

MANAGEMENT SUMMARY - LEASE vs. BUY ANALYSIS

Client:	Lemkin, Barnes & Row	Page A1
Leased Property:	4100 Birch, Newport Beach, CA	9Jan10
Purchased Property:	4100 Birch, Newport Beach, CA	Revision 1.0
Prepared by:	Stefan Rogers - 949 263 5362/srogers@voitco.com	
	Voit Commercial Brokerage - 2020 Main Street, Suite 100, Irvine, CA 92614	

	Leased Property	Purchased Property	
	4100 Birch, Newport Beach, CA	4100 Birch, Newport Beach, CA	Difference
			(Lease - Purchase)

Comparison of Key Variables					
Analysis Period (in Months)	(10 Yrs. & 0 Mos.)	120	120		0
Square Footage		10,000	10,000		0
Total Purchase Cost (includes Const. & Closing Costs)			\$3,744,000	\$374.40/sf	(100.0%)
Building and Land cost			\$3,600,000	\$360.00/sf	(96.2%)
Loans @100.0% (Less Fees)			\$3,666,700	\$366.67/sf	(97.9%)
Net Down Payment (Purchase Cost - Loans less fees)			\$77,300	\$7.73/sf	(2.1%)
Average Base Rent (or loan pmt.)/Month	\$28,502	\$2.85/sf	\$23,861	\$2.39/sf	\$4,641
Average Base Rent (or loan pmt.)/sf/Year	\$34.20		\$28.63		\$5.57

Sale Analysis			
Sale Price (before selling costs) *		\$4,087,102	\$408.71/sf
Unamortized Principal		-\$2,586,513	-\$258.65/sf
Equity Before Sale		\$1,500,589	\$150.06/sf
Less Selling Expenses		-\$245,226	-\$24.52/sf
Cash Proceeds Before Taxes		\$1,255,363	\$125.54/sf
Taxes on the Sale		-\$219,553	-\$21.96/sf
Cash Proceeds After Taxes		\$1,035,810	\$103.58/sf
IRR (after tax, calculated annually based on Net Down Payment in Yr. 0)			29.63%

* Land and Building assumed to increase in value annually by 1.0% and 1.0% respectively.

Break Point **			Current Assumption
Buy if the purchase price is less than	\$5,219,599		\$3,600,000
Rent if the starting rent is less than	\$1.63		\$2.40

** Based on the NPV of the AfterTax Cash Flow. Assumes all other Assumptions, e.g. rent increases based on Assumptions.

Cash Flow - Annual Cost Comparison

	Leased Property		Purchased Property		Difference (Lease - Purchase)			
	PreTax	AfterTax	PreTax	AfterTax	PreTax	Cumulative	AfterTax	Cumulative
	Cash Flow	Cash Flow	Cash Flow	Cash Flow	Cash Flow		Cash Flow	
Year 1	\$3.24	\$2.37	\$3.43	\$2.44	-\$0.19	-\$0.19	-\$0.07	-\$0.07
Year 2	\$2.51	\$1.60	\$2.80	\$1.84	-\$0.29	-\$0.48	-\$0.24	-\$0.31
Year 3	\$2.62	\$1.67	\$2.82	\$1.87	-\$0.20	-\$0.68	-\$0.19	-\$0.50
Year 4	\$2.73	\$1.75	\$2.83	\$1.89	-\$0.10	-\$0.77	-\$0.14	-\$0.65
Year 5	\$2.85	\$1.82	\$2.85	\$1.92	\$0.00	-\$0.77	-\$0.10	-\$0.74
Year 6	\$2.97	\$1.90	\$2.86	\$1.95	\$0.11	-\$0.66	-\$0.05	-\$0.79
Year 7	\$3.09	\$1.98	\$2.88	\$1.98	\$0.22	-\$0.45	\$0.01	-\$0.78
Year 8	\$3.22	\$2.07	\$2.90	\$2.01	\$0.33	-\$0.12	\$0.06	-\$0.72
Year 9	\$3.36	\$2.15	\$2.91	\$2.04	\$0.44	\$0.32	\$0.11	-\$0.61
Year 10	\$3.50	\$2.24	-\$7.53	-\$6.61	\$11.02	\$11.35	\$8.86	\$8.25
Total Cost	\$3,611,514	\$2,347,484	\$2,249,759	\$1,358,019	\$1,361,755		\$989,464	
NPV @8%	\$2,462,722	\$1,611,570	\$1,869,177	\$1,194,532	\$593,545		\$417,038	
Avg./Year	\$361,151	\$234,748	\$224,976	\$135,802	\$136,175		\$98,946	
Cost / sf								
NPV @8%	\$2.05	\$1.34	\$1.56	\$1.00	\$0.49		\$0.35	
Avg./Month	\$3.01	\$1.96	\$1.87	\$1.13	\$1.13		\$0.82	

First Year of Purchase Crossover Yr. 9 Yr. 10

(When the cumulative Purchase cost is less than the cumulative Lease cost.)

