

Lease vs. Own Analysis

Austin Ave Purchase vs Lease



SUMMARY

| | |
|---------------------|-------------|
| NPV Of Purchase | (\$104,055) |
| NPV of Lease | (\$242,580) |
| Difference | \$138,525 |
| IRR of Differential | 25.35% |

SALE SUMMARY for OWNERSHIP

| | |
|---------------------------------|------------------|
| PROJECTED SALES PRICE (EOY 5) | \$927,000 |
| -Cost of Sale | \$46,350 |
| -Mortgage Balance(s) | \$607,032 |
| -Tax Liability (Savings) | \$33,780 |
| SALES PROCEEDS AFTER TAX | \$239,838 |

CASH FLOW SUMMARY

LEASE

| End of Year | 1 | 2 | 3 | 4 | 5 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Annual Rent | \$72,000 | \$74,160 | \$76,385 | \$78,676 | \$81,037 |
| Occupancy Expenses | \$12,000 | \$12,360 | \$12,731 | \$13,113 | \$13,506 |
| Tax Savings | (\$31,080) | (\$32,012) | (\$32,973) | (\$33,962) | (\$34,981) |
| TOTAL LEASE CASH FLOW | \$52,920 | \$54,508 | \$56,143 | \$57,827 | \$59,562 |

PURCHASE

| End of Year | 1 | 2 | 3 | 4 | 5 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Occupancy Expenses | \$12,000 | \$12,360 | \$12,731 | \$13,113 | \$13,506 |
| Annual Debt Services | \$50,112 | \$50,112 | \$50,112 | \$50,112 | \$50,112 |
| Tax Savings | (\$23,249) | (\$23,331) | (\$23,181) | (\$23,019) | (\$22,623) |
| CASH FLOW AFTER TAXES | \$38,863 | \$39,141 | \$39,662 | \$40,206 | \$40,995 |

IRR of DIFFERENTIAL

| End of Year | Ownership CF after Tax | Minus | Lease CF After Tax | Equals | Differential |
|-------------|------------------------|-------|--------------------|--------|--------------|
| 0 | (\$120,000) | - | -- | = | (\$120,000) |
| 1 | (\$38,863) | - | (\$52,920) | = | \$14,057 |
| 2 | (\$39,141) | - | (\$54,508) | = | \$15,367 |
| 3 | (\$39,662) | - | (\$56,143) | = | \$16,481 |
| 4 | (\$40,206) | - | (\$57,827) | = | \$17,621 |
| 5 | (\$40,995) + \$239,838 | - | (\$59,562) | = | \$258,405 |

Internal Rate of Return of the Differential = 25.35%

ASSUMPTION / INPUTS

PURCHASE

| | |
|---------------------|------------|
| Purchase Price | \$800,000 |
| Loan Amount | \$680,000 |
| Interest Rate | 5.500% |
| Loan Amortization | 25 Years |
| Property Type | COMMERCIAL |
| Improvement Percent | 70.00% |
| Cost of Sale | 5.00% |

| | |
|------------------------------|----------------|
| Lease Escalation % | 3.00% per year |
| After Tax Discount Rate | 5.00% |
| Marginal Tax Rate | 37.00% |
| Capital Gains Tax Rate | 20.00% |
| Cost Recovery Recapture Rate | 25.00% |
| Annual Property Appreciation | 3.00% |
| Annual Expense Escalation | 3.00% |



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Purchase Analysis

Austin Ave Purchase vs Lease



Initial Investment

| | |
|--------------------|-----------|
| Purchase Price | \$800,000 |
| -Mortgages | \$680,000 |
| Initial Investment | \$120,000 |

Cost Recovery Data

| | |
|-------------------|-----------|
| Improvement Value | \$560,000 |
| Useful Life | 39 Years |

Mortgage Data

| | |
|----------------------|-----------|
| Loan Amount | \$680,000 |
| Interest Rate | 5.500% US |
| Amortization Period | 25 Years |
| Periodic Payment | \$4,176 |
| Annual Debt Services | \$50,112 |

CASH FLOW ANALYSIS

Taxable Income

| End of Year | 1 | 2 | 3 | 4 | 5 |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| NET OPERATING INCOME | (\$12,000) | (\$12,360) | (\$12,731) | (\$13,113) | (\$13,506) |
| -Interest First Mortgage | \$37,075 | \$36,339 | \$35,562 | \$34,742 | \$33,875 |
| -Cost Recovery Improvements | \$13,761 | \$14,359 | \$14,359 | \$14,359 | \$13,761 |
| REAL ESTATE TAXABLE INCOME | (\$62,836) | (\$63,058) | (\$62,652) | (\$62,214) | (\$61,142) |
| Tax Liability (Savings) | (\$23,249) | (\$23,331) | (\$23,181) | (\$23,019) | (\$22,623) |

Cash Flow

| | | | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| NET OPERATING INCOME | (\$12,000) | (\$12,360) | (\$12,731) | (\$13,113) | (\$13,506) |
| -Annual Debt Service | \$50,112 | \$50,112 | \$50,112 | \$50,112 | \$50,112 |
| CASH FLOW BEFORE TAXES | (\$62,112) | (\$62,472) | (\$62,843) | (\$63,225) | (\$63,618) |
| -Tax Liability (Savings) | (\$23,249) | (\$23,331) | (\$23,181) | (\$23,019) | (\$22,623) |
| CASH FLOW AFTER TAXES | (\$38,863) | (\$39,141) | (\$39,662) | (\$40,206) | (\$40,995) |

