17500 Red Hill Avenue, Building 100, Unit 100

Purchase vs. Lease Analysis

Lee & Associates

ASSUMPTIONS

			1st TD	2nd TD	Total		
Purchase Building Size in SF	7,420	Loan Amounts (see notes)	$701,190	$576,378	$1,277,568	Price Appreciation	3.50%
Lease Building Size in SF	7,420	Loan Fees (see notes)	$7,006	$21,185	$28,191	Building Value After 10 Years	$1,978,195
Market Rent - NNN	$1.65	Equity Amount (see notes)			$153,002	Cost of Sale	5.00%
		Interest Rate	6.500%	5.500%			
Monthly NNN Expense PSF	$0.56	Amortization Period	30	20		Standard Tax Rate	35.00%
Annual Rent+Expense Growth	3.50%					Portion of Price For Building - %	80.00%
		Monthly Debt Service	$4,432	$3,965	$8,397	Portion of Price For Building - $'s	$1,121,904
Total Building Cost	$1,402,380	Annual Debt Service	$53,184	$47,578	$100,762	Years to Depreciate Asset	39.50
Total Building Cost PSF	$189.00	Loan Balance - End of Yr. 10	$594,442	$365,334	$959,776	Annual Depreciation Deduction	$28,403

SCENARIO #1 - BUY BUILDING
7,420 Sq. Ft.

	Initial	1	2	3	4	5	6	7	8	9	10
Initial Equity Investment	(153,002)	-	-	-	-	-	-	-	-	-	-
Annual Operating Expenses	-	(49,862)	(51,608)	(53,414)	(55,283)	(57,218)	(59,221)	(61,294)	(63,439)	(65,659)	(67,957)
Annual Debt Service	-	(100,762)	(100,762)	(100,762)	(100,762)	(100,762)	(100,762)	(100,762)	(100,762)	(100,762)	(100,762)
Reversion Value After 10 Years	-	-	-	-	-	-	-	-	-	-	1,978,195
Cost of Sale	-	-	-	-	-	-	-	-	-	-	(98,910)
Pay Off Remaining Loan Balance	-	-	-	-	-	-	-	-	-	-	(959,776)
Tax Benefit For Operating Expenses		17,452	18,063	18,695	19,349	20,026	20,727	21,453	22,204	22,981	23,785
Tax Benefit For Interest Expense		26,824	26,319	25,784	25,216	24,613	23,975	23,298	22,580	21,819	21,012
Tax Benefit For Depreciation		9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941	9,941
Capital Gain Tax Due at Sale											(190,233)
After Tax Cost of Ownership	(153,002)	(96,407)	(98,047)	(99,757)	(101,540)	(103,399)	(105,340)	(107,364)	(109,476)	(111,681)	615,295

COST TO OWN

Undiscounted Cash Flow	**($470,717)**
Undiscounted Avg. Monthly Cost PSF	**($0.53)**

Cash Flow Discounted @ 6.50%	**($509,961)**
Discounted Avg. Monthly Cost PSF	**($0.57)**

Original Basis at Purchase		$1,402,380
Depreciation Taken		(284,026)
Basis at Sale		$1,118,354
Taxable Gain on Sale		$760,932
Capital Gain Tax - Rate @	25.00%	$190,233

NOTES:

1. The second TD includes financed loan fees of: $15,426 (see loan quote sheet)

2. The total equity amount includes loan fees not financed of: $12,764 (see loan quote sheet)

SCENARIO #2 - LEASE BUILDING
7,420 Sq. Ft.

