

Three CRE Questions with Alan Joel on the Own-Versus-Lease Decision

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It's an age-old question—to lease or to own—because the right answer can depend on many different factors. We spoke with Alan Joel, CCIM, Principal at Joel & Granot Real Estate/CORFAC International, Atlanta, Georgia, who has closed over 100 owner user sales in his career, to discuss some of the issues in the current environment.

Q: What factors drive a company's decision to own or lease the real estate they occupy?

A: There are often emotional issues involved, but as an advisor we try to avoid these problems and instead focus on breaking down the business and investment factors as those assets they are looking to buy as to how they relate to each client. For instance, a firm that's less than five years old we strongly suggest a lease for the purposes of saving capital and risk aversion reasons. The decision also depends on a company's expectations for growth and expansion, as well as its management structure—for instance, ownership would be complicated for a law firm where partners join and leave frequently and there are multiple decision makers .

Q: How do current market conditions—rental rates, vacancies, interest rates—affect the lease versus own decision?

A: When the leasing market tightens and rental rates increase, as we're seeing in Atlanta now, the value of buying becomes greater. Companies that want or need to own may be in a hurry to get deals done before interest rates rise (interest rates have been at historically low levels for several years and they will be going up) But one of the biggest factors in any market is that the number of options to purchase is usually very few compared to leasing. As a result, buyers often have to make compromises on terms or features that they could avoid by leasing.

Q: What role do brokers play today and how do they help companies make the right decision? How has that changed?

A: A good broker knows the market and understands the client's business and their plans for the future. At JGRE we provide our clients with not just information and advice so they know they're getting a market deal on space that advances their goals but we provide out of the box options that are not your everyday type of deals. The pace of change is fast in Atlanta and if your client doesn't have all the options or is unsure then you'll probably miss out on deals. JGRE has been involved in three successive sales of properties in Atlanta last quarter that were not on the market so we were able to be a market leader for our clients. With off-market properties you have to think "outside the expected."

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