

Buy v Lease Comparison (Before Tax)

Cedar Plaza
Buy v Lease Analysis

September 25, 2009
Investit Decisions
Buy v Lease Scenario 2

Year	Investment	BUY			Sale Proceeds (Before Tax)	Net Cash Flow (Before Tax)	LEASE	BUY v LEASE
		Financing Borrow	Paid Back	Operating Cash Flow (Before Tax)			Leasing Expenses (Before Tax)	Cash Flow Difference (Before Tax)
Year 1 Jan-Year 1 Dec	\$ (930,000)	\$ 700,000	-	\$ (91,670)	-	\$ (321,670)	\$ (70,320)	\$ (251,350)
Year 2 Jan-Year 2 Dec	-	-	-	(92,390)	-	(92,390)	(70,990)	(21,400)
Year 3 Jan-Year 3 Dec	-	-	-	(93,140)	-	(93,140)	(71,694)	(21,446)
Year 4 Jan-Year 4 Dec	-	-	-	(93,890)	-	(93,890)	(72,400)	(21,490)
Year 5 Jan-Year 5 Dec	-	-	-	(94,670)	-	(94,670)	(73,113)	(21,557)
Year 6 Jan-Year 6 Dec	-	-	-	(95,480)	-	(95,480)	(81,538)	(13,942)
Year 7 Jan-Year 7 Dec	-	-	-	(96,320)	-	(96,320)	(82,288)	(14,032)
Year 8 Jan-Year 8 Dec	-	-	-	(97,190)	-	(97,190)	(83,104)	(14,086)
Year 9 Jan-Year 9 Dec	-	-	-	(98,060)	-	(98,060)	(83,922)	(14,138)
Year 10 Jan-Year 10 Dec	-	-	(475,068)	(98,990)	1,239,264	665,206	(84,776)	749,982
					Total	\$ (417,603)	\$ (774,144)	\$ 356,541
					Net Present Value (NPV) at 13.00%	\$ (517,039)	\$ (409,912)	\$ (107,127)

BUY v LEASE Financial Returns (Before Tax)

Internal Rate of Return (IRR)	8.00%
Net Present Value (NPV) at 13.00%	(\$ 107,127)
Modified Internal Rate of Return (MIRR)	8.00%
Short Term Financing Rate (Before Tax)	8.000%
Short Term Reinvestment Rate (Before Tax)	3.000%

Conclusion.

If the Net Present Value (NPV) is positive consider buying.
If the Net Present Value (NPV) is negative consider Leasing.

Consider Buying if the Total Purchase Price is approximately \$ 822,873 or less.

Buy v Lease Comparison (After Tax)

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Year	Investment	BUY			Operating Cash Flow (After Tax)	Sale Proceeds (After Tax)	Net Cash Flow (After Tax)	LEASE	BUY v LEASE
		Financing Borrow	Paid Back					Leasing Expenses (After Tax)	Cash Flow Difference (After Tax)
Year 1 Jan-Year 1 Dec	\$ (930,000)	\$ 700,000	-	-	\$ (59,665)	-	\$ (289,665)	\$ (45,708)	\$ (243,957)
Year 2 Jan-Year 2 Dec	-	-	-	-	(60,322)	-	(60,322)	(46,143)	(14,179)
Year 3 Jan-Year 3 Dec	-	-	-	-	(61,269)	-	(61,269)	(46,601)	(14,669)
Year 4 Jan-Year 4 Dec	-	-	-	-	(62,252)	-	(62,252)	(47,060)	(15,192)
Year 5 Jan-Year 5 Dec	-	-	-	-	(63,293)	-	(63,293)	(47,523)	(15,770)
Year 6 Jan-Year 6 Dec	-	-	-	-	(64,395)	-	(64,395)	(53,000)	(11,395)
Year 7 Jan-Year 7 Dec	-	-	-	-	(65,561)	-	(65,561)	(53,487)	(12,074)
Year 8 Jan-Year 8 Dec	-	-	-	-	(66,795)	-	(66,795)	(54,017)	(12,778)
Year 9 Jan-Year 9 Dec	-	-	-	-	(68,080)	-	(68,080)	(54,549)	(13,531)
Year 10 Jan-Year 10 Dec	-	-	(475,068)	-	(69,699)	1,152,829	608,062	(55,105)	663,167
					Total		\$ (193,571)	\$ (503,194)	\$ 309,623
					Net Present Value (NPV) at 8.45%		\$ (345,802)	\$ (325,502)	\$ (20,300)

