

OWNING VS. LEASING REAL ESTATE: As a Healthcare Practitioner, which is Right for You?

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Whether to purchase or lease your office space is one of the most significant decisions you will make as you setup your healthcare practice. Both routes have a distinct set of advantages. The right decision will largely depend on your personal and professional circumstances.

You'll need to consider factors such as the stage of your career, the desired location of your practice, what you can afford, and availability of real estate for lease or for sale. Many of the benefits of real estate ownership accrue over the long-term, so if you do not wish to maintain your practice in one location for many years, property ownership may not be the best option for you.

Once you have this groundwork laid out for your healthcare practice, you can start considering some of the advantages that ownership or leasing may offer. Below is a list of potential factors to help simplify your decision-making process. Remember, what's right for one practice, may not be right for another. Make sure you weigh your options and consider your unique position.

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THE ADVANTAGES OF OWNING REAL ESTATE FOR YOUR HEALTHCARE PRACTICE

RENT PAYMENTS RETURN TO THE PROPERTY OWNER

The most common way to structure a real estate purchase for your healthcare practice is to separate the two entities out, so that it's not the practice making the purchase. This means creating a company for the practice, and a separate business entity for the purchase of the building. This helps to properly allocate any loans as well as certain liabilities inherent to property ownership.

The practice then sends rent payments to the property company. When you lease your office space, your rent payments will go to a separate landlord. When you purchase real estate under the above structure, your "rent" payments will go to your other company. As the property owner, you see the full benefit.

ASSET APPRECIATION

When you graduate from dental or medical school, it's not inconceivable to think that you might have a 40-year career. A standard commercial real estate mortgage is often set up with a 20-year term. This means you could have 20 years or more in business without a mortgage payment – freeing up your finances considerably.

Real estate tends to appreciate over time, meaning that your property could likely be worth significantly more by the time you finish paying off the mortgage. Factors such as local population growth, inflation, infrastructure, supply and demand, or changes in nearby properties can influence how real estate appreciates over time. The [average return on commercial real estate](#) slightly outperforms the S&P 500 Index at a rate of 9.5 percent, as of March 2019, according to Investopedia.

The real estate market can be uncertain, however. For evidence of that, look at the housing crisis in 2008. Nothing is guaranteed. But in general, ownership can be a way to see a major asset appreciate over the course of operating your practice.

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THE FREEDOM AND FLEXIBILITY OF OWNERSHIP

When you own the property, you have the freedom to operate your business without some of the limitations and restrictions often encountered when leasing. A designated parking space, landscaping your property in your own taste, and prominently advertising your practice with signage are just a few perks of ownership. You also may be able to host marketing, education, and community events more easily.

PREDICTABLE COSTS

When you lease your property, the landlord usually has the option to raise the rent. When you lock in a fixed mortgage payment with the bank, that is the amount that you'll be paying for the duration of the mortgage. A fair warning, your property taxes, utility costs, and insurance rates may go up over time, but the cost paid for your property will not change.

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A GREATER TIE TO THE COMMUNITY

When you sign a lease, it's usually shorter term, often 5 - 10 years. As a result, it's easier for a practice that leases to eventually move on to a different neighborhood or community.

Practices that purchase real estate tend to stay in one location longer than practices that lease. As such, there is a natural incentive to develop stronger ties to the local community. Consumer-facing businesses tend to benefit from a strong, ongoing connection to the local community. Volunteering, and joining organizations like the Chamber of Commerce are great ways to serve your community and help your practice to thrive. These activities increase awareness and visibility of your healthcare practice within the town while giving something back.

ABILITY TO RENT SPACE TO OTHER TENANTS FOR ADDITIONAL INCOME

You don't necessarily need to wait for a future sale to see a return on your real estate investment. If you have the funding to support the initial costs involved, you could consider purchasing a building with multiple units, and leasing surplus space to other businesses.

There are other expenses and commitments involved with this strategy, such as property management and potential landlord responsibilities. But collecting regular rent checks from tenants allows you to diversify your income.

THE ABILITY TO SELL AND (HOPEFULLY) SEE A PROFIT

This is your chance to realize a profit on the investment you made in the initial purchase of your healthcare practice real estate. There are a number of potential buyers including younger medical practitioners, private investors, private equity firms, or real estate investment companies. Below are a few things to consider as you buy, and think about an eventual sale.

An ideal buyer will likely be attracted to the ability to scale. If they're able to grow into the space that you offer, they're more likely to see a long-term future in the location. With this in mind, larger properties tend to see more initial interest in the event of a sale. You can increase your negotiating leverage when you have multiple parties interested in your property. Working with a broker can help ensure that you maximize your return on investment, as well.

