

17500 Red Hill Avenue, Building 200, Unit 230

Purchase vs. Lease Analysis

Lee & Associates

ASSUMPTIONS

Purchase Building Size in SF	2,994	Loan Amounts (see notes)	<u>1st TD</u> \$523,950	<u>2nd TD</u> \$430,687	<u>Total</u> \$954,637	Price Appreciation	3.50%
Lease Building Size in SF	2,994	Loan Fees (see notes)	\$6,120	\$16,335	\$22,455	Building Value After 10 Years	\$1,478,166
Market Rent - NNN	\$1.95	Equity Amount (see notes)			\$115,718	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	\$1,047,900	Monthly Debt Service	\$3,398	\$3,181	\$6,579	Portion of Price For Building - \$'s	\$838,320
Total Building Cost PSF	\$350.00	Annual Debt Service	\$40,780	\$38,169	\$78,949	Years to Depreciate Asset	39.50
		Loan Balance - End of Yr. 10	\$446,935	\$281,634	\$728,569	Annual Depreciation Deduction	\$21,223

SCENARIO #1 - BUY BUILDING

2,994 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	(115,718)	-	-	-	-	-	-	-	-	-	-
Annual Operating Expenses	-	(19,760)	(20,452)	(21,168)	(21,909)	(22,676)	(23,469)	(24,291)	(25,141)	(26,021)	(26,931)
Annual Debt Service	-	(78,949)	(78,949)	(78,949)	(78,949)	(78,949)	(78,949)	(78,949)	(78,949)	(78,949)	(78,949)
Reversion Value After 10 Years	-	-	-	-	-	-	-	-	-	-	1,478,166
Cost of Sale	-	-	-	-	-	-	-	-	-	-	(73,908)
Pay Off Remaining Loan Balance	-	-	-	-	-	-	-	-	-	-	(728,569)
Tax Benefit For Operating Expenses		6,916	7,158	7,409	7,668	7,936	8,214	8,502	8,799	9,107	9,426
Tax Benefit For Interest Expense		21,824	21,435	21,020	20,577	20,104	19,599	19,061	18,486	17,873	17,218
Tax Benefit For Depreciation		7,428	7,428	7,428	7,428	7,428	7,428	7,428	7,428	7,428	7,428
Capital Gain Tax Due at Sale											(142,148)
After Tax Cost of Ownership	(115,718)	(62,540)	(63,379)	(64,260)	(65,185)	(66,156)	(67,176)	(68,249)	(69,376)	(70,561)	461,734

Undiscounted Cash Flow	(\$250,867)
Undiscounted Avg. Monthly Cost PSF	(\$0.70)

Cash Flow Discounted @ 6.50%	(\$308,405)
Discounted Avg. Monthly Cost PSF	(\$0.86)

Original Basis at Purchase	\$1,047,900
Depreciation Taken	(212,233)
Basis at Sale	\$835,667
Taxable Gain on Sale	\$568,591
Capital Gain Tax - Rate @ 25.00%	\$142,148

NOTES: 1. The second TD includes financed loan fees of: \$11,527 (see loan quote sheet)
2. The total equity amount includes loan fees not financed of: \$10,928 (see loan quote sheet)

SCENARIO #2 - LEASE BUILDING

2,994 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	-	(70,060)	(72,512)	(75,050)	(77,676)	(80,395)	(83,209)	(86,121)	(89,135)	(92,255)	(95,484)
Annual NNN Expense	-	(19,760)	(20,452)	(21,168)	(21,909)	(22,676)	(23,469)	(24,291)	(25,141)	(26,021)	(26,931)
Tax Benefit For Lease Payment	-	24,521	25,379	26,267	27,187	28,138	29,123	30,142	31,197	32,289	33,419
Tax Benefit For Operating Expenses	-	6,916	7,158	7,409	7,668	7,936	8,214	8,502	8,799	9,107	9,426
After Tax Cost of Lease	-	(58,383)	(60,426)	(62,541)	(64,730)	(66,996)	(69,341)	(71,768)	(74,279)	(76,879)	(79,570)

Undiscounted Cash Flow	(\$684,914)
Undiscounted Avg. Monthly Cost PSF	(\$1.91)

Cash Flow Discounted @ 6.50%	(\$483,678)
Discounted Avg. Monthly Cost PSF	(\$1.35)

SUMMARY OF PURCHASE VS. LEASE

Building Appreciation Over 10 Years	\$430,266
Cash Flow Savings / Monthly Benefit PSF	\$1.21

<-- final sale value minus original purchase price

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