

17500 Red Hill Avenue, Building 100, Unit 120

Purchase vs. Lease Analysis

Lee & Associates

ASSUMPTIONS

			<u>1st TD</u>	<u>2nd TD</u>	<u>Total</u>		
Purchase Building Size in SF	3,490	Loan Amounts (see notes)	\$610,750	\$502,037	\$1,112,787	Price Appreciation	3.50%
Lease Building Size in SF	3,490	Loan Fees (see notes)	\$6,554	\$18,710	\$25,264	Building Value After 10 Years	\$1,723,046
Market Rent - NNN	\$1.95	Equity Amount (see notes)			\$133,977	Cost of Sale	5.00%
Monthly NNN Expense PSF	\$0.55	Interest Rate	6.750%	6.380%		Standard Tax Rate	35.00%
Annual Rent+Expense Growth	3.50%	Amortization Period	30	20		Portion of Price For Building - %	80.00%
		Monthly Debt Service	\$3,961	\$3,708	\$7,669	Portion of Price For Building - \$'s	\$977,200
Total Building Cost	\$1,221,500	Annual Debt Service	\$47,536	\$44,492	\$92,028	Years to Depreciate Asset	39.50
Total Building Cost PSF	\$350.00	Loan Balance - End of Yr. 10	\$520,976	\$328,291	\$849,267	Annual Depreciation Deduction	\$24,739

SCENARIO #1 - BUY BUILDING

3,490 Sq. Ft.	<u>Initial</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
Initial Equity Investment	(133,977)	-	-	-	-	-	-	-	-	-	-
Annual Operating Expenses	-	(23,034)	(23,840)	(24,675)	(25,538)	(26,432)	(27,357)	(28,315)	(29,306)	(30,331)	(31,393)
Annual Debt Service	-	(92,028)	(92,028)	(92,028)	(92,028)	(92,028)	(92,028)	(92,028)	(92,028)	(92,028)	(92,028)
Reversion Value After 10 Years	-	-	-	-	-	-	-	-	-	-	1,723,046
Cost of Sale	-	-	-	-	-	-	-	-	-	-	(86,152)
Pay Off Remaining Loan Balance	-	-	-	-	-	-	-	-	-	-	(849,267)
Tax Benefit For Operating Expenses		8,062	8,344	8,636	8,938	9,251	9,575	9,910	10,257	10,616	10,988
Tax Benefit For Interest Expense		25,440	24,986	24,502	23,986	23,434	22,846	22,218	21,548	20,834	20,071
Tax Benefit For Depreciation		8,659	8,659	8,659	8,659	8,659	8,659	8,659	8,659	8,659	8,659
Capital Gain Tax Due at Sale											(165,697)
After Tax Cost of Ownership	(133,977)	(72,901)	(73,879)	(74,905)	(75,983)	(77,116)	(78,305)	(79,555)	(80,869)	(82,251)	538,227

Undiscounted Cash Flow	(\$291,515)
Undiscounted Avg. Monthly Cost PSF	(\$0.70)

Cash Flow Discounted @ 6.50%	(\$358,585)
Discounted Avg. Monthly Cost PSF	(\$0.86)

Original Basis at Purchase	\$1,221,500
Depreciation Taken	(247,392)
Basis at Sale	\$974,108
Taxable Gain on Sale	\$662,786
Capital Gain Tax - Rate @ 25.00%	\$165,697

NOTES: 1. The second TD includes financed loan fees of: \$13,437 (see loan quote sheet)
2. The total equity amount includes loan fees not financed of: \$11,827 (see loan quote sheet)

SCENARIO #2 - LEASE BUILDING

3,490 Sq. Ft.	<u>Initial</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
Annual NNN Rent	-	(81,666)	(84,524)	(87,483)	(90,545)	(93,714)	(96,994)	(100,388)	(103,902)	(107,539)	(111,302)
Annual NNN Expense	-	(23,034)	(23,840)	(24,675)	(25,538)	(26,432)	(27,357)	(28,315)	(29,306)	(30,331)	(31,393)
Tax Benefit For Lease Payment	-	28,583	29,584	30,619	31,691	32,800	33,948	35,136	36,366	37,638	38,956
Tax Benefit For Operating Expenses	-	8,062	8,344	8,636	8,938	9,251	9,575	9,910	10,257	10,616	10,988
After Tax Cost of Lease	-	(68,055)	(70,437)	(72,902)	(75,454)	(78,095)	(80,828)	(83,657)	(86,585)	(89,615)	(92,752)

Undiscounted Cash Flow	(\$798,380)
Undiscounted Avg. Monthly Cost PSF	(\$1.91)

Cash Flow Discounted @ 6.50%	(\$563,807)
Discounted Avg. Monthly Cost PSF	(\$1.35)

SUMMARY OF PURCHASE VS. LEASE

Building Appreciation Over 10 Years	\$501,546
Cash Flow Savings / Monthly Benefit PSF	\$1.21

<-- final sale value minus original purchase price

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