

Pros and Cons of Buying Commercial Real Estate



Pros of Buying

- **Equity:** If you pay cash for the asset you immediately have 100% equity in your asset. If you finance a portion of the purchase, you initial down payment and monthly payments all build equity in your property. As you build equity in the asset you are also increasing the value of your company.
- **Asset appreciation:** Owning your own property allows you to capitalize on asset appreciation. The appreciation comes from many factors such as supply and demand, inflation, financial markets, etc.
- **Rental income:** If you have unused space in your property, you have the ability to rent that space to a tenant to provide you with rental income. This income can help offset any mortgage payments that you may have on the property.
- **Tax benefits:** You can deduct mortgage interest, depreciation, as well as non-mortgage related on your asset. For example, if fall in the 25% tax bracket, you will save 25 cents for every dollar deducted.
- **Control of the asset:** Since you own the property, you have complete control over it, within the limits of state and local laws. You do not need approval from a landlord to make modifications to the property. There is also no worry of rent increase at the end of the lease term, as you will be making fixed monthly mortgage payments instead.

Cons of Buying

- **Initial Capital:** Generally, you will have to make an initial down payment of 10% - 30% of the property's purchase price. You will also have to pay closing costs and due diligence fees (inspections, environmental surveys, land survey, etc.) For a \$500,000 property, you will be expected to pay a minimum of \$50,000 to \$150,000 upfront.
- **Property Value Risk:** Just like any investment, there is no guarantee of capital gains. In the event you sell the property in a down market, or the property is not maintained properly, there is a risk that you will sell the property for less than what you purchased it for, creating a capital loss.
- **Liability:** As the owner of the property, you now become liable for everything that takes place on site. You will need liability insurance for your property in order to protect you and your assets in the event there is an accident on your property. Some business' do not want that headache.
- **Liquidity & Flexibility:** Unlike leasing, it is much more difficult to sell the property and relocate your business for any reason. Alongside the difficulties of relocating or expending if necessary, you may have much of your capital tied up in the property. Companies may find they rather have access to capital rather than tie it up in a property in case of an emergency.

Pros and Cons of Leasing Commercial Real Estate

Pros of Leasing:

- **Greater Liquidity:** Unlike buying you tie up significantly less capital when leasing commercial property. Many landlords will require first, last and security deposit upon lease execution. Any attorney or broker fees might also apply.
- **Tax Breaks:** Like buying, there are many tax benefits that are associated with leasing commercial real estate. When leasing, you are able to deduct lease payments, property insurance, property taxes, utilities and maintenance.
- **More Flexibility:** Unlike purchasing, commercial leases range from three to ten years. This allows many companies to move after lease expiration into a new space that suites them better. During good markets companies need to expand in order to remain profitable.

Cons of Leasing:

- **No equity or appreciation:** Unlike mortgage payments, your monthly rent goes directly to the landlord and does not build any equity. Since you are not building any equity in the property, there is no ability for any appreciation.
- **Expensive Rent:** Depending on the market that you are in and the lease agreement, many times the monthly rent payments will exceed the monthly mortgage payment for comparable properties. Some leases may require you to pay additional rent which is often referred to as the triple net expenses. Also, in Florida, you are subject to an additional 6.7% sales tax on all commercial leases.
- **Lack of control:** When you lease commercial space, you are required to follow the rules that are put in place by the landlord. Any changes you wish to make to your space will needed written approval from the landlord. You also cannot control rent hikes after your lease expires.

Whether you are looking to buy or lease, let our team help you make the right decision. **Please contact us to see what option is right your for business.**

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