WDP
WAREHOUSES
WITH BRAINS

E-BOOK

SALE & LEASE BACK

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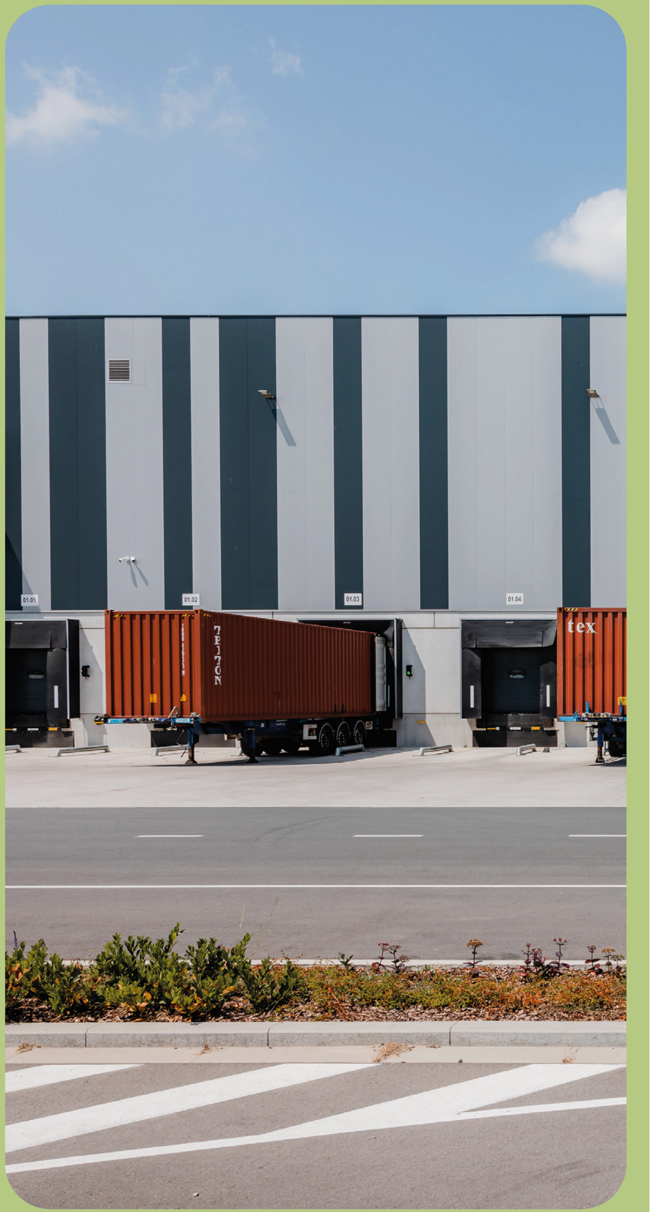


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01

Introduction

Raising capital for your company can be difficult. The traditional way of applying for bank financing is anything but a simple process. It requires a lot of time and effort, with no guarantee that your application will be approved. Bank financing is sometimes difficult to obtain, especially in a volatile market environment. This is why entrepreneurs often look for new ways to ensure the financial health of their company. The sale of property can be an appealing alternative.

One financing technique that has gained popularity in recent years is the Sale & Lease Back model for property. Sale & Lease Back can make an important contribution to your business operations. By selling your property to a professional property investor and renting it back from them immediately afterwards, you can continue to use your property (as a tenant), while using the freed-up capital to strengthen your operational activities and potentially even towards your strategic growth.

02

What is Sale & Lease Back?

Theoretically, a distinction can be made between Sale & Lease Back and sale and rent back on the basis of the purchase option at the end of the contract. In practice, however, both terms are used to describe the same thing. In this e-book, we use the term 'Sale & Lease Back', as this is used internationally in the property industry for sale-rent transactions.

