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# **BUYING VERSUS LEASING**

COMMERCIAL REAL ESTATE

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The real estate's economic value continuously increases amidst the changing world. Even though it is sensitive to economic crises, it can easily recuperate. It is an ever-growing and an ever-expanding industry worldwide. That is why it remains a superior investment among others.

The world is in the middle of an advancing economy. With it comes rapid population growth, expanding cities, and social change. The world's urbanization will heighten the demand for real estate, especially commercial ones.

Commercial real estate is any real property that garners profit. Commercial spaces like office buildings, factories, and warehouses are examples of this. Simply put, it is an income-producing property.

Commercial real estate can generate a profit by utilizing income and appreciation. Its earning potential makes it an appealing investment to entrepreneurs and businesspersons.

The emerging economy increases the demand for commercial properties. Logically, more and more people will want to invest in it. But, its evolving industry is hard to navigate without basic knowledge in its field.

Big decisions like whether to buy or lease are always tough to make. Learn the pros and cons of buying and leasing in commercial real estate.

# BUYING VERSUS LEASING

Whether to buy or lease is always a dilemma especially for small-scale businesses. The business itself is already a risk that is why this is a tough call to make. This is the difference between the two:

Buying a commercial property means purchasing it with cash or financing it with a loan from a seller. After paying off the loan, you now have outright ownership of the property. Leasing a commercial estate means renting the property from its owner. A set of renting terms will mediate the two of you.

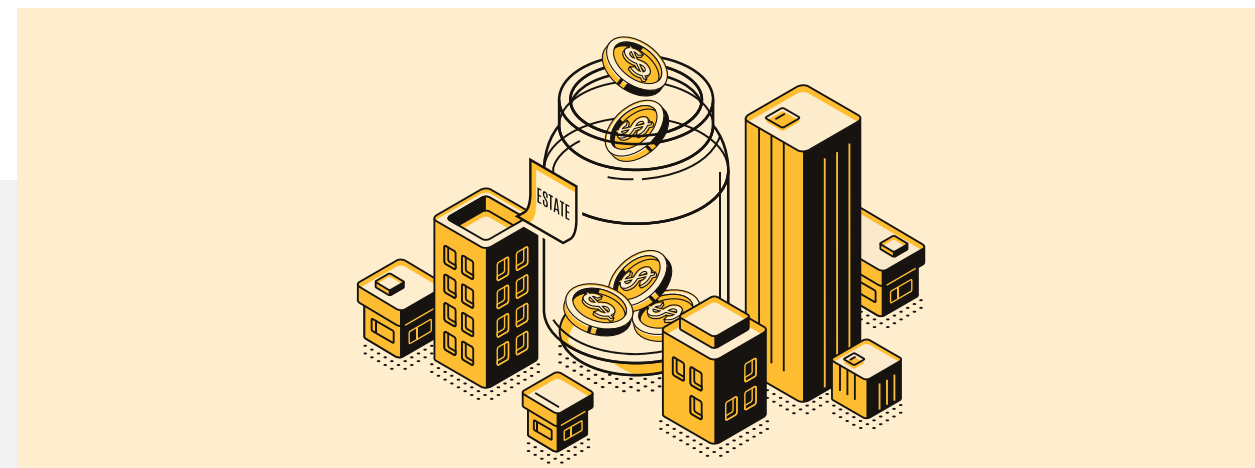
## THE PROS AND CONS OF BUYING

Commercial real estate is a long-term asset. Buying a commercial property is a smart decision but it is not without challenges. The benefits of buying include:

### 1: EQUITY

Paying in cash grants you sole ownership of the commercial property. You can also build equity even if you buy a property by financing a loan. By paying down your principal loan, your ownership stake increases. Your equity in the property will help you in future selling or refinancing matters.

For most entrepreneurs, building equity is important. This is why they often choose to buy instead of leasing a commercial property.



### 2: APPRECIATION AND ADDED VALUE

Commercial real estate appreciates over time. It means that your property's value increases with time. You can take advantage of it when you eventually decide to sell your property.

