

SALE-LEASEBACK

Converting your building into growth capital

Sell it, keep it, or sell it with the business?

A guide for owner-occupiers in Orange County, California

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What is a sale-leaseback?

You sell the building your business is in, usually to an investor, and at the same time sign a long-term lease to stay. The business carries on as before, and the money that was tied up in the building becomes cash.

The lease is usually triple net, so your business keeps paying the property tax, insurance and upkeep, just as it does now, and it typically runs 7 to 15 years. Rent, term and yearly increases are worked out to suit the buyer's financing and your own plans. Renewal options, and sometimes a right of first offer if the buyer later sells, get agreed at the same time. You can sell the land and building together, or just one of them.

Why do owners do it?

- **Capital:** a sale pays the full market value of the building, before costs and tax. A refinance usually gets you 65% to 75%, and it isn't taxed. On a building you've owned a long time the two can end up closer than you'd think, so compare them after tax (page 6).
- **Control:** you keep using the building, on lease terms you agree before you sell.
- **Flexibility:** no balloon payment, no lender calling the loan, nothing to refinance. Renewal options let you stay longer, though the rent is usually reset to market when you renew.
- **Succession:** if you plan to sell the business one day, separating it from the property makes each one easier to sell.

It works best when the money would do more inside the company than sitting in the building, whether that's growth, equipment, paying down debt or giving the owner some liquidity. And plenty of buyers want steady rent from an established local business.



Stefan Rogers

I'm a Senior Vice President and Partner at Voit Real Estate Services, and I've been advising owner-occupiers on both sides of the Atlantic for more than 25 years.

I started at Cushman & Wakefield in London, in appraisal, asset management and corporate acquisitions, and qualified as a Chartered Surveyor in 2001. I've worked in Orange County since 2003. My degree is a BSc (Hons) in Real Estate Management from Oxford Brookes University, England.

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Why consider a sale-leaseback?

In a lot of founder-led companies, the building is the biggest asset on the balance sheet and the one doing the least. A sale-leaseback can put it to work without disrupting the business.

The business case

Converts equity into cash

You get back the money tied up in the building and keep using it for the whole lease. Before tax, a sale raises more than a mortgage would. After tax the gap shrinks and can disappear, as page 6 shows. Either way, the cash can go into growth, equipment, paying down debt, or your own pocket.

An alternative to borrowing

The lease runs on your timetable, with no balloon payment, no lender calling the loan and nothing to refinance. A sale does have costs, around 3% of the price in the page 6 example, and renewal options let you stay well past the first term.

Compare the cost with borrowing

Think of the rent as the cost of the cash. In the page 6 example the cash has to earn 9.2% to 9.6% a year just to cover the rent, when long-term SBA 504 money cost about 7% in mid-2026. So a sale-leaseback tends to win when your tax basis is high, when you can't or won't borrow more, or when the business earns well above the rent.

Retires debt and improves the balance sheet

The sale pays off any mortgage and the rest is cash. Under today's accounting rules the lease goes on your balance sheet where the building was, so you end up with cash, less debt and working capital in place of a depreciating asset.

Can work around loan restrictions

Many business loans cap how much more you can borrow. Whether lease rent counts as borrowing depends on how your loan documents define debt. Many leave leases out, so a business that's hit its limit can often raise money this way. Some lenders now count leases, though, so have your lawyer check your documents first.

Sets your occupancy cost in advance

Rent and the yearly increases are set for the whole term, so you know what the building will cost you years ahead.

Accounting, tax and the market

How it appears on your books

Under the current accounting standard (ASC 842, which private companies have followed since 2022), the leaseback goes on your balance sheet as a "right-of-use" asset with a matching lease liability. The building comes off your books and the lease goes on. What really changes is that a depreciating asset you couldn't easily sell has turned into cash, and any mortgage is gone.

There's one accounting test to watch: the deal has to count as a true sale. If the lease gives you an option to buy the building back, or it's long or expensive enough to count as a finance lease, your accountant has to treat the money as a loan instead (a "failed sale"). Rent or price set above or below market doesn't fail the sale. The difference is just booked as prepaid rent or borrowing. So settle the options and the lease length with your CPA up front.

Managing the tax on the gain

Plenty of Orange County owners have had their buildings for decades, so the gain is big and so is the tax. There are ways to manage it, though.