General definition of Sale & Lease Back

Sale & Lease Back is one of the oldest forms of leasing, where the property is sold to the Regulated Real Estate Company (RREC). The latter, in turn, immediately leases the property back to the seller, with or without a purchase option at the end of the contract. Sale & Lease Back can be used for all movable and immovable assets of a company. In other words: A company sells part of the capital goods in its possession to the RREC. The goods sold are immediately leased back to the seller.

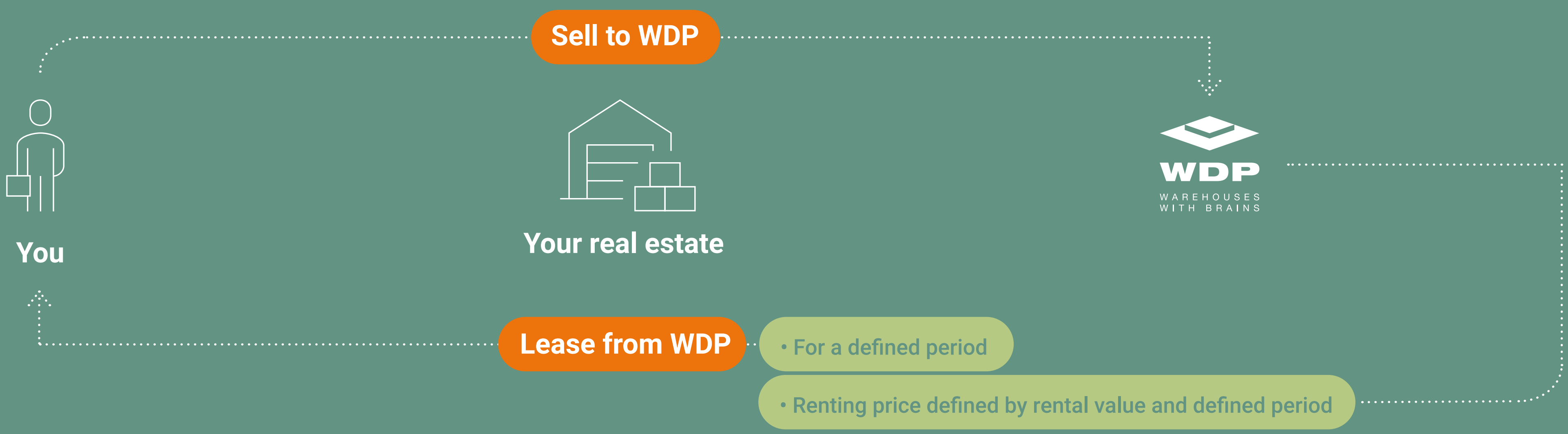
Sale & Lease Back in the property industry

With a Sale & Lease Back transaction, you, as the seller, can continue to use your property while still having additional capital to cover any investment requirements. In a standard Sale & Lease Back transaction, a long-term rental agreement is traditionally concluded, usually with an option to extend.

A correct valuation of the property is crucial for such a transaction. As a rule, an independent expert is consulted for such a valuation. They will not only assess the location and the current condition (age, need for major repairs, etc.), but also the current state of your property along with the terms and conditions of the tenancy agreement yet to be concluded. The duration of the tenancy agreement and the annual rent are also taken into account.

03

How does Sale & Lease Back work?



