

# Lease vs. Own Analysis

## I30Greenville



### SUMMARY

NPV Of Purchase	(\$580,901)
NPV of Lease	(\$891,485)
Difference	\$310,584
IRR of Differential	13.60%

### SALE SUMMARY for OWNERSHIP

PROJECTED SALES PRICE (EOY 5)	\$3,362,000
-Cost of Sale	\$168,100
-Mortgage Balance(s)	\$2,036,073
-Tax Liability (Savings)	\$122,759
SALES PROCEEDS AFTER TAX	\$1,035,068

### CASH FLOW SUMMARY

#### LEASE

End of Year	1	2	3	4	5
Annual Rent	\$220,500	\$227,115	\$233,928	\$240,946	\$248,175
Occupancy Expenses	\$88,200	\$90,846	\$93,571	\$96,379	\$99,270
Tax Savings	(\$114,219)	(\$117,646)	(\$121,175)	(\$124,810)	(\$128,555)
<b>TOTAL LEASE CASH FLOW</b>	<b>\$194,481</b>	<b>\$200,315</b>	<b>\$206,324</b>	<b>\$212,515</b>	<b>\$218,890</b>

#### PURCHASE

End of Year	1	2	3	4	5
Occupancy Expenses	\$88,200	\$90,846	\$93,571	\$96,379	\$99,270
Annual Debt Services	\$164,964	\$164,964	\$164,964	\$164,964	\$164,964
Tax Savings	(\$103,134)	(\$104,314)	(\$104,679)	(\$105,033)	(\$104,568)
<b>CASH FLOW AFTER TAXES</b>	<b>\$150,030</b>	<b>\$151,496</b>	<b>\$153,856</b>	<b>\$156,310</b>	<b>\$159,666</b>

### IRR of DIFFERENTIAL

End of Year	Ownership CF after Tax	Minus	Lease CF After Tax	Equals	Differential
0	(\$725,000)	-	--	=	(\$725,000)
1	(\$150,030)	-	(\$194,481)	=	\$44,451
2	(\$151,496)	-	(\$200,315)	=	\$48,819
3	(\$153,856)	-	(\$206,324)	=	\$52,468
4	(\$156,310)	-	(\$212,515)	=	\$56,205
5	(\$159,666) + \$1,035,068	-	(\$218,890)	=	\$1,094,292

Internal Rate of Return of the Differential = 13.60%

### ASSUMPTION / INPUTS

#### PURCHASE

Purchase Price	\$2,900,000
Loan Amount	\$2,175,000
Interest Rate	6.500%
Loan Amortization	30 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

## I30Greenville



### Initial Investment

Purchase Price	\$2,900,000
-Mortgages	\$2,175,000
Initial Investment	\$725,000

### Cost Recovery Data

Improvement Value	\$2,030,000
Useful Life	39 Years

### Mortgage Data

Loan Amount	\$2,175,000
Interest Rate	6.500% US
Amortization Period	30 Years
Periodic Payment	\$13,747
Annual Debt Services	\$164,964

## CASH FLOW ANALYSIS

### Taxable Income

End of Year	1	2	3	4	5
NET OPERATING INCOME	(\$88,200)	(\$90,846)	(\$93,571)	(\$96,379)	(\$99,270)
-Interest First Mortgage	\$140,659	\$139,032	\$137,295	\$135,442	\$133,465
-Cost Recovery Improvements	\$49,882	\$52,051	\$52,051	\$52,051	\$49,882
REAL ESTATE TAXABLE INCOME	(\$278,741)	(\$281,929)	(\$282,917)	(\$283,872)	(\$282,617)
Tax Liability (Savings)	(\$103,134)	(\$104,314)	(\$104,679)	(\$105,033)	(\$104,568)

### Cash Flow

NET OPERATING INCOME	(\$88,200)	(\$90,846)	(\$93,571)	(\$96,379)	(\$99,270)
-Annual Debt Service	\$164,964	\$164,964	\$164,964	\$164,964	\$164,964
CASH FLOW BEFORE TAXES	(\$253,164)	(\$255,810)	(\$258,535)	(\$261,343)	(\$264,234)
-Tax Liability (Savings)	(\$103,134)	(\$104,314)	(\$104,679)	(\$105,033)	(\$104,568)
CASH FLOW AFTER TAXES	(\$150,030)	(\$151,496)	(\$153,856)	(\$156,310)	(\$159,666)

## SALES PROCEEDS

### Adjusted Basis

Basis at Acquisition	\$2,900,000
-Cost Recovery (Deprec.) Taken	\$255,917
=Adjusted Basis	\$2,644,083

