Minding Your Business

Leasing vs Buying

By Andrew Cameron, P.Eng., OLS, OLIP

Those of us in private practice are often confronted with the dilemma of whether we should lease or buy when we decide to acquire new survey equipment. My company accountant has always said that there is no clear "winner" between the 2 methods. Leasing allows you to expense your monthly payments, and to spread out your provincial sales tax over the term of the lease. Buying lets you depreciate your capital expenditure over a longer term, but you must pay the provincial sales tax up front.

I tend to listen to my accountant, so over the years I have both bought and leased equipment, without putting too much thought into the decision. If I have money in the bank, I usually buy … if I'm well into my "line of credit" I tend to favour leasing rather than borrowing money from the bank.

Well, I have recently had the opportunity to analyse the two methods, and I find the results dramatically favour buying, as opposed to leasing. What follows is a comparative analysis, based upon an actual lease of survey equipment from one of the leading equipment suppliers.

The lease was for equipment valued at $24,634.26 plus PST of 1,970.74 for a total purchase value of $26,605.00.

The term of the lease was 27 months with an option to buy out the lease after the end of the 24th calendar month for 10% of the initial value or $2,463.43. For reasons I will demonstrate later, you should always exercise the buy-out option. As a standard term, the lessor required us to pay the first and last months payments in advance.

Leasing Method

24 payments of $1,208.57	$ 29,005.68
27th payment (paid in advance)	1,208.57
Buy-out	2,463.43
Total Lease Cost	$ 32,677.68

Cost to Lease = $6,072.68 (32,677.68 - 26,605.00)

In order to compare "apples to apples" I would suggest that the equivalent amount to borrow would be $26,605.00 less a down-payment of $2,417.14 (the 2 months payment required in advance) less the buy-out option of $2,463.43 … therefore $21,724.43 must be borrowed and the term will be 24 months.

My banker has assured me that I could have borrowed the money at the rate of 6% annual interest or $962.84 monthly.

Borrowing Method

Down Payment	$ 2,417.14
24 payments of $ 962.84	23,108.16
Buy-out	2,463.43
Total Borrowing Cost	$ 27,988.73

Cost to Borrow $ 1,383.73 (27,988.73 - 26,605.00)

I have therefore come to the rather startling discovery that the cost to lease is 4.4 times the cost to borrow … or put in other terms, your borrowing rate is 6% and your lease rate is in excess of 25%.

Now it would appear that the leasing company should be very content with this rather usurious rate of return, but they build a rather nasty "pitfall" into the lease, which can be a great "windfall" for the leasing company. If you fail to give them 60 days notice that you wish to exercise the buy-out option, then the customer is deemed to have requested an automatic renewal of the lease. The leasing company will thus be very happy to continue leasing you the equipment that they themselves value at $ 2,463.43, for a monthly payment of $ 1,208.57, and they will do so FOREVER … and THEY still own the equipment.

So my conclusion is obvious. Be very nice to your banker or be very careful if you lease.

Members in the News

Congratulations to Tony Sroka, O.L.S., O.L.I.P, who is president of the Haven Group, which was a 2002 Canadian Urban Institute Brownie Award Winner.

The Haven Group, which is an Ottawa-based company involved in planning and project management, was the winner in the category of Technological Solutions and Green Design for their project "Estimating Residential Development Potential for Sustainable Communities".