BUY v LEASE Financial Returns (After Tax)

Internal Rate of Return (IRR)	7.63%
Net Present Value (NPV) at 8.45%	(\$ 20,300)
Modified Internal Rate of Return (MIRR)	7.32%
Short Term Financing Rate (After Tax)	5.200%
Short Term Reinvestment Rate (After Tax)	1.950%

Conclusion.

If the Net Present Value (NPV) is positive consider buying.
If the Net Present Value (NPV) is negative consider Leasing.

Consider Buying if the Total Purchase Price is approximately \$ 909,700 or less.

Buy v Lease. Operating Cash Flow Comparison Yearly
 Cedar Plaza
 Buy v Lease Analysis

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 Buy v Lease Scenario 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
BEFORE TAX COMPARISON. BUY V LEASE										
Lease. Cash Outflows										
Lease. Leasing Expenses	70,320	70,990	71,694	72,400	73,113	81,538	82,288	83,104	83,922	84,776
Buy. Cash Outflows										
Buy. Building Operating Expenses	24,000	24,720	25,470	26,220	27,000	27,810	28,650	29,520	30,390	31,320
Principal Payments	15,702	16,921	18,235	19,651	21,176	22,820	24,592	26,501	28,558	30,775
Interest payments	51,968	50,749	49,435	48,019	46,494	44,850	43,078	41,169	39,112	36,895
	91,670	92,390	93,140	93,890	94,670	95,480	96,320	97,190	98,060	98,990
Difference (Before Tax) Buy v Lease	(21,350)	(21,400)	(21,446)	(21,490)	(21,557)	(13,942)	(14,032)	(14,086)	(14,138)	(14,214)
AFTER TAX COMPARISON. BUY v LEASE										
Lease										
Lease. Leasing Expenses	70,320	70,990	71,694	72,400	73,113	81,538	82,288	83,104	83,922	84,776
Tax Saving at 35.00%	(24,612)	(24,846)	(25,093)	(25,340)	(25,590)	(28,538)	(28,801)	(29,086)	(29,373)	(29,672)
Lease. Cash Outflow After Tax	45,708	46,143	46,601	47,060	47,523	53,000	53,487	54,017	54,549	55,105
Buy										
Buy. Building Operating Expenses	24,000	24,720	25,470	26,220	27,000	27,810	28,650	29,520	30,390	31,320
Plus: Interest Payments	51,968	50,749	49,435	48,019	46,494	44,850	43,078	41,169	39,112	36,895
Depreciation and Amortization	15,475	16,154	16,154	16,154	16,154	16,154	16,154	16,154	16,154	15,475
	91,443	91,623	91,059	90,393	89,648	88,814	87,882	86,843	85,656	83,690
Tax Saving at 35.00%	(32,005)	(32,068)	(31,871)	(31,638)	(31,377)	(31,085)	(30,759)	(30,395)	(29,979)	(29,291)
Plus: Principal Payments	15,702	16,921	18,235	19,651	21,176	22,820	24,592	26,501	28,558	30,775
Less: Depreciation and Amortization	15,475	16,154	16,154	16,154	16,154	16,154	16,154	16,154	16,154	15,475
Buy. Cash Outflow After Tax	59,665	60,322	61,269	62,252	63,293	64,395	65,561	66,795	68,080	69,699
Difference (After Tax) Buy v Lease	(13,957)	(14,179)	(14,669)	(15,192)	(15,770)	(11,395)	(12,074)	(12,778)	(13,531)	(14,594)