### Capital Gain

Sales Price	\$3,362,000
-Cost of Sales	\$168,100
-Adjusted Basis	\$2,644,083
=Gain (Loss)	\$549,817
-Cost Recovery (Deprec.) Taken	\$255,917
=Capital Gain from Appreciation	\$293,900

### Sales Proceeds

Sale Price	\$3,362,000
-Cost of Sale	\$168,100
-Mortgage Balance	\$2,036,073
=SALES PROCEEDS BEFORE TAXES	\$1,157,827
-Tax on Cost Recover Recapture	\$63,979
-Tax on Capital Gain	\$58,780
=SALES PROCEEDS AFTER TAXES	\$1,035,068

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# NPV Comparison

## I30Greenville



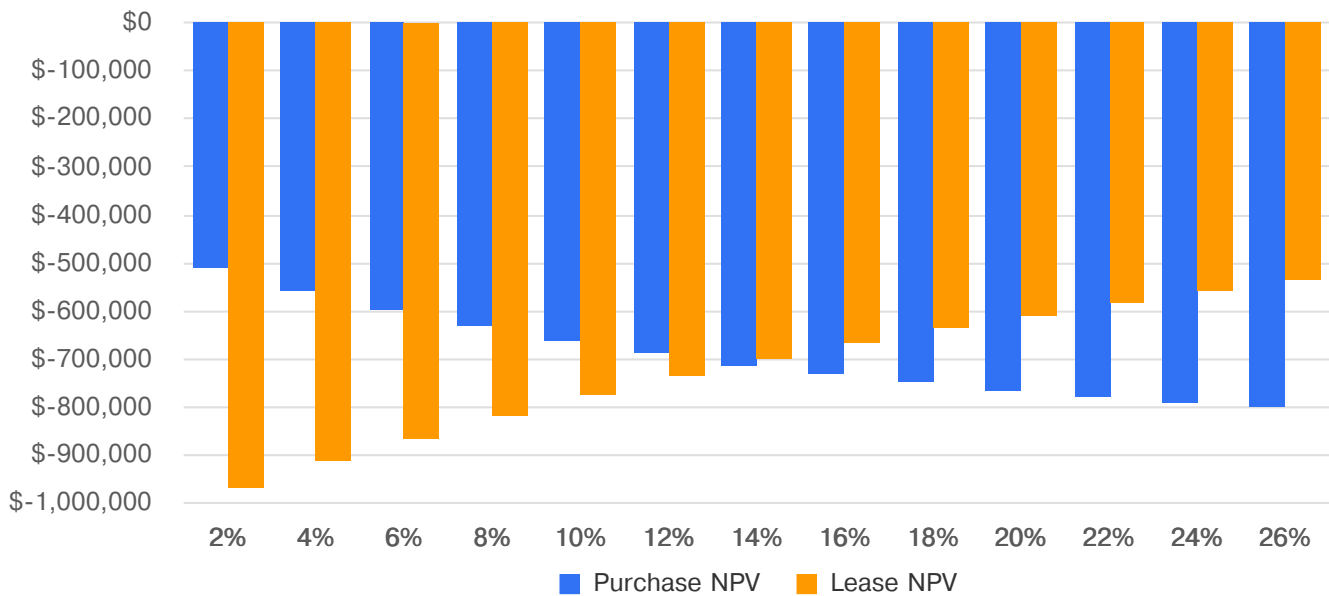
### Lease Alternative NPV (After Tax)

End of Year	CF Before Tax	Minus	Tax Savings	Equals	CF After Taxes
0	--	--	--	--	--
1	(\$308,700)	-	(\$114,219)	=	(\$194,481)
2	(\$317,961)	-	(\$117,646)	=	(\$200,315)
3	(\$327,499)	-	(\$121,175)	=	(\$206,324)
4	(\$337,325)	-	(\$124,810)	=	(\$212,515)
5	(\$347,445)	-	(\$128,555)	=	(\$218,890)
<b>CF After Tax 5.00% Discount Rate = (\$891,485)</b>					

### Purchase Alternative NPV (After Tax)

End of Year	Initial Investment	CF After Tax	Plus	Sales Proceeds After Tax
0	(\$725,000)			
1		(\$150,030)		
2		(\$151,496)		
3		(\$153,856)		
4		(\$156,310)		
5		(\$159,666)	+	\$1,035,068
<b>Purchase NPV After Tax at 5.00% Discount Rate = (\$580,901)</b>				

### After Tax NPV of Occupancy Cost



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