

GUIDE TO PURCHASING VS. LEASING

Many charter schools face the dilemma of whether to purchase or lease a facility. There is no right answer. Both options have advantages and disadvantages and must be evaluated in the context of your unique circumstances.

There are many instances when leasing space instead of purchasing or owning a facility makes sense. The table below highlights some of the pros and cons of purchasing versus leasing a facility. This information may help you in determining which option is best for your school.

	ADVANTAGES	DISADVANTAGES
Purchase	<ul style="list-style-type: none"> • Allows the charter school ultimate control over the physical plant • Protects from the uncertainty of short-term leases or “difficult” landlords • Provides the charter school with a sense of permanence and investment in the community • Is an effective approach to build equity 	<ul style="list-style-type: none"> • Requires an upfront cash investment • Requires a substantial investment of time • May require significant fundraising and/or long-term debt burden • Requires ongoing maintenance and other responsibilities of property management
Leasing	<ul style="list-style-type: none"> • Provides greater flexibility in case the charter school decides to move at a later date • Depending upon the lease agreement, the charter school might be able to apply a portion of lease payments towards purchase at a later date • Usually requires less upfront cash • May not carry the responsibilities of property management • The charter school is not affected in the event of a real estate downturn, and in fact could benefit from a soft rental market • School is not burdened with long term debt. 	<ul style="list-style-type: none"> • Creates uncertainty at the end of the lease term; the charter school may have to locate alternative space if the landlord chooses not to renew the lease • May be harder to obtain financing for leasehold improvements and other capital purchases since some lenders will not accept a lease as collateral • Cannot use long term debt for leasehold improvements. • Can be more costly over the long-run since the cost of any property improvements cannot be recouped • Does not provide the charter school with direct control over property management issues • Often difficult to estimate (and/or control) CAM (common area maintenance costs – the costs of space shared with other tenants)

Source: The Answer Key. NCB Development Corporation, 2005