BUY versus LEASE EXAMPLE

INTRODUCTION

The Buy v Lease example analysis is for an office, industrial or retail property

This practice example consists of two Sections;

1. The input information for the project
2. The instructions for entering the project data

PROJECT INFO. Folder

Property Name: Cedar Plaza
Description: Buy v Lease Analysis Example
Rentable Area: 3,000 Sq. Ft
Analysis Period: 10 Years
Starting Date: Year 1 Jan

INVESTOR Folder

Landlord's Marginal Tax Rate: 42.00%
Discount Rate: Before Tax 13.00% Before Tax
Short Term Rates Before Tax for calculating the Modified Internal Rate of Return (MIRR)
Financing Rate: 8.000%
Reinvestment Rate: 3.000%

INVESTMENT Folder

Description: Land
Amount: $300,000
Year 1 Jan
Depreciation Method: Land (No Deprec.)

Description: Building
Amount: $550,000
Year 1 Jan
Depreciation Method: Building

BUY (EXPENSES) Folder

These are the operating costs associated with owning the building such as property taxes, insurance, maintenance etc.

For simplicity we will use the total operating costs, which included Taxes, Insurance and Maintenance as follows;

Rentable Area: 3,000 Sq Ft
Total Operating Costs: $7.00 per Sq Ft per Yr paid monthly for 12 months then increasing at 3.00% compounding per year

LEASE (EXPENSES) Folder

Cost of leasing instead of buying such as Base Rent, Additional Rent (TIM's), Parking etc.

Rentable Area: 3,000 Sq Ft

Base Rent

$17.00 per Sq. Ft per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00 % compounding for five years

Additional Rent (TIM's)
$6.00 per Sq. Ft per Yr paid monthly for 12 months then increasing at 3.00% compounding per year for the remaining 9 years

Parking
12 spaces at $30 per monthly for 12 months then increasing at 3.00% compounding per year for the remaining 9 years

FINANCING (BUY) Folder

The financing to buy the property is;

Description: First Mortgage
Commencing: Year 1 January
Type: Standard Mortgage
Amount: $700,000
Time Period: 10 years
Amortization: 20 years
Nominal Interest Rate: 7.50%

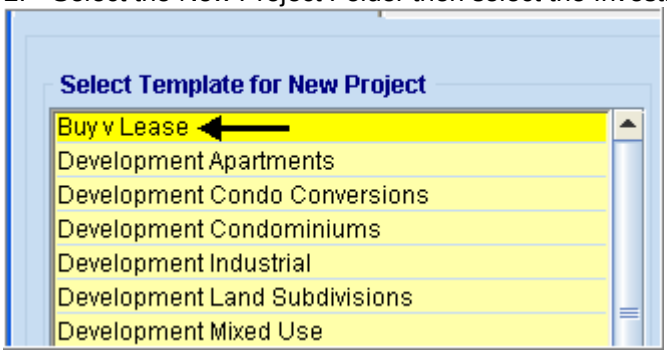
SALE Folder
Real Estate Commission: 5.00% of the Sale Price
Selling Expenses: $7,000
Sale Price based on the original investment increasing at 3.5% compounding per year

INSTRUCTIONS FOR ENTERING THE PROJECT INTO INVESTOR PRO

Getting started

The first step is to open the Investit Pro Template "Buy v Lease" as follows:

1. Open Investor Pro.
2. Select the New Project Folder then select the Investit Template folder



3. Select and open the Investit template "Buy v Lease" The analysis period dialog will open at this point.
4. Enter 10 years and click OK

Entering the project data and information

PROJECT INFO Folder

1. Enter the Property Name: Cedar Plaza
2. Enter the Description: Buy v Lease Analysis

INVESTOR Folder

1. Enter the Discount Rate Before Tax: 13.00%
   Notes: The Discount Rate is used to calculate the Net Present Value and Net Effective Rent. The program automatically calculates the Discount Rate After Tax
2. Enter the Short Term Rate Before Tax Financing Rate: 8.00%
3. Enter the Reinvestment Rate: 3.00%