Sale Price Point of Indifference (the FUTURE sale price of the property where leasing and buying are equal based on equal AfterTax NPV's.)

Property Sale Price - Point of Indifference \$2,833,669 Assumptions: Loan 1 at 56.0% of Purchase Cost

Requires Building Annual % Increase at -3.39% Land % @1.00% Loan 2 at 44.0% of Purchase Cost

Conclusion: Buy property if you can sell it for more than amount above in 5/2019. Opportunity Cost at 2.75%

Notes:

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Worksheet
 9Jan10
 Revision 1.0

Year	(analysis starts 6 / 2009)	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	Yr. 10	Total
Year Dates		6/09-5/10	6/10-5/11	6/11-5/12	6/12-5/13	6/13-5/14	6/14-5/15	6/15-5/16	6/16-5/17	6/17-5/18	6/18-5/19	
Months Each Year		12	12	12	12	12	12	12	12	12	12	120

COST

PreTax												
Lease	Annual Total	298,700	311,325	324,391	337,915	351,912	366,398	381,392	396,911	412,973	429,597	3,611,514
	Cumulative Total	298,700	610,025	934,415	1,272,330	1,624,241	1,990,640	2,372,032	2,768,943	3,181,916	3,611,514	
	Present Value @ 8%	276,574	266,911	257,512	248,377	239,505	230,893	222,539	214,439	206,589	198,987	2,362,326
Purchase	Annual Total	339,963	328,804	325,430	321,827	317,981	313,877	309,499	304,830	299,852	(604,303)	2,257,759
	Cumulative Total	339,963	668,767	994,196	1,316,023	1,634,004	1,947,881	2,257,380	2,562,210	2,862,062	2,257,759	
	Present Value @ 8%	314,781	281,896	258,336	236,552	216,412	197,796	180,590	164,690	150,001	(279,909)	1,721,145
Difference	Annual Total	(41,263)	(17,479)	(1,039)	16,088	33,931	52,522	71,893	92,081	113,121	1,033,900	1,353,755
	Cumulative Total	(41,263)	(58,742)	(59,781)	(43,693)	(9,762)	42,759	114,652	206,734	319,855	1,353,755	
	Present Value @ 8%	(38,207)	(14,986)	(825)	11,825	23,093	33,097	41,949	49,749	56,589	478,896	641,181
AfterTax												
Lease	Annual Total	194,155	202,361	210,854	219,644	228,743	238,159	247,905	257,992	268,432	279,238	2,347,484
	Cumulative Total	194,155	396,516	607,370	827,014	1,055,757	1,293,916	1,541,821	1,799,813	2,068,246	2,347,484	
Purchase	Annual Total	220,976	213,723	211,529	209,187	206,688	204,020	201,174	198,139	194,904	(494,321)	1,366,019
	Cumulative Total	220,976	434,699	646,228	855,415	1,062,103	1,266,123	1,467,297	1,665,436	1,860,340	1,366,019	
Difference	Annual Total	(26,821)	(11,362)	(675)	10,457	22,055	34,139	46,731	59,853	73,529	773,559	981,464
	Cumulative Total	(26,821)	(38,183)	(38,858)	(28,401)	(6,346)	27,793	74,524	134,377	207,906	981,464	

