

17500 Red Hill Avenue, Building 200, Unit 210

Purchase vs. Lease Analysis

Lee & Associates

ASSUMPTIONS

			<u>1st TD</u>	<u>2nd TD</u>	<u>Total</u>		
Purchase Building Size in SF	3,753	Loan Amounts (see notes)	\$684,923	\$563,006	\$1,247,929	Price Appreciation	3.50%
Lease Building Size in SF	3,753	Loan Fees (see notes)	\$6,925	\$20,740	\$27,664	Building Value After 10 Years	\$1,932,302
Market Rent - NNN	\$1.95	Equity Amount (see notes)			\$149,580	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	\$1,369,845	Monthly Debt Service	\$4,442	\$4,158	\$8,600	Portion of Price For Building - \$'s	\$1,095,876
Total Building Cost PSF	\$365.00	Annual Debt Service	\$53,309	\$49,895	\$103,204	Years to Depreciate Asset	39.50
		Loan Balance - End of Yr. 10	\$584,246	\$368,160	\$952,406	Annual Depreciation Deduction	\$27,744

SCENARIO #1 - BUY BUILDING

3,753 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	(149,580)	-	-	-	-	-	-	-	-	-	-
Annual Operating Expenses	-	(24,770)	(25,637)	(26,534)	(27,463)	(28,424)	(29,419)	(30,448)	(31,514)	(32,617)	(33,759)
Annual Debt Service	-	(103,204)	(103,204)	(103,204)	(103,204)	(103,204)	(103,204)	(103,204)	(103,204)	(103,204)	(103,204)
Reversion Value After 10 Years	-	-	-	-	-	-	-	-	-	-	1,932,302
Cost of Sale	-	-	-	-	-	-	-	-	-	-	(96,615)
Pay Off Remaining Loan Balance	-	-	-	-	-	-	-	-	-	-	(952,406)
Tax Benefit For Operating Expenses		8,669	8,973	9,287	9,612	9,948	10,297	10,657	11,030	11,416	11,816
Tax Benefit For Interest Expense		28,530	28,021	27,478	26,898	26,280	25,620	24,917	24,165	23,364	22,508
Tax Benefit For Depreciation		9,710	9,710	9,710	9,710	9,710	9,710	9,710	9,710	9,710	9,710
Capital Gain Tax Due at Sale											(185,820)
After Tax Cost of Ownership	(149,580)	(81,065)	(82,137)	(83,263)	(84,446)	(85,689)	(86,995)	(88,369)	(89,813)	(91,331)	604,532

Undiscounted Cash Flow	(\$318,156)	Cash Flow Discounted @ 6.50%	(\$395,749)	Original Basis at Purchase	\$1,369,845
Undiscounted Avg. Monthly Cost PSF	(\$0.71)	Discounted Avg. Monthly Cost PSF	(\$0.88)	Depreciation Taken	(277,437)
				Basis at Sale	\$1,092,408
				Taxable Gain on Sale	\$743,279
				Capital Gain Tax - Rate @ 25.00%	\$185,820

NOTES: 1. The second TD includes financed loan fees of: \$15,068 (see loan quote sheet)
 2. The total equity amount includes loan fees not financed of: \$12,596 (see loan quote sheet)

SCENARIO #2 - LEASE BUILDING

3,753 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	-	(87,820)	(90,894)	(94,075)	(97,368)	(100,776)	(104,303)	(107,953)	(111,732)	(115,642)	(119,690)
Annual NNN Expense	-	(24,770)	(25,637)	(26,534)	(27,463)	(28,424)	(29,419)	(30,448)	(31,514)	(32,617)	(33,759)
Tax Benefit For Lease Payment	-	30,737	31,813	32,926	34,079	35,271	36,506	37,784	39,106	40,475	41,891
Tax Benefit For Operating Expenses	-	8,669	8,973	9,287	9,612	9,948	10,297	10,657	11,030	11,416	11,816
After Tax Cost of Lease	-	(73,184)	(75,745)	(78,396)	(81,140)	(83,980)	(86,919)	(89,961)	(93,110)	(96,369)	(99,742)

Undiscounted Cash Flow	(\$858,544)	Cash Flow Discounted @ 6.50%	(\$606,294)
Undiscounted Avg. Monthly Cost PSF	(\$1.91)	Discounted Avg. Monthly Cost PSF	(\$1.35)

SUMMARY OF PURCHASE VS. LEASE

Building Appreciation Over 10 Years	\$562,457	<i><-- final sale value minus original purchase price</i>
Cash Flow Savings / Monthly Benefit PSF	\$1.20	

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.