INVESTMENT Folder

First Row – Land

1. Enter the Amount: $300,000

Second Row – Building

1. Enter the Description: Building
2. Enter the Amount: $550,000
3. Select the Depreciation Method: Building

Third Row

1. Press the 

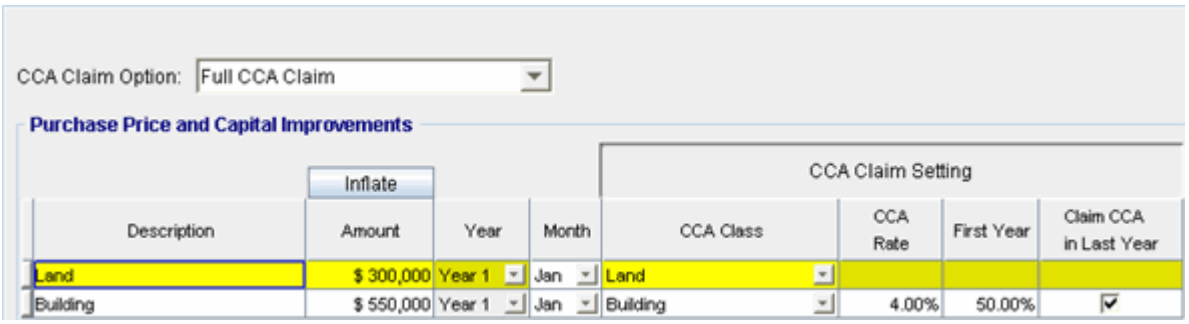
button

Fourth Row

1. Press the 

button

Your entries for the Investment folder should look like this;

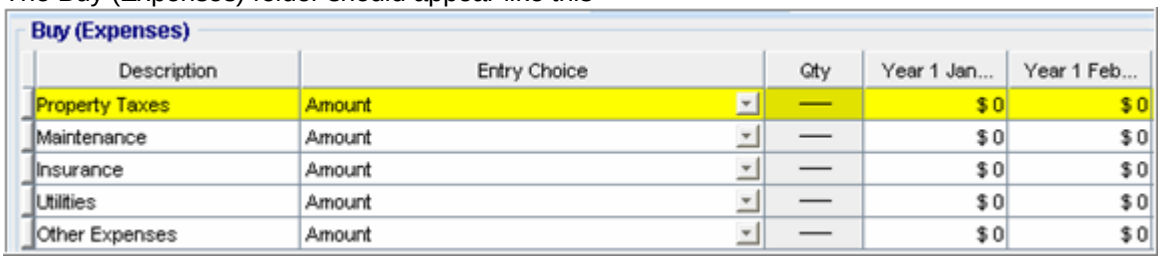

CCA Claim Option: Full CCA Claim

Purchase Price and Capital Improvements

	Inflate			CCA Claim Setting			
Description	Amount	Year	Month	CCA Class	CCA Rate	First Year	Claim CCA in Last Year
Land	$ 300,000	Year 1	Jan	Land			
Building	$ 550,000	Year 1	Jan	Building	4.00%	50.00%	☑

BUY (EXPENSES) Folder

The Buy (Expenses) folder should appear like this


Buy (Expenses)

Description	Entry Choice	Qty	Year 1 Jan...	Year 1 Feb...
Property Taxes	Amount	—	$ 0	$ 0
Maintenance	Amount	—	$ 0	$ 0
Insurance	Amount	—	$ 0	$ 0
Utilities	Amount	—	$ 0	$ 0
Other Expenses	Amount	—	$ 0	$ 0

1. Select row 1
2. **Description column:** enter 'Operating Costs'
3. **Entry Choice column:** select '$ per Sq. Ft per Yr'
4. Select row 2
5. Press the Delete button
6. Select row 3
7. Press the Delete button
8. Select row 4
9. Press the Delete button
10. Select row 5
11. Press the Delete button

