

BTI Newsletter July 2017

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▶ **How Does a Lease Affect Business Value?**



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How Does a Lease Affect Business Value



By Ian MacLachlan

By far the majority of businesses lease their facilities and the elements of the lease often have an outsized effect on the eventual sale price of the company.

At Business Team/BTI Group, we recommend that before taking a business to market the premises lease be carefully reviewed and a summary prepared which would include fundamentals such as:

- Current monthly payment
- Rent increases - method (CPI, specifics, timing, etc.)
- Expiration
- Option(s) - How is rent to be determined? And most important: option notice!

We have seen more than a few businesses lose substantial value due to failure to notify the landlord of intention to exercise.

Assignability provisions are usually specifically addressed - whether the landlord cannot be unreasonable, how long can he take, fees, etc. and whether options are personal, i.e., not assignable.

Once we have reviewed the lease, our next step is to connect with the landlord. Sometimes the business owner requests that the landlord be told nothing of his intent to sell but in our experience, this is a mistake. Regardless of what the lease says, the goodwill and cooperation of the landlord is often critical. Not surprisingly she or he will be irritated to find out that she is the last person to know of a pending sale and to be rushed into an assignment consent because close of escrow is tomorrow!

In many cases, there is insufficient time remaining on the current lease (SBA requires 10 years) and it is vital to learn the landlord's intentions. Will he be tearing the building down? Will he demand additional security (one landlord in a sale we were handling

demanded \$100,000 security deposit!) and finally will he agree to add an option(s)?
What are her criteria to approve an assignment?

This conversation (**above**) with the landlord has two purposes:

1. Find out if the landlord's plan will reduce the value or even eliminate the possibility of a sale of his tenant's business. E.g. the rent will double at the end of the current remaining term of 22 months! This will impact the cash flow and at the least lower the price a buyer might be willing to pay and may even make the business unsalable. With this information expectations should be reset before going to market so that if a buyer enters into a transaction he is making an offer with an understanding of the occupancy limit and everyone's (broker, buyer, seller and landlord) time is put to the best use.

2. Make the landlord an ally or partner in the process of selling her tenant's business, so that an assignment or new lease is more likely to happen.

There are often upsides for the landlord:

- She doesn't have to worry about finding a new tenant and perhaps a vacancy between tenants.
- She will likely have one more person guaranteeing the lease.
- She may get an immediate rent increase in the case of an existing lease that is terminated and a new one written for the buyer.
- She may even get a better tenant who will perhaps increase business and traffic to the center, pay rent more timely, etc.

Next issue: How to get landlords to consent to an assignment or modify a seller's lease so that the business is attractive to a buyer.



Selected Available Opportunities

Click [here](#) for additional information

Industry

Gas Station

Meat Wholesaler

Transportation

Piping Contractor

Commercial Painter

Revenue

\$26,547,460

\$25,336,631

\$6,539,265

\$4,827,051

\$4,206,576



Recently Sold

Click [here](#) for additional information

Industry

Manufacturing

Catering

Collection Agency

Brewery

Food Retail

Sale Price

\$3,500,000

\$2,325,000

\$2,250,000

\$2,152,500

\$1,830,000



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