Yes, property appreciation does depend on many variables. But, a commercial property with a great demographic and geographical location is always in demand.

The "value-add" approach is also a great way to increase your property's value. Any improvements or updates you made to your property before selling will boost its selling price in the future.

### 3: RENTAL INCOME

After buying a commercial property, you can opt to lease it out to other tenants. Say, you bought a commercial building. You can rent out the remaining space to tenants like retailers, boutique owners, or businesses that need office spaces.

An investment like this can secure your future financial needs. With the right strategy, you are all set until retirement.

### 4: TAX BENEFIT

You can enjoy tax-deductible expenses like depreciation, interest, and non-mortgage related expenses. These tax breaks can help you save money in the long run.



## 5: CONTROL

As the property owner, you are not bound by limits, restrictions, and rental increases. Landlord woes are none of your concern. Your property is at your full disposal.

The decision to expand your growing business is solely up to you. Future upgrades that will improve your business, need only your permission. This is one of the major perks of owning a property - total control over your business. Buying a commercial property comes with challenges like:

### 1: High upfront spending

In buying a commercial property, you will need to get a larger upfront cost for your down payment, closing costs, and due diligence fees. This is a huge capital requirement compared to renting a commercial property.

### 2: Post-purchase costs

As the property owner, the responsibility of paying for its property tax, insurance, and others goes to you. You will also need to pay for operating and compliance costs depending on the type of commercial property you bought.

This also means an increase in liability. You need a liability insurance policy that needs to protect yourself from future legal problems. If you chose to lease it out to other tenants, you need to pay again for more insurances. You need to be ready for the taxing responsibilities that come with being a commercial real estate owner.

### 3: Less flexibility

You are in it for the long haul. The mortgage and the property itself ties you down to one place. It is hard to move or expand to a new location since real properties are illiquid investments.



## THE PROS AND CONS OF LEASING

Leasing for commercial real estate is a sensible option especially for startup and small businesses. The benefits of leasing include:

### 1: NO DOWN PAYMENT

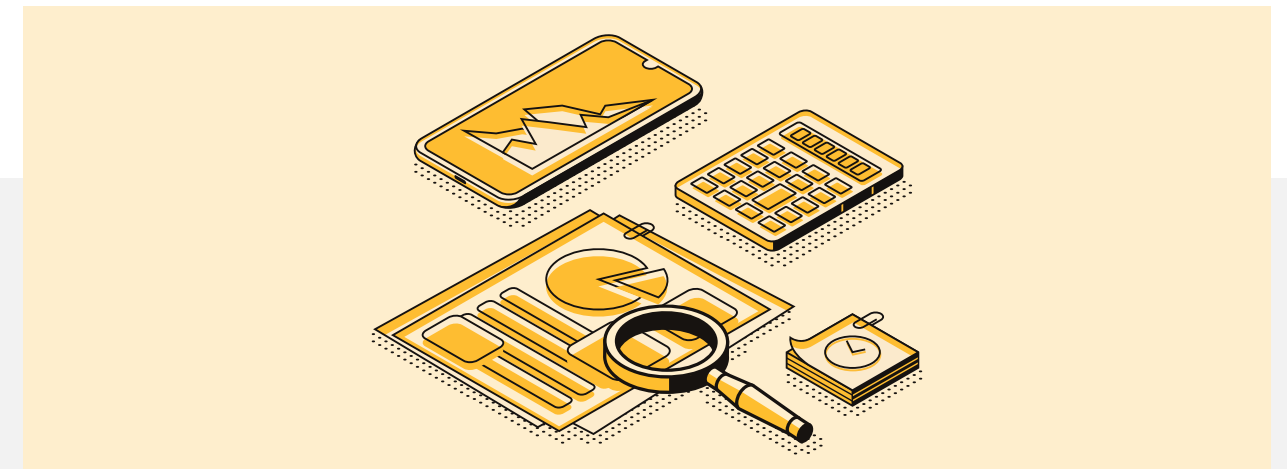
Buying a commercial property comes with a huge chunk of money. For starters, you need to make a down payment of 10 to 40 percent of the property's total value. Add to that the property tax, insurance, and other upkeep costs to pay.