Entering and Projecting the Operating Costs
Rentable Area: 3,000 Sq Ft

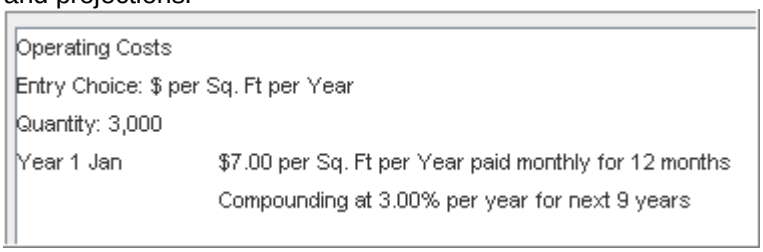
Total Operating Costs
$7.00 per Sq Ft per Year paid monthly for 12 months then increasing at 3.00% compounding per year

1. Select row 1 'Operating Costs'
2. Click on the Projection Wizard button

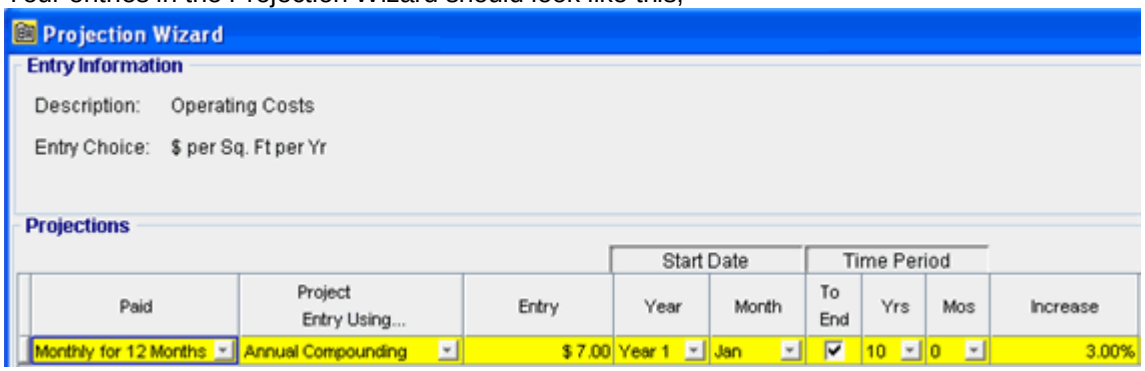
In the **Projection Wizard** make the following entries;

3. **Paid column:** Select "Monthly for 12 Months"
4. **Project Entry Using column:** Select "Annual Compounding"
5. **Entry column:** Enter $7.00
6. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
7. **Increase column:** Enter the Compounding Rate of 3.00%

To view your entries, click on the Projection Description button, which describes the entries and projections.



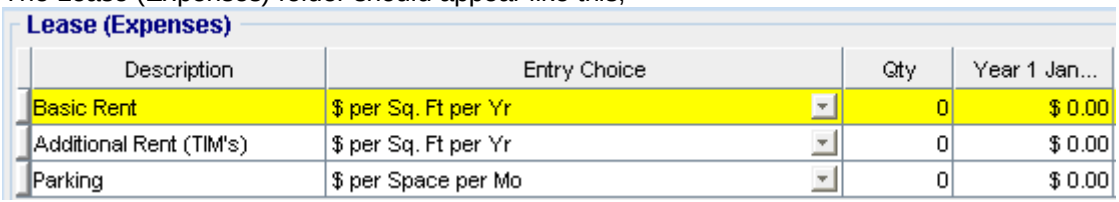
Your entries in the Projection Wizard should look like this;



Press OK to return to the Buy (Expenses) folder

LEASE (EXPENSES)

The Lease (Expenses) folder should appear like this;



1. Select row 1
2. Enter Description: Base Rent

Note: Default entry is Basic Rent

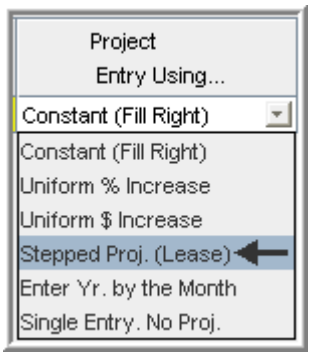
3. Enter QTY: 3,000
4. Select row 2
5. Enter QTY: 3,000
6. Select row 3
7. Enter Qty: 12