CASH FLOW ANALYSIS

PreTax												
Lease	Annual Total	388,700	301,325	314,391	327,915	341,912	356,398	371,392	386,911	402,973	419,597	3,611,514
	Cumulative Total	388,700	690,025	1,004,415	1,332,330	1,674,241	2,030,640	2,402,032	2,788,943	3,191,916	3,611,514	
Purchase	Annual Total	411,704	336,097	337,850	339,664	341,542	343,485	345,497	347,580	349,736	(903,396)	2,249,759
	Cumulative Total	411,704	747,801	1,085,651	1,425,314	1,766,856	2,110,342	2,455,839	2,803,419	3,153,155	2,249,759	
Difference	Annual Total	(23,004)	(34,773)	(23,459)	(11,749)	370	12,913	25,895	39,331	53,237	1,322,993	1,361,755
	Cumulative Total	(23,004)	(57,776)	(81,235)	(92,985)	(92,615)	(79,702)	(53,807)	(14,476)	38,762	1,361,755	
AfterTax												
Lease	Annual Total	284,155	192,361	200,854	209,644	218,743	228,159	237,905	247,992	258,432	269,238	2,347,484
	Cumulative Total	284,155	476,516	677,370	887,014	1,105,757	1,333,916	1,571,821	1,819,813	2,078,246	2,347,484	
	Present Value @ 8%	263,106	164,918	159,444	154,095	148,872	143,779	138,815	133,982	129,281	124,709	1,561,003
Purchase	Annual Total	292,717	221,016	223,949	227,025	230,248	233,629	237,173	240,890	244,788	(793,414)	1,358,019
	Cumulative Total	292,717	513,733	737,682	964,706	1,194,955	1,428,583	1,665,756	1,906,646	2,151,433	1,358,019	
	Present Value @ 8%	271,034	189,485	177,778	166,870	156,703	147,226	138,388	130,145	122,455	(367,504)	1,132,580
Difference	Annual Total	(8,562)	(28,655)	(23,095)	(17,380)	(11,506)	(5,470)	732	7,103	13,645	1,062,652	989,464
	Cumulative Total	(8,562)	(37,217)	(60,312)	(77,692)	(89,198)	(94,667)	(93,935)	(86,832)	(73,188)	989,464	
	Present Value @ 8%	(7,928)	(24,567)	(18,334)	(12,775)	(7,831)	(3,447)	427	3,837	6,826	492,213	428,423

Present value calculated using annual totals

Used for the graphs - The Management Summary uses costs from each individual analysis.

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SALE ANALYSIS

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Sale Price				
	Land	\$596,496		
	Building	\$3,490,606		
	Less Selling Costs	<u>-\$245,226</u>		
(A)	Net Selling Price		\$3,841,876	\$3,841,876
Purchase Price				
	Land	\$540,000		
	Building	\$3,060,000		
	Construction Costs	\$100,000		
	Other Costs - Expense	\$8,000		
	Other Costs - Capital	<u>\$36,000</u>		
(B)	Total Cost of Purchase		\$3,744,000	
Depreciation Booked				
	Building Purchase Cost *	\$784,615		
	Construction Costs *	\$25,641		
	Other Costs - Capitalized *	<u>\$9,231</u>		
(C)	Total Depreciation Adjustments		<u>\$819,487</u>	
(D)	Adjusted Cost Basis (B - C)		\$2,924,513	<u>\$2,924,513</u>
* Depreciation Portion of Capital Gain				
Building Recapture Cost Recovery				
[Recapture IRS Section 1250 Depreciation]				
	Building Purchase Cost		\$784,615	
	Construction Costs		\$25,641	
	Other Costs - Capitalized		\$9,231	
Adjustment if a Loss on Building Sale or Net Capital Loss **				
	Sale Price		\$3,281,170	
	Less Purchase Cost		<u>-\$3,204,000</u>	
	Plus Depreciation Booked		<u>\$819,487</u>	
	Net Gain (Loss) - Building only		<u>\$896,657</u>	
	Adjustment if a Loss		<u>\$0</u>	
** Building Sale Price includes prorated Selling Costs and Purchase Cost includes all costs except Land.				
(E)	Total subject to Recapture		<u>\$819,487</u>	
Loan Fees				
	First Loan - Fees, Initial Cost	\$18,648		
	Second Loan - Fees, Initial Cost	<u>\$14,652</u>		
			\$33,300	
	First Loan - Amount of Fees Amortized	\$7,459		
	Second Loan - Amt. of Fees Amortized	<u>\$7,326</u>		
			<u>\$14,785</u>	
(F)	Net Write-Off of Loan Fees (taxed at Regular Tax Rate)		\$18,515	
(G)	Capital Gain (A - D)			\$917,363
(H)	Taxable Capital Gain at the Capital Gains Tax Rate (A - D - E)		\$97,876	
(I)	Capital Gains Tax @ 15% (H x % x -1)		-\$14,681	-\$14,681
(J)	Recapture Section IRS 1250 Depreciation Tax @ 25% (E x % x -1)		-\$204,872	-\$204,872
(K)	Net Write-Off of Loan Fees @35% (F x %)		\$6,480	<u>\$6,480</u>
(L)	After Tax Profit (Loss) (G + I + J + K)			<u>\$704,290</u>

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