



FOR SALE OR LEASE?

**The Pros and Cons of Ownership
vs a Commercial Lease**

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For Sale or For Lease?

What You'll Learn

Disclaimer: First and foremost, you should consult a professional financial advisor/planner who is familiar with your business when considering commercial property purchase or leasing.

To Buy or Lease? As a business owner of a dental or healthcare clinic, that's the questions. It's one of those basic principles of success that every budding business person has drilled in them from the very beginning - if you want to be successful, you must own your own property.

Property ownership is often billed as one of those basic principles of success. However, the old one-size-fits-all paradigm of buying rather than leasing is not necessarily the best decision at this time for your practice.

Whether you are opening a new practice, or simply moving an existing one, the decision between **leasing versus buying property** is not an easy one. A number of factors need to be considered before choosing which model is best for your practice.

Choosing wisely, and your practice will flourish. Choose poorly, and your practice may flounder, weighed down by the financial fallout of making the wrong decision. From finances to location, ownership responsibilities to long-range business goals, the number of factors that must be carefully considered before choosing the right property. The decision-making process can be both confusing and intimidation to the non-initiated.



In this guide, we hope to dispel some of that confusion, while giving you the tools and information you need to make the right decision for your practice.

A key point to keep in mind is that choosing the right property for your practice is not about just choosing what is best for today, but what will be best for the future. Where you lease or buy, your location will play a key factor in setting the tone for your practice, and can have a tremendous impact – intentional and unintentional – on your future success.

This impact can range from the basics, such as suitability, ease of access and patient perception of your practice, to equally important concerns such as security, safety, and sustainability.

We'll begin our discussion with a look at the financial responsibilities and the pros and cons of purchasing property. Later we'll take a look at advantages and disadvantages of leasing property before moving on to a brief rundown of the most important factors you need to consider before choosing which model best fits your particular situation.

Let's get started.



The Financial Commitment of the Buyer

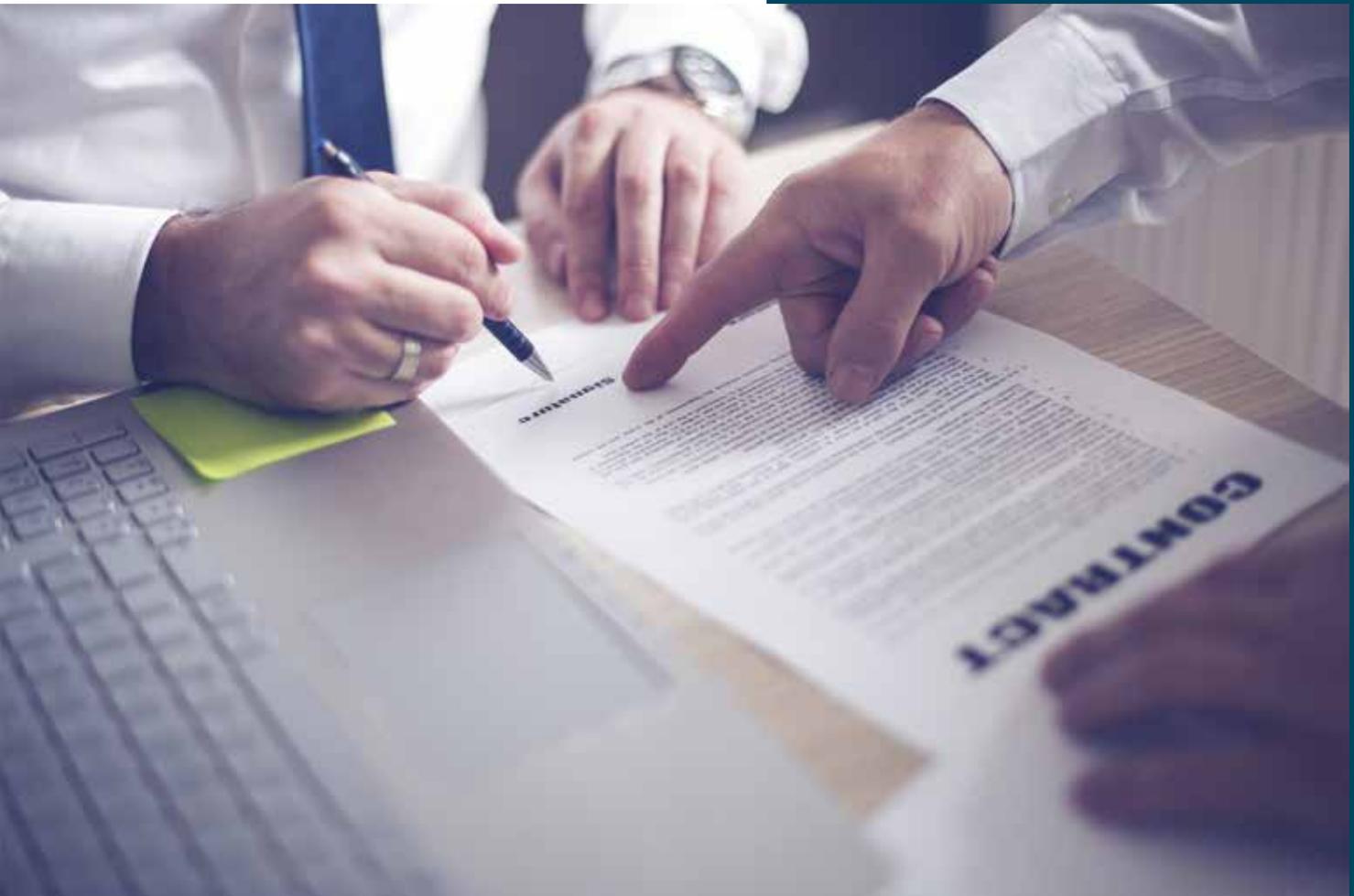
The decision to buy a commercial property for your clinic or practice is not a decision that should be entered into lightly. Purchasing commercial property is a serious step for any business, and one that should be undertaken after carefully considering all the ramifications.