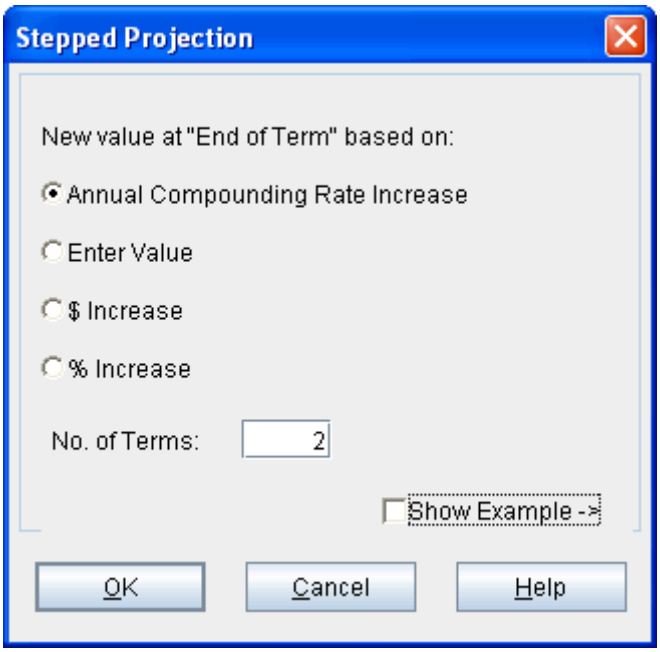
Entering and Projecting the Base Rent

Base Rent

$17.00 per Sq. Ft per Yr paid monthly. Two terms of 5 years. Increase for the second term based on 3.00 % compounding for five years

1. Select row 1 'Base Rent'
2. Click on the Projection Wizard button
3. In the **Projection Wizard** make the following entries;
4. **Project Entry Using.. column**: select "Stepped Proj. (Lease)





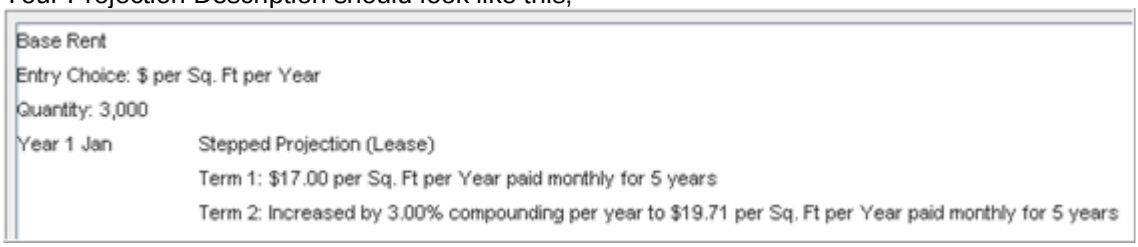
5. Set the No. of Terms to 2, which is the default value and click OK
6. **Entry Column:** Enter $17.00
7. **Time Period column:** Change term 1 Yrs to '5'
8. **Increase column:** Enter the Compounding Rate of 3.00%

Row 2

9. **Time Period column:** select "To End"

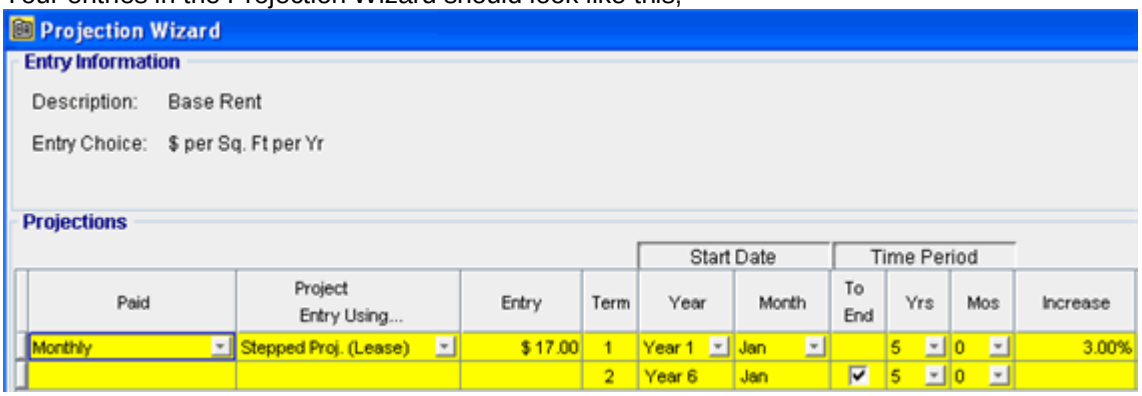
To view your entries, click on the Projection Description button, which describes the entries and projections.

