



Corporate leaseback

While corporates are freeing up their capital, astute private investors are reaping the rewards.

Over the last 12 months the corporate leasing market has seen significant growth.

There has been a shift in corporate business investment strategy due to the strengthening market conditions and a lack of long term investment opportunities. This has been driving an increase in corporate leaseback transactions across the country.

A number of large corporations have been selling up their commercial property so they can inject more money into their business. However they don't want to move, so they are selling their real estate with an attractive leaseback deal (of between 10 and 20 years) that provides certainty, not only for their own business, but that of the new investor.

Due diligence

A key aspect of any proposed sale and leaseback arrangement is ensuring due diligence is undertaken to identify potential issues. Market research is a key part of this process because an understanding of existing market conditions and trends is vital from both the perspective of the vendor and the tenant.

If a potential investor is considering a sale and leaseback arrangement then this due diligence is critical.

Generally, the process involves the following key steps:

- › Market research around what the likely capital yield would be, taking into account transaction costs such as legal
- › Undertaking a detailed feasibility study to ensure the deal is financially sound including a sensitivity analysis

- › Developing a plan covering the leaseback aspect including proposed terms and options, proposed rent, incentives, annual rent reviews and indexation and fixing of outgoings

Once the above key steps have been completed and an assessment made based on the recommendations from the due diligence, a sale and leaseback offer can then be considered.

Income tax implications

It is important to understand that sale and leaseback arrangements result in income tax implications for both the purchaser/lessor and the vendor/lessee.

A selection of arm's length sale and leaseback transactions were reviewed and these have been used as examples with respect to analysing the tax implications which need to be considered in a straightforward sale and leaseback transaction.

Purchaser GST implication

Where GST is charged on the sale of the property, purchasers will generally be able to claim back the GST. However, GST recovery issues may arise for certain transaction related costs where the purchase of the property is funded by capital rather than by borrowings. Any GST charged on ongoing maintenance costs for the property will also generally be recoverable.

With low interest rates and a rise in consumer sentiment there appears to be a new shift in business investment strategy. This emerging trend is becoming more evident as the real estate industry bounces back towards pre GFC levels.

If you are looking at securing your next level of investment property, perhaps a good commercial property with a long leaseback would suit your strategy.



Please call the office for more information about financing your next commercial or investment property. We would be delighted to help you.

Disclaimer:

The advice provided above is general in nature and we recommend that vendors and purchasers seek their own separate tax advice to confirm their tax position.



WHAT IS A SALE AND LEASEBACK?

A sale and leaseback is typically a commercial real estate transaction in which one party sells its corporate real estate assets to another party.

The seller then leases the property back at a rental rate and lease term that is acceptable to the new owner.

The lease term and rental rate are based on the new owner's financing costs, the lessee's credit rating and market rates of return.

A sale and leaseback transaction entails the sale of corporate real estate and the simultaneous commitment to a long term lease of generally 7 to 10 years.

This combination allows a company to redeploy the capital that had been invested in real estate back into the core business.