



CAN THE CREDENZA

Today's partner office (or certainly one from the past) typically had space for a couch or a small side table that would seat three or four people. This space was justified by the fact that lawyers needed to hold staff meetings. In the past, depending on the practice group and the seniority of the partner, the support staff might have been extensive. However, as technology has increased and the way law is practiced has changed, the number of staff per attorney has shrunk. Shrinking with it is the imperative for every office to have its own de facto conference space.

This shrinking of a conference room requirement is compounded by the fact that such a high percentage of offices are vacant on any given day. The efficient solution is to move the conference space out of the office (where at best it is used 75 percent of the time, though likely significantly less than that) to dedicated conference rooms—with tables, chairs, projectors, whiteboards, conference call speakers, video conference capabilities, all built into the infrastructure. To be sure, not all law firms will need an equal amount of confer-

ence space. Great care must be taken by law firm architects in determining the right mix of office space and conference space. But the result of this kind of study will yield significant cost savings and very likely increased productivity.

Assuming the changes discussed here are reasonable probabilities, it is also reasonable to suggest that a typical lawyer could be just as productive and just as comfortable in an office that is 10' x 10', as opposed to the model of 1985, where the norm might require two to three times that square footage. For a comparison, view the images of an office as it might have been in 1985 and another as it might be in 2020 (or sooner).

There are significant benefits to embracing the coming change. First and foremost, there will be substantial savings in terms of rental expense. This money may be used to benefit the firm in pure economic returns, perhaps reinvested in new technology that will enhance productivity (for example, going paperless). It may be used to take a smaller footprint in a more upscale building, which may yield better recruiting and

retention of talent—especially young talent who likely will be unconcerned by the size of their office and appreciate the more green approach taken by your firm.

There may be considerable resistance from older attorneys. When you grew up in an age where importance was measured in the size of your office, convincing that partner that all offices should be equal sized (and likely smaller than the office used by their paralegal of old) is an uphill battle. But once upon a time we all used travel agents and went to bookstores for our books; change is part of life. Most change is for the better, even when it must be adopted in the face of some kicking and screaming.

The key point to keep in mind is that the office space you lease today is likely to be an asset of your firm for at least the next decade. Or, if planning is poor, it may hamper efficiency, economics and competitiveness well after today's senior partners and executive committee members have retired. Great care and consideration should be taken in law firm choices, and how one chooses the team to advise you through this process. **AJ**

LAW FIRMS DECIDE Own or Lease?

BY BETH JO ZEITZER

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As our market recovers, with historically low pricing and interest rates, many attorneys and their clients ask whether it is better to own or lease their building. From a pricing perspective, in 2008, owner-occupied office, industrial and retail product averaged \$252 per square foot. Pricing steadily declined, and the average owner-occupied building was \$125 per square foot in the third quarter of 2013 (according to 2013 Co-Star data), with plenty of opportunities below this price range, as well. This current pricing is discounted 50 percent from 2008. And current average lease rates are only 30 percent less than the 2008 averages.

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OWN OR LEASE? —continued from p. 36

• Own •		
PURCHASE ASSUMPTIONS:		
Project Cost		\$400,000
START-UP COSTS		
Cash down payment (10.00%) (includes financed fees)		\$40,502
MONTHLY COSTS		
	Per Sq. Ft.	Amount
Mortgage payment	\$0.54	\$2,693
Operating costs	0.42	2,083
Association Dues	0.00	0
Total Monthly Costs	0.96	4,776
MONTHLY OWNERSHIP BENEFITS		
Monthly Depreciation estimate ⁽¹⁾		684
Tenant income		0
Monthly appreciation estimate: (3.00% annualized)		1,000
Total Ownership Benefits		1,684
TOTAL EFFECTIVE MONTHLY COST		\$3,092

• Lease •		
LEASE ASSUMPTIONS:		
Rent per square foot per month		\$1.25
Rent per month		\$6,250
START-UP COSTS		
Prepaid rent and security deposit (Equal to 2 months rent)		\$12,500
MONTHLY COSTS		
	Per Sq. Ft.	Amount
Rent payment	\$1.25	\$6,250
Operating costs	0.00	\$0
Association Dues	0.00	0
Total Monthly Costs	\$1.25	\$6,250
MONTHLY OWNERSHIP BENEFITS		
Monthly depreciation estimate:		N/A
Tenant income		N/A
Monthly appreciation estimate:		N/A
Total Ownership Benefits		N/A
TOTAL EFFECTIVE MONTHLY COST		\$6,250

• Property Value and Owner's Equity ⁽²⁾ •			
Time Period	Property Value	Loan Balance	EQUITY
Year 5	\$463,710	\$310,704	\$153,006
Year 10	\$537,567	\$229,726	\$307,841
Year 15	\$623,187	\$126,012	\$497,175
Year 20	\$722,444	(\$0)	\$722,444

⁽¹⁾ Depreciation is estimated based upon 80.0% allocation of purchase price to building cost that is depreciated over 39 years.

⁽²⁾ Owner's equity calculation assumes annual appreciation rate of 3.00% and a constant interest rate as outlined above. Rate may be subject to change.

The economics of owning versus leasing should always be at the forefront of this decision, along with several other factors examined here.

Cash Outlay. If you purchase a building, you typically can expect to make a down payment of between 10 percent and 25 percent, depending on the lender and your credit. There are numerous options for Small Business Administration (SBA) loans as well as conventional loans these days. SBA loans require as little as 10 percent down. With historically low interest rates, a business owner/building owner generally ends up paying less in monthly payment/maintenance costs, versus leasing a facility.

Fixed vs. Variable Cost. Property owners with fixed-rate mortgages and a good grasp of their management costs have a solid understanding of their long-term costs. Tenants are susceptible to market fluctuations when their lease term expires.

Control of the Property. Property owners have control over decision-making for additions and/or renovations. This includes operating factors, including hours of operation, and other essential decisions related to the business owner's customer base needs.

Additional Income. Businesses with long-term growth plans may consider buying buildings with income stream potential, through third-party tenant leasing. Buying a larger property than what the business needs at this time allows a business owner/building owner to capitalize on future growth considerations by subsidizing current vacant space with tenants, gaining lease income in the interim.

Tax Factors. Property owners can capitalize on additional tax benefits, including deducting loan interest, property taxes and other qualifying expenses. Additional tax strategies may be considered, including forming an LLC to act as property owner and leasing space to the operating business.

Appreciation. One of the primary goals of buying a building is to generate a long-term increase in value through market appreciation. Tenants do not see the benefit of appreciation, as their monthly rent expenditure does not go toward ownership/building equity.

An example of an own versus lease scenario can be seen above. This example assumes the acquisition of a 5,000 square foot building, at \$80 per square foot, 10 percent down payment, and an SBA loan amortized over a 20-year period, at 4.5 percent.

This is compared to the lease of a building of the same size, at \$15 per square foot, full service.

The monthly effective cost, if purchased, is approximately \$3,000, versus \$6,000 effective cost if leased. Under this scenario, a property owner could save 43 percent in monthly cost by owning their office/facility. In addition, a building owner has the extra added benefit of building equity (29 percent in equity, assuming an annual appreciation of three percent per year). 