Your Projection Description should look like this;



Press OK to return to the Projection Wizard

Your entries in the Projection Wizard should look like this;



Click OK to return to the Lease (Expenses) folder

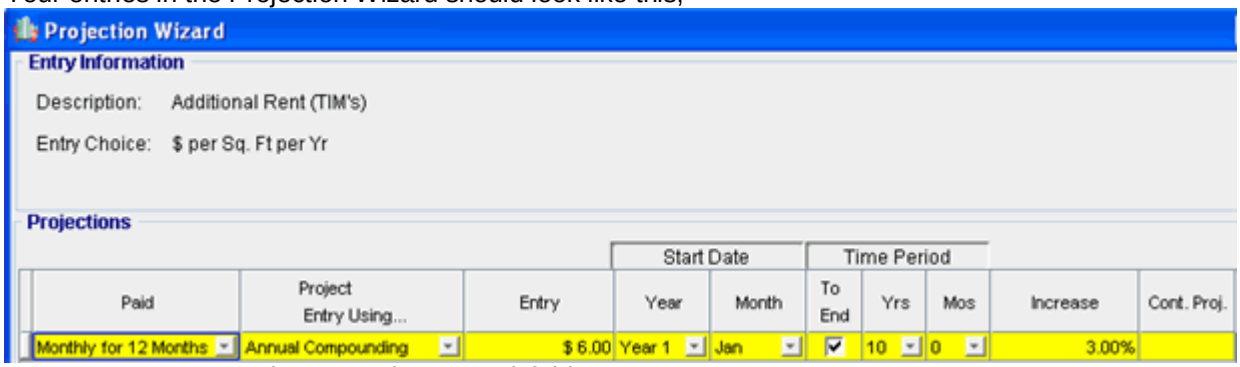
Entering the Additional Rent (TIM's)

Additional Rent (TIM's)

$6.00 per Sq. Ft per Yr paid monthly for 12 months then increasing at 3.00% compounding per year for the remaining 9 years

1. Select row 2 'Additional Rent (TIM's)'
2. Click on the Projection Wizard button
3. In the **Projection Wizard** make the following entries;
4. **Paid column:** Select "Monthly for 12 Months"
5. **Project Entry Using column:** Select "Annual Compounding"
6. **Entry Column:** Enter $6.00
7. **Time Period column:** Check the "To End" box. This allows the projection to continue until the end of the 10 year Analysis Period
8. **Increase column:** Enter the Compounding Rate of 3.00%

Your entries in the Projection Wizard should look like this;



Press OK to return to the Lease (Expenses) folder

Entering the Parking

Parking

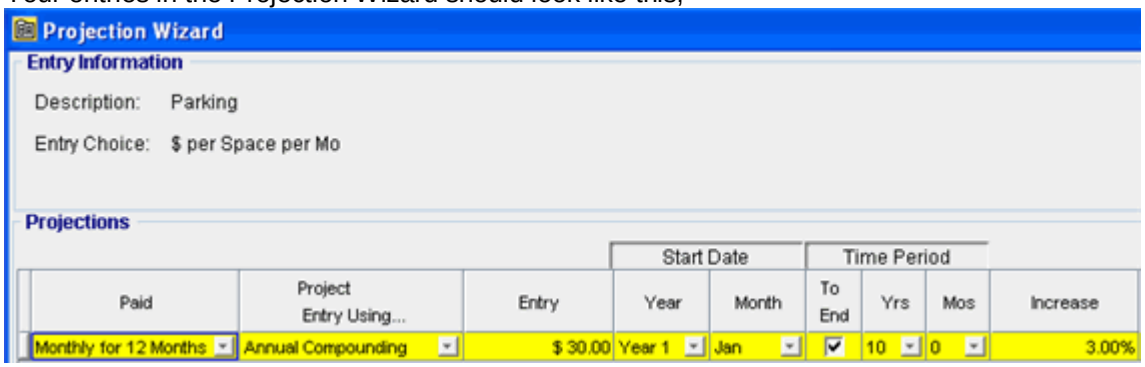
12 spaces at $30 per month for 12 months then increasing at 3.00% compounding per year for the remaining 9 years

