

Sale-Leaseback

What is a Sale-Leaseback?

A financial transaction in which an owner sells property/properties to an investor, who then leases the property/properties back to the original owner under prearranged terms

Sale-Leaseback

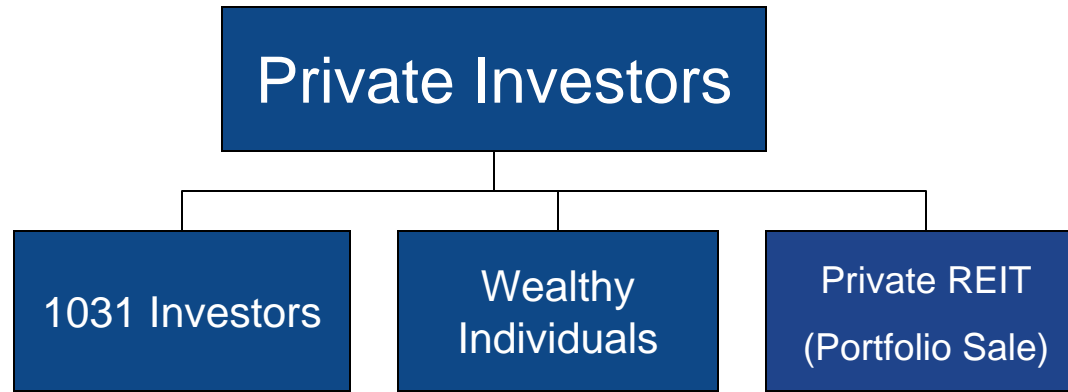
Sale-Leaseback Approaches

1. Private Investor Market
2. Institutional Market (REIT, Pension Fund, etc.)

Private Investor Market

- Significantly Cheaper Source of Capital
- More Sale Proceeds Per Transaction
- Less Sophisticated Source of Funds With More Flexible Lease Terms
- No Restrictive Financial Covenants such as Minimum Fixed Charge Coverage Ratio
- Minimal Financial Paperwork Involved
- Expedited Process – No Multi-Layered Approval Process & Endless Loan Committee Evaluations

