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LOCAL REAL ESTATE, HOME BUILDERS, AND DESIGN TRENDS

HOME STYLE

ISSUE 1

MAY 22 – 28, 2016

BETTY BLEA WORKED HARD TO WIN

RISING MEDIAN HOME PRICES

EVERY OPEN HOUSE THIS WEEK

GREATER ALBUQUERQUE & SANTA FE

AlbuquerqueJournal

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EDITOR
LAUREN ROLLS

BUSINESS DEVELOPMENT
JORGE LOPEZ

DESIGN
BYRON HUGHEY

FOR ADVERTISING, MORE INFORMATION OR ADDITIONAL COPIES

Contact Jorge Lopez
505.823.3393
jalopez@abqjournal.com

ALBUQUERQUE JOURNAL
7777 JEFFERSON ST. NE
ALBUQUERQUE, NM 87109

505.823.7777
HOMESTYLE@AQBJOURNAL.COM

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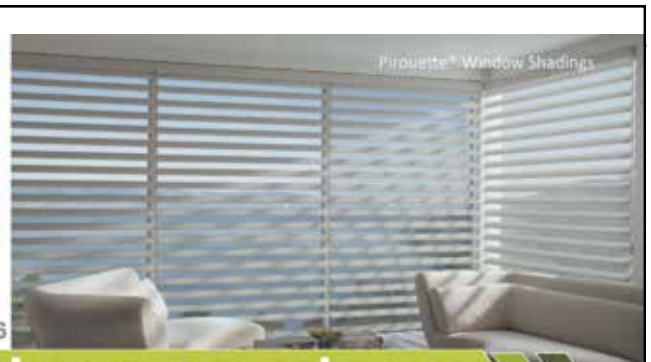

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COMMERCIAL REAL ESTATE

A BUSINESS OWNER'S DILEMMA:

BUYING VS. LEASING REAL ESTATE

BY JIM WIBLE DIRECTOR, NAI MAESTAS & WARD

IN PARTNERSHIP WITH CARNM COMMERCIAL ASSOCIATION OF REALTORS® NEW MEXICO

THERE ARE MANY DECISIONS BUSINESS OWNERS FACE and few have as wide ranging impact as whether to own or lease their real estate. A general rule of thumb (and math) indicates that if the business will be in the same location for seven years or more, then buying is generally a more cost effective solution than leasing.

Buying is going to cost more upfront compared to leasing. It is a strategic business decision to tie up money to finance a purchase and obtain a mortgage. The business owner must also answer the question of whether the business would be better off purchasing real estate or would that money be better spent if they invested it in growing the business instead? Business owners should also consider factors like the possibility that they could outgrow the space and need to move in the next few years.

Upfront, buying costs more than leasing typically due to the down payment which can range anywhere from ten percent to twenty-five percent of the purchase price. There is an opportunity cost to this down payment as these funds are no longer available to invest to grow the business. Upfront costs for leasing generally require a much smaller investment in the nature of a security deposit.

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There are many similarities in overall occupancy cost for a business in both the buy and lease scenarios. In a purchase, costs will be associated with mortgage principal and interest, insurance, maintenance, taxes and utilities. In a lease, there are similar cost components but the structure varies. Depending on the form of the lease, cost components range from rent, insurance, maintenance, taxes and utilities to a structure with just gross rent. There are many variations in between. If you purchase a property, most often business owners will have responsibility for the maintenance of the property and all the costs associated with the maintenance.

If both options of purchasing or leasing are available for a particular location, a detailed analysis can be performed that shows the overall before and after tax costs of purchasing compared to the before and after tax costs of leasing.

With regard to tax savings, purchasing real estate allows the business owner to deduct the mortgage interest expenses, costs for maintenance and non-cash expenses like depreciation. Leasing generally allows the business owner to deduct all the leasing costs. Business owners should consult with an accountant for details to their specific situation.

Health care practices that have traditionally occupied the same location for many years often had great benefits from purchasing. This is changing as the delivery of health care changes, and now this question is less clear.

Both buying and leasing are likely to have some component of legal fees, either reviewing/drafting contracts and working through a purchase transaction or reviewing/drafting leases and working through a lease transaction. Your attorney is also an important member of your team.

Both buying and leasing can have some costs with inspection of the site or property.

A major difference in buying versus leasing is the opportunity for equity gain in ownership, especially over a longer length of time. This is where the old adage of location, location, location comes into play. The equity gain can be exceptional if the owner can benefit from paying down the mortgage and from property appreciation.

Engaging in conversation with a qualified commercial real estate broker will help the business owner answer these questions. The qualified real estate broker should be on your consultant team similar to that of an accountant and attorney. All these individuals have specialized knowledge that together help the business owner make the best decisions for the health of the enterprise.

MARKET SUMMARY – APRIL 2016

NEW MEXICO

12.2 MILLION SQ. FT.
COMMERCIAL SPACE FOR SALE

13.1 MILLION SQ. FT.
COMMERCIAL SPACE FOR LEASE

28,753 ACRES
LAND & FARM FOR SALE

$2.1 BILLION
TOTAL SALE PRICE

CURRENT STATISTICS FOR NEW MEXICO

PROPERTY TYPE	LISTINGS	ASKING LEASE RATE	ASKING SALE PRICE
INDUSTRIAL	451	$6.45 PSF	$59.06 PSF
OFFICE	1303	$15.50 PSF	$82.09 PSF
RETAIL–COMMERCIAL	835	$14.54 PSF	$124.91 PSF
SHOPPING CENTER	513	$16.45 PSF	$107.76 PSF
VACANT LAND	994	$3.51 PSF	$0.91 PSF
FARM/RANCH	9	–	$0.04 PSF
HOSPITALITY	14	–	$62.37 PSF
MULTI–FAMILY	68	–	$64.22 PSF

STATISTICS COURTESY OF CARNM COMMERCIAL ASSOCIATION OF REALTORS® NEW MEXICO

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