01 | You get

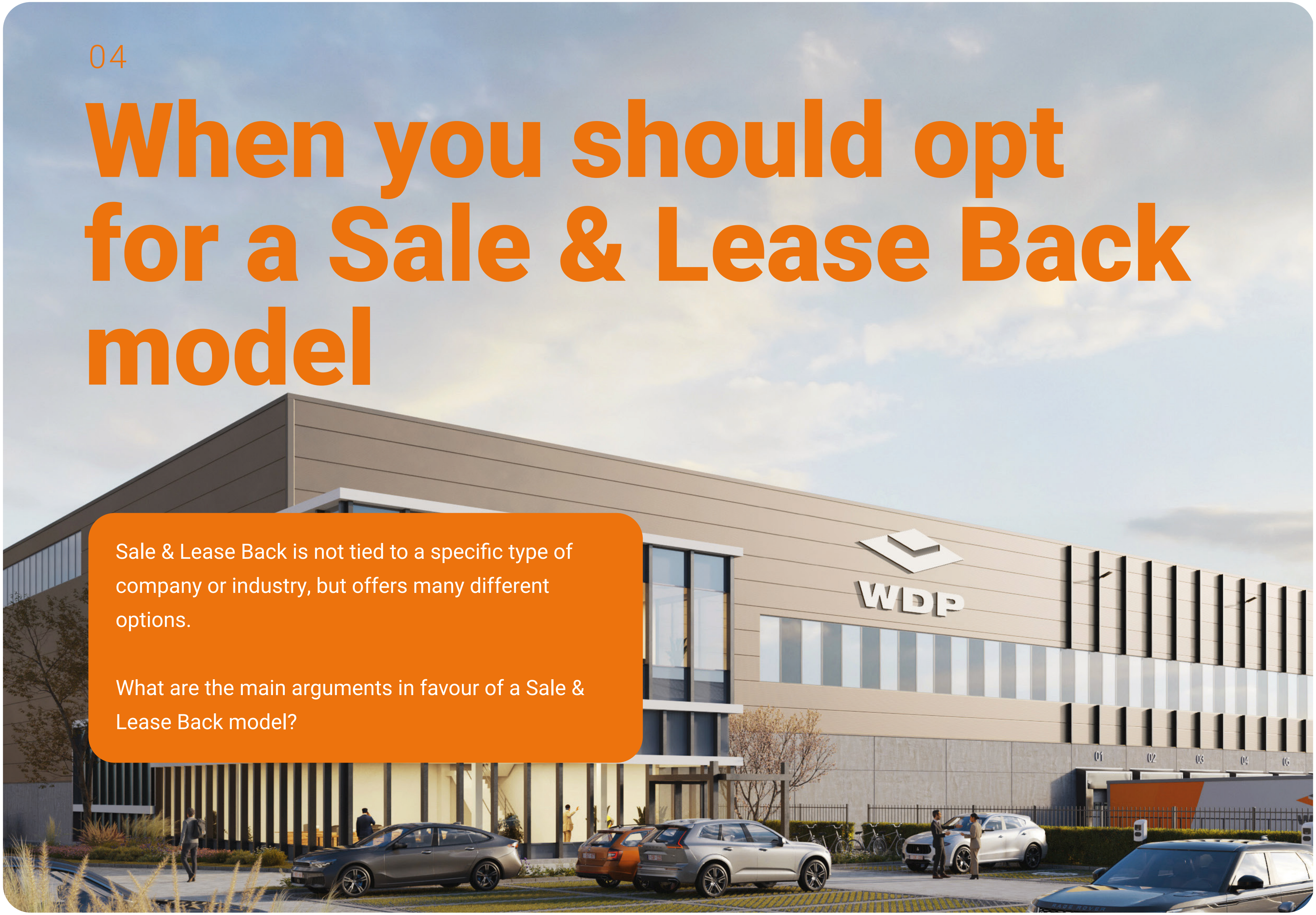
- investment possibilities
- growth possibilities
- liquidity

02 | You can

- focus on your core business
- focus on your business strategy

03 | WDP takes care of

- real estate management
- possible renovation
- possible expansion



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When you should opt for a Sale & Lease Back model

Sale & Lease Back is not tied to a specific type of company or industry, but offers many different options.

What are the main arguments in favour of a Sale & Lease Back model?

More capital for day-to-day business and strategic growth

If you decide to sell your property, you only need to concentrate on the day-to-day business. The capital released also provides you with the necessary funds to further optimise your company and achieve your expansion plans. This will only benefit your company's operations and production.

Reduce risks around your property

Since you are no longer the owner but the tenant of the property, the specific risks of a property owner no longer apply to you.

