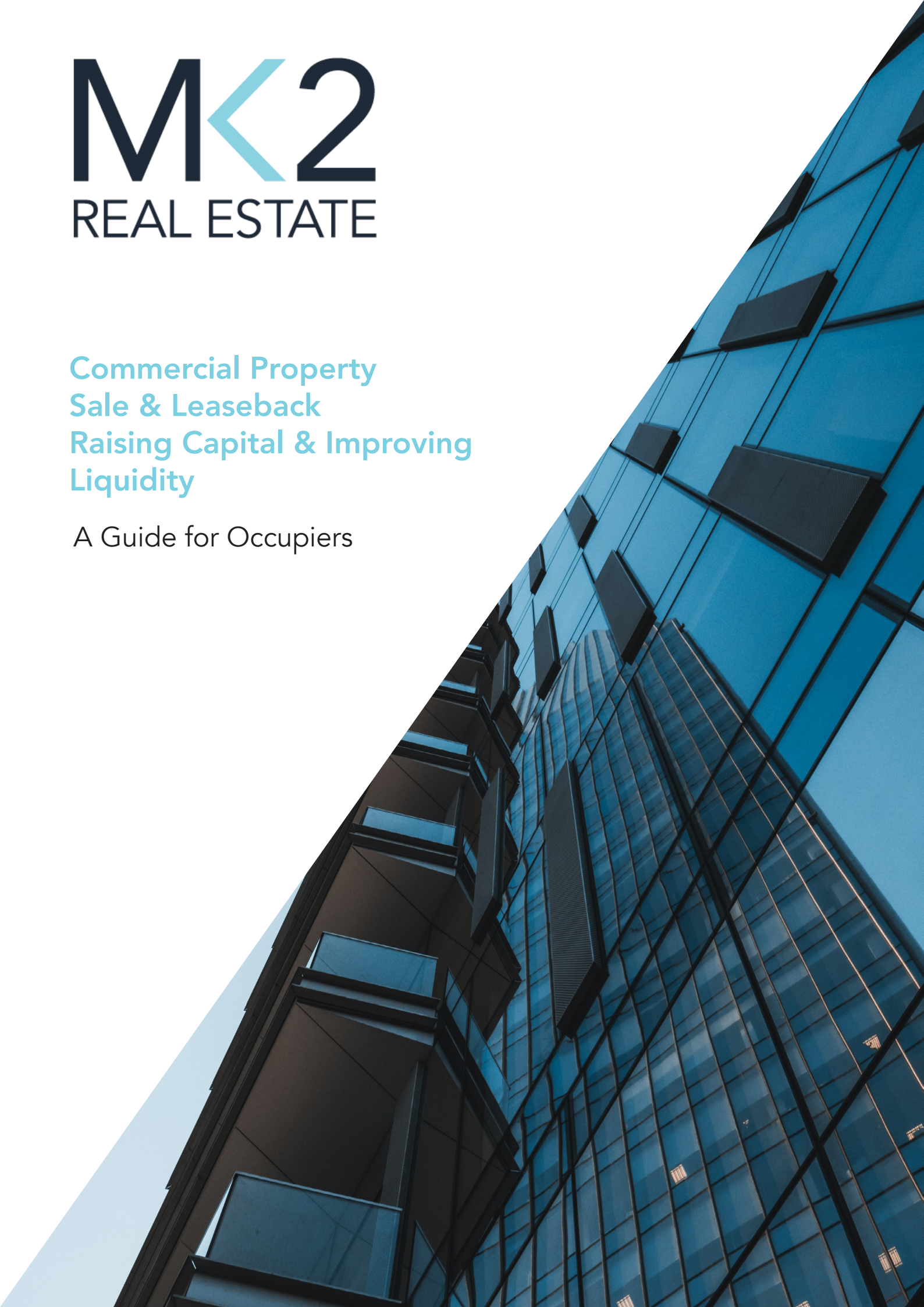


MK2

REAL ESTATE

Commercial Property Sale & Leaseback Raising Capital & Improving Liquidity

A Guide for Occupiers

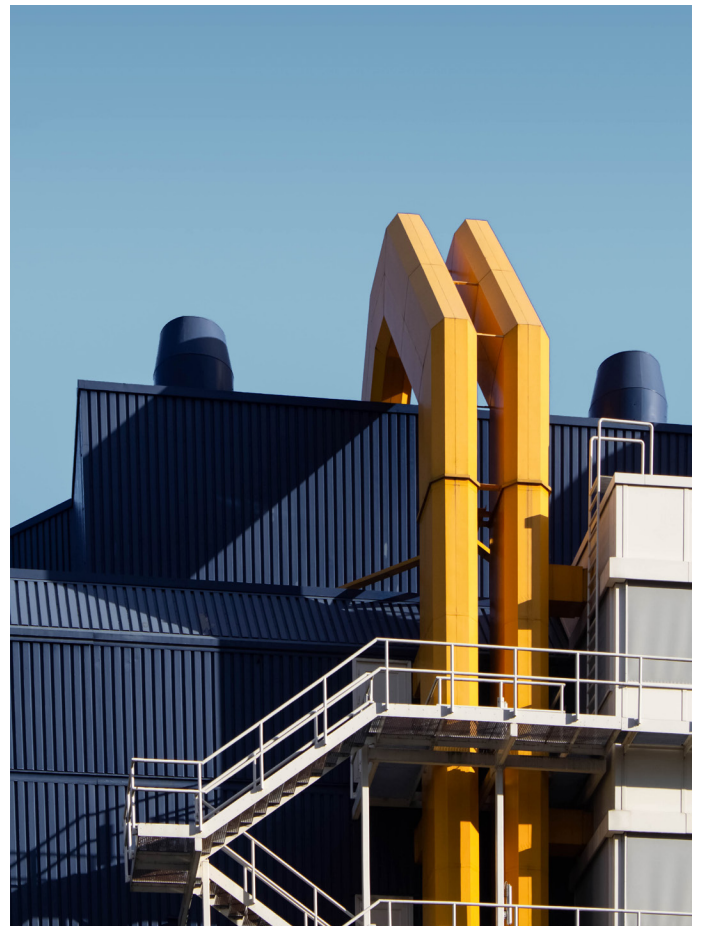


Sale & Leaseback

A Guide For Occupiers

What Is It?

- Companies that own and occupy property, can realise significant cash payments by selling their property to a Landlord and simultaneously taking a leaseback as a tenant.
- Receipts from a sale and leaseback can be quickly deployed in the business for more profitable and immediate uses.
- Suitable properties can either be solely occupied or part of a portfolio and can be offices, retail, industrial or alternative sectors. Rent is usually set at current market levels.
- Companies should have a sustainable trading history and healthy balance sheet.



Advantages

- + A sale and leaseback will generate a receipt of 100% of a property value compared to 50-60% of value when raising funds via a traditional bank mortgage.
- + The occupier remains in full control of the property through a full repairing and insuring lease with minimal if any operational disruption.
- + Leases are usually in excess of 15 years, however, can be as low as 5 years and flexibility can be introduced through tenant break clauses. Occupiers prepared to enter into longer leases can expect to generate a higher capital receipt from the sale.
- + After a lease expires the tenant's occupation is protected with rights to a new lease by virtue of the Landlord and Tenant Act 1954. It is also possible to agree specific lease



extension renewal rights as part of the transaction.

- + Rent reviews can be fixed or linked to an inflation index (such as CPI / RPI) with a cap and collar providing rental payment and cashflow certainty going forward as opposed to the more traditional upward only open market value rent review basis. Again, occupiers that are prepared to agree to fixed or index linked uplifts can expect to generate a higher capital receipt from the sale.
- + A reduced rent or even a rent-free period can be built into the lease from the start, thereby aiding cashflow in the short to medium term.
- + The other terms of the lease such as the user, alienation and repair/reinstatement clauses can be tailored to suit the occupier's requirements.
