

# BusinessFinance

## Sale-Leasebacks Gain Ground in the Midmarket

Karen Kroll May 5th, 2009

With the bank financing spigot still no more than a trickle, as indicated in the latest Federal Reserve study, more companies are turning to other sources of financing. One such avenue is sale-leaseback transactions. "The credit crisis is forcing some corporations that generally would have avoided sale-leasebacks in the past to consider them," reported *National Real Estate Investor* in September of last year.

With a sale-leaseback transaction, a company sells its property to an investor or buyer and then rents the property back under a lease that usually runs from about 5 to 20 years, according to a 2008 article by Eric Odum in *CPA Resource*. By shifting from a mortgage holder to a lessee, the company frees up its capital.

Much of the current growth in sale-leasebacks is occurring among midmarket companies, says David Steinwedell, senior partner with AIC Ventures, a provider of alternative financing solutions to companies with sales of about \$50 million to \$500 million. AIC's sale-leaseback business doubled between 2007 and 2008, and Steinwedell expects another jump of about 40 percent this year, as well, to about \$350 million.

Until recently, sale-leasebacks occurred primarily among companies that made up the *Fortune*500, Steinwedell notes. Many owners of smaller businesses haven't been as familiar with the idea or worried that they would lose control of their property if they no longer owned it. A loss of control isn't inevitable, as leases can be structured so that the company continues to operate pretty much as it always has, he notes. And, sale-leasebacks can be completed even if the company has just one or a handful of facilities.

The primary reason for doing a sale-leaseback is to free up cash. However, the transaction also can provide tax benefits, Odum noted. That's because all lease payments are fully deductible, while only interest and depreciation are deductible when a company is making mortgage payments.

While sale-leasebacks may be more expensive than bank financing, they also can offer more flexibility, if the bank loan would come loaded with covenants and operating restrictions, Steinwedell notes. What's more, more banks are taking a favorable view of their clients' sale-leaseback transactions. The reason? A sale-leaseback can let the bank reduce its exposure to a specific company, he adds. For instance, say a company has a \$30 million line of credit with a bank. Through a sale-leaseback, it frees up \$10 million. Now, the bank may drop its line of credit to \$25 million. The bank has reduced its exposure, yet the company maintains the financing it needs.

Financial executives with organizations that own real estate will want to think of sale-leasebacks as part of their financing tool kit. "People own property, but don't look at it as an asset," Steinwedell notes. Sale-leasebacks "can be like finding money in your pocket."