1. Select row 3 'Parking'
2. Click on the Projection Wizard button

3. In the **Projection Wizard** make the following entries;

4. **Paid column:** Select “Monthly for 12 Months”
5. **Project Entry Using column:** Select “Annual Compounding”
6. **Entry Column:** Enter $30.00
7. **Time Period column:** Check the “To End” box. This allows the projection to continue until the end of the 10 year Analysis Period
8. **Increase column:** Enter the Compounding Rate of 3.00%

Your entries in the Projection Wizard should look like this;



Press Ok to return to the Lease (Expenses) folder

Select the Financing (Buy) folder

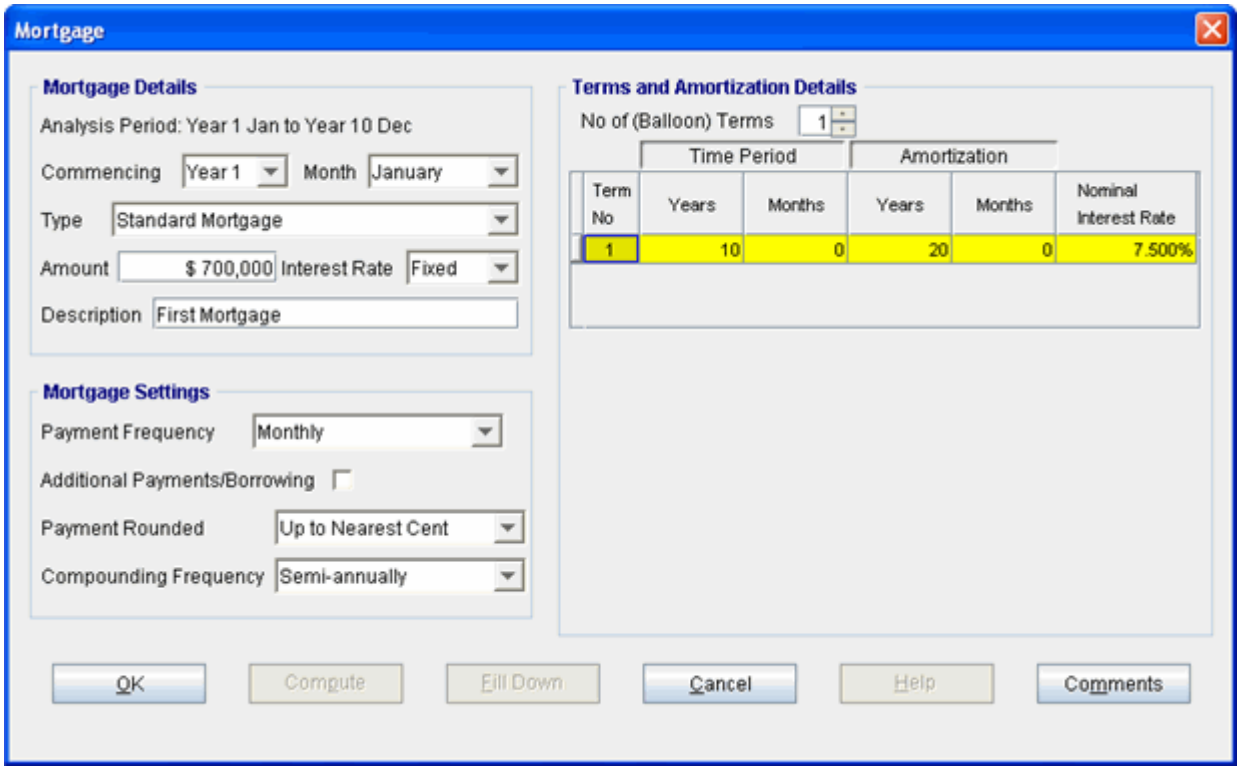
FINANCING (BUY)
Description: First Mortgage
Type: Standard Mortgage
Year 1 January, $700,000 Time Period: 10 years, Amortization: 20 years, Interest Rate 7.50%