- + Buy back clauses in favour of the tenant can be introduced.
- + Stamp duty is paid by the purchaser with no stamp duty payable by the tenant on the leaseback.
- + Funds can be raised quickly and if required on an accelerated time frame basis.
- + Existing mortgages are paid off as part of the transaction thereby reducing debt levels within a company.

Disadvantages

- Any future appreciation in the value of the property is no longer available to the seller. This may be mitigated with buy back options or clawback options if for example a change of use is achieved to a higher value use in the future.
- If the property is sold at a higher value than the original purchase price, then capital gains tax may be payable. This could be off-set if there are losses elsewhere in the company.
- The yield achievable on a sale and leaseback transaction is usually higher than the interest charged on traditional bank mortgage lending, however, this is off set by the full value of the property being realised and no requirement for capital and interest payments over time, only rent.
- Landlord's consent would be required for major alterations to a property. Most commercial Landlords will be pragmatic in granting consent and in some scenarios may contribute to costs if the property is being enhanced.
- The value of the property cannot be realised as part of any future company sale.
- A leasehold interest creates a balance sheet liability as the present value of the future rental payments has to be allowed for.
- Agreeing to fixed or index linked rent reviews could result in the rent paid being in excess of open market value.



About MK2 Real Estate

A successful and timely sale and leaseback transaction requires sound advice to balance maximising capital receipt whilst protecting the occupational requirements through the terms of the lease going forward. MK2 have an experienced team combining investment market and lease consultancy expertise. We would be delighted to provide an initial consultation free of charge and commitment to explore how a sale and leaseback could successfully release capital and increase your company's liquidity in a challenging trading environment.



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