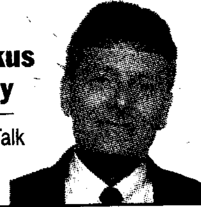
Things to consider when deciding to purchase office property



At some point in time, most business owners who lease space begin to wonder whether they should buy property and build equity instead of paying rent. The following are some of the factors a business owner will usually consider in making this important decision:

1. **Money required.** For a purchase, a down payment of 10 percent to 20 percent of the purchase price is required depending on the lender, stability of the business and its cash flow and credit rating. Additionally, there are transaction costs when you buy and when you sell property such as Realtor fees, title fees, environmental assessments, surveys, etc. With a lease, typically only the first and last month's rent is required with good credit. With respect to future costs, a mortgage is generally fixed whereas with leases, the rent will generally increase with subsequent leases. Some often forgotten costs are the cost of not being able to use the down payment funds elsewhere and the costs of renegotiating future leases.

2. **Business stability.** If a business is relatively stable and its space needs are relatively predictable, purchasing makes sense. Some businesses will purchase property and then lease additional future space as the need arises and then possibly consolidate operations down the road. However, if space needs are uncertain or expected to increase or decrease, leasing may make more sense as the business is not tied into anything long term.

3. **Real estate market.** If the market is low or rising, purchasing makes sense as there will be an increase in equity and most likely a corresponding increase in rental rates as prices increase. Generally, over the long-term, real estate has been a good investment. However, if the real estate market is expected to be flat or declining, leasing may make sense for a period of time.

4. **Control over space.** An owner has full control over the space. A tenant generally has very limited control under a lease. Improvements will usually require landlord consent, fixtures will stay after a lease ends, the landlord may have the right to relocate the tenant, the landlord may sell the property to a new owner who doesn't want to lease the space, and there is no guarantee of continued use of the space after end of the lease.

5. **Common area maintenance.** A business owner decides what work is done and at what time. With respect to a tenant, the landlord generally determines the level of services provided for common area maintenance and when to perform repair work. This may hurt a tenant's cash flow at a time when it cannot afford the extra expense.

6. **Sale of business.** A real estate owner can sell the real estate with the business or sell the business and lease the real estate to obtain passive income. In this instance, there is no third party consent or involvement with the property is required. In a lease situation, the lease needs to be assigned or a new lease entered into with the buyer. These negotiations take time and effort and sometimes the landlord is not willing to assign the lease because the current market rate is higher. Further, the tenant may still be liable on the lease after the sale even if there is an assignment unless the lease is carefully negotiated.

In addition to the above, there are usually a number of other factors a business owner will usually consider before coming to a final decision. Issues such as personal guarantees, potential personal liability, tax considerations, relocation costs, business interruption costs and other factors will usually have some impact on the final decision as to whether to rent or buy property for a business.

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