Buy v Lease. Expense Calculations Yearly
 Cedar Plaza
 Buy v Lease Analysis

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 Investit Decisions
 Buy v Lease Scenario 2

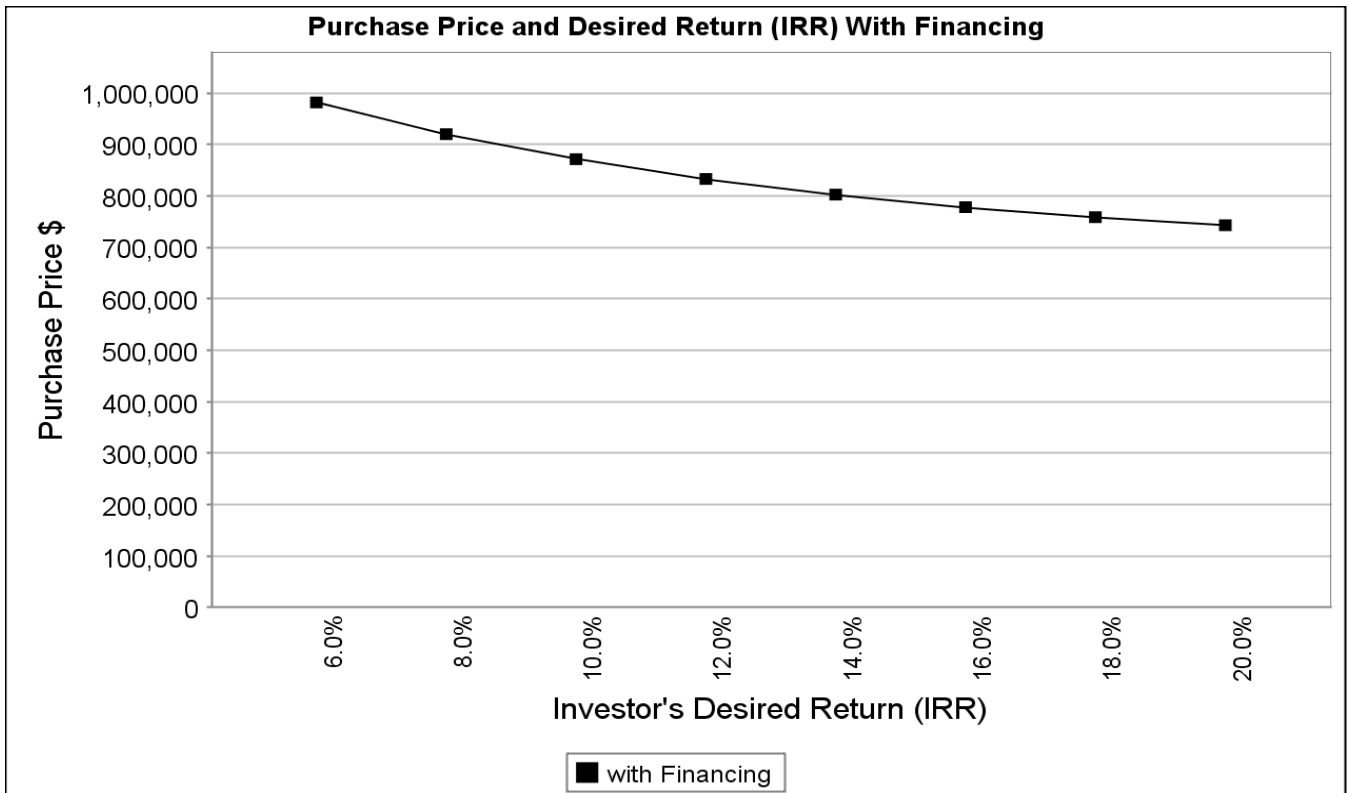
Starting May	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
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BUY: EXPENSE CALCULATIONS

