ICON
INTERNATIONAL INC

An Omnicom Company

Fee Simple Real Estate Example

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Fee-Simple Real-Estate Example

Companies often find themselves with real-estate assets that are no longer useful to them. For numerous reasons, these properties become financial burdens. ICON has been very successful in the purchase and sale of all types of properties for clients. Below is a summary of considerations and procedures surrounding a fee simple real-estate transaction with ICON.

Background:

The Seller = ICON Client

Generally, ICON purchases hard-to-sell real estate that is either slow to sell or without offers anywhere close to the asking price.

ICON purchases fee-simple real estate using the same process as any developer, single-use tenant, etc. Starting with a P&S agreement, ICON prepares and reviews much of the same due diligence as any other buyer. Upon satisfactory completion of due diligence (typical due diligence periods are 30-90 days, depending on the complexity of the property, usually 30 days), ICON closes the cash purchase of the real estate.

Upon closing, ICON will remarket the real estate, many times using the same broker (they know the property the best and know who might have been buyers at the “right” price). Sometimes ICON will lease some or all of the property prior to sale.

The Seller purchases a predetermined amount of media advertising; from ICON. This media is delivered by ICON for the same price and with exactly the same terms and conditions (positioning, cancellation options, added value and payment terms, etc.) as would otherwise be provided by tenant’s advertising agency. The existing advertising agency continues to plan and price the media advertising, ICON simply completes the planned media execution.

Assumptions:

Both Land and Building are owned with a book value of $1 million.

Assumed fair market value after closing expenses is $300,000.

ICON has performed due diligence on the Seller’s media advertising and determined that ICON has a 20% leverage/trade factor.

Possible Cash/Barter Transaction:

ICON pays the Seller $100,000 at contract signing as a refundable deposit (subject to completion of the real-estate due diligence) and the balance of $900,000 (net of traditional closing adjustments for real-estate taxes, etc.) at closing.

Seller agrees to purchase $5,000,000 of media advertising from ICON, $1,666,666 per year for 3 years.

ICON assumes the risk of selling the real estate for the assumed fair market value of $300,000 with no consequence for Seller if there is a shortfall.

The financial result is that Seller has no economic loss resulting from the underperforming real estate. In other words, the cash paid by ICON equals the book value of the property. The loss incurred from the fair market value loss of value compared with book value is recovered through the leverage existing on the media advertising expenditure.

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Accounting:

Based on the assumptions above and if all media runs in one accounting period, the accounting entries are as follows:

Dr. Market value loss on Land & Building (P&L) $700,000
  Cr. Land & Building (BS) $700,000
To reduce the book value of Land & Building to FMV or $300,000

Dr. Cash (BS) $1,000,000
  Cr. Deferred liability (BS) $700,000
  Cr. Land & Building (BS) $300,000
ICON pays cash to Seller at closing and purchases Land & Building

Dr. Media Expense (P&L) $5,000,000
  Cr. Cash (BS) $5,000,000

Seller pays for media delivered by ICON that Seller would have paid its advertising agency.

No net additional expense than would have been incurred without ICON.

Dr. Deferred liability (BS) $700,000
  Cr. Gain on sale of Land & Building (P&L) $700,000
Seller eliminates the deferred liability related to ICON's initial payment.

The net result is the media expense of $5,000,000 that would have been incurred with or without ICON. No other net effect on the P&L statement or Balance Sheet.

(BS) = Balance Sheet Entry
(P&L) = Income Statement Entry