

## You own the business; should you own the space?

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Both individuals and businesses are faced with the choice of whether to lease or purchase property.

Many of the same considerations apply whether the property is an automobile, a personal residence or an office condo or building. These considerations need to be weighed by the individual or company to determine which is the right decision for you. The following are just a few of the considerations to weigh. They are set out using the example of a purchase versus a lease of an office condo or building:

- **Cash outlay.** Typically, if you are planning to buy office space, you can expect to make a down payment of up to 25 percent of the purchase price, depending on the lender and your credit. When you lease office space, you won't need to put down nearly as much. With good credit, the typical outlay is the first and last month's rent, which is only about 10 percent to 15 percent of the cash outlay required when buying office space.
- **Opportunity cost.** With a large outlay of cash required to purchase office space, the opportunity cost of that money needs to be taken into consideration. You need to compare the return you would expect to receive on that money invested in the office space to the return you would expect to receive if the money were invested in your business or other investments.
- **Fixed versus variable cost.** When you buy office space, you have fixed your cost, as you will be paying a monthly mortgage amount. If, on the other hand, you decide to lease, your lease cost may go up depending on the market conditions.
- **Growth considerations.** If your company is in a high-growth mode, buying property may be the wrong choice, as you cannot determine what amount of space you may ultimately need. Many businesses, even in the growth mode, will buy more office space than they need at the time and lease a portion of it to another business until they are ready to use it.
- **Property management.** Of course, if you own a property, you will need to maintain it, which will require your time or someone that you hire. This is not the case if you lease the office space.
- **Appreciation.** One of the primary reasons for buying office space is to obtain long-term appreciation. When there is a good, healthy real estate market, this is a strong factor in your decision.
- **Tax factors.** Lease payments are usually fully deductible, while on a purchase you will be able to deduct the interest costs and depreciate the building cost over a longer timeframe. It is a good idea to consult your attorney and tax professional about the legal and financial



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considerations of owning office space.

- **Cash flow.** It is a good idea to do a cash-flow analysis of the buying-versus-leasing decision, which will take into account your predictions on your holding period, anticipated appreciation, rental increases, interest rates and the costs of maintenance on the property.

The decision to buy or lease property is not a "one size fits all" type of decision. It requires you to analyze all of the above factors to reach a conclusion that is right for you.

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