Setting up a mortgage

1. Click on the Add Mortgage button

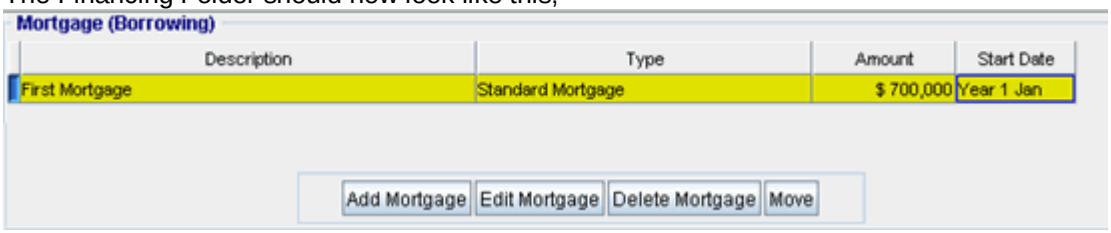
2. Amount box: $700,000
3. Description box: "First Mortgage"
4. Time Period box: 10 Years
5. Amortization box: 20 Years
6. Nominal Interest Rate box: 7.50%

The mortgage dialog should look like this;



7. Press the Compute button
8. Press the OK button

The Financing Folder should now look like this;



Select the Sale folder

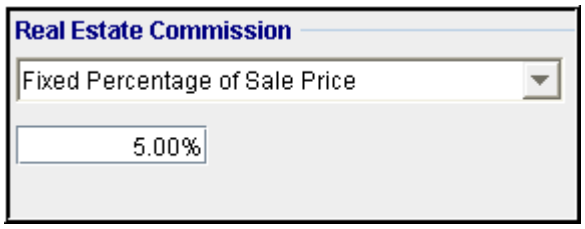
SALE Folder
Real Estate Commission: 5.00% of the Sale Price

The Real Estate Commission should appear like this;

Entering the Real Estate Commission

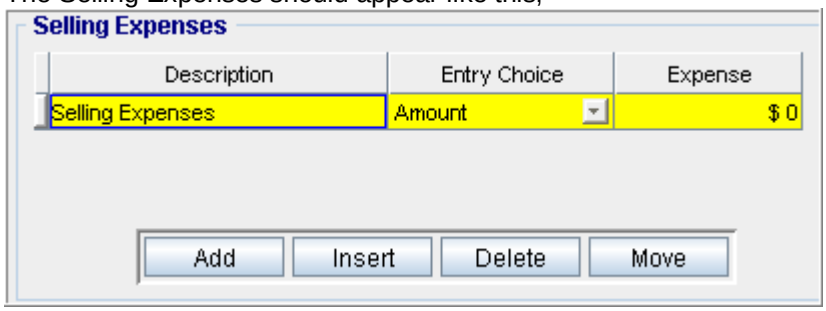
1. Enter 5.00% in the appropriate box

The Real Estate Commission should now look like this;



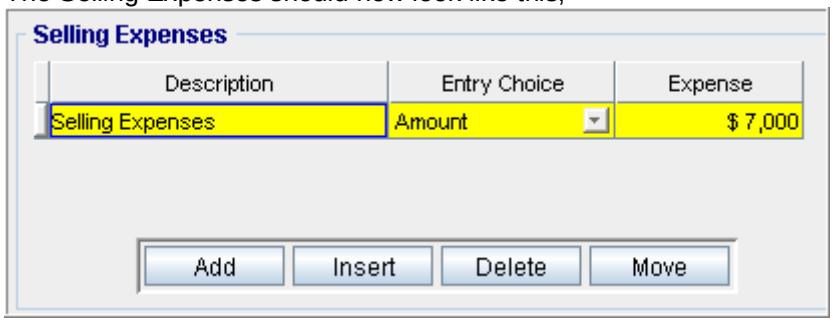
Selling Expenses: $7,000

The Selling Expenses should appear like this;



