

Leased  
Property  
Real-Estate  
Example

## Leased Property Real-Estate Example

For a variety of reasons, there are times when companies cannot follow through with their lease obligations. ICON has been very successful in the disposition of these obligations for clients. Below is a summary of considerations and procedures surrounding a lease transaction with ICON.

### Background:

The Tenant = ICON Client

Generally, because the nature of the Tenant/Landlord relationship involves a history of negotiated lease terms and actions, creditworthiness, future rents due that affect the landlord's cap rate, bank financing and sale opportunities; once a lease is signed, it is not possible for the Tenant to sell its rights and obligation to a third party. It is also infrequent that a landlord will accept a lease buyout at anything less than full rent due.

Therefore, ICON typically structures lease transactions as follows:

- 1) ICON pays the Tenant the present value of the amount due the landlord either in trade credit or in cash. The amount paid includes all ancillary rent expenses including any rent escalations, shared operating costs and tax escalations. ICON can make payment all at closing or on a monthly basis.
- 2) The Tenant subleases the property to a subtenant (found by ICON, with all sublease transaction expenses paid by ICON) and the Tenant redirects the sublease rent to ICON.

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 subtenants at the "right" price). ICON will remarket the space at a price including TI designed to maximize future total rent proceeds while minimizing vacancy time. ICON will maximize the return from the lease.

The Tenant 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:

The present value of the remaining lease payments, including all ancillary expenses and escalations, is \$1 million.

Assumed fair market present value after broker fees and TI is \$300,000.

Remaining lease term is 1 year.

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

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Possible Cash/Barter Transaction:

ICON pays the Tenant \$1,000,000 at closing.

Tenant agrees to purchase \$5,000,000 of media advertising from ICON.

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

The financial result is that Tenant has no economic loss resulting from the underperforming real estate. In other words, the cash paid by ICON equals the present value of the total remaining lease payments. The loss incurred from the leased property is recovered through the leverage existing on the media advertising expenditure.

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 leased property (P&L) \$700,000

Cr. Rent Payable (BS) \$700,000

To record the net present value lease loss

Dr. Cash (BS) \$1,000,000

Cr. Deferred liability (BS) \$700,000

Cr. Rent Payable (BS) \$300,000

ICON pays cash to Tenant at closing

Dr. Media Expense (P&L) \$5,000,000

Cr. Cash (BS) \$5,000,000

Tenant pays for media delivered by ICON that Tenant would have paid their advertising agency.

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

Dr. Deferred liability (BS) \$700,000

Cr. Gain on leased property (P&L) \$700,000

Tenant eliminates the deferred liability related to ICON's initial payment.

Dr. Rent Payable (BS) \$1,000,000

Cr. Cash (BS) \$1,000,000

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