

RE 618 / Fin 618 – Real Estate Investment Analysis

Corporate Real Estate Decisions Lecture Notes

- 1) What is Corporate Real Estate Analysis?
 - a) Every business must make real estate decisions during the ordinary course of its business operations:
 - b) Corporate real estate analysis refers to all of these real estate decisions.
 - The word “corporate” simply reflects the fact that so many businesses have a corporate organizational structure. The decisions, however, must be made by all businesses, and the method for making these decisions is the same regardless of ownership structure.

2) Lease vs. Own Analysis

a) The decision whether to lease or own space is one of the most basic and common real estate decisions that most businesses must make.

- Basic goal: Determine the total cost of using the space under each alternative.

- Owning real estate puts the firm in the _____ business, whether it intends to be or not. The consequences of this include:

b) Consider the Marcus Products, Inc. example from the Lease vs. Own handout:

Up-front costs:

	<u>Own</u>	<u>Lease</u>	<u>Difference</u>
Purchase price			
<u>Mortgage</u>			
Cash down payment			
<u>Acquisition costs</u>			
Total investment			

Costs of operating property in YEAR 2

	<u>Own</u>	<u>Lease</u>	<u>Difference</u>
RE operating expenses			
Lease payment			
Interest			
<u>Depreciation</u>			
Taxable expenses			
Δ in taxes @ 35%			

Loan and interest expense calculations

Depreciation expense calculations

	<u>Own</u>	<u>Lease</u>	<u>Difference</u>
Total RE expenses			
Annual debt service			
<u>Taxes</u>			
After-tax cost			

NOTE: You will do this for each year of the holding period

Cash flows from sale:

	<u>Own</u>	<u>Lease</u>	<u>Difference</u>
Sale price			
<u>Selling costs</u>			
Net sale price			
<u>Adjusted basis</u>			
Total Gain			
Tax @ 35%			

	<u>Own</u>	<u>Lease</u>	<u>Difference</u>
Net sale price			
Mortgage			
<u>Tax</u>			
After-tax cash flow			

c) Leasing as a financing alternative

d) Non-financial factors affecting the lease vs. own decision

3) Sale-Leasebacks

a) What is a sale-leaseback?

- Sale-leasebacks are essentially a _____ decision.

b) Analysis of a sale-leaseback is much the same as analysis of the lease-vs.-own decision. Key differences include: