

**17500 Red Hill Avenue, Building 200, Unit 250**

**Purchase vs. Lease Analysis**

Lee & Associates

**ASSUMPTIONS**

Purchase Building Size in SF	3,150	Loan Amounts (see notes)	1st TD \$551,250	2nd TD \$453,128	Total \$1,004,378	Price Appreciation	3.50%
Lease Building Size in SF	3,150	Loan Fees (see notes)	\$6,256	\$17,082	\$23,338	Building Value After 10 Years	\$1,555,185
Market Rent - NNN	\$1.95	Equity Amount (see notes)			\$121,461	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	\$1,102,500	Monthly Debt Service	\$3,575	\$3,346	\$6,922	Portion of Price For Building - \$'s	\$882,000
Total Building Cost PSF	\$350.00	Annual Debt Service	\$42,905	\$40,158	\$83,062	Years to Depreciate Asset	39.50
		Loan Balance - End of Yr. 10	\$470,222	\$296,309	\$766,530	Annual Depreciation Deduction	\$22,329

**SCENARIO #1 - BUY BUILDING**

<b>3,150 Sq. Ft.</b>	<i>Initial</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
Initial Equity Investment	(121,461)	-	-	-	-	-	-	-	-	-	-
Annual Operating Expenses	-	(20,790)	(21,518)	(22,271)	(23,050)	(23,857)	(24,692)	(25,556)	(26,451)	(27,376)	(28,335)
Annual Debt Service	-	(83,062)	(83,062)	(83,062)	(83,062)	(83,062)	(83,062)	(83,062)	(83,062)	(83,062)	(83,062)
Reversion Value After 10 Years	-	-	-	-	-	-	-	-	-	-	1,555,185
Cost of Sale	-	-	-	-	-	-	-	-	-	-	(77,759)
Pay Off Remaining Loan Balance	-	-	-	-	-	-	-	-	-	-	(766,530)
Tax Benefit For Operating Expenses		7,277	7,531	7,795	8,068	8,350	8,642	8,945	9,258	9,582	9,917
Tax Benefit For Interest Expense		22,962	22,552	22,115	21,649	21,151	20,620	20,054	19,449	18,804	18,116
Tax Benefit For Depreciation		7,815	7,815	7,815	7,815	7,815	7,815	7,815	7,815	7,815	7,815
Capital Gain Tax Due at Sale											(149,554)
<b>After Tax Cost of Ownership</b>	<b>(121,461)</b>	<b>(65,799)</b>	<b>(66,681)</b>	<b>(67,608)</b>	<b>(68,581)</b>	<b>(69,603)</b>	<b>(70,677)</b>	<b>(71,805)</b>	<b>(72,991)</b>	<b>(74,238)</b>	<b>485,792</b>

<b>Undiscounted Cash Flow</b>	<b>(\$263,651)</b>	<b>Cash Flow Discounted @ 6.50%</b>	<b>(\$324,187)</b>	Original Basis at Purchase	\$1,102,500
<b>Undiscounted Avg. Monthly Cost PSF</b>	<b>(\$0.70)</b>	<b>Discounted Avg. Monthly Cost PSF</b>	<b>(\$0.86)</b>	Depreciation Taken	(223,291)
				Basis at Sale	\$879,209
				Taxable Gain on Sale	\$598,217
				Capital Gain Tax - Rate @ 25.00%	\$149,554

NOTES: 1. The second TD includes financed loan fees of: \$12,128 (see loan quote sheet)  
2. The total equity amount includes loan fees not financed of: \$11,211 (see loan quote sheet)

**SCENARIO #2 - LEASE BUILDING**

<b>3,150 Sq. Ft.</b>	<i>Initial</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
Annual NNN Rent	-	(73,710)	(76,290)	(78,960)	(81,724)	(84,584)	(87,544)	(90,608)	(93,780)	(97,062)	(100,459)
Annual NNN Expense	-	(20,790)	(21,518)	(22,271)	(23,050)	(23,857)	(24,692)	(25,556)	(26,451)	(27,376)	(28,335)
Tax Benefit For Lease Payment	-	25,799	26,701	27,636	28,603	29,604	30,641	31,713	32,823	33,972	35,161
Tax Benefit For Operating Expenses	-	7,277	7,531	7,795	8,068	8,350	8,642	8,945	9,258	9,582	9,917
<b>After Tax Cost of Lease</b>	<b>-</b>	<b>(61,425)</b>	<b>(63,575)</b>	<b>(65,800)</b>	<b>(68,103)</b>	<b>(70,487)</b>	<b>(72,954)</b>	<b>(75,507)</b>	<b>(78,150)</b>	<b>(80,885)</b>	<b>(83,716)</b>

<b>Undiscounted Cash Flow</b>	<b>(\$720,601)</b>	<b>Cash Flow Discounted @ 6.50%</b>	<b>(\$508,880)</b>
<b>Undiscounted Avg. Monthly Cost PSF</b>	<b>(\$1.91)</b>	<b>Discounted Avg. Monthly Cost PSF</b>	<b>(\$1.35)</b>

**SUMMARY OF PURCHASE VS. LEASE**

<b>Building Appreciation Over 10 Years</b>	<b>\$452,685</b>	<-- final sale value minus original purchase price
<b>Cash Flow Savings / Monthly Benefit PSF</b>	<b>\$1.21</b>	

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