

Time ripe to re-evaluate commercial real estate

Businesses should strategize to seize future opportunities

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Forward-thinking business leaders are not only managing their businesses based upon present economic conditions, they are also planning for the future. As Wayne Gretzky once said, "Skate to where the puck is going to be, not where it is."

While it can be difficult to escape the onslaught of negative news regarding the economy, there is opportunity hidden within this challenging environment. One such strategic opportunity can often be found in a company's use of real estate.

Opportune timing

Real estate, whether leased or owned, is one of the most expensive ongoing costs for many businesses, usually second to wages. Company owners expect their location to provide a marketing benefit, project an image, maximize efficiency and/or minimize costs.

We are clearly now in a buyer/tenants' market, with increasing vacancy and many options available for office, retail and small industrial/flex users. Now is the time to evaluate your present situation to determine if a new real estate strategy will decrease costs, increase profitability, enhance efficiency and/or lead to other advantages. Perhaps a smaller space would work just as well as your current one. Maybe a more centralized location would provide added convenience for your customers and employees.

There are also many opportunities to upgrade to new space. The timing could not be better to lock in favorable long-term lease rates. If you prefer not to move, this is an excellent time to restructure the terms of your present lease agreement.

Sale and lease-back

In a tough economy and difficult financing environment, many business owners are looking more closely at their deployment of capital. Owner occupants of commercial real estate may have a significant amount of money tied up in that real estate but generate a higher return in their core business than they do in the real estate they own. The company may require additional funds for new equipment, employees, marketing or other core business needs at a time when conventional financing may be difficult to obtain or simply may not be the best option.

In some cases, the owner may wish to sell the business but knows it will be difficult to get strong values for both the real estate and the business from a single purchaser, making a pre-emptive sale of the real estate desirable. In these situations, many prudent owners are considering a "sale and lease-back" of their business' real estate.

A sale and lease-back is a transaction whereby a business owner sells the facility to an investor and leases it back, usually on a long-term lease. The value of the real estate is greatly influenced by the lease rate and terms offered by the business owner - the more attractive the terms of the lease, the more valuable the real estate.

The lease is typically triple-net, meaning the former owner, now tenant, continues to pay for the property taxes, insurance, maintenance and utilities for the property. The seller/tenant also pays the new owner an agreed-to rent based on a reasonable return on the purchase price. In return for that rent, the seller receives the net equity he or she has accumulated in the real estate over the period of ownership in the form of proceeds from the sale. The business owner can then redeploy this capital into the business or otherwise distribute it.

When commercial real estate values are flat or declining, and when traditional financing is hard to come by, many business owners could benefit from a sale and lease-back. In addition to freeing up the equity in their real estate, they are able to pay off any debt on the property, potentially strengthening their financial statement and borrowing capacity.

Tenant/buyer representation

Like any major decision, the most efficient way to gather the necessary information to evaluate and potentially implement your real estate strategy is to consult with an expert. Generally, there is no cost to tenants who engage a tenant representative. While this may sound too good to be true, the reason is straightforward.

Virtually all available spaces are listed with a commercial broker. In cases where a tenant representative is involved, the listing broker's commission is simply split with the tenant representative, at no additional cost to the tenant.

The services performed by a tenant representative include analyzing your present situation, researching available alternatives as well as comparable transactions previously completed, narrowing the choices to those that meet your needs and, in the case of an agency relationship, working diligently to negotiate favorable rates and terms for the tenant. The same benefits also apply for buyer representation.

In a sale and lease-back transaction, typically the seller/tenant would pay brokerage commissions. However, such a restructuring may provide benefits for years to come. You should consult your tax adviser, attorney and a qualified commercial broker before implementing a sale and lease-back or other major commercial real estate decision.

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