Operating Costs	24,000	24,720	25,470	26,220	27,000	27,810	28,650	29,520	30,390	31,320
	24,000	24,720	25,470	26,220	27,000	27,810	28,650	29,520	30,390	31,320

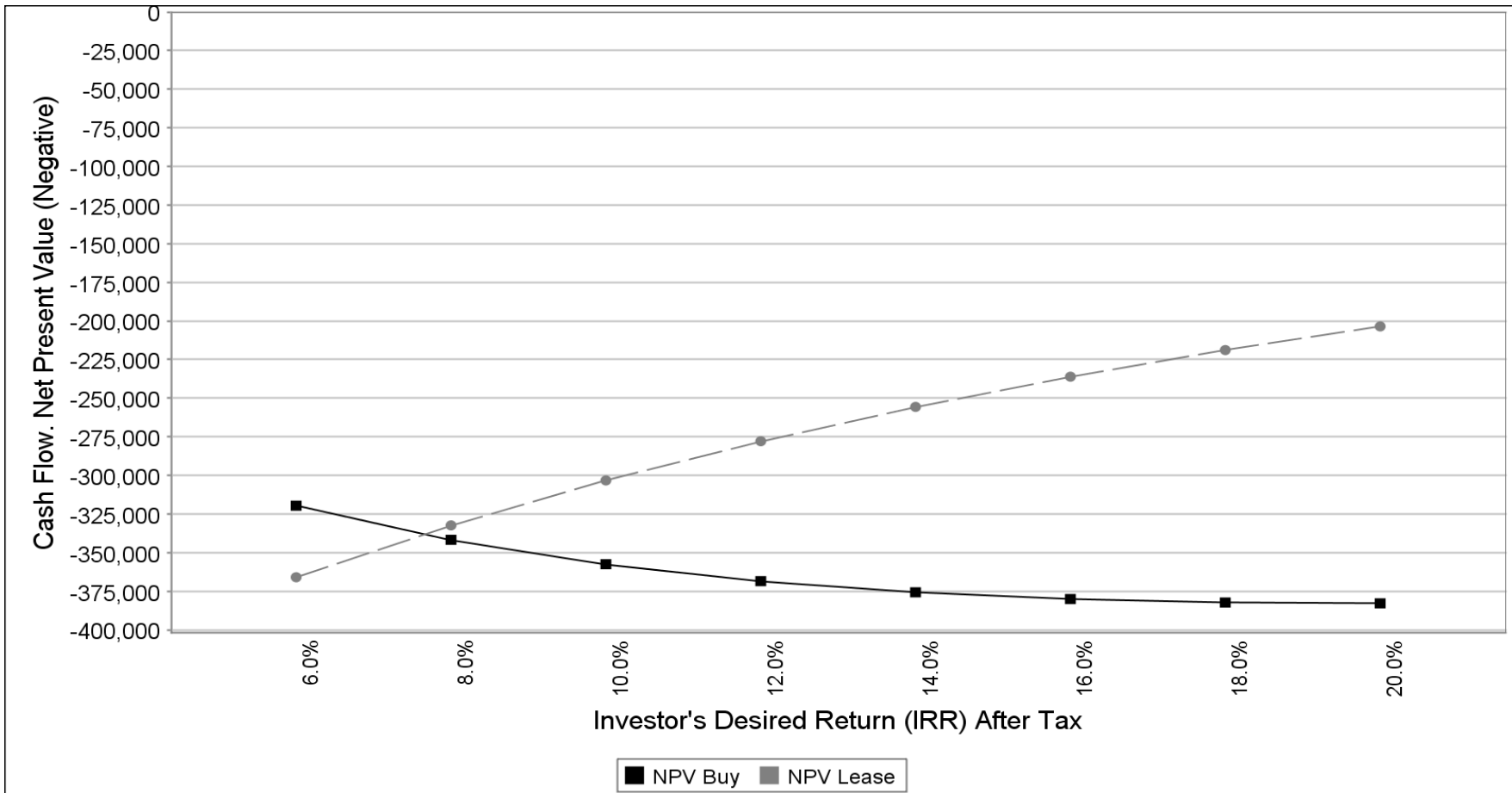
LEASE: EXPENSE CALCULATIONS

Base Rent	48,000	48,000	48,000	48,000	48,000	55,650	55,650	55,650	55,650	55,650
Taxes, Insurance & Maintenance	18,000	18,540	19,110	19,680	20,250	20,880	21,480	22,140	22,800	23,490
Parking	4,320	4,450	4,584	4,720	4,863	5,008	5,158	5,314	5,472	5,636
	70,320	70,990	71,694	72,400	73,113	81,538	82,288	83,104	83,922	84,776



Buy v Lease. Net Present Value (NPV) After Tax
Cedar Plaza
Buy v Lease Analysis

September 25, 2009
Investit Decisions
Buy v Lease Scenario 2



Interpretations

For the Desired Return (IRR) After Tax consider:

- a) Leasing if the Net Present Value (NPV) for leasing is less than the Net Present Value for Buying
- b) Buying if the Net Present Value (NPV) for buying is less than the Net Present Value for Leasing

Buy v Lease. Net Present Value (NPV) After Tax
Cedar Plaza
Buy v Lease Analysis

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Buy v Lease Scenario 2

Goal Seeking Results
 Cedar Plaza
 Buy v Lease Analysis

September 25, 2009
 Investit Decisions
 Buy v Lease Scenario 2

SUMMARY

	Internal Rate of Return (IRR)	Buy	Sell	Compounding Appreciation Rate
BEFORE TAX				
With Financing				
Based on data entered	8.00%	\$ 930,000	\$ 1,311,857	3.50%
Goal seeking results for IRR	13.00%	\$ 822,873	\$ 1,311,857	4.77%
	13.00%	\$ 930,000	\$ 1,694,641	6.18%
Without Financing				
Based on data entered	7.63%	\$ 930,000	\$ 1,311,857	3.50%