SALES PROCEEDS

Adjusted Basis

| | |
|--------------------------------|-----------|
| Basis at Acquisition | \$800,000 |
| -Cost Recovery (Deprec.) Taken | \$70,599 |
| =Adjusted Basis | \$729,401 |

Capital Gain

| | |
|---------------------------------|------------------|
| Sales Price | \$927,000 |
| -Cost of Sales | \$46,350 |
| -Adjusted Basis | \$729,401 |
| =Gain (Loss) | \$151,249 |
| -Cost Recovery (Deprec.) Taken | \$70,599 |
| =Capital Gain from Appreciation | \$80,650 |

Sales Proceeds

| | |
|-------------------------------------|------------------|
| Sale Price | \$927,000 |
| -Cost of Sale | \$46,350 |
| -Mortgage Balance | \$607,032 |
| =SALES PROCEEDS BEFORE TAXES | \$273,618 |

| | |
|------------------------------------|------------------|
| -Tax on Cost Recover Recapture | \$17,650 |
| -Tax on Capital Gain | \$16,130 |
| =SALES PROCEEDS AFTER TAXES | \$239,838 |



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NPV Comparison

Austin Ave Purchase vs Lease



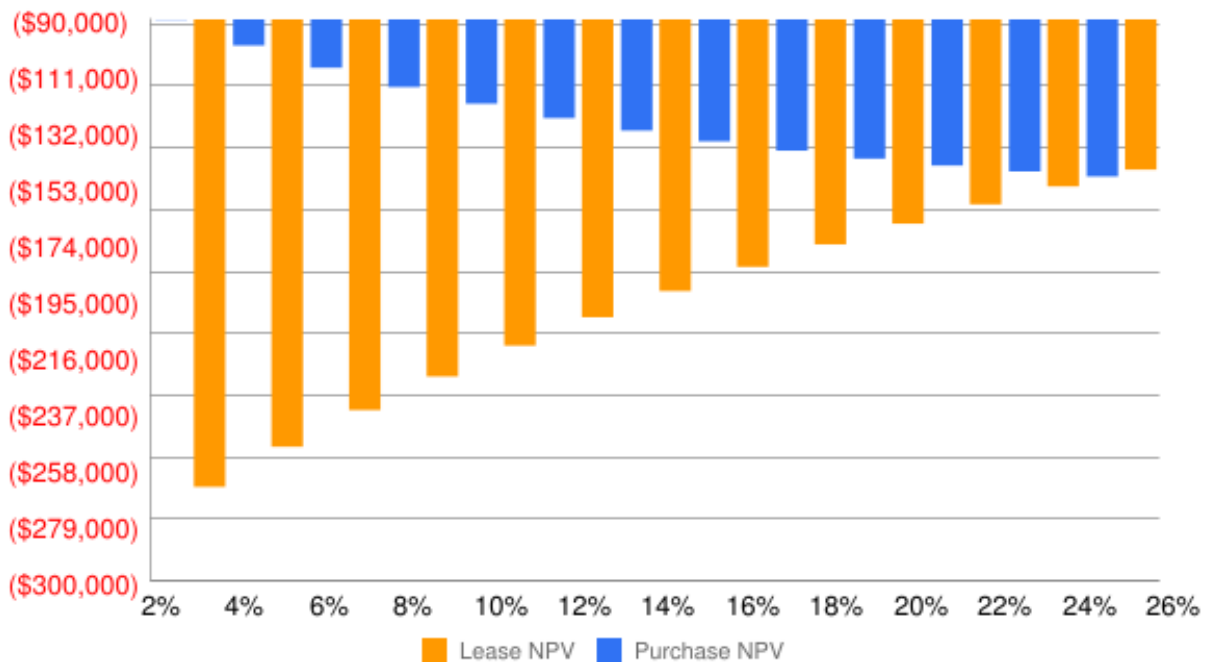
Lease Alternative NPV (After Tax)

| End of Year | CF Before Tax | Minus | Tax Savings | Equals | CF After Taxes |
|--|---------------|-------|-------------|--------|----------------|
| 0 | -- | -- | -- | -- | -- |
| 1 | (\$84,000) | - | (\$31,080) | = | (\$52,920) |
| 2 | (\$86,520) | - | (\$32,012) | = | (\$54,508) |
| 3 | (\$89,116) | - | (\$32,973) | = | (\$56,143) |
| 4 | (\$91,789) | - | (\$33,962) | = | (\$57,827) |
| 5 | (\$94,543) | - | (\$34,981) | = | (\$59,562) |
| CF Before Tax 5.00% Discount Rate = (\$242,580) | | | | | |

Purchase Alternative NPV (After Tax)

| End of Year | Initial Investment | CF After Tax | Plus | Sales Proceeds After Tax |
|--|--------------------|--------------|------|--------------------------|
| 0 | (\$120,000) | | | |
| 1 | | (\$38,863) | | |
| 2 | | (\$39,141) | | |
| 3 | | (\$39,662) | | |
| 4 | | (\$40,206) | | |
| 5 | | (\$40,995) | + | \$239,838 |
| Purchase NPV After Tax at 5.00% Discount Rate = (\$104,055) | | | | |

After Tax NPV of Occupancy Cost



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