The most important consideration is the financial commitment.

The financial commitment of purchasing commercial property is far greater than the financial commitment of leasing. For instance, most commercial property purchases require **minimum down payment of 25%** of the total purchase price of the property.

For instance, a commercial property valued at \$250,000 would require an immediate, out-of-pocket down payment of at least \$62,500. This is in addition to all other closing costs and legal fees associated with purchasing a property.

Of course, purchasing the property is only the beginning of your commitment. Property taxes and ongoing upkeep and related expenses (such as landscaping) also need to be factored into the purchase.



The Pros of Purchasing

The key reason to purchase commercial property is to add asset value to the practice when the day comes to sell the business or alternatively offers you (as the property owner) the opportunity to sell the practice and retain the property ownership and collect rent from the new business owner.

Additionally, knowing one has ownership of their business proper is the only way to secure peace of mind mentality knowing their business is secure and free from the perils of the landlord's issues and problems.



Ongoing Financial Responsibility

However, the one major downside of buying (versus leasing) – the ongoing upkeep, repairs, and the many expected expenses that frequently crop up are the sole responsibility of the owner. For leaseholders, that would mostly be the responsibility of the landlord, not the tenant.

In addition, any remodeling or building modifications needed to make the building better suited for a medical or dental facility, such as additional plumbing, networking, or electrical wiring can also add to your property acquisition budget.

Leasing TIP

Landlord Incentives for leasehold improvements; You should always inquire about leasehold incentives when leasing a commercial space for your practice. Some landlords will offer leasehold improvement incentives for their CLASS 'A' tenants, where they will reimburse you a set amount (determined at the negotiating stage) for the cost of the leasehold (construction) improvements.

Credit History

Purchasing commercial property also requires a good, established credit history, which can be a problem for a new practice. Commercial lender will also usually require you to submit a special credit worthiness report from a certified public accountant verifying that you are financially sound before extending the credit needed for the purchase.

Due to the significant financial commitment of purchasing a commercial property, it is normally not something that should be undertaken by a new or relatively young medical or dental practice.

Fortunes can change very quickly for a new practice, as can the needs of the practice. A facility that you purchase today may very well be inadequate for your future needs or, even worse, may add an undue financial burden that can cripple your future growth potential.

Property purchase is best left to well-established practices with the deep financial reserves needed to bear the burden of debt it will impose on the practice. Alternatively, a relatively new practice with two or more partners who can jointly bear the financial burden may also consider property purchase.

However, for nearly all new practices, leasing will offer the financial flexibility needed to flourish during those first lean years as the practice builds.

You may also want to **consider a lease-to-purchase option**, which has the added benefit of allowing you to 'lock down' a property while working towards the day when you can purchase it. We'll take a look at this option later in our guide.

Leasing a Commercial Property

While property ownership is often the gold-standard goal of every business or practice for investment and business equity reasons, it is not always the right choice.

For many businesses, commercial property leasing is a more attractive option. This is especially true for medical and dental practices, and for a number of very important reasons.

Just Starting Out?

Building a successful practice requires a tremendous commitment of both time and financial resources, which can leave little of either to devote to the purchase and upkeep of a commercial property. For this reason, a new practice or a young practice which is still attempting to become established and profitable will find buying a commercial property to be a very uncertain choice.



The Flexibility of Leasing Options

In comparison, leased property carries very few of these expenses or liabilities, while giving you considerable financial flexibility that can play a key role in your clinic's success.

For instance, if you are a property owner and sudden disaster strikes – such as a burst water main at 3 a.m. – you are financially responsible for any repairs or renovations needed to deal with the resulting damages. In comparison, a tenant would bear none of this cost or responsibilities.