Goal seeking results for IRR	13.00%	\$ 630,016	\$ 1,311,857	7.61%
	13.00%	\$ 930,000	\$ 2,383,764	9.87%
AFTER TAX				
With Financing				
Based on data entered	7.63%	\$ 930,000	\$ 1,311,857	3.50%
Goal seeking results for IRR	8.32%	\$ 911,153	\$ 1,311,857	3.71%
	8.32%	\$ 930,000	\$ 1,359,192	3.87%
Without Financing				
Based on data entered	5.88%	\$ 930,000	\$ 1,311,857	3.50%
Goal seeking results for IRR	8.32%	\$ 751,234	\$ 1,311,857	5.73%
	8.32%	\$ 930,000	\$ 1,760,855	6.59%

GOAL SEEKING RESULTS BEFORE TAX

With Financing

To achieve an Internal Rate of Return (IRR) of 13.00% before tax, you would have to either:

- a) Buy the property for \$ 822,873 and sell for \$ 1,311,857 in 10 years which is 4.77% compounding increase in value per year.
- b) Buy the property for \$ 930,000 and sell for \$ 1,694,641 in 10 years which is 6.18% compounding increase in value per year.

Without Financing

To achieve an Internal Rate of Return (IRR) of 13.00% before tax, you would have to either:

- a) Buy the property for \$ 630,016 and sell for \$ 1,311,857 in 10 years which is 7.61% compounding increase in value per year.
- b) Buy the property for \$ 930,000 and sell for \$ 2,383,764 in 10 years which is 9.87% compounding increase in value per year.

GOAL SEEKING RESULTS AFTER TAX

With Financing

To achieve an Internal Rate of Return (IRR) of 8.32% after tax, you would have to either:

- a) Buy the property for \$ 911,153 and sell for \$ 1,311,857 in 10 years which is 3.71% compounding increase in value per year.
- b) Buy the property for \$ 930,000 and sell for \$ 1,359,192 in 10 years which is 3.87% compounding increase in value per year.

