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Creative, Affordable Real Estate Solutions and The Purchase Partial Lease Back

A Creative Affordable Real Estate Solution for Owning Commercial Real Estate

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As the economy changes, your company may still need new and/or additional facilities to not only upgrade systems and equipment, but for future expansion. In some markets, vacancy rates are in the single digits, and you may need to turn to build-to-suit facilities to accommodate expansion due to the lack of available space.

The ultimate cost to your company with build-to-suit facilities is a function of the price of land, cost of construction, and the cost of money available to you or your developer. In many cases, these costs are in excess of current market rents for existing product, and although it allows your company to expand, there is additional financial commitment required.

The Saywitz Company, a national commercial real estate brokerage and consulting firm based in Orange County, CA, was faced with several scenarios for clients looking to expand throughout California. Many of the markets in California, like others around the country, are extremely landlord oriented and available space is scarce while rental rates are climbing.

We've implemented a concept to accommodate our client's expansion plans and control real estate costs called the Purchase Partial Lease Back (PPLB). The PPLB incorporates the concepts of build-to-suit, purchase, and leasing scenarios all into one transaction.

The dynamics of the marketplace, financial stability of your company, future projections for the market, and your company's growth must all be considered in this transaction. We're currently using the PPLB throughout California, and have recently employed it for our own real estate requirements and growth for our new headquarters office in Newport Beach, CA.

The basic concept of the transaction is that you either purchase or construct a new facility to accommodate your company's requirements. This new facility will be larger in size than your company's immediate requirements in preparation for future company growth. Your company will then own the facility and lease back the portion of the facility you do not need immediately. The rental income that will be generated from your new tenant will offset in part, or in its entirety, your financial obligations for the new facility. This allows the flexibility to gradually grow into the facility while increasing your bottom line by reducing overall real estate costs.

The benefits of this transaction are:

- **Ownership,rather than renting** — The benefits of ownership provide tax incentives to the principals of the company, and projected appreciation of the asset as a whole, provides additional upside to the company.

- **Flexibility to control future growth** — Your company can rent out the excess space for short- or long-term leasing to coincide with its future growth plans and gradually ease into the overall size of the building.

- **Bottom line cost savings** — When financial analysis is performed on a build-to-suit, lease transaction versus the the PPLB, the overall expense can range from 30%-100% in bottom-line cost savings to your company. Additionally, the lease that is signed with the tenant for the excess space in the building will typically have annual increases and your mortgage will stay fixed for the length of the mortgage. In time, your monthly expense decreases, as rental income increases.

The risks of PPLB are:

- **Future down-turn in the real estate market** — Although we are certainly on the up-cycle of the real estate market, should it take a downward turn, you may be left with an asset worth less than what you paid. However, as long as you use the facility, the cost will be cheaper than renting.

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