

# LEASE VS. OWN Considerations

Owning real estate, as opposed to more traditional leasing, can be a key strategic opportunity for certain occupiers.

## Influencing Factors



## SBA Financing

- SBA 504 Loans can provide up to **\$5M** in financing for the purchase, renovation or construction of commercial real estate.
- While SBA loans cap out at **\$5M**, the total Project Cost can exceed **\$15M** whereby additional bridge financing is secured by the First Mortgage (banking institution).
- **Do You Qualify?** Your business must have a net worth less than **\$15M** and an average net profit of less than **\$5M** over last two years.
- **Down Payment.** A typical down payment for an SBA 504 loan is **10%**. Start-up businesses or special-purpose buildings require **15-20%** equity.

## Sample Financing Scenario

Fund Source	Project Cost	Typical Structure	Interest Rate	Maturity
First Mortgage (Bank)	\$2.5M	50%	Fixed or Variable	10 to 30 years
Second Mortgage (SBA Loan)	\$2.0M	40%	20-year Fixed	20 years, fully amortized
Down Payment (Business Owner)	\$500K	10%	N/A	N/A
<b>Total Project Cost</b>	<b>\$5.0M</b>	<b>100%</b>		

## Pros



Own	Lease
Maximum long-term operating control	Minimal responsibility for maintaining/repairing structure and building systems
Potential ability to modify/expand facility	No financial covenants
Various exit options available	Minimize P&L expense by tailoring rental structure
Potential upside associated with residual value and potential tax benefits	If not in the chain of title, may secure early buy-out option, providing flexibility equivalent to ownership subject to debt financing
Flexibility to relocate, refinance, and take advantage of appreciation in value	Frees up capital for investment elsewhere
Potential to build a bespoke building in line with the business needs - no compromises	Allows for more flexibility of changing space needs

## Cons



Responsibility for maintaining/insuring/repairing structure and building systems	Limited flexibility to expand/modify the facility or premises
Upfront initial investment required, opportunity cost of capital	Exit options limited to sublease or termination rights
Potential challenges in selling a bespoke building	Reinstatement expenses resulting in redundant equipment
Responsibility for any site contamination/remediation	Exposure to volatile market conditions
Direct exposure and management of City bureaucracy	No residual value at end of term



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