Without Financing

To achieve an Internal Rate of Return (IRR) of 8.32% after tax, you would have to either:

- a) Buy the property for \$ 751,234 and sell for \$ 1,311,857 in 10 years which is 5.73% compounding increase in value per year.
- b) Buy the property for \$ 930,000 and sell for \$ 1,760,855 in 10 years which is 6.59% compounding increase in value per year.

INVESTMENT TAB ENTRIES. Allocations of the Purchase Price between Land and Improvements to achieve the desired Internal Rate of Return (IRR)

	%	BEFORE TAX		AFTER TAX	
		With Financing 13.00% IRR	No Financing 13.00% IRR	With Financing 8.320% IRR	No Financing 8.320% IRR
Land	32.26%	265,443	203,231	293,920	242,334
Building	67.74%	557,430	426,785	617,232	508,900
Purchase Price (Year 1 Total)	100.00%	\$ 822,873	\$ 630,016	\$ 911,153	\$ 630,016

Notes:

The allocation of the Purchase Price between Land and Improvements uses the same % allocation used in the First Year of the Investment Folder grid.

The Purchase Price (Year 1 Total) excludes entries using the Depreciation methods "Amort. Mortgage Fees" and "Amortize"

Cash Flow from Sale
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Cash Flow from Sale (Before Tax)

Sale Price		\$	1,311,857
Less: Real Estate Commission			65,593
Selling Expenses			7,000
Net Sale Price			<u>1,239,264</u>
Less: Mortgage Repayment			<u>475,068</u>
Cash Flow from Sale (Before Tax)			764,196

Cash Flow from Sale (After Tax)

Net Sale Price			1,239,264
Less: Capital Gains Tax			
Net Sale Price		1,239,264	
Less Cost Basis		<u>930,000</u>	
Capital Gains	<u>309,264</u>	x 15.00%	46,390
Less: Recaptured Depreciation Tax			
Tax Value of Improvements on Sale		630,000	
Less Adjusted Basis		<u>469,818</u>	
Recaptured Depreciation	<u>160,182</u>	x 25.00%	<u>40,046</u>
Net Proceeds (After Tax)			1,152,829
Less: Mortgage Repayment			<u>475,068</u>
Cash Flow from Sale (After Tax)			677,761

Depreciation Schedules

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Building

Starting Date: Year 1 January
 Depreciation Method: Commercial Property. Straight Line
 Recovery Period: 39.0 Year(s)
 First Year Convention: Mid-Month 95.8%
 Last Year Convention: 95.8%
 Amount \$ 630,000

Period	Cost Basis	Adjusted Cost Basis	Depreciation	Depreciation Bonus	Undepreciated Balance
Yr. 1 Jan-Yr. 1 Dec	\$ 630,000	\$ 630,000	\$ 15,475	-	\$ 614,525
Yr. 2 Jan-Yr. 2 Dec		614,525	16,154		598,371
Yr. 3 Jan-Yr. 3 Dec		598,371	16,154		582,217
Yr. 4 Jan-Yr. 4 Dec		582,217	16,154		566,063
Yr. 5 Jan-Yr. 5 Dec		566,063	16,154		549,909
Yr. 6 Jan-Yr. 6 Dec		549,909	16,154		533,755
Yr. 7 Jan-Yr. 7 Dec		533,755	16,154		517,601
Yr. 8 Jan-Yr. 8 Dec		517,601	16,154		501,447
Yr. 9 Jan-Yr. 9 Dec		501,447	16,154		485,293
Yr. 10 Jan-Yr. 10 Dec		485,293	15,475		469,818
Total	\$ 630,000		\$ 160,182	-	

Input Data Summary
Cedar Plaza
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Buy versus Lease Analysis

Note

For information on Revenue, Expenses and Vacancy inputs and projections see the Revenue, Expense and Vacancy projection description reports.

