

To Lease or Not to Lease?

WE'VE GOT THE PROS AND CONS TO HELP YOU MAKE A DECISION.

AFTER MANAGING A hugely successful small-business operation in the same location for more than 32 years, Don Asher and Associates fell victim to progress. The city of Orlando and the Florida Department of Transportation have reduced to rubble the building on South Street that they called home since the early 1970s.

This is not a case of eminent domain. The city owned the lease on the property, and the Ashers were merely tenants. Had the Ashers owned the property, the city would have had to negotiate the takeover of the location as it stood in the way of the 408/East-West Expressway expansion project. The property was actually owned by the Maguire family and was on a 99-year lease to the city. Through a series of recent sales, the city purchased the property from CNL.

"The property we were leasing [probably] could [not] have been bought, due to the [99-year] lease," notes Dean Asher, who along with his father is the only father-son combination to have served as president of the 10,000-member Orlando Regional Realtor® Association. Dean served in 2000, and Don in 1988.

BUYING: BETTER INVESTMENT?

"In this market, buying is a better investment due to values going through the ceiling," says Dean. "On the other hand, leasing gives you the comfort [of knowing] that your obligation is the same each month."

In downtown Orlando, according commercial real estate practitioners, most buildings are filled with tenants who lease their properties.

"The majority (about 70 percent) of all downtown companies lease," says Thomas E. Hankins, CCIM, of the Realty Capital Hankins Group.

"Ownership tends to be medium to small, locally owned or based companies, while leasing tends to be the full range of small to large companies that need any or all of the following: image, amenities, location and flexibility to expand or contract space needs every three to seven years." He adds that leasing is predominant in the industries of attorney/legal, banking/finance, stock/securities, architecture, retail, and planning/engineering, among others.

John Crossman, of the Trammell Crow Co., agrees that most downtown businesses lease, since it's cheaper in the short term.

WHAT'S THE DIFFERENCE?

"Owning now and refinancing would be good," notes Crossman, "but buying now is hard because it's tough to find good deals. If you had purchased 10 years ago, owning would be great. But it does vary on each company's specific business plan."

Hankins agrees that the decision to purchase needs to be carefully weighed, based on the specific objectives of the business.

"The building type, size and location need to be carefully evaluated [against] the specific needs of the [business] — its financial basis, desires and needs in three, five and 10 years, the exit strategy, etc.," he explains. "Owning doesn't make sense for everyone, nor does it guarantee cheaper occupancy costs or back-end appreciation on the property."

Hankins adds that prices are at all-time highs with respect to purchasing; some may even feel they are artificially inflated by as much as 20 percent or more. He says that's why leasing makes sense for most businesses today for a variety of reasons, but particularly if the company's reinvestment rate exceeds the expected returns of ownership on the type of property that it could otherwise lease.

"For example," he continues, "if it's a growing company, needing flexibility to expand within three to five years and its annual profit from operations is 20 percent, there would have to be a very

compelling reason to purchase real estate at rates of return that are half what [it is] making in [its] own business. However, there's no rule of thumb in this evaluation that fits all [businesses]."

PROS AND CONS

According to Hankins, when asked his advice on whether a business should lease or buy, the first two things he considers are where the market is by product type in the commercial real estate cycle and what's the best alternative for a respective client.

"The question is simply an individual risk vs. return decision," explains Hankins, "since the pros and cons are subject to whether a [business] makes the right decision to lease or own after properly weighing the criteria. The real estate market in itself will provide a cycle of risk and return, but ultimately the decision of whether it's best to lease or own is highly individualized but can be made risk-adverse by following the fundamentals."

Crossman notes that many retailers lease because they'd rather use available cash to open more stores faster.

"Leasing is cheaper," he says. "Leasing gives you less worries, and it can be done faster. Of course, by purchasing you have more control and are creating wealth, but you have to worry about maintenance issues. There's also less liability when you rent."

So, what about the Ashers? Well, for the Asher family, of which Don Sr. is patriarch, they weighed the pros and cons and decided to buy this time around. They now run their operation from a 5,300-square-foot location on the corner of Orange Ave. and Kaley St., just a couple of miles south of the former mid-town digs they leased for more than three decades.

This article was written by Kevin Fritz, vice president of communications, and Lisa McDuffie, communications manager, of the Orlando Regional Realtor® Association.



Don Asher and Associates' building was a downtown fixture before recently being demolished to expand the 408/East West Expressway.