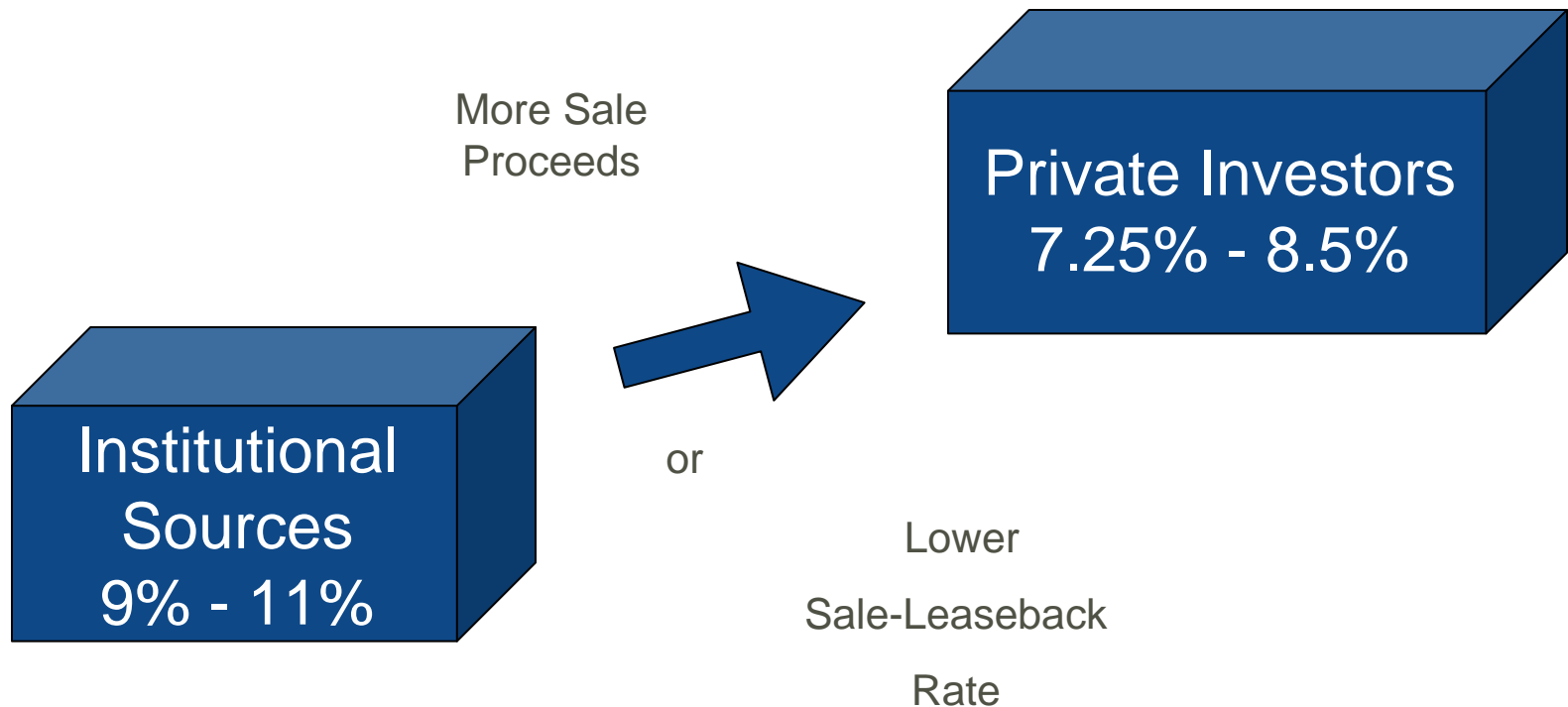
Private Investor Market



- Lowest Sale-Leaseback Rate
- No Minimum Deal Size
- No Restrictive Financial Covenants or Lease Restrictions
- Maximum Lease Flexibility & Tenant Control
- No Master Lease Agreements which Can Severely Limit Tenant's Flexibility in Re-Organization
- Finance Up to 90% of Enterprise Value (Acquisition)

Private Investor Market vs. Institutional Market (Portfolio Sale)

Institutional Sources Vs. Private Investor Market



Approach Considerations

One is not “better” than the other...

- Private Investor Market Yields Higher \$ amount, but there is increased exposure to market risk and the timeline is longer than portfolio sales
- Institutional Market (Portfolio Sale) yields less money, but has benefit of one closing and one buyer

BOTTOM LINE: Every marketer has different goals, methods of operation, pre-conceived notions about how to structure assets, and different financial standings. These all help us shape the sale-leaseback process to best serve you.

ALWAYS GET MORE THAN 1 BID OR OPINION OF VALUE – *Business in a vacuum is not “the market,” it is one person’s number or opinion and may cause you to leave \$\$\$ on the table.*

Applications and Benefits of Sale/Leaseback Transactions

- Efficient Method to Finance Growth
- Greater Cash Flow and Predictability
- Operational Control and Flexibility
- Exit Strategy
- Bifurcated Sale

Applications and Benefits of Sale/Leaseback Transactions

1. Efficient Method to Finance Growth
 - 100% of the Real Estate Value
 - No Closing “Points” or Other Transaction Fees
 - Internal Appraisals
 - Fund Transactions with Existing Revolving Lines of Credit
 - No Personal Guaranties
 - No Financial Covenants

Applications and Benefits of Sale/Leaseback Transactions

2. Greater Cash Flow and Predictability

- Lease Payments Have No Principal Amortization
- Lease Payments are Fully “Expensable”
- Lease Payments and Escalations are Fixed Upfront and are Typically Not Subject to Capital Market Fluctuations
- De-leverage Balance Sheet

