

Business Owners Looking to Sell Should be Mindful Of Lease Terms in Deal Negotiations

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Article by Kerry Smith, Informationworks

Business owners seeking to maximize the value of their real estate when selling the business need to consult a commercial real estate expert as early on as possible, long before the deal is made to sell the business.



Collin Fischer, CCIM – Principal
BARBERMURPHY

BARBERMURPHY Principal Collin Fischer urges business owners, if they also own the real estate, to include a properly structured lease as part of the overall business sale negotiation.

“Structuring a solid, longer term lease, say 7 to 10 years rather than 5 years, as part of the deal is in many cases a really sound strategy,” said Fischer. “If you own a building where the business is likely to stay on as your tenant after the sale, call us before you sit down and negotiate the deal with the buyer. Within a lot of mergers and acquisitions, real property is not the main focus. But in more situations than not, it could well be to the benefit of the seller and property owner to give this more attention.”

The trend of larger corporations merging with or acquiring smaller companies – and leasing the space from the seller – is one that is on the rise, according to Fischer. “Getting in front of the situation (aligning with the seller) and helping structure the lease for a strong investment sale is what we do,” he said. “If sellers can contact us sooner rather than later, long before the deal is negotiated, we can work with them to position their real property with a better investment value.”

Kevin Vick, shareholder of the Business Services and Real Estate Group in Greensfelder, Hemker & Gale P.C.’s Swansea office, says there are several considerations that a building owner should take to heart when listing his or her property for an investment sale.

“If you’re a business that owns its own building and plans to lease a portion of it but is interested in raising capital through an investment sale, you need to consider several factors in order to maximize the value of your property through the eyes of a potential investor,” Vick said.



Kevin Vick, Greensfelder, Hemker & Gale P.C.

The length of the lease term is critical, according to Vick and Fischer. “If an investor is looking for an investment to tie to the 10-year treasury rate, generally recognized as a benchmark for the interest rate and rate of return that the rent income will provide, investors will be looking for a lease term of at least 10 years to maximize the marketability of the property and its valuation. Lots of times, we see leasebacks in the 10-year to 20-year range for this reason.”

Another seller's consideration, Vick says, is how "responsibility-free" the seller can structure the deal. "An investor in a sale leaseback deal would prefer to buy a property where he's collecting rent and that's it," said Vick. "We call this an absolute net lease. If a seller is willing to continue taking care of the real estate tax payments, insurance payments and all the common area maintenance and operational issues associated with the property, this is obviously a lot more attractive to the prospective investor." The building owner-seller should also consider structuring the lease in such a way that it is flexible in allowing him to bring in additional tenants – to sublease – without having to seek the new investor/owner's approval.

The seller might wish to include a clause in the deal, Vick offers, that allows him to finance building improvements to recruit future tenants. "The seller should reserve the right to grant a leasehold mortgage that enables him to finance these improvements," he said.

Lastly, if the owner-seller wants to retain control over his building should the investor decide to sell the building later on, a right of first refusal to purchase clause can be included in the initial sale leaseback transaction. "That said, this clause could be an impediment to an investor," said Vick. "But if that control is important to the seller, it's an option."

Building owners looking for expertise as to how to prepare their property for an investment sale that is buoyed by a powerful lease structure, Fischer says, are encouraged to contact BARBERMURPHY's team of investment broker experts as early as possible in the process.

"We work with business owners every day and have a solid grasp of the local market," Fischer said. "We're ready to help."

For more information on sale leaseback deals and other commercial real estate sales and investment opportunities, contact Fischer at 618.420.2376 or collinf@barbermurphy.com.

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