

ASSUMPTIONS

Property Name	O'Brien Commerce Center
Location	Kent, WA
Prepared For	ABC Corp
Prepared By	Jeff Forsberg & Kent Channing - NAI Puget Sound Properties
Property Type	Industrial
Date Report Prepared	May 6, 2008

Property Size/Sq.Ft.		Leasing Assumptions	
	3,000	Total Sq. Ft.	3,000
Purchase Price	\$ 474,880	Office Sq. Ft.	622
Cost/Sq.Ft.	\$ 158.29	Mezzanine Sq.Ft.	-
Down Payment	\$ 94,976	Shell Rate	\$ 0.710
Percent Down	20.00%	Office Rate	\$ -
Loan Points	1.00%	Second Floor	\$ -
Acquisition Costs	\$ 3,799	Annual Value Increase	3.00%
Loan Amount	\$ 383,703	Estimated Operating Costs	\$ 0.110
Periodic Interest Rate	7.40%	Estimated Property Tax	\$ 0.140
Number of Periods	30		
Monthly Payments	\$ 2,657		
Appreciation rate (Annual %)	3.00%		

* The applicability of this analysis varies on a case by case basis. Users should obtain advice from a licensed tax professional and not rely on the contents of this work as a basis for decision.

Lease Versus Purchase Analysis An Example from O'Brien Commerce Center

ASSUMPTIONS

Building Shell Size	3,000
Office Square Feet	622
Mezzanine	-
Rentable Area	3,000
Purchase Price	\$ 474,880
Annual Value Increase	3.0%
Future Cost of Sale	5.0%

Why Does it Make More Sense to Own than Lease?

1. Long term rates are cheap.
2. Annual debt payments can be locked.
3. A portion of every payment is principal reduction.
4. Tax advantages.
5. The building is likely to appreciate in value especially in a good location.
6. Ownership flexibility for business partners.

Debt

Loan to Value	80.0%
Rate	7.4%
Amortization Period	30
Reserves	3.0%

Comparable Lease Rates

Shell/mth	\$ 0.71
First Floor Office/mth	\$ -
Second Floor Office/mth	\$ -

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
After Tax Cost of Lease	\$ 25,560	\$ 26,327	\$ 27,117	\$ 27,930	\$ 28,768	\$ 29,631	\$ 30,520	\$ 31,436	\$ 32,379	\$ 33,350
Tax Savings @ 40.0%	\$ (10,224)	\$ (10,531)	\$ (10,847)	\$ (11,172)	\$ (11,507)	\$ (11,852)	\$ (12,208)	\$ (12,574)	\$ (12,951)	\$ (13,340)
Annual Lease Cost	\$ 15,336	\$ 15,796	\$ 16,270	\$ 16,758	\$ 17,261	\$ 17,779	\$ 18,312	\$ 18,861	\$ 19,427	\$ 20,010
NPV @ 8%	\$ 115,789									

After Tax Cost of Purchase

Downpayment	\$ 98,775									
Annual Debt Service	\$ 31,880	\$ 31,880	\$ 31,880	\$ 31,880	\$ 31,880	\$ 31,880	\$ 31,880	\$ 31,880	\$ 31,880	\$ 31,880
Reserves	\$ 956	\$ 956	\$ 956	\$ 956	\$ 956	\$ 956	\$ 956	\$ 956	\$ 956	\$ 956
Tax Savings	\$ (15,276)	\$ (15,339)	\$ (15,220)	\$ (15,092)	\$ (14,954)	\$ (14,806)	\$ (14,646)	\$ (14,474)	\$ (14,289)	\$ (14,089)
Sale Value Net of Loan										\$ (223,660)
Annual Ownership Costs	\$ 116,335	\$ 17,498	\$ 17,617	\$ 17,745	\$ 17,883	\$ 18,031	\$ 18,191	\$ 18,363	\$ 18,548	\$ (204,913)
NPV @ 8%	\$ 108,180									
NPV Advantage to Own	\$ 7,609									

IRR of Differential After Tax Lease and Owned Costs 8.92%

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RENT VS. OWN COMPARISON

Property Size: 3,000 sq.ft.

Date: May 6, 2008

OWN

OWN ASSUMPTIONS:		
Purchase Price	\$	474,880

START-UP COSTS:		
10% Down Payment	\$	94,976
Loan Fee/Costs	\$	3,799
Total Start-Up Costs	\$	98,775

MONTHLY COSTS:		
	Per Sq. Ft.	Amount
Mortgage Payment	\$ 0.886	\$ 2,657
Operating Expenses	\$ 0.060	\$ 180
Property Taxes	\$ 0.100	\$ 300
Total Monthly Costs	\$ 1.046	\$ 3,137

MONTHLY OWN BENEFITS:		
Tax Benefits		
Annual Depreciation	\$	331
Interest Deduction (5 yr Avg)	\$	923
Lease Deduction	\$	-
Other Benefits		
Annual Appreciation	3.00% \$	1,187
Average Monthly Principal Payment (5 yr Avg)	\$	350
Total Ownership Benefits	\$	2,791
TOTAL EFFECTIVE MONTHLY COST	\$	346

LEASE

LEASE ASSUMPTIONS:		
Rent per square foot per month	\$	0.710
Rent per month (total)	\$	2,130

START-UP COSTS:		
Prepaid Rent	\$	2,130
Security Deposit	\$	2,397
Total Start-Up Costs	\$	4,527

MONTHLY COSTS:		
	Per Sq. Ft.	Amount
Rent Payment	\$ 0.710	\$ 2,130
Operating Expenses	\$ 0.110	\$ 330
Property Taxes	\$ 0.140	\$ 420
Total Monthly Costs	\$ 0.960	\$ 2,880

MONTHLY LEASE BENEFITS:		
Tax Benefits		
Annual Depreciation	\$	-
Interest Deduction (5 yr Avg)	\$	-
Lease Deduction	\$	852
Other Benefits		
Annual Appreciation	3.00% \$	-
Average Monthly Principal Payment (5 yr Avg)	\$	-
Total Lease Benefits	\$	852
TOTAL EFFECTIVE MONTHLY COST	\$	2,028

Annual Effective Cost Difference	\$ 20,183
5 Year Wealth Creation	\$ 100,916
10 Year Wealth Creation	\$ 201,832
15 Year Wealth Creation	\$ 302,748

INCREASE IN PROPERTY VALUE & OWNER'S EQUITY

	Property Value	Loan Balance	Owner's Equity		Property Value	Loan Balance	Owner's Equity
Year 5:	\$ 550,516	\$ 362,688	\$ 187,829	Year 15:	\$ 739,848	\$ 288,350	\$ 451,497
Year 10:	\$ 638,199	\$ 332,297	\$ 305,902	Year 20:	\$ 857,686	\$ 224,799	\$ 632,887

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