Additional liquidity and strengthening of the balance sheet position

Aided by Sale & Lease Back, you can generate liquidity for your company in a natural way. Because the property no longer appears on your balance sheet, your solvency increases. The funds released can then be used to repay debt, strengthen working capital and/or for new investments.

Diversify financing

The Sale & Lease Back model gives you a stronger and more independent position vis-à-vis your lenders, thus ensuring the diversification of your financing.

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We offer you property expertise

By choosing a property professional such as WDP, you will have years of experience in the logistics property sector at your disposal. Thanks to our in-depth expertise, your properties are in the care of our in-house team of experienced Property Managers.

05

What factors are important in a Sale & Lease Back transaction?

Location and condition

Both the location and the condition of the property play a decisive role in determining its value.

Performance capacity of the seller and thus also of the future tenant

The better the tenant's creditworthiness and financial rating, the higher the income guarantee for the investor. This makes the Sale & Lease Back transaction appealing for the lender.

Rent

The sale price of the property is closely linked to the annual rent. If the seller/tenant offers a higher rent, the investor will be inclined to offer a higher purchase price.

Duration of the rental agreement

A longer lease term ensures the investor can enjoy a longer period of stable cash flow, which generally leads to a higher valuation of the property.

Advantages of Sale & Lease Back

Every company is different. This means the benefits also vary from company to company. Here we list the most important advantages of a Sale & Lease Back model.

a. Financial benefits

Free up capital

The seller gains or regains access to capital, which can be achieved through the ownership of logistics/commercial property. The amount is released, but the property in which the company operates is not lost. As the seller of your property, you continue to own it and have actual control over the property without tying up financial resources. After concluding the agreement, you are not the actual owner of the property, but you have the right to define the duration of the lease, the payment terms and other contractual terms that are essential for the future use of the property.

Advantages over other forms of financing

The return on a bank or mortgage loan is usually lower than on a Sale & Lease Back agreement. The amount released when you sell your property to an RREC is usually higher than the amount that can be realised through a financial loan. In a Sale & Lease Back model, the seller/tenant receives the full market value of the property, less capital gains tax. With a conventional mortgage, you normally receive no more than 70 to 80 per cent of the property value.

In the case of Sale & Lease Back models, the sum of the monthly rent can be agreed in consultation with the contracting party. In addition, the seller can usually organise the initial lease term to suit their needs, and has the option of extending it. With conventional mortgage financing, on the other hand, refinancing is not guaranteed. In the case of Sale & Lease Back, the company's ability to repay is not impaired. The rents can be paid with the future cash flows from the leased property.

b. Retaining control

Although you sell your property, you can continue to use it to its full extent and thus retain full control over it. This allows you to continue your operational logistics at the existing location, while at the same time, the freed-up capital gives you opportunities for growth.

In addition, the tenancy agreement always specifies who is responsible for the maintenance of the property and who bears the operating costs. These obligations depend on the type of building, the customer's wishes and the customs of the local markets.

c. Improved balance sheet structure

The seller/lessee can replace the fixed assets with the current assets, i.e. the cash proceeds from the sale. The balance sheet is consolidated with the additional equity resulting from the realisation of the capital gain on the sale to RREC. The financial structure will be improved in terms of solvency and immediate liquidity. For some years now, the IFRS (International Financial Reporting Standards) has stipulated that Sale & Lease Back must be recognised in the balance sheet for both the lessee and the lessor.

d. Liquidity and creditworthiness

A Sale & Lease Back agreement increases the ratio between fixed and current assets, making it advantageous for a company to fulfil short-term liabilities to lenders. Converting equity into cash gives you scope to repay your current debts and optimises your capital structure.

Companies that are restricted in taking on additional debt due to current loans or a bond agreement may be able to lift these restrictions through the Sale & Lease Back principle. This ensures a diversification of the forms of financing, which gives the seller more financial room for manoeuvre.

