

Deciding to Lease or Buy Office Management Products and Furniture

To Lease or Buy?

When you are deciding to lease or buy equipment for your organization, you will most likely consult [FAR 7.401](#) which will instruct you to consider *comparative costs and other factors*. Unfortunately, *Comparative costs and other factors* vary from industry-to-industry which can complicate the decision-making process. To further complicate things, the calculations can intimidate those of us who did not major in finance. Some factors may be rather simple to evaluate. For example, you may easily discover that leasing brings the time value of money into the cost equation. You may also discover that the cost of depreciation will affect your decision. Unfortunately the decision is more complicated than just those two factors. That's why we've created a **calculating tool** on buy.gsa.gov titled, "[Calculating Lease and Cost Payments](#)" to help you decide.

Understanding Residual Value

In many industries, residual value will amount to \$0.00 after 60 months. This does not mean that equipment failure commences at 60 months. Certainly not...Especially when products like (well maintained) office furniture can last for 15 years. Rather, it means prohibitive recovery and reassignment costs adversely impact the residual value. Unfortunately, it does not preclude the possibility of the lessor attributing all, or a portion of the removal costs to the lessee. In the case of multi-functional devices, a lessor will typically bear these costs. In the case of systems furniture, the lessee will bear the costs of removal which amount to approximately 10% or more of the purchase price. Takeaway: It is important to factor removal costs into your decision.

Additionally, the user must accurately estimate how long the product will remain in use. In the case of office furniture, generally, the useful life will equal or approximate the length of the lease for the space. So, whether the agency has leased space for 10 years or 15, the product will tend to last as long. This does not mean that the vendors are taking advantage of the government by assigning no residual value to the product. It means that just-in-time manufacturing; high installation costs; and product customization characterize the industry. Such circumstances result in the value of a product being high at its current location and worthless just about anywhere else. A kitchen remodel offers a good analogy. A homeowner may spend \$30K on cabinets and \$5K on countertops. If the homeowner wants to remove and sell the cabinets and countertops after 5 years, a buyer would need an identical kitchen space. This is virtually impossible. Office furniture shares this same value constraint. With both kitchen cabinetry and office furniture, the best way to maximize value is to use it as long as possible in its original space. Takeaway: When acquiring office furniture, it is important to consider how long it will reside in its original space.

Note: The sample calculation at the end of this article utilizes a residual value of \$0.00 to illustrate this important point.

Cash Flow Considerations

If the Government can negotiate a significant residual value, a lease may result in a lower overall outlay of cash. But does the lack of any residual value, then, rule out leasing as a sound economic

alternative? The answer would largely depend on opportunity costs outside of the equipment lease. Perhaps your agency has an opportunity to forgo an option on its lease for space and save hundreds of thousands of dollars per year on rent, but your agency cannot afford all of the upfront costs associated with a move. In this case, a lease for furniture may make sense if the rent savings more than offset the greater outlay for furniture. However, your agency's leasing policies may offset some or all of the cashflow benefits. Awarding a lease creates a liability that requires special accounting and budgetary treatment.

OMB Circular A-11 Appendix B provides guidance with respect to the budgetary treatment of both operating leases and lease-to-own arrangements. When using the GSA Multiple Award Schedule for multifunctional devices or furniture, special terms and conditions address the concerns of both the **Anti-Deficiency Act** and the OMB circular.

Because practices vary and because case law offers somewhat conflicting guidance, you should consult legal counsel and your budget officials prior to executing any leases. The guidance of these two offices will likely help you choose between a multi-year contract, with funding from a single year or a multiple-year contract, funded with annual appropriates. Of these two arrangements, the latter offers a cash flow advantage, but the former may be more legally appropriate.

How Do I Calculate the Lease Cost and Payments?

Comparing the purchase price to the sum of the lease payments is one of the key steps in your decision to lease or buy. How do you accomplish this? The GSA Multiple Award Schedule Program employs the use of the lease rate factor. The lease rate factor takes the calculus out of the lease payment calculation, so that it can be determined using basic mathematics. Simply [download](#) the handy calculating tool that automates these steps:

- **Step 1** Determine the residual value of the equipment (value at end of lease)
- **Step 2** Subtract the residual value from the purchase price to determine the equipment value
- **Step 3** Multiply the equipment value by the lease rate factor to determine the total interest cost
- **Step 4** Add the equipment value to the total interest
- **Step 5** Divide the total by the number of interest payments

Applying these steps to a multi-functional device (MFD) with a purchase price of \$2500 would yield the following for a 60 month lease:

1. \$0 (common for MFDs)
2. \$2500
3. $\$2500 \times 0.194 = \485 (See vendors' price lists for lease rate factors for 36 and 60 month terms)
4. $\$2500 + \$485 = \$2985$
5. $\$2985 / 60 = \49.75 per month

Conclusion

Ultimately, the decision to lease or buy depends on an agency's plans for the items to be acquired along with the agency's budgetary situation. Thanks to the lease rate factor and the availability of

many online calculators, acquisition personnel can compare the cash outlays fairly easily. But the “other factors” referenced by **FAR 7.401** require significant thought and consultation with other stakeholders.

If you have questions about this tool, or would like to know more about the GSA Multiple Award Schedules Program, contact ncscustomer.service@gsa.gov.