



Owning one's own office: Is this the American dream?

By JASON HUGHES

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Few would dispute the notion that owning one's own home is a major part of the American dream. The freedom, sense of security and investment advantages accompanying home ownership are too numerous and compelling to dispel.

In the world of work, this ownership instinct is being nurtured of late by commercial office developers who are turning existing for-sale office buildings into office condos and in some cases building such projects from scratch. The appeal is to small businesses that lack the means or inclination to purchase their own building. Now, so the pitch goes, they can purchase a small office condominium, thereby escaping the continual abuses and rent increases from landlords while deriving the typical advantages of tax breaks and appreciation in value. On the surface, it seems a pretty good deal. But wait, there's more. Before office tenants rush out to "condominium-ize" their business, they need to take a long look at the downsides. Helping them do so is the purpose of today's column.

First of all, the "P" word: price. These office condominiums are not bargain-priced. Prices typically exceed \$400 per square foot and that doesn't include the extras such as carpeting, painting, moving walls, installing new air conditioning and the like.

Let's run a scenario to illustrate the point with a 10,000-square-foot tenant who thinks buying an office condo might be a good way to build equity, control occupancy costs and enjoy the pride of ownership. Let's further assume the tenant finds an office condo space of that size at \$400 per foot and is therefore looking at a \$4 million purchase price. The tenant finds an SBA loan to help with a 10 percent down payment, thereby leaving a \$3.6 million mortgage.

A 25-year mortgage at 8 percent yields a \$28,000 monthly mortgage payment, or \$2.80 per square foot. Not all that bad until the office space owner has to factor all the other expenses associated with, including but not limited to, interior improvements and other space-specific costs which can easily add another \$1 per square foot -- \$10,000 a month more. Then, of course, there is the owner's share of common area maintenance and improvements -- fixing leaky roofs and plumbing, which adds at least 20 cents per square foot -- or another \$2,000 to the monthly tab.

Oops, we can't forget the cost of borrowing the \$400,000 down payment, which would add another 33 cents per foot -- \$3,300 per month. Added up, our office condo owner is now looking at \$43,300 a month for the pleasure of owning his or her own work domain.

That same 10,000-square-foot office user could lease space for \$2.25 per square foot, thereby paying a base rent of \$22,500, which is a far distance below the ownership scenario of \$43,300 per month. Think of what the user could do with the nearly \$22,000 difference to invest in other properties or appreciating assets.

Now, before the letter-to-the-editor writers and bloggers go ballistic, let me mention for the record the other creative tax benefits and the fact that the mortgage principal goes down with each monthly payment.

However, past experience, when available, is the best arbiter available in terms of determining whether the office condo concept fits the American business dream. Nearly 20 years ago, several business owners purchased spaces in an 80,000-square-foot building specifically designed and built for office condos. The building was a marketing success, completely selling out. For the owners, it seemed a good idea -- that is, presuming that real estate values would continue to rise eternally.

Such was not the case in those times. After a couple of years paying \$3.50 per foot to own their own space month after month -- while their rental counterparts paid \$1.35 per foot -- the disheartened owners finally came to realize that their entire down payment had technically vanished and that whatever ownership benefits there were had disappeared as well. Every owner in the building eventually defaulted on their mortgage.

Just recently, that building converted from office to residential condominiums. Here we go again, given the glut of condos on the market today.

Here's the lesson for office space users. Nine times out of 10, it's better to leave office building ownership to the professionals. Those with money burning holes in their pocket to buy real estate might be better off to wait a few more months and pick up a residential condo or two for 50 cents on the dollar, rent them out and wait for

seven years for the market to recover.

Leave the "buy-high, sell-low" trap to the large pension and insurance funds that typically fall prey to the "tar pits" of glutted real estate markets and have far more money to lose than small- and medium-size companies that are in business to be profitable.

For most of us, the American dream of owning real estate belongs on the avenues and lanes of our residential neighborhoods, not on the streets of commerce.

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