	Initial	1	2	3	4	5	6	7	8	9	10
Annual NNN Rent	-	(146,916)	(152,058)	(157,380)	(162,888)	(168,589)	(174,490)	(180,597)	(186,918)	(193,460)	(200,231)
Annual NNN Expense	-	(49,862)	(51,608)	(53,414)	(55,283)	(57,218)	(59,221)	(61,294)	(63,439)	(65,659)	(67,957)
Tax Benefit For Lease Payment	-	51,421	53,220	55,083	57,011	59,006	61,072	63,209	65,421	67,711	70,081
Tax Benefit For Operating Expenses	-	17,452	18,063	18,695	19,349	20,026	20,727	21,453	22,204	22,981	23,785
After Tax Cost of Lease	-	(127,906)	(132,383)	(137,016)	(141,812)	(146,775)	(151,912)	(157,229)	(162,732)	(168,428)	(174,323)

COST TO LEASE

Undiscounted Cash Flow	**($1,500,515)**
Undiscounted Avg. Monthly Cost PSF	**($1.69)**

Cash Flow Discounted @ 6.50%	**($1,059,647)**
Discounted Avg. Monthly Cost PSF	**($1.19)**

SUMMARY OF PURCHASE VS. LEASE

Building Appreciation Over 10 Years	**$575,815**	***<-- final sale value minus original purchase price***
Cash Flow Savings / Monthly Benefit PSF	**$1.16**	***<-- difference between undiscounted average monthly cost to purchase vs. undiscounted average monthly cost to lease***

This information is for illustration purposes only. Lee & Associates makes no representations or warranties as to the accuracy and validity of this report.
Rates and terms are assumptive and each buyer should consult with their own tax accountant and attorney as to their own individual circumstances.

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LOAN WORK AREA

FIRST TD:

Pmt:	53,184	per year	4,432	per month	Loan Amount #1	701,190
Int %:	6.500%	per year	0.5417%	per month	Selected Loan Type	0 <-- 1=Interest Only and 0=Amortizing
Term:	30	years	360	months	Loan Label #1	Debt Service @ 6.50%, 30 Year Amortization

Year:	0	1	2	3	4	5	6	7	8	9	10
Mos:	360	348	336	324	312	300	288	276	264	252	240
K%:	0.006321	0.006392	0.006470	0.006556	0.006649	0.006752	0.006865	0.006991	0.007129	0.007284	0.007456
Pmt:	53,184	53,184	53,184	53,184	53,184	53,184	53,184	53,184	53,184	53,184	53,184
Bal:	701,190	693,353	684,990	676,068	666,548	656,391	645,553	633,990	621,652	608,488	594,442
Princ. Portion		7,837	8,362	8,922	9,520	10,157	10,838	11,563	12,338	13,164	14,046
Int. Portion:		45,347	44,822	44,262	43,664	43,027	42,346	41,620	40,846	40,020	39,138

SECOND TD:

Pmt:	47,578	per year	3,965	per month	Loan Amount #1	576,378
Int %:	5.500%	per year	0.4583%	per month	Selected Loan Type	0 <-- 1=Interest Only and 0=Amortizing
Term:	20	years	240	months	Loan Label #1	Debt Service @ 5.50%, 20 Year Amortization

Year:	0	1	2	3	4	5	6	7	8	9	10
Mos:	240	228	216	204	192	180	168	156	144	132	120
K%:	0.006879	0.007079	0.007303	0.007556	0.007843	0.008171	0.008548	0.008987	0.009502	0.010114	0.010853
Pmt:	47,578	47,578	47,578	47,578	47,578	47,578	47,578	47,578	47,578	47,578	47,578
Bal:	576,378	560,095	542,892	524,720	505,522	485,242	463,818	441,185	417,275	392,017	365,334
Princ. Portion		16,284	17,202	18,172	19,198	20,280	21,424	22,633	23,910	25,258	26,683
Int. Portion:		31,294	30,376	29,406	28,380	27,298	26,154	24,945	23,668	22,320	20,895

COMBINED:

Princ. Portion		24,121	25,564	27,095	28,717	30,438	32,262	34,196	36,247	38,422	40,729
Int. Portion:		76,641	75,198	73,667	72,045	70,324	68,500	66,566	64,514	62,339	60,033

Calculation of Loan Fees -

	1st TD	2nd TD
Loan to Value	50.0%	40.0%
Loan Amount	701,190	560,952
Loan Fee %	0.500%	2.750%
Loan Fee	3,506	15,426
Short Term Note Fee %	-	0.670%
Short Term Note Fee	-	3,758
Appraisal	3,500	-
Legal	-	2,000
Enviro Report	-	-
Other	-	-
Total	7,006	21,185