

17500 Red Hill Avenue, Building 200, Unit 200

Purchase vs. Lease Analysis

Lee & Associates

ASSUMPTIONS

Purchase Building Size in SF	2,828	Loan Amounts (see notes)	<u>1st TD</u> \$516,110	<u>2nd TD</u> \$424,242	<u>Total</u> \$940,352	Price Appreciation	3.50%
Lease Building Size in SF	2,828	Loan Fees (see notes)	\$6,081	\$16,121	\$22,201	Building Value After 10 Years	\$1,456,048
Market Rent - NNN	\$1.95	Equity Amount (see notes)			\$114,069	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	\$1,032,220	Monthly Debt Service	\$3,347	\$3,133	\$6,481	Portion of Price For Building - \$'s	\$825,776
Total Building Cost PSF	\$365.00	Annual Debt Service	\$40,170	\$37,598	\$77,767	Years to Depreciate Asset	39.50
		Loan Balance - End of Yr. 10	\$440,247	\$277,420	\$717,667	Annual Depreciation Deduction	\$20,906

SCENARIO #1 - BUY BUILDING

2,828 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	(114,069)	-	-	-	-	-	-	-	-	-	-
Annual Operating Expenses	-	(18,665)	(19,318)	(19,994)	(20,694)	(21,418)	(22,168)	(22,944)	(23,747)	(24,578)	(25,438)
Annual Debt Service	-	(77,767)	(77,767)	(77,767)	(77,767)	(77,767)	(77,767)	(77,767)	(77,767)	(77,767)	(77,767)
Reversion Value After 10 Years	-	-	-	-	-	-	-	-	-	-	1,456,048
Cost of Sale	-	-	-	-	-	-	-	-	-	-	(72,802)
Pay Off Remaining Loan Balance	-	-	-	-	-	-	-	-	-	-	(717,667)
Tax Benefit For Operating Expenses		6,533	6,761	6,998	7,243	7,496	7,759	8,030	8,311	8,602	8,903
Tax Benefit For Interest Expense		21,498	21,114	20,705	20,269	19,803	19,306	18,775	18,209	17,605	16,961
Tax Benefit For Depreciation		7,317	7,317	7,317	7,317	7,317	7,317	7,317	7,317	7,317	7,317
Capital Gain Tax Due at Sale											(140,021)
After Tax Cost of Ownership	(114,069)	(61,085)	(61,893)	(62,741)	(63,633)	(64,569)	(65,554)	(66,588)	(67,677)	(68,821)	455,534

Undiscounted Cash Flow	(\$241,096)	Cash Flow Discounted @ 6.50%	(\$299,565)	Original Basis at Purchase	\$1,032,220
Undiscounted Avg. Monthly Cost PSF	(\$0.71)	Discounted Avg. Monthly Cost PSF	(\$0.88)	Depreciation Taken	(209,057)
				Basis at Sale	\$823,163
				Taxable Gain on Sale	\$560,083
				Capital Gain Tax - Rate @ 25.00%	\$140,021

NOTES: 1. The second TD includes financed loan fees of: \$11,354 (see loan quote sheet)
2. The total equity amount includes loan fees not financed of: \$10,847 (see loan quote sheet)

SCENARIO #2 - LEASE BUILDING

2,828 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	-	(66,175)	(68,491)	(70,889)	(73,370)	(75,938)	(78,595)	(81,346)	(84,193)	(87,140)	(90,190)
Annual NNN Expense	-	(18,665)	(19,318)	(19,994)	(20,694)	(21,418)	(22,168)	(22,944)	(23,747)	(24,578)	(25,438)
Tax Benefit For Lease Payment	-	23,161	23,972	24,811	25,679	26,578	27,508	28,471	29,468	30,499	31,567
Tax Benefit For Operating Expenses	-	6,533	6,761	6,998	7,243	7,496	7,759	8,030	8,311	8,602	8,903
After Tax Cost of Lease	-	(55,146)	(57,076)	(59,074)	(61,141)	(63,281)	(65,496)	(67,789)	(70,161)	(72,617)	(75,158)

Undiscounted Cash Flow	(\$646,939)	Cash Flow Discounted @ 6.50%	(\$456,861)
Undiscounted Avg. Monthly Cost PSF	(\$1.91)	Discounted Avg. Monthly Cost PSF	(\$1.35)

SUMMARY OF PURCHASE VS. LEASE

Building Appreciation Over 10 Years	\$423,828	<i><-- final sale value minus original purchase price</i>
Cash Flow Savings / Monthly Benefit PSF	\$1.20	

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