

DESIGN & TECHNOLOGY

Owning Versus Leasing Commercial Office Space

■ *Informed real estate decisions may help improve profitability, achieve growth and manage corporate assets*

■ *Building owners have more control over a facility's physical appearance and avoid rent escalation costs*

■ *Leasing provides more flexibility and requires fewer upfront costs than owning a building*

The decision to own or lease commercial office space is challenging for most companies. In the past, firms inhabiting a stand-alone facility had little choice but to own the property they occupied. With Dane County's unprecedented growth in the number of new lease facilities being built throughout the area, many more options are available, underscoring the need for companies to be savvy players in today's real estate market.

With a strong understanding of the advantages and disadvantages of owning versus leasing, a company can make the real estate decision that achieves profitability goals, supports growth and provides assets to operate the business.

Ownership advantages. In contrast to a tenant, a building owner has more control of a facility's physical aspects, such as its design image and maintenance. Facility

ownership also allows a company to select tenants to lease its unused space, or to plan an addition on the site.

A building owner may benefit somewhat financially, since the total monthly cost of the mortgage and utilities generally is less than rent. Building owners also avoid rent escalation costs. Depending upon whether the actual company or a group of individuals owns the property, there also may be some tax benefits achieved through ownership.

Ownership disadvantages. Building ownership requires a down payment of at least 20 percent of the building cost. This initial outlay, along with financing and closing costs, inspection and appraisal fees, legal costs, and any architectural or construction fees, consume more of a business' cash flow than leasing. The owner's control of a building also translates into significant building maintenance and management responsibilities.

When companies lease, they avoid maintenance responsibilities and benefit from shared amenities.





Since GE Lunar owns its corporate headquarters, the company played an integral role in the facility's design.

Leasing advantages. Since a down payment is not required when leasing, initial capital costs tend to be lower, allowing a business to channel more financial resources into operations. The subsequent enhanced cash flow tends to reduce overall business risk. Moreover, the risk of property value losses is passed along to another party.

Leasing may be less of a commitment than owning. If space within an existing building does not require extensive remodeling, it can be leased for three or five year terms. And, if business dramatically increases or decreases, a company can move more quickly, with minimal penalties.

A tenant also achieves some peace of mind in avoiding building maintenance responsibilities, and benefits from the shared amenities of a multi-tenant building.

Leasing disadvantages. Tenants have less input regarding the image and appearance of the building. Also, there can be a greater variance in the heating and cooling of spaces, since selection of the systems is not

necessarily within the tenants' control. With less control of heating and cooling the space, companies cannot regulate comfort levels for employees.

Leasing entire buildings requires a long-term commitment. Tenants also pay rent escalation costs, which may represent a rent increase of three percent per year.

Summary. In general, there seems to be a tendency to lease commercial space when business growth is unpredictable or at very high rates, such as a 35 to 50 percent increase in personnel in one year. Smaller companies with less than 200 employees tend to lease until growth is at a lower rate and business is somewhat steady compared to their peers. Ownership may make sense for companies that have the financial resources for a down payment and can afford to let a facility affect its book value. A company that is evaluating whether it should own or lease will benefit from involving a banker and an accountant as part of the decision making team. ■

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