



# Sale & Leasebacks

## Briefing Note

Spring 2021

AMRO's Sale & Leaseback briefing note provides commercial occupiers with an informative newsletter about matters affecting this type of transaction.

## Sale and leasebacks will increase in a post pandemic economic recovery.

Since the start of the pandemic the pace of the commercial property investment market has slowed. Economic uncertainty caused by Brexit and the pandemic reduced overall stock and reduced transaction volumes.

But investor demand remained healthy throughout 2020 and, based on feedback from our client's, investors are hopeful activity will increase in 2021. At AMRO we believe it will and we believe sale and leaseback deals will feature significantly.

### Why might Sale & Leasebacks increase?

We anticipate in 2021/22 there will be more businesses that need to raise funds. Business that own commercial property assets have more options than those that do not. They can look to their bricks and mortar assets as a means of raising cash when other corporate finance avenues are not available or are less attractive.

During the peak of the credit crunch in 2010, sale and leasebacks accounted for 10% of total transaction volume. We expect 2021 and 2022 will reach similar levels. We also anticipate sale & leasebacks will be used across the spectrum irrespective of business sector, asset use, lot size and investor type.

To delve into a bit more detail about what makes a sale and leaseback work we need to consider some of the main questions and issues involving this type of transaction.

### What is a Sale and Leaseback?

The concept is straightforward.

**An owner occupier sells its freehold property to a purchaser and the seller remains in occupation under a lease.**

There are of course important factors to consider when setting up the structure of this type of property transaction.

The main driving forces for both parties (buyer and seller) are the price and the lease terms.

Any owner occupier, irrespective of their business size, and sector can consider sale and leaseback.

### Why do companies choose sale and leaseback?

For occupiers, sale-and-leasebacks have become an established funding option. They have substantial capital tied up in their property, that they can release and reinvest back into their business – they are able to generate a cash lump sum from the sale, and at the same time continue their occupation on sustainable rent and lease terms. There is minimal interruption to the day to day business.

For investors, they are attracted by the prospect of acquiring an asset let on long lease terms which provides them with a long-term secure income asset.

### What types of commercial properties are suitable?

All types of commercial property use are suitable for sale and leaseback. We have examples of GP surgeries, large food stores, logistics warehouses, builders' merchants, convenience shops, offices, and industrial premises. All perfectly suitable.

### What types of business are investors looking for?

In a similar vein to the above, investors are attracted to a diverse range of business types, spanning all sectors. Investors will be interested in the business performance (recent and historic) and ownership structure. Investors will be less influenced by market trends.

## What occupational lease terms will be agreed?

The occupier will dictate the quoting lease terms, but it is expected for the terms to strike a fair balance and not be one sided in favour of one party. A lease period of between 10 and 15 years, with the rent subject to 5 yearly rent reviews, and repairing obligations are common basic terms. Price is sensitive to the terms of the lease, where risk increases the price reduces.

## How is the price calculated?

The price will be based on a multiple of the annual rent. The rent will usually reflect Market Value. Investors receive a return on their investment (rental income) expressed as a percentage yield. A net yield of between 5% - 7% is common.

## Which type of investor is attracted by sale and leasebacks?

Conservative investors are primarily interested in secure long-term income. Institutional investors, individual SIPP's and private investors are common purchasers.

Opportunistic investors seeking value and risk will consider shorter leases or occupiers which have a lower business strength.



Any owner occupier, irrespective of their business size, can consider a sale and leaseback.

Investor demand is healthy for sensibly priced sale and leasebacks.

## Is there investor demand?

Definitely. The UK remains an attractive market for investors. The UK property sector is supported by an established legal system and a globally renowned professional body (RICS). Demand is healthy for sensibly priced property investments and is likely to remain so. Even during periods of economic uncertainty there are usually willing buyers actively seeking investment opportunities.

## Sale and leaseback process

Consult with a chartered surveyor who will provide an overview on the headline terms. This early due diligence will hopefully rule out any showstoppers. Next steps.....

- Instruct the surveyor to prepare sale and leaseback proposal terms.
- Commence marketing.
- Negotiate offers, agree Heads of Terms and instruct solicitors.
- Begin the legal due diligence.
- Exchange contracts.
- Complete the transaction.

## Accounting notes.

The seller will usually incur a tax liability on any capital gain.

SDLT (stamp duty land tax) will be payable, including any VAT.

Most sale and leasebacks do not qualify for TOGC (transfer of a business as a going concern) and buyers will pay VAT on top of the purchase price.

It is also worth reviewing the capital allowances position before progressing a sale and leaseback.

The rent payments will be tax-deductible.

As part of any sale and leaseback instruction we will ask the client to take professional advice on its tax position to ensure an informed and smooth transaction.

## AMRO works with owner occupiers and investors, advising clients on sale & leaseback transactions.

If you have any questions about sale and leasebacks or would like to know more about AMRO Commercial Real Estate and how we work, then please do not hesitate to contact James Huckerby, head of UK Business Space on 07795 668 489, [jamesh@amrocommercial.co.uk](mailto:jamesh@amrocommercial.co.uk)