- A **1031 exchange** rolls the money into another investment property (say a building leased to a national tenant, or a share of one) and puts off the tax. The money has to stay in real estate, so it won't free up cash for the business.
- An **installment sale** spreads the price over several years, and you pay tax as the money comes in.
- A **partial leaseback** means selling the whole building but leasing back only the space you still need (see page 5), or selling surplus land.
- A **charitable remainder trust** suits owners who want to give something back: income now and a gift later.

Market context, Q3 2026

Borrowing costs more than it did. The 10-year Treasury finished September above 5%, and long-term SBA 504 money was fixed at about 7% in July.

Buyers have adjusted too. Single-tenant net lease cap rates averaged 6.92% in the third quarter (7.28% industrial, 8.00% office), and Orange County industrial asking prices fell 14.3% in a year to $329 per square foot.

So the case today rests on the business earning more on the cash than the rent costs. Buyers aren't overpaying.

Sources: The Boulder Group, Net Lease Market Report, Q3 2026; Voit Real Estate Services, Q3 2026 industrial report; SBA 504 debenture rates, July 2026.

voitco.com/market-reports has the latest market data.

California property tax

A sale resets the assessed value to the sale price, and under a triple net lease your business pays the higher bill. That's roughly $11,000 a year for every $1 million of increase. Leasing the building to your own business (Option B on page 6) doesn't trigger it.

Income tax implications. A sale-leaseback has tax consequences for both the buyer and the seller, and the accounting described above depends on how the deal is structured. This guide is general information, so please talk to your tax advisor and CPA before relying on it.



CASE STUDY: Owner sells its headquarters and keeps its address

PROJECT	CLIENT	LOCATION	BUILDING	LEASEBACK
Sale and partial leaseback	Confidential client	Irvine Spectrum, California	40,135 SF	Seven years

Challenge

The client bought its two-story headquarters in the Irvine Spectrum from the developer and had owned it for about twenty years. The mortgage had been paid off, so there was a lot of equity sitting in the building doing nothing. The company was using all 40,135 SF but only needed half, and the owner didn't want the cost of a move.

Solution

I offered the whole building to owner-users and investors. The buyer bought it, and the client leased back the 20,067 SF it needed on a new seven-year lease. Because I negotiated the lease as part of the sale, my client got terms a new tenant in someone else's building rarely sees, from new HVAC paid for by the buyer to a 5% cap on operating expense increases.

Results

The building sold for $11,037,000, 70 days after the contract was signed. My client took its equity out in cash, cut its space in half without moving, and can stay for more than twenty years.

$11,037,000
Sale price

70 days
Contract to close

20,067 SF
Leased back, half the building

7 years
New lease, plus three 5-year options

Negotiated outcomes

- New building HVAC at the buyer's cost
- Suite remodel and common-area upgrades by the buyer
- Five months of free rent
- Operating expense increases capped at 5% a year
- $100,000 consolidation allowance
- One-time right to leave after year five



Sell it, keep it, or sell it with the business?

Buyers come later. The first question is which of these three routes suits you, and it only takes five numbers to answer.

BUILDING VALUE	RENT THE BUSINESS CAN CARRY	DEBT	OWNER AND HORIZON	ADJUSTED TAX BASIS
$7,384,615 $480,000 a year of rent at a 6.50% return	**$480,000 / yr** Market rent, the same in every column	**$0** Free and clear	**62, exit in ~5 yrs** This drives the answer	**$1,500,000** $3.0M cost less $1.5M depreciation claimed

	A. SELL AND LEASE BACK NOW	B. KEEP IT AND LEASE IT TO THE BUSINESS	C. SELL IT WITH THE BUSINESS
Cash to you today, before tax	$7,163,077 (after 3% selling costs)	$0	Depends on how the buyer prices it (see below)
Tax due now (estimate for your CPA)	$1,960,805 to $2,176,002. Federal tax of 25% on the $1.5M of depreciation claimed and 20% on the rest of the gain, California at 13.3%, plus a 3.8% federal surtax if it applies	$0	Same as A on the building's share of the price
Cash after tax	$4,987,075 to $5,202,272	$0 now, then $480,000 a year of rent to you, before tax	At or below A, and often less for the building
What the business pays to occupy	$480,000 a year, rising 3% a year, on a 12-year lease	$480,000 a year, rising 3% a year, on a market lease to your own holding company	Set by the buyer. The building is usually leased back anyway
California property tax	Reassessed to the sale price, and your business pays the increase	No reassessment while you own it	Reassessed to the sale price
When the business is sold in ~5 years	The lease goes to the buyer with the business, and you hold cash	The business buyer signs a new market lease, and you keep an investment building to hold or sell	One closing, with the real estate priced as part of the business rather than on its own
What your heirs receive	Cash, after the tax above	The building, with the $5.66M gain wiped out for tax purposes under current law (the step-up in basis), within estate tax limits. Reassessed for property tax	Cash, after the tax above
Main risk	After tax, the cash must earn 9.2% to 9.6% a year just to cover the rent	A single tenant you no longer control, a building that's hard to sell quickly, and landlord duties	Little competition on price, and the buyer has the upper hand on the building
Usually the best answer when	The business needs the money now, or you want out of real estate	You want retirement income and something for the estate	The building is so specialized nobody else would want it

