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Five Reasons to Consider Purchasing Property Now

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by Eric Gold

A Theodore Roosevelt quote could be the guideline for those who sell real estate.

He said, “Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth.”

Seems a bit long-winded, even for Teddy Roosevelt. While the core premise is sound, most owner-users of commercial real estate almost certainly would disagree with it — or should.

That’s because the “investment” in one’s business almost always creates higher rates of return than the investment in the real estate alone.

To put it another way, it’s better for a business to own its own space — not as a safe investment, but as a means to increase its cash flow.

Here are five reasons why:

• **Tenants pay for buildings, not landlords** — That’s the essence of leasing, of course. Tenants pay rent, and rent eventually pays for the landlord’s building. It’s a little more complicated than that, but not much.

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Lease rates are always at the whim of the market, and the laws of supply and demand. Some leases even have clauses calling for increases based on annual consumer and cost-of-living indices.

While the owner-user does have to incur costs such as a down payment and perhaps capital improvements to the building, subsequent year-to-year costs for the life of the loan usually are both stable and predictable.

• The window always closes — Purchasing real estate is very much about timing. That’s not a news flash. Still, far too many buyers fail to strike when prices hit bottom.

It obviously behooves a business owner to seek purchase options when market conditions are most favorable. In metro Denver, that time is now. Commercial real estate values have dropped 40 percent or more in the last two years. Replacement costs are still prohibitively high. The window is open, but it won’t be open forever.

Undervalued properties always will attract the attention of multiple buyers. Perhaps the biggest mistake an owner-user can make when considering a purchase is trying to predict the bottom of the market.

• **Financing just isn’t what it used to be** — That’s a very good thing, actually. After a slow and painful period of overcorrection, the credit markets finally have begun to prudently lend money, especially to lower-risk entities such as commercial owner-occupants.

Favorable financing vehicles are just as available to a boutique-style user seeking 500 square feet as they are to a 500-employee, Class A office tenant. Smaller users may even have the upper hand.

A wide range of conventional loans are available with 20 percent down.

The Small Business Administration will make loans for as little as 10 percent down on a fully amortized 25-year note for users who will occupy 51 percent or more of the purchased property. And contrary to popular belief, most of those loans are being delivered with very reasonable approval and closing times.

• **An asset always will appreciate** — Yes, it’s true. It will happen. Owner-occupants in it for the long haul — for at least 10 years — will see the property appreciate.

Writing off interest on the loan, depreciating the value and fixing occupancy costs are all factors that boost appreciation while locking in control of cumulative business expenses.

When the loan is paid off, those occupancy costs will drop significantly. Again, successful owner-users leverage the appreciation of their real estate as a means to increase cash flow while decreasing operating expenses.

• **Ownership offers options** — There’s an argument to be made that leasing offers the most flexibility for any given small-to-midsized business. It’s the best way for a company to stay nimble, stay ahead of market cycles, forecast volatility and avoid it.

The thing is, ownership offers similar options while stripping away the associated risks.

When an owner-user finds the right property in the right market at the right time, it instantaneously seizes control of its immediate and long-term facilities future.

After all, nobody can forecast, with any certainty, what this or any other market will look like in three, five or 10 years, when the typical lease expires.

At the very least, ownership removes that variable, that uncertainty.

Additionally, an owner-user can choose to jump into the real estate business by purchasing a space with ample room to expand its own operations or lease the surplus to one or more tenants.

In the latter instance, the owner-occupant, as landlord, controls both lease rates and tenant-finish improvements. The income from rent, of course, can be used to pay down occupancy costs.

There are countless models out there that analyze fixed/variable cost ratios, and other indices and matrices associated with ownership.

If you’re a business owner considering buying, due diligence always should be your primary responsibility.

There’s some risk, especially with a venture of this magnitude. But the long-term financial benefits and pride of ownership easily will outweigh any of those, especially in a market as favorable as this one.

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