Why Sale Leasebacks are Appealing in the COVID Pandemic

COVID-19 began to take its initial effects in U.S. in March 2020. Closures and safe-at-home mandates signaled the initial effects on commerce and daily life. As we’ve progressed through the pandemic, commercial real estate has also been affected. With respect to commercial real estate investors, those who remain in the game appear to be those who are willing to provide liquidity to creditworthy companies. Companies of all sizes are looking for ways to create working capital as they work through this pandemic in an effort to rebound as quickly as possible. Many companies own real estate assets which represent a significant cash value that could be deposited back into their business to continue their growth and operations. The Sale-Leaseback concept might be the most effective way to do this.

The Sale Leaseback concept is simple: it is an arrangement between two parties. Specifically, one party (Seller) that owns an asset sells the asset to the second party (Buyer). Then, the Seller leases the asset back from the Buyer. Frequently, Sale Leaseback assets are commercial real estate properties such as: industrial properties, office buildings, retail, and more.

There is very little, if any, downside of a Sale-Leaseback for either party- it’s usually a win-win for the investor and the tenant. For the Seller/Lessee, a Sale-Leaseback can mean freeing up available cash to put back into their business while still using and enjoying the asset. Another positive aspect for the Seller/Lessee might be that they get 100% of the asset’s value, whereas most mortgages only provide 65% to 80% financing. Therefore, the Seller/Lessee can commit less equity to the lease and use the cash liquidity elsewhere.

Recently, the Sale-Leaseback has become a very attractive way of “refinancing”. Due to Covid-19, we expect the Sale-Leaseback to become more popular in upcoming quarters, with many companies trying to jump start their business to a position where they were prior to COVID-19.

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