Site ownership vs Site Leasing

NPTEL

Pros and Cons of Ownership Versus Leasing (1 of 2)

PROS:

- Freedom over concern with lease renewal or tough lease renewal negotiations with property owner
- Ability to write off depreciation (a non-cash expense)
- Possible capital appreciation from increased value of real estate
- Control over property maintenance

NPTEL

Pros and Cons of Ownership Versus Leasing (2 of 2)

CONS:

- Difficulty in securing locations in neighborhood, community and regional shopping centers
- Assets tied up in real estate could be used for retail expansion, inventory, store renovation
- Real estate activity can divert attention away from retail activities
- Difficulty in renting adjacent space or current space (if location is no longer desirable)

NPTEL

Terms of Occupancy Considerations

- Ownership versus leasing
- Type of lease
- Operations and maintenance costs
- Taxes
- Zoning restrictions
- Voluntary regulations

NPTEL

Examples of Lease Types

- **Straight**– $10,000 per month, 5 year term
- **Graduated**- $10,000 per month for years 1-5; then $12,000 per month for years 6-10.
- **Maintenance increase—**Retailer tenant responsible for one-half increase in property taxes and insurance based on a base year of current lease
- **Percentage**- Retailer tenant pays $10,000 per month plus 5 percent of sales. (Chain tenants, long leases)
- **Net lease-** Retailer tenant pays all expenses with respect to property upkeep except mortgage and structural repairs

Other Types of Lease Arrangements

- **Five year lease with option to renew**-- at either set rental or rental determined by real estate appraisers
- **Lease with option to buy—**often X months rent can be applied to purchase price
- **Sale-leaseback**-- Retailer sells property to investor and then leases it back
- **Good guy clause**-- Provides that the property owner will not enforce the personal guaranty for retail tenant as long as the tenant has vacated the premises and has paid all rent up to the date of termination. Property owner gets location back quickly without legal costs, retailers gets “off the hook” for lease balance.

NPTEL

Thank You

NPTEL