

Understanding that software is just one part of the solution, TRIRIGA also provides services to complement its offering. TRIRIGA’s Professional Services are comprehensive, including assessment, system architecture design, planning, implementation, application services, technical services, customer education and support. Our customers can take a straight-forward approach or they can innovate through a proven Fusion method without the typical programming costs and upgrade complications of our hard-coded competitors.

For more information on how TRIRIGA can help your organization take advantage of portfolio sale-leasebacks, contact us in the United States at (702) 932-4444 or visit www.tririga.com.