Rent vs. Buy – Time to Face Your Space

Health Care Professionals Examine Both Options

Rent or buy? That’s an age old question, whether you’re talking about a home, a car, or equipment. Doctors and dentists face the same choice when it comes to acquiring office space.

There are many variables to contemplate when reviewing each option, including cash flow, flexibility, investment alternatives, the stage of your practice, and your plans for it.

“You have to look at what makes sense for you, and think about all the factors,” says Michael Stoltz, Senior Account Manager, Healthcare Professionals, for RBC Royal Bank® in the Greater Toronto Region.

“One of his RBC® clients, a dentist in Woodbridge, Ontario named Ken Wong, rented an office for five years. Tired of the restrictive lease and the high rent, he purchased a unit in a plaza in December 2006.

“My current mortgage payments are lower than the rent I was paying — plus I have the freedom I want,” says Dr. Wong.

Contrast that with the view of medical doctor Paul Arnold, another RBC Royal Bank client, who has a family practice in Edmonton. He has rented a series of spaces for 30 years.

“For me,” says Dr. Arnold, “leasing offers flexibility, and less headaches than if I owned.”

These two professionals came to opposite conclusions about the rent vs. buy question — each for equally legitimate reasons. Just what advantages and disadvantages do the two options offer to health care professionals? The professionals at RBC Royal Bank weigh in.

Weigh All the Costs

Start with the obvious: costs.

Leasing a location may be viewed as taking lower risk, says Stoltz, as you need to borrow less. “That can certainly be important in the early years of setting up and operating a practice, given the number of other unknowns,” he says.
Some doctors and dentists may only be comfortable with having a certain level of debt, and first want to meet certain performance measures — such as cash flow, and the number of new patients per month — before taking on more debt.

Others, comments Stoltz, are confident about their potential for success due to the demographics of the area. So they might wish to invest more in their practice right off the bat, by buying their location.

Like any business decision you have to weigh all the costs. Yet unlike many other businesses, Stoltz points out, the success rate of a dental or medical office is well documented.

“So taking on additional risks, with added debt levels, can be reasonable,” he says. “But you have to factor in all of the variables.”

When you lease, for instance, the rent you pay is gone, and you’re at the mercy of your landlord’s increases when it comes time to renew. Who knows what the market will bear? “There is some insecurity there,” admits Dr. Arnold.

Purchasing, while involving a higher initial cost, lets you build up equity. Plus, a fixed-rate mortgage will give you some measure of cost certainty.

Consider other cost questions. If you own, there are indirect expenses associated with managing a property (i.e. your time). And if you rent, you need to check whether you’ll get cash back from a landlord for leasehold improvements (you may not, and if you do, the numbers can vary).

(Leasehold improvements are all the changes to make the space work for you, which are permanently attached, e.g. walls, floors, etc. Such improvements revert to the landlord if and when you vacate the space. On the flip side, if you’re leasing space that has been occupied before, you may gain the benefit of pre-existing improvements.)

The costs of commercial property and leasing rates in different markets, the stage of your practice, your comfort with risk, your overall financial picture — all will influence your decision.
Part of the question is where you get the greatest return on your capital, says Dave Majeski, Vice-President, Commercial and Real Estate Markets, Edmonton and Alberta North, RBC Royal Bank.

“We all have only a certain amount of capital to invest,” says Dave Majeski. “Should you invest it in a property as equity? In equipment? What kind of cash flow do you generate to service your leasing costs and/or debt? You need to look at the return on your core business — your practice.”

**Location Comes First**

But costs are never the only factor, and may not be the most critical one. As Royal Bank of Canada's Stoltz says, location must come first; that’s what can impact your bottom line most.

“Where you set up shop and establish your patient base is so important,” says Stoltz. “That’s where you’ll establish your goodwill, which has tangible business value in some segments of the health care market. So that’s always your first consideration, not whether you should buy or rent.”

Your preference may be to own, but what if you find the ideal spot for your practice, and your only option is leasing? Dr. Arnold, for instance, prefers to be in a shopping centre, so he has no choice but to lease.

Think also of your plans for your practice. With buying, you call the shots, so you can modify the office as needed, adding complementary services within your space, for example (or in adjoining spaces if you own those as well).
That’s what led Dr. Wong to buy. The building where he had rented lacked enough parking (and the landlord introduced pay parking, reducing the walk-in traffic), and Dr. Wong also wanted to add a homeopath (and eventually a chiropractor and naturopath).

“In my old space, I couldn’t bring in other health practitioners,” says Dr. Wong.

While leasing didn’t offer that flexibility, he was able to grow because he didn’t have a long term commitment to his space in the first place.

Moving if you outgrow your space (or if it becomes the wrong fit), is easier to do with a lease. Owning, however, also gives you some interesting options. If you eventually decide to move, you can treat the space as an investment property instead of selling, and rent it to someone else.

If you buy, ask yourself if you have the space to expand – or if you’ll have too much space if circumstances change.

“If you own a property and share space with other doctors, for instance, you could end up with more space than you want if others leave,” says Dr. Arnold.

None of these issues is a matter of right or wrong. “It just comes down to what you’re comfortable with,” says Stephanie Fitzgerald, Senior Account Manager, Healthcare Professionals, Calgary, RBC Royal Bank.

Lean on the Experts

Whichever way you’re leaning, it’s vital to make a fully informed decision. The final call is yours, but you should lean on the expert resources available to you.

Fitzgerald notes that RBC has account managers across Canada who are specifically devoted to doctors and dentists, who have insight into their unique circumstances and needs. “We understand your business,” she says. Whatever the decision at hand – buying, leasing, selling, renewing – there are all sorts of cost and business implications, says Fitzgerald.

You may well be a savvy businessperson, in addition to your medical or dental skills. But the reality is that many health care professionals aren’t comfortable deciphering the intricacies of leasing agreements, the tax impacts of their mortgage or lease payments, an analysis of their cash flow, or a forecast of property appreciation and interest rates.

Health professionals, like any business professionals, need to rely on sound financial expertise, says RBC’s Fitzgerald. The bank is a key partner in working with resources such as lawyers, accountants, or leasing or mortgage brokers – people who deal with questions of buying or leasing office space every day.

“All together,” Fitzgerald says, “we’ll provide the advice that helps you come to the right decision for you.”

Dr. Wong adds that it’s essential for health care professionals themselves – who are understandably focused on their day-to-day patient needs – to become conversant in business issues such as the buy vs. lease question.

“When you speak their language,” says Dr. Wong, “you can use your advisors to their potential.”

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