Project Information

Analysis Period 10 years
Starting date January Year 1

Investor Information

Marginal Tax Rate 35.00%
Capital Gain Tax Rate 15.00%
Recaptured Deprec. Tax Rate 25.00%

Desired Return on Investment (Discount Rate)

Before Tax: 13.00%
After Tax: 8.45%

Short Term Reinvestment Rates

Before Tax: 3.000%
After Tax: 1.950%

Short Term Financing Rates

Before Tax: 8.000%
After Tax: 5.200%

Investment information

Active Investor with no Loss limitation

Total Invested in Year 1 is \$ 930,000

	Investment Type	Date	Amount	Recovery Period Years
Land	Land (No Depreciation)	Jan, Year 1	\$ 300,000	-

Input Data Summary

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Building Commercial Property. Straight Line Jan, Year 1 \$ 630,000 39.00

Financing

First Mortgage

Starts: January Year 1
Type: Standard Mortgage
Amount: \$ 700,000
Interest Rate: Fixed
Payment Frequency: Monthly
Compounding Frequency: Monthly
Addit. Payments/Borrowing: No
Rounding Up to Nearest Cent
No of Terms: 1

Nominal
Annual

Term	Time Period	Interest Rate	Amortization
1	10 yrs & 0 mos	7.500%	20 yrs & 0 mos

Sale Information

Sale price at the end of 10 years is \$ 1,311,857 based on the total purchase price of \$ 930,000 in year 1 increasing at an Annual Compounding Rate of 3.50% for 10 years

Selling Expenses

Selling Expenses \$ 7,000

Real Estate Commissions

5.00% of the Sale Price

Allocation of Improvements on Sale

Same ratio as on acquisition

Mortgage Schedule
Cedar Plaza
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First Mortgage

Amount: \$ 700,000
Type: Standard Mortgage
Analysis Start Date: January Year 1
Mortgage Commences: January Year 1
Payment Frequency: Monthly
Payment Rounded: Up to Nearest Cent
Compounding Frequency: Monthly
Interest Rate: Fixed
Additional Payment or Borrowing: No

Term	Start Date of (Balloon) Term	Time Period		Nominal Annual Interest Rate	Amortization	
		Years	Months		Years	Months
1	Year 1 Jan	10	0	7.500 %	20	0

	Outstanding Balance	End of Year Accrued Interest	Mortgage Payout
Payout at end of Analysis Period: Dec Year 10	\$ 475,067.59	-	\$ 475,067.59
Payout at end of last Term: Dec Year 10	\$ 475,067.59	-	\$ 475,067.59

Time Period	Payment	Interest Payment	Principal Payment	Additional Payment or (Borrowing)	Outstanding Balance
Year 1 Jan-Year 1 Dec	67,669.92	51,967.53	15,702.39	-	684,297.61
Year 2 Jan-Year 2 Dec	67,669.92	50,748.51	16,921.41	-	667,376.20
Year 3 Jan-Year 3 Dec	67,669.92	49,434.84	18,235.08	-	649,141.12
Year 4 Jan-Year 4 Dec	67,669.92	48,019.20	19,650.72	-	629,490.40
Year 5 Jan-Year 5 Dec	67,669.92	46,493.66	21,176.26	-	608,314.14
Year 6 Jan-Year 6 Dec	67,669.92	44,849.69	22,820.23	-	585,493.91
Year 7 Jan-Year 7 Dec	67,669.92	43,078.11	24,591.81	-	560,902.10
Year 8 Jan-Year 8 Dec	67,669.92	41,168.99	26,500.93	-	534,401.17
Year 9 Jan-Year 9 Dec	67,669.92	39,111.66	28,558.26	-	505,842.91
Year 10 Jan-Year 10 Dec	67,669.92	36,894.60	30,775.32	-	475,067.59
	676,699.20	451,766.79	224,932.41	-	