

Short Sale-Leaseback Option for Business Owners

If a business owner is in default on the terms of their real estate loan(s), would prefer to stay in their place of operations, and has the resources to cover a lower monthly debt service than what they currently are obligated for, the following technique may work.

The goal is to significantly reduce the amount owed on the real estate loan(s), resulting in a drastically reduced monthly cost to the owner.

The first part of the process is to negotiate a *Short Sale* with the Lender(s) which would result in a reduced balance due on the note(s).

The second part of the process is the "Leaseback", and is actually very common in the commercial real estate world.

The opportunity with this Short Sale-Leaseback technique is in combining these two processes.

There are three important points to this method:

1. An owner has a high-enough level of income to support the resulting short sale price, plus some negotiated reasonable rate of return for the investor
2. Matching a suitable investor with the owner
3. Simultaneously with the Short Sale negotiations, a lease is negotiated between the owner and the investor. (Note, this lease could include a Purchase Option. Should the owner get "back on their feet" during the term of the lease, and choose to buy their property back from the investor, the terms will already be in place.)

Also note that lenders do allow commissions to be paid to the participating licensed real estate agents, thereby giving an incentive for Realtors® to help facilitate these transactions.

If the lender will not agree to a reasonable short sale price, then it may be possible for the investor to purchase the property at the Sheriff's Sale for only \$1 more than the lender bids, if it comes within the investor's price range.

An alternative to this Short Sale-Leaseback method would be to have the investor simply carry a new mortgage for the owner. In some situations, this might be a preferred method. However, many investors would prefer a lease because in the event the owner defaults again on their monthly obligation, it is much easier to evict a tenant than to foreclose on a property. The investor-backed mortgage also might trigger resistance from the lender, keeping the Short Sale from occurring.

To discuss this technique in more detail, or perhaps to work together on a specific property, feel free to contact me.



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