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CERTIFIED PUBLIC ACCOUNTANTS

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Buy, Rent, or Lease… That is the Question

I've heard all my life, "It's always better to buy rather than rent or lease", but is it really? First, I would suggest approaching with friendly skepticism any time a constant such as *always* is used. Second, review the evidence before making any final decisions. There are several variables when considering when to buy, rent, or lease construction equipment that could make a considerable difference in the decision-making process.

Purchasing a piece of equipment is the most straightforward option available. When considering whether to buy a piece of equipment, cash flow is king. If the funds are available and the Company could use an extra deduction come year-end, purchasing outright may be the best choice. Oftentimes there is more leverage for negotiation when purchasing with cash as well. If financing the piece of equipment, shop around for the best interest rates available and be sure to inquire about any warranties, services agreements, and buy-back options. Also consider what the salvage value of the piece of equipment might be when it has met its useful life.

Straight rental of equipment is often utilized when dealing with shorter-term requirements. There are no equity gains with this option, but it does allow for cash to stay in the bank with manageable monthly payments. If the equipment will be needed for longer than six months, a rental purchase option (RPO) might be the most cost-beneficial route to pursue. Monthly rent paid on an RPO is applied directly to the purchase price of the equipment (be sure to specify in the contract that 100% of the payment be applied in this manner), which builds equity before you commit to purchase. There is interest charged, similarly to a financing arrangement, on the equipment, but RPOs can be negotiated for a longer term (some up to 18 months and longer), which can help with cash flow strain. Be cognizant of repairs and services not included in the RPO or under warranty. Those charges can accumulate and will be added to the bottom line at time of purchase if not paid up front.

Leases on average are for longer terms of 24-36 months and allow companies to keep costs at a minimum while still maintaining access to the equipment they need. Some leases allow for purchase options at the end of the lease, so keep that in mind during negotiations. When leasing equipment, the lessee is responsible for excess hours put on the machine above the number of hours specified in the lease agreement. Before signing a lease for equipment, consider how many hours the machine will be used in order to factor that usage into the rental rate to avoid getting hit with overages at lease term. The responsibility for repairs and maintenance is the lessee's, so take care to read and understand the lease contract for any out-of-pocket costs for which the Company may be liable.

When deciding whether to rent, lease, or RPO, consider negotiating for some oil changes to be included with the payment. Also, consider inspecting the equipment with pictures in order to deter any unexpected charges at lease-end. Finally, run the numbers in order to determine monthly ownership costs (payment, taxes, registration, insurance, etc.) and add in the estimated overhead costs for maintenance and repairs to conclude which method is best for the company.

By using a similar checklist above, you will be able to successfully ward off the *always* mentality and arrive at an informed decision on whether to buy, rent, or lease the required construction equipment based on statistical data.

For more thoughts and questions, please reach out to Amanda at amandam@gmpcp.com or call 903-534-0088.