

17500 Red Hill Avenue, Building 100, Unit 160

Purchase vs. Lease Analysis

Lee & Associates

ASSUMPTIONS

			<u>1st TD</u>	<u>2nd TD</u>	<u>Total</u>		
Purchase Building Size in SF	3,538	Loan Amounts (see notes)	\$645,685	\$530,753	\$1,176,438	Price Appreciation	3.50%
Lease Building Size in SF	3,538	Loan Fees (see notes)	\$6,728	\$19,666	\$26,394	Building Value After 10 Years	\$1,821,605
Market Rent - NNN	\$1.95	Equity Amount (see notes)			\$141,326	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%
Total Building Cost	\$1,291,370	Monthly Debt Service	\$4,188	\$3,920	\$8,108	Portion of Price For Building - \$'s	\$1,033,096
Total Building Cost PSF	\$365.00	Annual Debt Service	\$50,255	\$47,037	\$97,292	Years to Depreciate Asset	39.50
		Loan Balance - End of Yr. 10	\$550,776	\$347,069	\$897,845	Annual Depreciation Deduction	\$26,154

SCENARIO #1 - BUY BUILDING

3,538 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	(141,326)	-	-	-	-	-	-	-	-	-	-
Annual Operating Expenses	-	(23,351)	(24,168)	(25,014)	(25,889)	(26,796)	(27,733)	(28,704)	(29,709)	(30,749)	(31,825)
Annual Debt Service	-	(97,292)	(97,292)	(97,292)	(97,292)	(97,292)	(97,292)	(97,292)	(97,292)	(97,292)	(97,292)
Reversion Value After 10 Years	-	-	-	-	-	-	-	-	-	-	1,821,605
Cost of Sale	-	-	-	-	-	-	-	-	-	-	(91,080)
Pay Off Remaining Loan Balance	-	-	-	-	-	-	-	-	-	-	(897,845)
Tax Benefit For Operating Expenses		8,173	8,459	8,755	9,061	9,378	9,707	10,046	10,398	10,762	11,139
Tax Benefit For Interest Expense		26,895	26,415	25,904	25,357	24,775	24,153	23,489	22,781	22,025	21,219
Tax Benefit For Depreciation		9,154	9,154	9,154	9,154	9,154	9,154	9,154	9,154	9,154	9,154
Capital Gain Tax Due at Sale											(175,174)
After Tax Cost of Ownership	(141,326)	(76,421)	(77,431)	(78,493)	(79,608)	(80,780)	(82,012)	(83,306)	(84,667)	(86,099)	569,900

Undiscounted Cash Flow	(\$300,244)
Undiscounted Avg. Monthly Cost PSF	(\$0.71)

Cash Flow Discounted @ 6.50%	(\$373,393)
Discounted Avg. Monthly Cost PSF	(\$0.88)

Original Basis at Purchase	\$1,291,370
Depreciation Taken	(261,543)
Basis at Sale	\$1,029,827
Taxable Gain on Sale	\$700,698
Capital Gain Tax - Rate @ 25.00%	\$175,174

NOTES:
 1. The second TD includes financed loan fees of: \$14,205 (see loan quote sheet)
 2. The total equity amount includes loan fees not financed of: \$12,189 (see loan quote sheet)

SCENARIO #2 - LEASE BUILDING

3,538 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	-	(82,789)	(85,687)	(88,686)	(91,790)	(95,003)	(98,328)	(101,769)	(105,331)	(109,018)	(112,833)
Annual NNN Expense	-	(23,351)	(24,168)	(25,014)	(25,889)	(26,796)	(27,733)	(28,704)	(29,709)	(30,749)	(31,825)
Tax Benefit For Lease Payment	-	28,976	29,990	31,040	32,126	33,251	34,415	35,619	36,866	38,156	39,492
Tax Benefit For Operating Expenses	-	8,173	8,459	8,755	9,061	9,378	9,707	10,046	10,398	10,762	11,139
After Tax Cost of Lease	-	(68,991)	(71,406)	(73,905)	(76,492)	(79,169)	(81,940)	(84,808)	(87,776)	(90,848)	(94,028)

Undiscounted Cash Flow	(\$809,361)
Undiscounted Avg. Monthly Cost PSF	(\$1.91)

Cash Flow Discounted @ 6.50%	(\$571,561)
Discounted Avg. Monthly Cost PSF	(\$1.35)

SUMMARY OF PURCHASE VS. LEASE

Building Appreciation Over 10 Years	\$530,235
Cash Flow Savings / Monthly Benefit PSF	\$1.20

<-- final sale value minus original purchase price

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