How to read it

Option A, sell and lease back now. You sell for about $7.4 million, pay about $220,000 in selling costs and $2.0 to $2.2 million in tax, and keep roughly **$5.0 to $5.2 million in cash**. Then you pay $480,000 a year in rent to stay, going up 3% a year. The tax is big because the building was bought long ago for $3 million, so I'd want your CPA involved early.

Option B, keep it and lease it to your business. Nothing's sold, so there's no tax on a gain. Your business pays you the $480,000 a year instead, going up 3% a year, and that rent is taxable income to you. By the time you sell the business in five years, you've collected about $2.5 million in rent and still own a building worth about $7.4 million at today's value. Keep it for life and, under current law, the tax on the gain goes away when it passes to your heirs.

Option C, sell it with the business. A business buyer values the building as part of the business rather than as real estate in its own right, so it usually fetches less, and most of them want to lease it back anyway. The tax is the same as A. This is the one most owners drift into, and it usually leaves the most money on the table.

Which is right? A, if the cash after tax will earn more than 9.2% to 9.6% a year in your business, because that's what it takes to cover the rent. B, if you want retirement income and something for the estate. C, almost never. A 1031 exchange can put off the tax in A or C if the money goes into another investment property, and a partial sale can combine A and B.

These figures are assumptions to show how the math works, not a valuation or tax advice. Every tax line is an estimate for your CPA to confirm, and assumes you own the building personally or through a pass-through entity such as an LLC. A C corporation is taxed differently. A 0.5% change in the return moves the value by roughly $530,000 to $615,000, and $0.10 per square foot per month in rent moves it by about $369,000. The 6.50% return is an Orange County assumption. National single-tenant averages in Q3 2026 were 7.28% for industrial and 8.00% for office (values of $6.59M and $6.0M).



Why investors want your building

What private buyers and 1031 exchangers pay for is certainty. A solid local business on a long lease, in a building they could re-let if they had to.

Is a sale-leaseback right for you?

Six questions. If you answer yes to three or more, it's worth running the numbers.

1. Do you own the building outright, or owe very little on it?
2. Is your tax basis in the building high, or do you have a plan for the gain, like a 1031 exchange or an installment sale?
3. After tax, would the cash earn more in the business than the rent would cost?
4. Are you planning to sell the business, hand it on or retire in the next five to ten years?
5. Could another business use the building more or less as it is?
6. Could the business comfortably pay a market rent?

How an engagement runs

1. The three-option analysis: we take the five numbers on page 6, get your CPA's input, and compare selling and leasing back, keeping it and leasing it to the business, and selling it with the business.

2. Opinion of value: I give you a confidential written broker opinion of value (not an appraisal) showing what an investor would pay with your business as the tenant, and the rent, term and market evidence behind it.

3. Structure: rent, term, increases, options and the tax route, worked through with your CPA and lawyer, including the accounting and any 1031 exchange or partial sale.

4. Market: I take it quietly to owner-users, private investors, family offices and 1031 buyers, often off-market.

5. Execution: picking the right offer, the buyer's due diligence, negotiating the lease and purchase agreement, and closing.



Contact me for more information on sale-leasebacks

If you own the building your business is in, and especially if you might sell the business in the next few years, I'll put together a confidential analysis of all three options using your own numbers. There's no charge, and it's yours to keep whatever you decide.

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About Voit Real Estate Services

Voit Real Estate Services is a privately owned, broker-owned commercial real estate firm founded in 1971 and headquartered in Irvine, California, with offices throughout Southern California. Its services include tenant and landlord representation, investment sales, owner/user acquisitions and dispositions, and advisory, delivered by brokers who are also the firm's owners.

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