

You own, and you're moving – do you lease or sell?

Recently, I authored a post where I discussed making ends meet in a commercial real estate deal.

During my discussion, I grazed on a topic that get a larger nudge today: If you own your building and have elected to relocate, should you lease or sell the vacant building you leave behind?

A move generally is bittersweet – a cause for celebration because an increase in business created the need for more space. Good for you! But, the additional sales spawned another problem: You're creating a vacancy. Now what?

In short, the direction you choose in dealing with the excess space and filling the vacancy depends on several factors. Indulge me while I dissect a few of them.



**ALLEN
BUCHANAN**
CONTRIBUTING
COLUMNIST

The structure of your new deal. Are you buying the new building, leasing the new building or leasing the new building with an option to buy the new building at a later date? Chances are, if you desire to own the new spot and don't have a pile of cash lying around, you will need to sell the building you're vacating. Conversely, if your next space will be leased, you may be able to hold on to the old address.

Your desire to be a landlord. Owning and managing a leased building occupied by a company – not your own – comes with a set of headaches and not necessarily a bottle of aspirin. Some of the painful biggies: Who will vet the credit of the new occupant, what if the new guy fails to pay, can you float a lack of rent while you scour the market for a

suitable occupant?

Can you afford to lease the existing building? Here is what I mean and how I counsel companies facing this decision. The market is the market. Prospective tenants will only pay you a rent figure for your building based on what has leased recently and what other buildings are demanding in rent.

So now you must roll up your sleeves, compute your costs to own the building (mortgage payments, property taxes, insurance and maintenance), add a reasonable return for the equity you have in the building, and see where that squares with the market rent. You may believe yours is worth more. Maybe, but are you willing to wait? Remember, waiting is expensive. Lost rent for all the months you wait can never be recouped.

Do you require the vacant building's equity to fund the new location? This one is easy. I recently represented a group based in Whittier. So far past the building's capacity was their operation we practically had to meet in the parking lot. I advised the company to move out, lease a new location with an option to buy, sell the original building and once sold, trade the equity into the new building. Had this company not wanted to own the new location – thus the equity wasn't needed – the advice might have varied and a lease of the relinquished building considered.

Allen Buchanan is a principal and commercial real estate broker at Lee & Associates, Orange. He can be reached at 714.564.7104 or abuchanan@lee-associates.com.

His website is allencbuchanan.com