Applications and Benefits of Sale/Leaseback Transactions

3. Operational Control and Flexibility

- Control Tantamount To Ownership
 - Typical Initial Lease Terms 15 – 20 years with renewal options
- No Branding Requirements
- Company Operate or Sublease
- Unrestricted Use of Proceeds
 - Finance Property Improvements or Reinvest in the Business in Other Ways
 - Acquire Other Assets
 - Non Business Related Uses

Applications and Benefits of Sale/Leaseback Transactions

4. Exit Strategy

- Partner Buyout
- Take Cash “Off the Table”
- Management Buyout

5. Bifurcated Sale

- The Sum of the Parts is Greater Than the Whole
 - Sale-Leaseback of the Real Estate Assets
 - Subsequent Sale of the Operating Business

Bifurcated Sale

Assumptions

50 stores - All fee properties
 \$200,000 EBITDA per store
 Aggregate Store Level EBITDA - \$10,000,000
 G&A expenses \$35,000 per Store
 Aggregate G&A Expenses \$1,750,000
 Aggregate Corporate Level EBITDA - \$8,250,000

Estimated Proceeds from Conventions Sale

	Amount	Multiple	Value
Store Level EBITDA	10,000,000	5x	50,000,000
Corporate Level EBITDA	8,250,000	6.5x	53,625,000
Average Estimated Sale Proceeds			51,812,500

Estimated Proceeds from Bifurcated Sale

Proceeds from sale Real estate to sale/Leaseback provider @ 5x Store Level EBITDA	50,000,000
Rent Expense at 9% cap rate	4,500,000
Store Level EBITDA Net of rent expense	5,500,000
Corporate Level EBITDA Net of rent expense	3,750,000
Proceeds from Sale of Operating Company at 3x Corporate level EBITDA net of rent expense	11,250,000
Total Proceeds From Bifurcated Transaction	61,250,000
Added Value Bifurcated sale versus Conventional sale Premium over Conventional Sale	9,437,500 18%



What Factors Determine Potential
Proceeds Available From
Sale-Leaseback Financing?

Potential Proceeds

1. Pool of Potential Investors
 - Real Estate Investment Trust (balance sheet holder)
 - Private Equity Fund (1031 marketplace)

2. Transaction Attributes
 - Size, Credit Exposure
 - Condition of Assets (cap ex requirements)
 - Geographical Location
 - Environmental

Potential Proceeds

3. Tenant Attributes
 - Creditworthiness
 - Experience
 - Quality and Depth of Management
4. Capitalization Rate
5. EBITDAR to Rent Coverage Ratio
 - Measures Ability of Business to Pay Rent
 - Current Ratios



How Has the Current Capital
Markets Crisis Affected
Sale-Leaseback Financing for the
Industry?

Capital Markets Crisis

1. Capitalization Rate Escalation (50 to 75 basis points)
2. Investor Minimization of Risk Through Application of More Stringent Underwriting Requirements
3. Difficult for Investors to Obtain Debt
4. Many Investors (Particularly Those Utilizing the 1031 Marketplace) Sitting on the Sidelines

Contact Information

Bradley Baskin
Marcus & Millichap, Inc.
12100 Olympic Blvd., Ste 350
Los Angeles, CA 90064

www.marcusmillichap.com
BBaskin@marcusmillichap.com
Direct Line: (310) 909-5417

Kevin Shea
Executive Vice President
Getty Realty Corp.
125 Jericho Turnpike, Ste 103
Jericho, NY 11753

www.gettyrealty.com
KShea@gettyrealty.com
Direct Line: (860) 537-0366

Denny Ruben
Managing Director
NRC Realty Advisors, LLC
8601 N. Scottsdale Road, Ste 310
Scottsdale, AZ 85253

www.nrc.com
Dennis.Ruben@nrc.com
Direct Line: (480) 998-7761

Marcus & Millichap
Real Estate Investment Services

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