

**National Executive Forum on Public Property  
Members' Retreat 2008**

**Lease vs. Own Considerations**

**Friday, November 7, 2008**

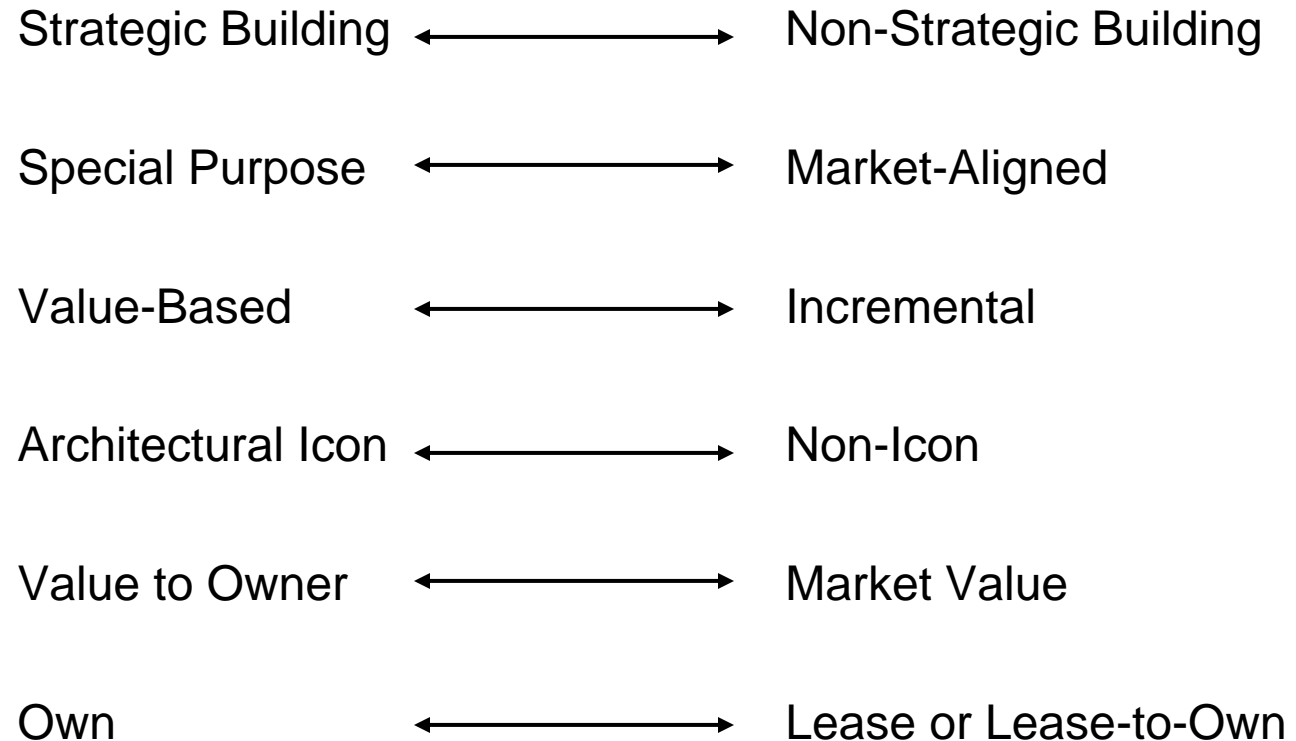
**Julian Patteson – City of Brampton**

Flower City



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## STRATEGIC FACTORS AFFECTING PROPERTY PORTFOLIO DECISIONS



## LEASE vs. OWNERSHIP CONSIDERATIONS

### Ownership Advantages:

- **Control:** over premises occupancy and management
- **Value appreciation:** subject to the ability / willingness of the City to realize value
- **Permanence:** a demonstrated permanent commitment to the City Centre
- **Lower Cost:** over the long term (for new built-to-suit space)

### Ownership Disadvantages:

- **Current Capital Requirements:** are very substantial
- **Future Capital Reserve:** also significant
- **Management Burden/Cost:** City must manage owned assets
- **Less Flexibility:** to expand, contract, relocate
- **Less Liquidity:** capital is committed to a relatively less liquid asset (City Hall Expansion)
- **Ownership Risks:** potential for vacancy, capital repair costs, uncertain value

Excerpt from Cushman & Wakefield Lepage Study, prepared for City of Brampton.



## LEASE vs. OWNERSHIP CONSIDERATIONS

### Lease Advantages:

- **Flexibility:** to expand, contract, relocate (subject to lease provisions and terms)
- **Limited Immediate Capital Commitment:** Only for leasehold improvements (that are not provided or subsidized by the Landlord)
- **Reduced Management Burden:** No need to hire/retain asset and property managers
- **Reduced Risk:** Limited risk of future capital expenditure (other than for leaseholds and workstations), property devaluation or loss of tenant/sub-tenant income

### Lease Disadvantages:

- **Limited Control:** over asset and property management, co-tenants, etc.
- **Escalating Rents:** most lease structures provide for period rent increases
- **No opportunity for capital appreciation:** No rental or value growth

Excerpt from Cushman & Wakefield Lepage Study, prepared for City of Brampton.



## LEASE vs. OWN FINDINGS (BRAMPTON STUDY)

- Confirmed many of staff's assumptions and findings.
- Using a comprehensive "Occupancy Cost Analysis", it is less expensive to own in the long run.
- The cumulative cost of leasing exceeded the cumulative cost of ownership by an average of 15% over the investment horizon.
- Ownership becomes cost effective starting in Year 10 – based on cumulative NPV.
- The estimated reversionary property value has a significant impact on the Occupancy Cost Analysis.

## CRITICAL ASSUMPTIONS/RISK FACTORS

- A Special Purpose building, with many public amenities, will have a lower reversionary value than a Market-Aligned building.
- A Leased-Up building is worth much more than a vacant building.

