Jackson Cross Lease Restructure Program Can Reduce Rent Expense By 15% To 20%

Introduction

Jackson Cross Partners, LLC ("JCP") has developed a program to leverage the investment market's demand for corporate net leased properties to provide significant rent savings to our corporate clients. Many times there is a significant spread between the current rent being paid, and the capitalized value of the income stream. By restructuring the Lease, JCP has been able to reduce annual rent by as much as 20%.

These are NOT Sale/Leaseback transactions. They are structured around leased properties.

Background

There is ample evidence that the next "mega trend" in commercial real estate will be the migration of large volumes of corporately owned and occupied assets to the more efficient real estate capital markets. Point in fact, this movement has been underway for a number of years. Major examples have been Kimco's acquisition of all the fee and leasehold interests of Montgomery Ward, Vornado's acquisition of Toys 'R Us, Lubert Adler's acquisition of Mervyn's and a portion of the Acme portfolio. While most of these have been in retail, Prologis and First Industrial have done similar deals in the industrial sector and the growing Net Lease Market including W.P. Carey, Triple Net Properties and Lexington have long been involved in the Corporate Net Lease arena.

For the Corporate tenant, this trend can be leveraged to capitalize on the investment demand for corporate credit and management free "net leased" properties. Before this program was initiated, it was the real estate developer who structured the initial deal with the tenant, then "flipped" the property with the lease to the capital markets buyer. The Lease Restructure Program brings the value of that flip more directly to the tenant's bottom line in the form of reduced rent.

How It Works

JCP's Legal & Financial Review Team conducts an evaluation of the Client's portfolio of properties. Along with the Client, we identify 3 to 10 candidate properties for the First Pool. This First Pool provides "Proof of Concept" for the Client, and enough scale to absorb set-up and legal expense in drafting agreements and due diligence for the acquisitions.

JCP and Client enter into a development Agreement by which Client identifies Candidate Properties, and JCP executes plan to acquire, package and resell the properties with new leases.

JCP and client develop new form of Lease and financial terms, including reduced rent schedule based on BUY/SELL prices. All costs and fees are built into the transaction, so Client incurs **NO OUT OF POCKET EXPENSE**. Costs for due diligence, closing, legal and fees are predefined and capped, for full transparency of the transaction.

Based on market conditions, property location, corporate credit and term of Lease, savings range between 10% to 25% of the prior annual rent. These savings compound over the term of the new Lease.

Illustration

JCP recently completed a Lease Restructure for a publicly traded client. The deal involved three properties situated in North Carolina. The basic economics of the deal were as follows:

Property	Size (SF)	Current Annual Rent	Restructured Rent	Annual Savings
Property A	17,867	$437,050	$388,566	$48,484 (11.1%)
Property B	13,783	$270,947	$211,575	$59,372 (21.9%)
Property C	13,307	$271,776	$195,300	$76,476 (28.1%)
	44,957	$979,773	$795,441	$184,332 (18.8%)

Best Candidates

Corporations who have multiple locations (25 or more) ideally free standing properties, can identify "strategic locations" where company can make 7 year or longer commitment.

If not single tenant locations, those locations where Client occupies at least 50% of the space could be candidates.

Companies with a good operating history. Public companies and rated credit can be a plus. However, strong private entities or mid-cap public companies can benefit from the program.

Benefits

- Leverages corporate credit and capital Markets rates, vs. local / private ownership.
- Reduces end of term risk related to market conditions.
- Proactive analysis moves property decisions well ahead of expiration cycle – increasing leverage.
- Ability to include Capital improvement costs into new rent stream.
- Can also create restructure without having to purchase. This lowers execution costs and can generate equivalent savings.
- Utilizes CPI increases (with caps) to eliminate straight lining rents.
- New leases are structured as operating leases under current FASB 13 parameters.

Costs

The costs of the program, which include Legal and Financial Review, Commissions, Due Diligence, Legal, Fees and Closing Costs are budgeted between 3.5% and 5% based on the size and location of the property. These expenses are rolled into the new Lease rates, and are included in the reduced rent.

About Jackson Cross Partners, LLC

Jackson Cross Partners, LLC is a full service commercial real estate company based in the Greater Philadelphia area. JCP provides Advisory, Brokerage, management and financing services for corporate and institutional clients across the United States and throughout the world.

Contact

For additional information on the Lease Restructure Program contact:

Louis J. Battagliese, Jr., SIOR
610-265-7700 ext. 112
ljb@jacksoncross.com