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TAX ADVANTAGES

When you purchase a building for your healthcare practice, you can depreciate the cost over time. The IRS offers more detail on its [website](#). The process allows you to recover the cost of business or income-producing property through deductions for depreciation.

You can also deduct interest payments. While you won't be able to deduct the entire monthly payment, you can deduct the mortgage interest expense.

There are a few other advantages as well. Ongoing renovations, maintenance, upgrades, and other expenses related to ownership are deductible. Many of these expenses will improve the value of your building. If you purchase a condo, associated condo fees may also be deductible.

Another potential tax advantage is that the capital gains tax on a real estate sale is typically lower than that associated with an IRA. While the sale of commercial property does have tax implications, it's typically lower than other investments. If you leave the property to beneficiaries who decide to sell the building, they will only pay taxes on the increase in value after the time of your death.

Ownership comes with some pretty tremendous benefits, but the decision does depend on your personal and professional situations. Let's look at the other side of the coin.

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THE ADVANTAGES OF LEASING REAL ESTATE FOR YOUR HEALTHCARE PRACTICE

RELINQUISHING MAINTENANCE DUTIES

When you lease a property, and there is a structural or building infrastructure problem, help should only be a phone call away. If a pipe bursts or the HVAC system needs to be replaced, it's likely the landlord's responsibility.

When you own the building, you are responsible for service and maintenance issues. When you lease the building, these types of responsibilities typically fall to the landlord. Much of this should be outlined in the lease agreement. The landlord typically pays for maintenance expenses, repairs, and improvements. It's a good idea to have a clear understanding of what your obligations are, and what goes to the landlord, prior to signing a lease.

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THERE'S LESS STRESS

Purchasing a commercial property is not entirely unlike purchasing your own home. For those who have been through the process, it involves agents, brokers, appraisers, inspectors, lenders, lawyers, and the need to sign your name dozens of times. While a lease comes with a long, and sometimes complicated agreement, it's a simpler process than buying.

When you purchase a property, you'll often need a down payment that ranges from 10 to 30 percent of the total cost, whereas with a lease, you may only be required to make a small security deposit. All of this makes the process of securing a lease much less stressful than purchasing the property.

FIND YOUR IDEAL LOCATION

Demographics, market research and competitor analysis often all play a significant role in deciding where to locate your practice. Imagine concluding this research only to discover there is no real estate available for sale in your target location. This is particularly true in heavily populated urban areas, where real estate may be very expensive and difficult to acquire. In this case, consider leasing, where you will have a much greater likelihood of finding space for your practice in your ideal location.

In addition, leasing offers greater flexibility to move when your practice hits a certain growth stage, and you need a larger facility to grow into.

REAL ESTATE CAN BE VOLATILE

While real estate on a whole is a good investment, there's no question that it can be volatile. For example, those who were looking to sell their buildings and capitalize on their investment in 2008 likely took a significant hit. While it's definitely good to diversify your investments and your income, renting keeps you from getting too locked up in the real estate market.

IT'S MORE AFFORDABLE

Purchasing commercial real estate is a costly endeavor. When you factor in a mortgage payment, property taxes and insurance, utilities, and maintenance, you quickly realize that a rent payment is much more affordable.

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FREE UP WORKING CAPITAL

Taking on debt in the form of a real estate mortgage can be overwhelming to a young practice. The down payment alone can be stifling. When you lease, you can invest your savings into your practice. It becomes easier to spend money on equipment, employee salaries, and other immediate needs for your practice. Available working capital can make a significant difference in the early years of your practice.

FOCUS ON PROVIDING CARE

Anyone who has owned a home understands that the best laid plans can come undone. You may enter your home after a long day at work only to discover your roof is leaking, the furnace stopped working, the basement is flooded, or any number of other headaches associated with real estate ownership.

When you rent, the first call is to the landlord, and the responsibility of fixing the problem is typically out of your hands. You may suffer the inconvenience of needing to close shop for a few days while the problem is taken care of, but dealing with insurance, contractors, and fixing the issue will likely fall on the property owner – not you.

Without these distractions and responsibilities, you can focus your energy on providing quality care for your patients.

CONCLUSION

The question of whether to lease or purchase real estate for your practice is a very important one. The factors that go into the decision are unique to each healthcare practice and practitioner. But with a careful evaluation and honest reflection on the state of your practice, you can make a more informed decision.

In general, ownership gives your practice many long-term benefits, while leasing is geared toward shorter-term flexibility and adaptability. The perfect solution is the one that fits best with your circumstances.