

In the Marketplace

Leasebacks can be a boon

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“In today’s market, it is difficult to justify buying a property that is partially or completely vacant, unless you are buying it as a business location or have a replacement tenant. Often, buildings that are sold vacant because the seller is the owner/occupant and is either moving the operation, or closing the business altogether.

One way to land a buyer in this situation is by doing a sale leaseback. Here is some insight on how a leaseback may be beneficial to the seller and the buyer.

If you are an owner-occupant and think you are going to sell your building in the next five years, plan ahead. Consider selling at least one year earlier than your move out date and offer prospective buyers a leaseback of the space that you occupy.

However, make sure you have flexibility, as an owner/user may want to move in sooner.

The longer leaseback term you agree to, the more security you offer the investor. Besides, if you plan to relocate your operation, it is beneficial to have a year to find the right property as well as have time to move.

If you are closing your business and selling your property, a leaseback or similar consideration can still make sense. Offering to pay rent for 12 months after closing may end up being equivalent to or less than the price reduction you would agree to if you were to sell the property vacant. It may also decrease the time the property is on the market. A typical listing agreement to lease property is six months. If an investor knows that he or she has a year to find another tenant, the leaseback may reduce the risk enough for investor and lender to move forward.

If you have a multi-tenanted building with significant vacancies, you may want to consider leasing back a portion of the vacancies for a year or more. I would suggest leasing back the least attractive space in the building. Eliminating some of the empty space makes your property more attractive to buyers and may even increase the purchase price.