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Buy, Rent or Lease?

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Many small business owners struggle with the dilemma of deciding whether to buy, rent, or lease office space. If you ask business consultants or real estate brokers, you will get conflicting answers. The key point to remember is this: Each small business brings its own unique situations and concerns to the table, which means the answer will be different for each business owner.

A good place to begin is by examining your company's current business plan and earnings forecast, the credit history, and the local real estate market. Every business idea needs to be carefully researched before making any final decisions. As you are searching for the right answer, keep these questions in mind:

How is your cash flow? As a new small business owner, you may be short on cash, so it will be less expensive to rent or lease a facility when you are just starting out. For example, imagine you could lease a building for about \$4,000 a month, but if you were looking into purchasing that same property, you would need a substantial down payment in addition to the monthly mortgage. Examine your cash flow projections carefully and then make your decision.

How long will you stay in the building? If you think you will be in that one particular building for less than a few years, it might be worthwhile to rent rather than buy the building outright. However, if real estate values in your community keep rising, then you really should consider the purchase option instead.

Do you like the general area? Many small businesses make the mistake of buying a building only to realize later that they do not like the location because of insufficient parking or a continuous decline in real estate property values. Be sure to think about such issues before signing on the dotted line.

Are you ready to take on additional responsibilities? If you decide to purchase a property, you are now responsible for maintenance, security, remodeling, and other management issues. Sometimes it may be more beneficial to let your landlord handle all of those details. Try to compare the costs and benefits of purchasing against the added expense of handling those new responsibilities. If you are losing money, then you have your answer.

How much will your business grow? If your business continues to grow, you may have to hire more employees. Before trying to squeeze them into the existing office space, review your options. You could move to a larger location or start using conference rooms as work areas. Another possible option is to allow some employees to telecommute and work from home: a growing trend in today's business world.

If you are seriously thinking of buying a property, consider these factors:

Asset appreciation. Property can be a great long-term investment, and the building and surrounding land is an asset that almost always appreciates in value.

Fixed overhead costs. Along with payroll, a mortgage is one of the highest fixed business expenses.

Potential to sublet. If the property is too big, you can sublet a portion of it, which can help you pay the mortgage or give you additional funds for your own cash flow.