



# 13 - Corporate Financing - ch. 15

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## ▼ Supplemental

## ▼ Lecture

### ▼ Lease vs Own analysis

▼ factor include: space (Relative to property), time (short/long),

▼ risk from owning, control and management, maintenance and special purpose,

▼ tax benefits from depreciation, cost of capital

▼ impact on financial statements (now irrelevant due to ASC 842 of the FASB)

### ▼ residual value

## Resources

[https://s3-us-west-2.amazonaws.com/secure.notion-static.com/97cf0cb2-ad69-41e8-a398-b27659ec2952/11\\_-\\_FINANCING\\_CORPORATE\\_REAL\\_ESTATE\\_-\\_Chapter\\_15.pdf](https://s3-us-west-2.amazonaws.com/secure.notion-static.com/97cf0cb2-ad69-41e8-a398-b27659ec2952/11_-_FINANCING_CORPORATE_REAL_ESTATE_-_Chapter_15.pdf)

- ▼ property's projected future residual (exit) value
- ▼ usually not a decision factor for corps
- ▼ company could negotiate a lease with an "equity kicker" or purchase option for future value
- ▼ corporate real estate financing
  - ▼ acquisition of property can be financed with mortgage debt or unsecured corporate borrowing
  - ▼ mortgage debt is usually preferred if it's cheaper than the company's borrowing cost
  - ▼ corporate credit desk has NO security instrument ONLY promissory note IF credit is good enough: B-BBB, A+
- ▼ capital lease
  - ▼ formerly:
    - ▼ if a lease term exceeded 75% of an asset's remaining economic life
    - ▼ OR PV of future lease payment was the majority if the Property's FMV (future market value) at lease commencement (90%+)
    - ▼ OR if property ownership is likely to be transferred to the

lessee upon expiration  
(purchase way option below  
FMV)

▼ THEN lease was treated as a  
capital lease and reported as if  
that part of the asset was owned  
by the lessee

▼ finance vs operating lease

▼ under recent ASC 842 of the  
FASB: PV of all lease payments  
for leases  $> 1$  yr must be  
capitalized and reported on the  
balance sheet as a right-of-use asset  
and lease liability

▼ and annual lease payments  
reported as an expense on  
income statement

▼ if lease term  $\leq 1$  yr lease  
payments will be reported on the  
expense on income statement  
but not balance sheet

▼ sale-leaseback (previously)

▼ company might sell a  
property and simultaneously  
lease it back on a long term  
basis to obtain cash while  
retaining use of property

▼ might negotiate repurchase  
option into the lease

▼ this (a sale leaseback) is  
done so it's written as an  
operating lease thus off balance

sheet financing (now not true  
due to ASC 842 of FASB)

▼ hidden corporate real estate value

▼ companies required to report  
property values at the lower of  
depreciated cost or market  
value

▼ can lead to publicly traded  
company to become an  
acquisition target (completely) if  
their properties' market value  
substantially exceeds reported  
depreciated book value

## ▼ Discussion



### SUMMARY