

# To Buy or to Lease: A Common Dilemma

By

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Many fledgling entrepreneurs wrestle with the decision to purchase or lease commercial property for their businesses. Ask a commercial real estate broker for advice, and they'll tell you every situation is different. You'll need to consider a variety of factors related to your current business, your credit history, your company's future and your local real estate market.

## Remaining a Renter

Most new business owners start out leasing space and many work their entire careers without ever buying property. Experts advise owners of startups to lease office, retail or warehouse space during the first few years of operation. There are several compelling reasons to lease property:

- **Free capital.** Since most real estate purchases require a 10 percent to 15 percent down payment, many new businesses can't — and shouldn't — commit to purchasing space.
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- **Ease of relocation.** Leases are flexible, so if you need to move, it's easier to break a lease than to sell a piece of property.
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- **Fewer management responsibilities.** When you rent, the property manager or landlord takes responsibility for maintenance, security, remodeling and other management issues.
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- **Market fluctuations.** If rents drop in your area, you can negotiate with your building manager for a rent reduction or more favorable lease terms.

## Taking the Ownership Plunge

Your decision to buy property hinges on how long you want to stay in one location and the amount of space you need. If you believe your business can operate effectively in the same space for at least 10 years, ownership might be prudent. Owning property has a number of potential benefits:

- **Asset appreciation.** Property can be a great long-term investment. The building and surrounding land is an asset that almost always appreciates in value.
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- **Fixed overhead costs.** Along with payroll, a mortgage is one of the highest fixed business expenses. When you assume a mortgage, you have a fixed expense each month.
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- **Potential to sublet.** If the space is too big, you can sublet a portion of it. And if you decide that you need more room, you can cancel the lease and use the space to expand your business.
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- **Tax advantages.** Although the tax ramifications of property ownership vary, you can deduct closing costs and other related expenses. You'll also have other tax breaks throughout the term of the loan.

Contact a commercial real estate agent or broker for more advice about purchasing space for your business. An agent can give you insight about the real estate market and help you with pricing and availability in your area.

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