

## **Transacting a Sale/Leaseback**

(A seller's perspective)

A sale/leaseback allows you to utilize the equity in your real estate while occupying your current facility with uninterrupted operational control. You gain capital to invest in your core business (new equipment) which generally has a higher rate of return and you will be in a position to utilize tax savings through fully deductible lease payments.

### **Picking the appropriate advisors**

Picking the appropriate advisors is critical to the process. Working with the wrong advisors can place owners in a vulnerable position to lose money on a transaction. Through our years of experience, we have developed and constantly grow our database of qualified sale/leaseback buyers consisting REIT's, private equity funds and pension fund advisors. Investors have specific acceptable criteria based on property type, location, tenant (seller) industry, credit and financial condition.

Selecting the wrong real estate professional, attorney or financial advisor can result in serious missteps throughout the process. An owner's goals and projections must match appropriately with the lease terms drafted by the broker.

### **Enhancing the Sale**

Healthcare providers generally have a credit rating that will make it easy to complete a successful sale/leaseback quickly. Crafting a compelling reason to sell attracts the best buyers in the market. Financial obstacles during the last three years must be explained in the best light.

In order to engage the sale/leaseback market, owners are responsible for demonstrating the true earning power of their practice to prospective buyers. To accomplish this, sellers must determine their EBITDAR (Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring or Rent Costs), which is the best indication of their financial performance and ongoing operations outside of real estate costs.

### **Determining the value of the real estate**

Vacant or user real estate can be more easily valued than property involved in a sale/leaseback. Sellers must conduct a balancing act between market rent, market lease comparable per square foot, and the desired asking price. Some owners may opt for maximum dollar when entering a sale/leaseback, while others could be in a position to benefit more from a lower rent and reduced sale price. A key factor in a sale/leaseback real estate valuation is the owner's credit. Low risk credit can translate into a higher priced sale with lower rent. An owner must understand how much rent he wants to pay and how much capital must be obtained through the sale leaseback.

### **Conducting the process**

After the sale/leaseback advisor has helped an owner determine the value of the transaction and how to approach the buyer market, more finite details can be finalized. Several lease instruments should be analyzed to ensure each clause and specification is designed with both the seller and buyer in mind. Owners must sign off on the lease structure being brought to market after taking into account several terms including:

- Length of lease
- Annual rent escalations
- Role of the consumer price index, if any
- Buyback options
- Insurance provisions
- Dispute provisions

## **Packaging the offer**

The owner must work collaboratively with sale/leaseback advisors to create a real estate package that tells the story of the practice and ensures all potential buyers know as much as possible about the healthcare provider and its lenders to encourage investment. Normal real estate packages focus on the physical property, while sale/leaseback also includes a practice overview that centers on introducing the practitioners, reporting on the healthcare industry and telling the healthcare providers story.

Good advisors will ensure the final package is presented confidentially to the sale/leaseback market and create a highly competitive bidding process. Each potential buyer will take the time to consider the healthcare provider and learn its business before making a decision.