Leasing also gives your practice considerably flexibility should you decide to relocate to a more desirable location. While breaking or ending a lease may be costly – your lease should include provisions to allow you to relocate at a minimal financial impact – it should far less costly than moving to a new location while still making payments on a location you are no longer using.

In our next section, we'll take a look at what factors to consider to determine if leasing is the right choice for you.



Other Considerations

First and foremost you should consult a professional financial advisor/planner who is familiar with your business when considering commercial property purchase or leasing.

As you may have noticed, the one common thread that runs through much of our discussion of the pros and cons of leasing or purchasing commercial property for business or clinic can be summarized with one word: money. Or, rather, financial commitment and the resources needed to handle various levels of financial commitment as typified in your typical lease versus buy decision.

While finances are of paramount important when deciding, which option is best for your particular situation, there are also a number of other factors that you will need to consider.

Where Size Matters?

One of these key factors is space. When picking a location for your clinic, you need to be very mindful of the fact that, as in most things in life, size matters when choosing a home for your practice.

How much space does your clinic need to operate comfortable? More importantly, how much space will you need five years from now? How about ten years from now?

If you are leasing a property, your main concern is not just the amount of square footage you need now, but how much you anticipate needing during the life-time of the lease. If that space proves insufficient for your needs, you can simply move to a new location at the end of the lease, or, if necessary, break the lease and move to a location that is a better fit for your practice.



Looking to the Future

However, if you are purchasing a commercial property, you need to look much further into the future of your practice. While residential property loans generally run from 15-30 years, **commercial loans commonly run for seven to 20 years.** Meaning, your property should either meet your space and infrastructure requirement for that period or at least be capable of being expanded if needed to better accommodate your needs during that term.

Barring that, your options would be to make do with the space available or move to a larger facility, which can be a very costly proposition if you are still making payment on your current location.

However, at the same time, you need to be careful that you do not buy or lease more space than you need. Wasted space represents wasted resources – why heat, cool, illuminate or insure more space than you need? – and wasted money.

Work/Live Investments

A growing trend in the Greater Toronto Area (GTA) is recent years, **builders and developers have been buying up smaller property lots in the GTA and promoting work/live investments.** This is an ideal investment for someone looking for a location in the city versus setting up their practice in the urban sprawl subdivisions.

Lease - to - Purchase Options

Finally, what is the best option for a practice that is not ready to purchase now, but would like to have that option in the near future? For those practices, a lease-to-purchase property can provide a relatively painless, best-of-both-worlds proposition.

Lease-to-purchase options usually apply to commercial properties owned by single owners who may consider taking **lease payments counted towards purchase of the property if the tenant decides they would like to purchase the property**. This arrangement is not usually offered by Builders/Developer conglomerates.

Depending on the particular terms of the lease, the tenant generally has the right at the end of the lease to either renew the lease and continue with lease-to-purchase payments, finance the balance of the purchase price and buy the property, or simply walk away from the lease.

Under this arrangement, prior lease payment is generally not counted towards the purchase price, but the lesor does have the right to purchase the property rather than have it sold to a new owner or landlord.

Purchase Conditions to Consider,

Is the 'first right of refusal' to purchase the property. Under the first right of refusal, the property owner is simply agreeing to give the you the tenant, first rights to purchase the property – at an agreed price – if at any point during the lease the property owner decides to sell the property. Under this arrangement, prior lease payments are generally not counted towards the purchase price, but the lesor does have the right to purchase the property rather than have it sold to a new owner or landlord.

Final Thoughts

Now that we've taken a detailed look at the many pros and cons of both purchasing commercial property and leasing commercial property, the next step is up to you.

Both options have clear advantages, and both options have clear disadvantages. Leasing gives you enormous flexibility and frees your practice from many of the financial and practical commitments that may be out of reach of small or relatively new practices. From the financial uncertainties of juggling a new practice to the financial commitments of finance a commercial property purchase to the ongoing liabilities of taxes, upkeep and property insurance, leasing may be the obvious choice for your practice.

However, at the same time, purchasing a facility for your practice gives you much more control over your destiny by giving your practice control over the place it calls home, but brings with it both the opportunities that come with controlling your own property and the enormous responsibilities of maintaining property. As a property owner,

repairs, upkeep, insurance, and the many associated costs that come with property ownership are solely your responsibility, and, when accidents happen, there is no landlord to bail you out. As a property owner, you are in effect your own landlord.

Leasing gives you freedom, flexibility, and a much lower financial commitment, while property ownership gives you responsibility, equity and a measure of autonomy that can pay big dividends in the future.

It is not an easy decision to make, and it is one that will definitely have long-lasting impact on the future of your practice.

Ultimately, the only right decision is the decision that you feel is right for you. There is no real right or wrong answer, just the right answer for you.

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