



NEW YORK REAL ESTATE JOURNAL

Tuesday, July 13, 1999

COVERING THE ENTIRE STATE OF NEW YORK

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To own rather than pay rent - many variables must be considered

This is but a brief overview into a complex subject - to own rather than pay rent. Many variables must be considered and each company's needs are different; however, the benefits of owning should not be forgone simply because of the complexity of the decision.



1) Benefits of Owning

Tax Sheltering - real estate offers one of the only IRS approved tax shelters through the deduction of interest and depreciation costs. Before taxable income is realized - interest and depreciation costs are deducted from the gross income. The higher the tax bracket the more important this benefit is when comparing real estate to other non-shelter investments.

Equity and Appreciation - Real estate appreciation is a porcupinish subject. However, equity is fairly clear-cut. With leasing you also know you have nothing after 10 years. After 10 years of ownership you will start to have considerable equity buildup with the prospect of rapidly increasing equity thereafter. Additionally, except for brief blips on the historical radar screen, real estate has appreciated and unless we have a population and economic implosion, it will continue to do so for the most basic of economic principles - supply vs. demand.

Leverage - contrary to popular opin-

ion, leverage is not necessarily bad. It is how it is managed that counts. Because you are able to finance between 75% and 90% of the project you are able to acquire an asset with much greater worth than your initial investment. Additionally, there is a synergy in your ability to deduct the interest costs and the ability to acquire an asset of increased value. The danger of leverage comes in when it is based on questionable rents or creditworthiness of the tenants. These issues are not a factor if the building is primarily owner-occupied. In buildings that have a large contingent of other tenants these issues can be mitigated by attracting quality credit tenants, using less leverage, paying less for the asset, and being conservative in the building's proforma.

Prestige - Nothing else can come close to conveying the image of stability than owning your own HQ facility. It says your company is here to stay.

Control - Microsoft has cappuccino bars and basketball courts for their employees - want to do something special, you will need control. Control also allows you to improve the asset, thereby improving its value. Compare this to investing in stocks in which you can only guess which stock will outperform another, but have no direct control on its value.

2) Benefits of Leasing

Flexibility - though that is changing in a tightening market. Obviously leasing offers the advantage of a shorter term of maybe five years. However, with a

tightening market, many landlords are shying away from lease terms of less than ten years.

A hybrid solution if your company needs flexibility is to own the facilities that house the core of your business and lease facilities for the business units that have the need for flexibility.

Lower Cash Requirements - obviously, leasing requires less initial investment. Additionally evaluate the return on investment (ROI) that the real estate provides vs. the ROI you achieve by investing in your company. If the projected ROI on the real estate purchase is 12% and you can achieve 20% by keeping that money in your business then your decision is clear.

Easier to Locate Good Sites - in many markets, professional landlords and REITS have acquired the key sites. This should not preclude a purchase decision if it makes sense, as there is almost always at least one suitable site available in a given market, however, leasing will almost always offer more choices.

Ownership can offer significant benefits, but requires intricate analysis. Expert advice is available through CCIM members that are highly trained and tested in the complexities of investment real estate. Additionally, you can e-mail me with specific questions at donc@CRETbol.com.

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Reprinted by the New York Real Estate Journal