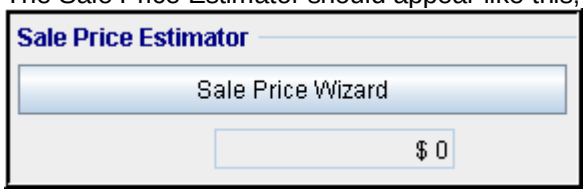
1. Enter in the Expense column: $7,000

The Selling Expenses should now look like this;



Sale Price based on the original investment increasing at 3.5% compounding per year

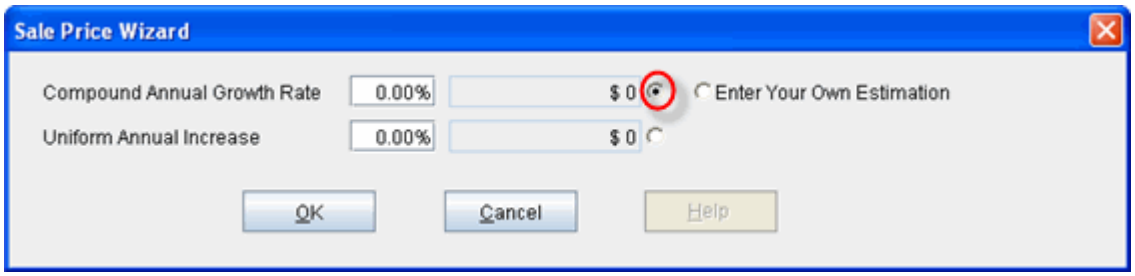
The Sale Price Estimator should appear like this;



1. Press the 

button

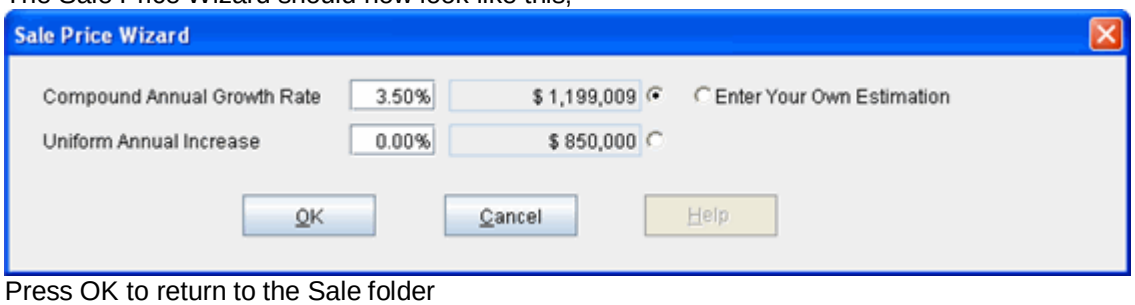
The Sale Price Wizard dialog will pop up;



2. Compound Annual Growth Rate: 3.5%
3. Select Compound Annual Growth rate by clicking on the selection box next to the figure that appeared next to your entry

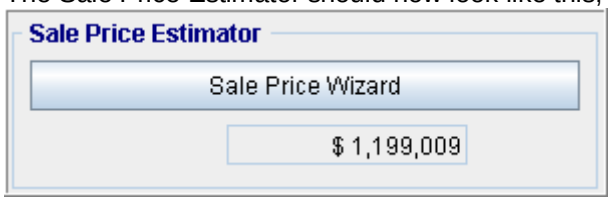
Note: The correct entry field has been circled in red

The Sale Price Wizard should now look like this;



Press OK to return to the Sale folder

The Sale Price Estimator should now look like this;



SAVE YOUR PROJECT

CHECKING YOUR ENTRIES

You can compare your project against the Investit example “Buy v Lease”