Business Finance
Bottomline Solutions for Finance Executives

HORN CAPITAL REALTY, INC.
STRATEGIC CONVERSION OF REAL ESTATE TO CAPITAL™

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ASSET MANAGEMENT

Turning Concrete Into Cash

To a company that is strapped for cash because of dot-com losses, bricks and mortar can be a lifesaver — the actual bricks and mortar of its building, that is — in the form of a sale/leaseback arrangement.

Jonathan S. Horn, president and founder of Horn Capital Realty Inc. in Miami, explains how it works: "Most commonly, it involves a company selling one or more single-tenant properties to an investor, usually for fair market value. The investor/landlord provides the seller with a triple-net lease for a negotiated period of 10 to 25 years. The seller/tenant usually pays the investor a negotiated annual rent equal to 8 percent to 15 percent of the contracted sale price. Most often, the lease rate is credit-driven and constant."

Horn subscribes to the idea that while most companies need real estate to conduct their business, few firms profit from owning the property. "The cash and credit they have tied up in facilities and land represent assets that could be employed much more productively in the corporation's core business operations. Directors and officers are constantly faced with the question of how the company will pay for or finance the cost of the properties without tying up operating dollars, without severely impacting its credit facility and loading up the balance sheet with debt," he says.

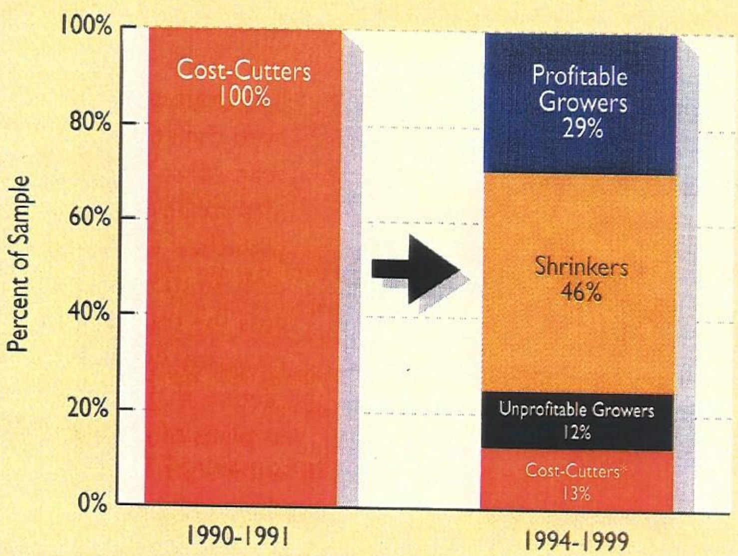
Chain businesses and national franchises have been at the forefront of sale/leaseback deals. One example is Wild Oats Markets Inc., a Colorado-based natural foods supermarket chain that used this type of financing to fuel growth. At the other end of the spectrum are companies in troubled industries, such as cinema multiplexes, that turn to sale/leaseback agreements to generate cash that's necessary to sustain operations.

However, executives of companies considering a sale/leaseback need to think ahead to the day when the lease expires; therein may lie the rub. If the lessee decides that moving to a new location is disadvantageous, it may face renewal at a higher rate unless the initial lease contains a renewal option at a specified price.

— *LB*

What Happened to the Cost-Cutters?

According to a Mercer Management Consulting study, most businesses that used cost-cutting as their primary strategy for surviving the recession of the early '90s did not achieve profitable growth during the second half of the decade. The Mercer analysis concludes that companies should respond to an economic slowdown by making bold moves forward that set the stage for future successes.



*Above the industry average in operating profits, but below average in revenues

Source: CompuStat, Mercer Management Consulting

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