A Sale & Lease Back initially creates liquidity that enables you to realise your investment:

- securing credit lines with the bank and obtaining more capital than with traditional forms of financing;
- freeing up working capital that can be used for day-to-day business;
- utilising the freed-up liquidity to finance profitable projects;

- having a capital injection to strengthen the operating business;
- budgeting better and more efficiently in future, as you know exactly how much rent you are paying each month.

e. Taxation

A Sale & Lease Back is also appealing due to the **tax deductibility of leasing payments**. This is because these are generally regarded as fully deductible business expenses (with the exception of an addition for commercial purposes) and can therefore reduce taxable income.

f. Cash flow

The Sale & Lease Back model improves cash flow. If your customers do not pay their invoices on time, the sale can lead to you falling behind on your own invoices. The additional capital released ensures that you have more room for manoeuvre to bridge this period.

g. Growing and focussing on the core business

A lack of capital hinders efficiency, progress and growth. Funds are needed to build up stocks, pay invoices and finance marketing activities. Late payment of previous obligations leads to a reduction in productivity, which can also quickly reduce your company's earnings. Furthermore, additional capital also offers more freedom to expand your functions, products or services, for example, and to advertise them more.

This freedom gives your company the chance to make real progress and develop further. It gives you the focus on your core business that you need in order to take your company to the next level.

h. Simple and fast process

In contrast to a normal sale and relocation of commercial property, the seller only has to wait for payment. In the meantime, they can continue to run their business. For many entrepreneurs, this means less stress and less uncertainty.

i. Discretion and unchanged location

A Sale & Lease Back agreement is discreet. You do not have to announce the sale of your property, avoiding uncertainty among your customers. You can continue your work in the same building or at the same location so that your existing customers do not have any issues or experience any inconvenience due to a change of address.

07

Arguments in favour of the WDP Sale & Lease Back model

WDP's strength is undoubtedly its flexibility towards our customers, combined with our expertise and professionalism in management and partnership.

Are you looking for a partner to support you with the expansion or refurbishment of your systems? Then you've come to the right place. WDP is a long-term investor with expertise in the management and development of logistics properties.

Most Sale & Lease Back agreements have a term of 10 to 20 years, as we strive for a long-term relationship with our customers. In our co-operation, we do not just want to concentrate on the role of investor, but act as a partner who contributes to the success and growth of your company, a partner you can rely on. In addition, we can also take on an advisory role based on our many years of experience and our long-term vision.

It is important to us that you feel comfortable in your building even after the handover and that you can continue to run your business well. As a long-term property investor, we assume the risk for the residual value of the building, which means that we take our role as property manager very seriously. With a standard rental agreement, we are responsible for the structure, roof and façade of the building, including the cost of structural renovation. However, this depends on the type of building, the customs of the local market and the wishes of the customer. We are happy to offer our customers flexibility in negotiations and agreements so that the contract is always a win-win situation.

08

Conclusion

Sale & Lease Back financing is by far the most attractive form of leasing. It offers you the opportunity to diversify forms of financing, thus relieving the strain on your bank's credit lines. It ensures that you can concentrate on your core business once more and gives you the financial leeway to invest in the operational tasks of your company.

The Sale & Lease Back principle is ideal for companies that have a good customer base but require a capital injection for further growth. If your company already has a stable performance and you see potential for growth, we recommend the Sale & Lease Back principle, as development and growth can mean more production and more earning.

For many companies in trade, logistics or industry, it is a suitable solution for obtaining a loan. The capital released can be used for strategic expansion or future-oriented investments.

Sale & Lease Back is often a better option than selling your property in the short term and moving to a smaller building. The principle is based on a long-term vision and is best entered into with a strategically selected partner, an RREC. Because they have the necessary expertise and professionalism to take your company to the next level.

Do you need more information?

Contact our experts for specific advice on the Sale & Lease Back model. Together we will check whether this form of financing fits in with your strategic plans.

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