

Price doesn't always matter; hear me out

This could be the shortest column EVER!

Of course, price is important. End of story.

But, because I have a bit more space, allow me to offer some arguments as to why price is not important. As we've discussed, buyers

of commercial real estate either buy to occupy (owner-occupant) or buy to collect the rents as income (investor). In the latter case, no relationship exists between the owner and the occupant — it's strictly arm's length. Counter with the former as an owner-operated business will soon be housed.

With this as a backdrop, in what circumstances would price not matter?

Utility trumps all. Currently, I've got a client who leases a good-size space for his distribution business. His lease expires in a year and he wants to buy a building from which to operate. While understanding his motivation, he explained, the new footprint will allow him to triple his revenue.

Owning a facility twice the size of his leased premises will cost him more, but not as much as the inability to expand his revenue. Plus, these are young



Price matters in commercial real estate, but it might not be the first consideration when factors like tax liabilities, interest rates and investor time horizon are part of the picture.

businessmen. They see the bigger building accommodating their growth for many years. Does price matter? Not in the face of the alternative — stymieing the sales pop!

Tax impact. Many times

an investor will find himself in a pickle. You see, he sold a piece of commercial real estate and must now buy another lest he pay a significant chunk of his equity to the government. I've seen extreme exam-

ples where the potential tax exceeds the sale proceeds. Does price matter? No! Just help me defer my tax obligation.

The hold horizon is longer. When I started my commercial real estate ca-

reer, Wham! was rockin' the airwaves, the price of a 50,000-square-foot industrial building was around \$2.5 million. The same 50,000-square-foot building today weighs in closer to \$11.5. Wham is right!

So that buyer in 1984 who had heartburn over a few thousand dollars is now kicking himself. Does price matter? No. Just don't ever sell.

Financing is attractive. We have benefited from Eisenhower-era interest rates for several years. The days of double-digit borrowing costs we saw in the early 1980s have been usurped by rates in the low 4% range. If you can buy today, lock in financing at record low rates for 25 years. Why not? Does price matter? Not when the payment is close to what you would pay in rent.

After-tax benefits. Owners of commercial real estate are afforded many ways to reduce their taxable income: depreciation. Each year as a property owner you're able to deduct a percentage of the structure's value. Certain expenses related to the operation of the real estate are also deductible. The costs associated with re-tenanting should be considered. Mortgage interest? Yep. Does price matter? Not when you analyze the after-tax reality.

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