# FINANCING CORPORATE REAL ESTATE

***Lease vs. Own Analysis***:  Decision factors include: **Space** needed (relative to the size of the **Property)**; **Time** needed (**Short Term** or **Long Term**); **Risk** from **Property Ownership**; **Control** and **Management** of the **Property**; **Maintenance** and **Special Purpose Buildings**; **Tax** considerations from **Depreciation**; impact on the **Financial Statements** (**Balance Sheet** and **Income Statement**); access to and **Cost of Capital**.

***Residual Value***:  A **Property's** projected future **Residual Value** (aka "**Exit Value"**) may not be an important part of a company's **Purchase Decision**.  Instead of acquiring a **Property** that it needs to run its business, a company could negotiate a **Lease** with an **"Equity Kicker"** or a **Purchase Option** that might provide future value.

***Corporate Real Estate Financing***:  The **Acquisition** of **Property** for **Company** use can be **Financed** with either **Mortgage Debt** or unsecured **Corporate Borrowing**. **Mortgage Debt** will generally be preferred if it is cheaper than the company's unsecured **Borrowing Cost**.

***"Capital" Lease***:  Formerly, if a **Lease Term** exceeded 75% of an **Asset's** remaining economic life, or if the **Present Value** of future **Lease Payments** was the majority of the **Property's FMV** at **Lease Commencement** (90%+), or if **Property Ownership** was likely to be **Transferred** to the **Lessee** upon **Lease Expiration** (e.g. a **Purchase Option** substantially below **FMV**), then the **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 the recent ASC 842 of the FASB, the **Present Value** of all **Lease Payments** for **Leases** over one year must be **Capitalized** and reported on the **Balance Sheet** as a **Right-of-Use Asset** and a **Lease Liability**, and annual **Lease Payments** will be reported as an **Expense** on the company's **Income Statement**. If the **Lease Term** is one year or less, **Lease Payments** will only be reported on the company's **Income Statement** and not on the **Balance Sheet.**

***Sale-Leaseback***:  A company might **Sell** a **Property** it owns and simultaneously **Lease** it back on a **Long-Term** basis to obtain **Cash** while retaining **Use** of the **Property**. The company might negotiate a **Repurchase Option** into the **Lease** to give it the possibility to re-acquire that **Property** in the future.  **Selling** a **Property** and **Leasing** it back in a **Sale-Leaseback** transaction, with the **Lease** written so that it will be reported as an **Operating Lease,** is a form of **Off Balance Sheet Financing** for the company.

***"Hidden" Corporate Real Estate Value***:  Companies are required to report **Property Values** at the **Lower** of **Depreciated Cost** or **Market Value**.  This can lead a publicly traded company to become an **Acquisition Target** when the **Market Value** of its **Properties** substantially **Exceeds** the reported depreciated **Book Value**.