Leasing a commercial property helps you save a sizable amount of capital money. You only need to put down a deposit for your rent, then that's it. This allows you to invest more money into your business.

### 2: FEWER RESPONSIBILITIES

As opposed to buying, leasing a commercial property can save you from a lot of property responsibilities. The landlord handles every issue regarding the leased property. These include building maintenance, repairs, and complaints.

Managing a building is a demanding and time-consuming responsibility. Leasing frees you a lot of time to focus on your business instead.



### 3: DESIRABLE LOCATION

Most businesses consider location as a huge factor in their success. Bustling cities usually have a declining number of commercial real estate for sale. Having only to lease a property gives you an option to choose the perfect location for your business. It gives you the chance to consider the demographical and geographical factors in choosing your business' location.

### 4: FLEXIBILITY

Property limitations like size, space, and zoning restrictions are major drawbacks for a growing company. Leasing a commercial real estate gives you the flexibility that an expanding enterprise needs. It gives you room to grow and a chance to get extra space when you need it.

Leasing does not tie you down to property as buying does. The disadvantages of leasing include:

#### 1: Lack of equity

Monthly payments does not help you build equity. At the end of the day, it will not make you the owner of the property.

Even the most disciplined and well-thought-out business plans can fail. Once your business flops, you will be left without a business and an investment.



#### 2: Post-purchase costs

Commercial real estate leases involve complex contracts and negotiations. Upon contract renewal, your landlord can subject you to an increase in annual or monthly rent. Rent hikes are common, especially in industrialized locations.

Exorbitant rents leave you no choice but to relocate. Forced relocation is a major setback for your enterprise. It is expensive and disruptive to all your business operations.

Buying a commercial property with a fixed mortgage rate does not increase over time. It does not rely on negotiations and contracts that can change within a year.

#### 3: Lack of control

Since you are not the owner of the property, customizations cannot be done without the approval of the landlord. Also, any improvements and upgrades you made to your space will only benefit the landlord and not you. All the hard cost space additions go to waste and added value goes to the landlord.

Decisions regarding the leased space rely solely on your landlord. Improvements that are crucial to your business' further success cannot be met unless approved by the landlord.

#### 3: Missed Opportunities

You miss out on a lot of income opportunities like rental income. You also miss out on the opportunity of obtaining an investment that benefits you in the future. During your retirement days, owning a commercial property provides you a steady income and money in the bank.



## CONCLUSION

A variety of factors do affect the decision on whether to buy or lease a commercial real estate. The cost, money, and purpose are all crucial in big decisions like this. After all, business is always a risk. Some are just worth taking.

But bear in mind that real estate is a lifetime investment. Its lucrative potential alone makes it a priced asset to investors. The decision to buy a commercial property today will benefit you for the rest of your life. The future is uncertain but the bigger picture is always the one worth seeing.

Today's modern economic advancement is a good opportunity to capitalize on the commercial real estate industry. Investments like this are worth the risk.



## ABOUT CIVE

CIVE is a premier upscale design build firm, specializing in state of the art residential & commercial design, leading edge engineering, high quality construction and elite project management.

Our strengths lie in a rich mix of talent, experience and ingenuity. Our clients can depend on CIVE to anticipate industry change and plan for the future, while providing most practical and cost effective solutions. CIVE devotes customized, individual service to all of its clients, whether large or small.

Specialties: Residential & commercial design, civil engineering, structural engineering, mechanical engineering, electrical engineering, construction management & project management.



Corporate Headquarters  
5444 Westheimer Rd, Suite 1440  
Houston, Texas 77056  
Phone : 281-870-8727  
Fax : 281-870-8728  
Toll Free : 1-800-979-4442

