Chapter ***10***

Real Estate

A paper company operated out of facilities leased by a related party, the 100 percent owner of the company. When a major shopping center was developed within a mile of the paper company, the facilities doubled in market value to $6,000,000. The company was leasing the facilities from the related party at $30,000 per month, or $360,000 per year.

The paper company was generating EBITDA of around $2,500,000 per year.

The owner of the paper company was receiving unsolicited overtures towards both his business and real estate, and even a couple of offers. One capital firm ballparked an offer of 12.5 million dollars for the business and real estate, on a turnkey basis of EBITDA times five. Another suitor threw out a preliminary valuation of 11.3 million, based on recasting EBITDA to $2,260,000 to reflect leased facilities at a fair market value rent of $600,000 per year versus $360,000, times a multiple of five.

The paper company did not need to operate out of its location, and nearby rents of comparable space were $300,000 per year.

The owner was interested in selling both his business and real estate, and sought help as to worth and process.

In a nutshell, the business and real estate were sold separately, the real estate for its $6,000,000 market value, and the business for 13.5 million. The business was sold on the basis of recasting EBITDA to $2,560,000 to reflect leased facilities at the comparable space rent of $300,000 per year versus the $360,000 presently being paid, times a multiple of around 5.25. For an apples-to-apples comparison, a multiple of five would have fetched 12.8 million dollars for the business.

The owner received $19.5 million for his business and real estate, versus earlier offers that ignored the real estate's FMV.

Together, the owner received 19.5 million dollars for his business and real estate, versus preliminary offers that virtually ignored the real estate's worth.

Like in the above instance, real estate expense and real estate value need to be normalized and adjusted to fair market value (FMV), respectively. FMV should be reflective of a buyer's expected return percentage on owning real estate being less than a buyer's expected return percentage on the rest of the business.